



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR AUGUST 3, 2006

Iran's President Mahmoud Ahmadinejad said the dispute over his country's nuclear ambitions could be settled through talks. Meanwhile Russia's Foreign Ministry said Iran must meet the August 31 deadline set by the UN Security Council for it to suspend its uranium enrichment in order to avoid further steps against it. It stated that it was counting on Iran to heed the calls made to it so that no further actions by the UN Security Council would be required.

Separately, Iran's President stated that the solution to the Middle East crisis was to destroy Israel. He also called for an immediate ceasefire to end the fighting between Israel and Hezbollah and rejected deploying international forces on the Israeli-Lebanese border. He also urged Muslim states to isolate the US and the UK for supporting Israel's military attacks against Lebanon.

Israel's Defense Minister Amir Peretz ordered top Israeli army officers to begin preparing for the next stage of the military offensive in south Lebanon, which would push the area of Israel's control to the Litani River, about 30 kilometers from the border. The decision was made following a deadly Hezbollah rocket attack on Thursday that killed seven civilians in northern Israel.

Market Watch

Hurricane forecasters at Colorado State University's Department of Atmospheric Science lowered their expectations for a still above normal Atlantic Basin hurricane season. They expect 15 tropical storms this season, with seven becoming hurricanes and three becoming intense hurricanes of Category 3 or above. The likelihood of landfall by at least one intense hurricane on the Gulf Coast is seen at 26%, down from 38% forecast in May and below the long term average of 30%.

The NYMEX announced that it would offer its physically delivered energy futures contracts on the CME Globex platform during its regular open outcry trading hours, starting September 4 for trade date September 5. The contracts, which include the NYMEX Crude Oil, Heating Oil, Gasoline, RBOB and Natural Gas, would trade side by side in conjunction with NYMEX trading floor hours. The contracts would be available for trading from 6:00pm ET Sundays through 5:15pm ET Fridays, with a 45 minute break each day between 5:15pm and 6:00pm ET.

A spot cargo of gasoline from South Korea would be shipped by a western trader to the US market for August loading. South Korea's SK Corp has sold a 150,000 barrel cargo for loading during the second half of August.

Venezuela's PDVSA was studying Brazilian biodiesel technology as it considers its own possible production three years from now. PDVSA has already adopted technology to produce ethanol with output due to start next year.

Saudi Arabia's Foreign Minister, Prince Saud al-Faisals said oil should not be used as a weapon, when asked whether the oil weapon should be used if the conflict between Israel and Hezbollah escalates. He said the two issues should not be mixed.

Britain's outgoing ambassador in Iraq warned Prime Minister Tony Blair that a civil war was a more likely output in Iraq than democracy. The outgoing ambassador also predicted the breakup of Iraq along ethnic lines. He stated that the next six months were crucial. Separately, two of the Pentagon's most senior generals conceded to Congress Iraq may descend into a civil war as the sectarian violence in Baghdad has increased in recent weeks.

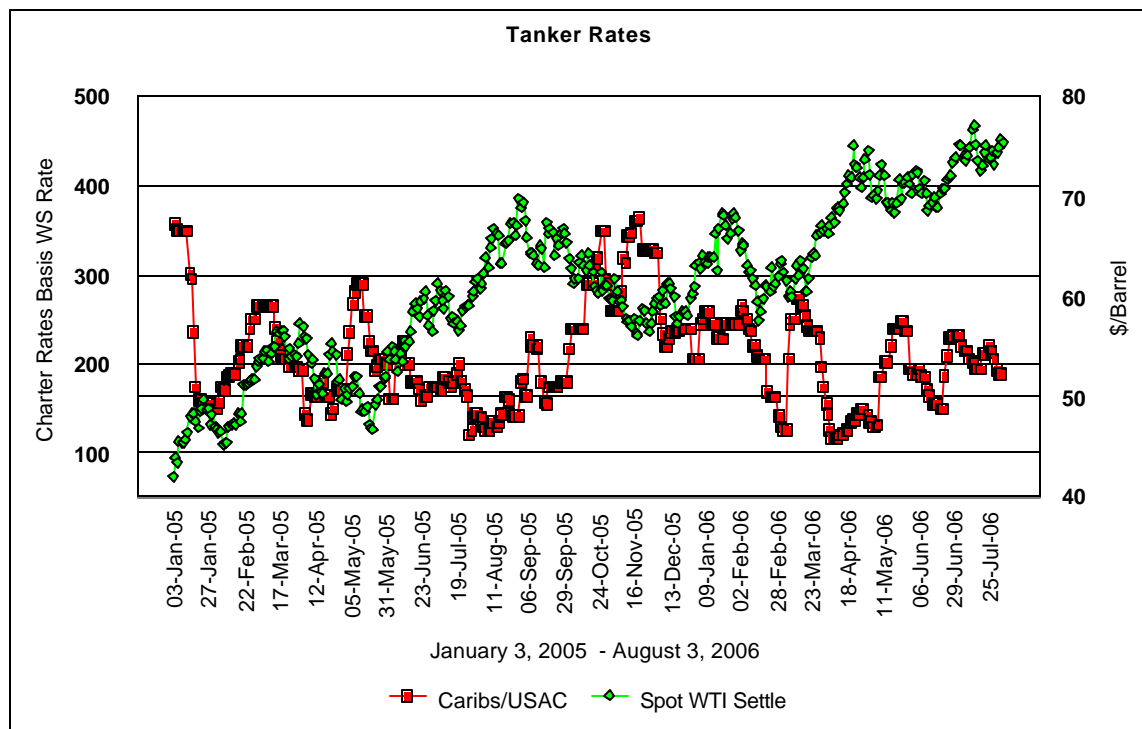
Refinery News

ConocoPhillips' 146,000 bpd refinery in Borger, Texas suffered a problem on Tuesday afternoon.

PDVSA's El Palito refinery has started operations at its 54,000 bpd fluid catalytic cracking unit. The unit was shut in early June for unplanned maintenance. Meanwhile, PDVSA has been repairing a 190,000 bpd crude distillation unit at the Amuay refinery.

According to Oil Movements, OPEC's oil exports are expected to increase by 90,000 bpd to 25.16 million bpd in the four weeks ending August 19. It said the majority of the exports were heading east, as refiners continue to come out of scheduled maintenance work.

Officials in Belarus said Russia was keeping Belarus well supplied with crude even through it shares a pipeline with Lithuania, which Russia has cut off due to a leak over the weekend. This may add to speculation that Russia's Transneft used the minor leak over the weekend as a pretext to cut flows to Lithuania in punishment for choosing a Polish buyer for its Mazeikiu refinery over Russian bidders. Meanwhile, Lithuania's Mazeikiu Nafta said it was prepared to work long term without Russian pipeline crude after Russia cut off supplies. The company stated that it would replace those supplies by increasing oil imports by sea via Butinge.



Russia's gas oil exports out of the Black Sea port of Tuapse are expected to remain steady at 360,000 tons in August.

Gas oil inventories held in Amsterdam-Rotterdam-Antwerp storage tanks increased

by 135,000 tons to 1.975 million tons in the week ending August 3 as distillates continued to flow into storage. Gasoline stocks increased by 140,000 tons to 720,000 tons while fuel oil stocks increased by 30,000 tons to 665,000 tons on the week. Naphtha stocks fell by 10,000 tons to 85,000 tons while jet fuel stocks also fell by 15,000 tons to 340,000 tons on the week.

Singapore's International Enterprise said the country's residual fuel stocks increased by 1.132 million barrels to 15.088 million barrels in the week ending August 2. It reported that light distillate stocks fell by 20,000 barrels to 7.717 million barrels while middle distillate stocks fell by 212,000 barrels to 7.791 million barrels.

The Caspian Pipeline Consortium said it planned to launch a project to increase its pipeline operations to full capacity. The project is expected to increase annual oil transport via the pipeline to 67 million metric tons from the current 30 million tons.

Turkey's Calik Energy said it applied with Indian Oil Corp for a license to build a \$4.9 billion refinery near the Turkish Mediterranean port of Ceyhan. The planned refinery would have a capacity to process 15 million tons of crude annually.

Production News

A senior Iraqi official said Iraq should begin talks with major oil companies as soon as possible to develop its oil fields before enacting a new hydrocarbon law that is expected to be ready at the end of the year.

Algeria's crude oil production increased by 5.5% on the year to 1.36 million bpd in the first quarter.

Sudan's Dar Blend crude terminal on the Red Sea is due to be inaugurated on September 1 with exports to start soon after. Output from the Dar Blend oilfield, expected to peak between 140,000 bpd and 200,000 bpd, has been delayed for more than a year due to logistic and infrastructure constraints.

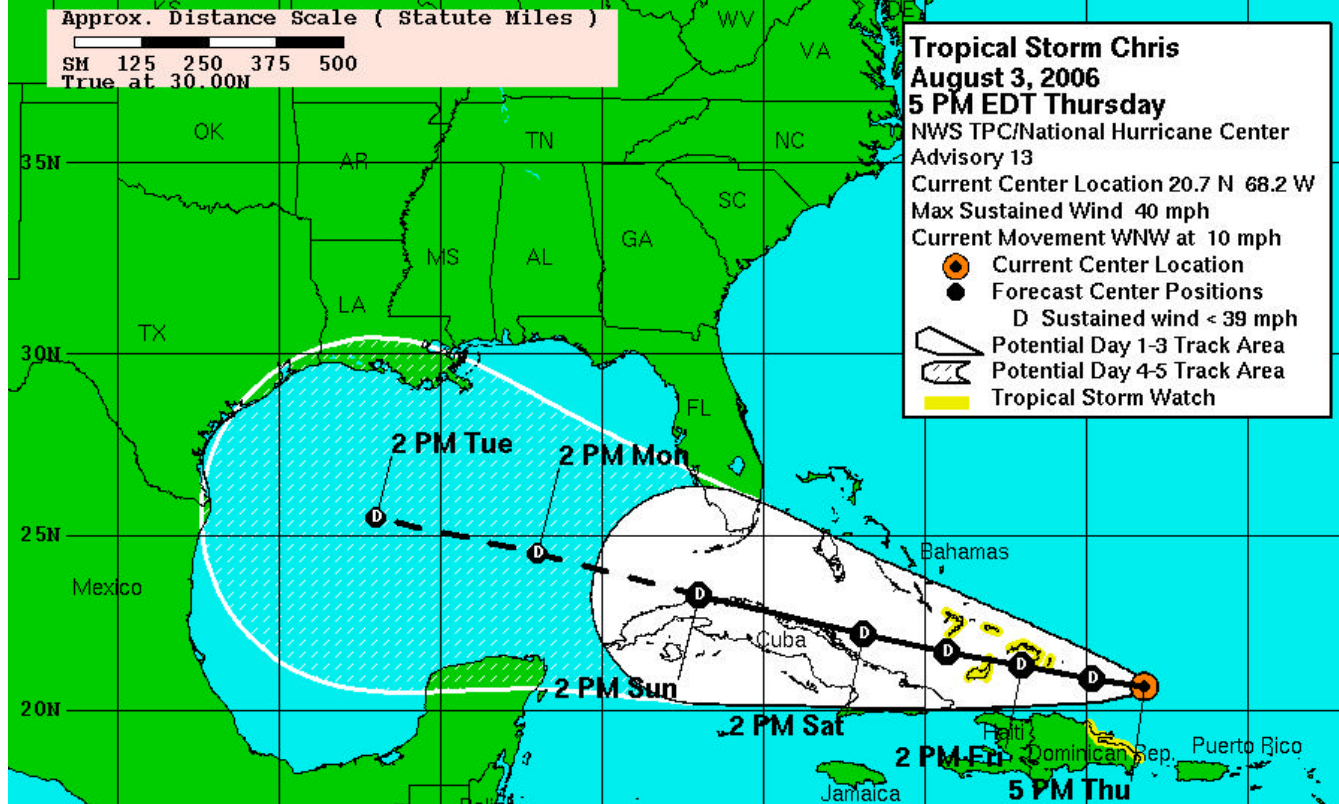
Total SA said it expected its production to increase in 2007 following a sharp decline in recent quarters. It said it expected a 3.6% decline in 2006 production over 2005 however new projects would put it on track to achieve its target of average annual production growth close to 4% over 2005 to 2010. Total estimated its 2006 production at 2.4 million boe/d compared with 2.49 million boe/d last year.

Indonesia's Pertamina has issued a tender to purchase crude for October arrival after skipping its monthly tenders for two months due to high inventories. Indonesia's crude oil production fell to 887,000 bpd in July from 900,000 bpd in June.

The ecological department of Russia's Resources Ministry said it wanted Royal Dutch/Shell to suspend construction of pipelines on its Sakhalin-2 oil and gas project due to ecological reasons.

The increasing instability in Nigeria is threatening to pose a larger threat to the country's oil industry at a time when it is seeking to increase its production capacity. With the country preparing for national elections next April, militants fighting for a greater share of oil revenue are expected to increase their attacks on oil facilities and foreign oil workers in the coming months. The International Crisis Group stated that Nigeria could avert attacks on the oil industry if it met militant demands for more local control over oil wealth. Nigeria's oil producing states receive up to six times more national revenue than other states under a system known as derivation which allows them to keep 13% of locally generated petrodollars. However delta militants accuse state politicians of wasting or pocketing much of the funds and call for total local control over oil revenues. The recommendation follows a UN report

that also supported the call for greater resource control in the delta. Meanwhile, militants in Nigeria took a German oil industry worker hostage on Thursday.



Market Commentary

The energy complex gapped lower on the opening as Tropical Storm Chris weakened and concerns over possible disruptions in the Gulf of Mexico eased. Forecasts that Tropical Storm Chris would weaken into a tropical depression prompted a sell off in the markets. The crude market gapped lower from 75.55 to 75.00 and sold off to a low of 74.65. However the market bounced off its low and partially backfilled its gap as it traded to 75.25. It settled in a sideways trading pattern amid the light volume trading. The market later breached its earlier high and completely backfilled its gap as it traded to a high of 75.60 ahead of the close. The market settled down 35 cents at 75.46. Volume in the crude market was light with 162,000 lots booked on the day. Open interest in the crude market built by 27,366 contracts on the day, with builds of over 11,000 lots posted in the first four months as new longs came into the market. Meanwhile, the gasoline market gapped lower from 230.50 to 228.00. The market

continued to sell off and quickly posted a low of 225.50. The market later bounced off its low and settled in a sideways

Technical Analysis		
	Levels	Explanation
CL	Resistance 75.46, down 35 cents	Previous high, 62% retracement (79.45 and 72.80), Previous highs Thursday's high
	Support 74.65	
HO	Resistance 211.35, down 1.59 cents	Thursday's low Previous lows
	Support 210.00, 208.20 205.00 to 204.80, 200.00	
HU	Resistance 229.34, down 4.43 cents	Previous highs Remaining gap (August 1), Previous low
	Support 226.50, 225.50 224.00 to 223.40, 218.25	

trading pattern for most of the session. It however breached its earlier high and posted a high of 230.25 on the close. It settled down 4.43 cents at 229.34. The heating oil market also gapped lower from 210.00 to 209.25 and sold off to a low of 208.20 early in the session. However similar to the rest of the complex, the heating oil market erased its losses and traded to a high of 211.80 ahead of the close. The market, which backfilled its gap, settled down 1.59 cents at 211.35. Volumes in the product markets were light with 27,000 lots booked in the gasoline and 31,000 lots booked in the heating oil market.

The oil market on Friday is seen remaining supported ahead of the weekend. The latest tropical storm forecast stated that while Tropical Storm Chris was not downgraded to a depression, it could weaken later on Thursday. There were no changes to its track forecast, with the storm still heading into the Gulf of Mexico early next week and towards the Texas coast. The market will continue to watch for further developments on the storm if it is not downgraded. The market is seen finding support at its lows of 74.65 and 74.45. More distant support is seen at 72.95, 72.80 and 72.55-72.50. Meanwhile resistance is seen at 75.60, 76.50 and 76.91. More distant resistance is seen at 78.15, 78.50 and 79.45.

NYMEX Most Active Petroleum Options for August 3, 2006									
Contract	Month	Year	Call/Put	Strike	Exp Date	Settle	Prev Settle	Volume	IV
GO	9	6	C	2.27	08/28/2006	0.1029	0.1345	225	38.337
GO	10	6	C	2.1	09/26/2006	0.1609	0.1833	225	37.952
GO	9	6	P	2.27	08/28/2006	0.0796	0.0671	211	38.337
GO	10	6	C	2.16	09/26/2006	0.1287	0.149	150	37.606
GO	1	7	C	1.97	12/26/2006	0.163		150	33.184
LO	12	7	P	60	11/13/2007	2.27	2.4	4100	28.884
LO	12	6	C	40	11/14/2006	38.02	38.08	3500	87.7
LO	12	6	C	40.5	11/14/2006	37.52	37.58	3500	86.041
LO	12	6	C	51.5	11/14/2006	26.52	26.58	3400	54.227
LO	9	6	C	100	08/17/2006	0.04	0.05	2821	62.773
LO	10	6	C	100	09/15/2006	0.17	0.19	2539	42.336
LO	12	6	C	37	11/14/2006	41.02	41.08	2500	98.154
LO	11	6	P	70	10/17/2006	1.14	1.16	2050	28.355
LO	12	6	C	39.5	11/14/2006	38.52	38.58	2000	89.382
LO	12	6	C	51	11/14/2006	27.02	27.08	2000	55.51
OH	10	6	C	2.4	09/26/2006	0.0312	0.0371	512	31.492
OH	10	6	P	2	09/26/2006	0.035	0.0356	512	30.685
OH	12	6	C	2.37	11/27/2006	0.1168	0.1221	491	32.184
OH	12	6	C	2.43	11/27/2006	0.0987	0.1034	488	32.569
OH	11	6	P	1.75	10/26/2006	0.0096	0.0092	300	33.607