



## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR AUGUST 7, 2006**

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BP Exploration Alaska Inc shutdown the Prudhoe Bay oilfield after it discovered severe corrosion in a Prudhoe Bay oil transit line. Once the field is shutdown, a process that could 3-5 days, BP said oil production would be cut by 400,000 bpd. BP America chairman and president Bob Malone said the field would not resume operations until the company and government regulators were satisfied that it could run safely without threatening the environment. Officials at BP found on Friday that data from an internal sensing device found 16 anomalies in 12 locations in an oil transit line on the eastern side of the field. Further inspections found that the corrosion exceeded BP criteria to continue operating. Workers also found a small spill of about 4 to 5 barrels. BP said it expected to have the eastern operating area of the field shut in 24 hours to 36 hours. Shutting off wells in the western side of the field is more complex because the wells supply fuel gas to the Aleyska Pipeline Service Co as well as the Northstar oilfield. BP later stated that it would replace 73% or 16 miles of 22 miles of transit pipeline in the Prudhoe Bay field. Company officials said BP may not be able to restart the field for weeks or months.

Meanwhile, the US Energy Department said it would consider loaning SPR crude to refiners caught short of supply following the shutdown of the field. Separately, the executive director of the IEA, Claude Mandil said there was no need for the agency to tap its emergency oil reserves to make up for supply lost. The IEA's deputy

#### **Market Watch**

Prices for ethanol blend, California gasoline increased 8.5 cents in early trading on Monday following the news that the Prudhoe Bay oilfield would be shut in. California gasoline for August traded in LA as high as 17 cents over the September NYMEX gasoline contract.

The AAA said US retail gasoline prices are poised to reach a record following the news that the Prudhoe Bay oilfield has been shut. It reported that US gasoline prices averaged \$3.036/gallon on Monday. Prices in California were running over \$3.20/gallon and could increase further if the field shutdown causes refiners on the West Coast to slow fuel production.

Traders stated that Urals crude was expected to gain in value as the high sulfur, or sour grade may act as a substitute to some of the 400,000 bpd of shut in production in Alaska.

Standard & Poor's said a further spike in oil prices resulting from a broader Middle East conflict would push an already slowing US economy into recession more easily now than a year ago. The most likely scenario has oil prices falling from their current level of about \$75/barrel to below \$70/barrel by year end and to \$60/barrel by the end of 2008. In an intermediate scenario, Iran would shut its oil production and cause oil prices to rally above \$100/barrel temporarily.

The NYMEX announced that it decided to eliminate the NYMEX Access surcharge for after hours trading of energy products.

The IEA's deputy

executive director Bill Ramsey said the shutdown at Prudhoe Bay was not catastrophic for world oil supplies.

OPEC said it was concerned about the closure of BP's Prudhoe Bay oilfield and would work to ensure that there was no supply shortage as a result. Saudi Arabia and other OPEC members would be willing and capable of meeting any oil supply gap. Separately, OPEC President Edmund Daukoru said oil prices were unlikely to trade much below \$70/barrel during the rest of the year despite OPEC having enough capacity to keep the market well supplied.

Iran's chief nuclear negotiator, Ali Larijani promised on Sunday to expand its atomic fuel work. He said the expansion of atomic work would be conducted under the supervision of the IAEA but added that even that could be in question if Iran felt unfairly treated. He warned the UN Security Council not to impose sanctions on Iran. Iran's Oil Minister Kazem Vaziri Hamaneh said his government has not decided whether or not to use oil as a weapon to protect its national interests if it is subjected to UN sanctions.

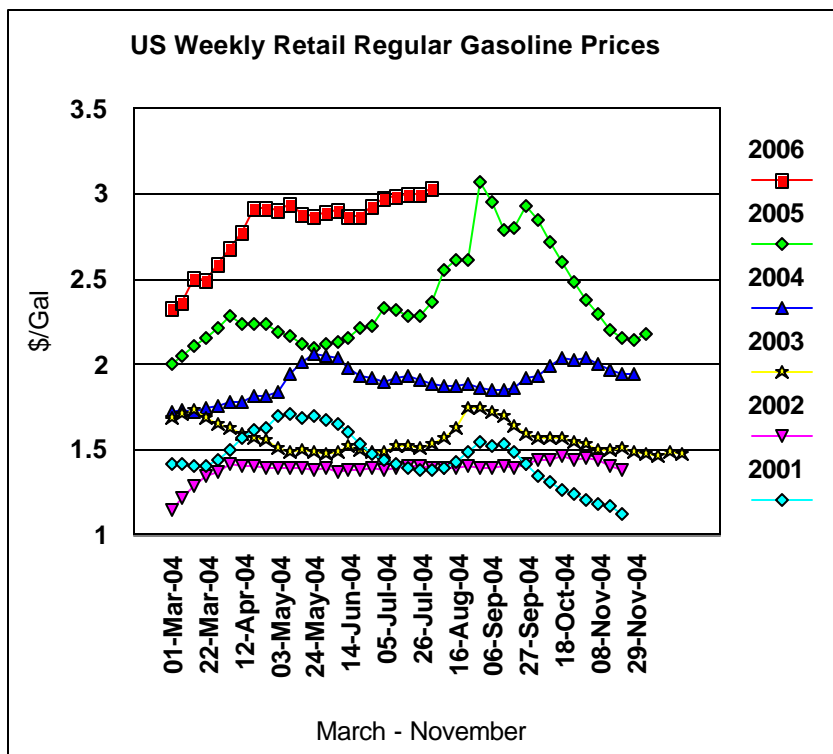
Separately, Iran said a draft UN Security Council resolution aimed at ending the Israeli-Hezbollah fighting as a new offensive against Lebanon. Iran's Foreign Minister Manouchehr Mottaki said the resolution considers Lebanon responsible for starting the crisis. It calls for a ceasefire without the withdrawal of Israeli forces. Hezbollah warned on Saturday that it would not abide by the resolution unless Israel withdraws from Lebanon entirely and indicated that the lack of a timetable for such a withdrawal was perhaps the biggest problem with the text. The draft resolution also calls for establishing a buffer zone in south Lebanon where only Lebanese and international forces would be allowed.

Saudi Foreign Minister Saud al-Faisal called for an end to Israeli attacks on Lebanon, saying Saudi Arabia's patience was wearing thin.

Syria's Foreign Minister Walid Moallem met with his Lebanese counterpart, Fawzi Salloukh and said Syria was ready for the possibility of a regional war if the Israeli aggression continues. He said the US-French draft resolution to end the war adopted Israel's point of view only. He said if Israel attacked Syria by any mean, Syria's leadership has ordered the armed forces to reply immediately.

The EIA reported that the US average retail price of gasoline increased by 3.4 cents/gallon to \$3.083/gallon in the week ending August 7. It also reported that the US average retail price of diesel increased by 7.5 cents/gallon to \$3.055/gallon on the week.

**Refinery News**



Tesoro Petroleum Corp said its current operations would not be impacted by BP's pipeline shutdown, since only 10% of its total crude supply comes from Prudhoe Bay. It said it has other Alaskan crude sources, along with foreign sources that would allow it to meet its crude supply requirements.

Valero Energy Corp said that while it is too soon to say if there would be any long term impact on its operations as a result of BP's decision to shut its Prudhoe Bay oil field, it does not anticipate any near term impacts. Meanwhile, Royal Dutch Shell said its West Coast refineries did not anticipate a crude shortage in the near term as a result of BP's decision.

ExxonMobil reported the restart of a hydrocracking unit Friday at its Baytown, Texas refinery following a brief shutdown after the unit tripped offline.

ConocoPhillips said its 306,000 bpd Wood River, Illinois refinery was operating at normal rates. It was shut after storms caused a power outage on July 19.

Valero Energy Corp shut a saturated gas compressor at its 130,00 bpd refinery in Houston for just over an hour on Saturday. It was shutdown for unplanned maintenance involving the repair of lube oil tubing at the compressor's gear box.

Delek US Holdings shut an amine unit at its 55,000 bpd refinery in Tyler, Texas to repair leaks, in addition to previously reported shutdowns of the diesel hydrotreater and sulfur recovery unit.

Taiwan's Formosa Petrochemical Corp is expected to shutdown a 73,000 bpd residual fluid catalytic cracker at its Mailiao refinery in mid-August due to a small mechanical problem.

PetroChina's Urumqi refinery has set its one month planned shutdown of half the plant's capacity on August 10. The plant would close a 50,000 bpd crude unit.

### **Production News**

The Movement of the Niger Delta People, a previously unknown group, has claimed responsibility for the kidnapping of a German contractor last week and demanded the release from jail of a former militia leader and a former governor from the area. The group also demanded that the hostage's employer, construction firm, Bilfinger and Berger, provide more infrastructure and jobs to communities where they work. Meanwhile, Shell said gunmen killed five Nigerian oil workers contracted to a Royal Dutch Shell venture and injured three others last Thursday.

Azerbaijan's crude oil production increased by 52.4% on the year in the January-July period to 17.22 million tons or 595,400 bpd. The BP led group said its production from the Chirag and Azeri oilfields increased to 12.01 million tons or 415,300 bpd in the first seven months of the year. SOCAR said its output fell to 5.2 million tons or 179,800 bpd. Azerbaijan's exports increased to 11.08 million tons or 383,100 bpd. Exports of refined products also increased to 2 million tons in January-July from 1.32 million tons last year.

Baltic Sea ports in Latvia, Estonia and Lithuania increased their throughput by 3.7% on the year to 68.949 million tons in the January-June period.

Total FSU fuel oil exports from Baltic and Black Sea ports fell by 272,000 tons or 7.2% on month to 3.49 million tons in July. Meanwhile, FSU gas oil exports from Baltic and Black Sea ports increased by 139,000 tons or 5.1% to 2.89 million tons in July. Traders stated that gasoline exports via the Baltic and Black Sea ports fell by 463,000 tons or 33% to 933,000 tons.

Russia's Rosneft and China's Sinopec started drilling the first exploration well on their joint Sakhalin-3 project. Rosneft has estimated the field's reserves at 168 million tons of oil and 258 billion cubic meters of gas.

Indonesia's crude oil production fell to 895,000 bpd in July, down from 900,000 bpd in June.

SK Corp has acquired a 50% interest in an oil exploration block in Kazakhstan as it seeks to diversify its energy sources. It said the exploration would be conducted in a 50-50 partnership with trading house LG International Corp. Exploration activities are scheduled to start later this year.

Ecuador's central bank reported that the country's oil export revenues totaled \$3.54 billion between January and June, up 50% from the \$2.36 billion reported last year. It exported 69.31 million barrels in the first six months of the year, up 6% on the year.

Saudi Arabia increased its September official selling prices for its crude bound for Europe. It set its Arab Extra Light at the IPE Brent crude weighted average minus \$1.65, up 10 cents on the month. Its Arab Light was set at BWAVE minus \$5.75, up 40 cents, its Arab Medium was set at BWAVE minus \$8.20, up 70 cents and its Arab Heavy was set at BWAVE minus \$10.95, up \$1.10 on the month. Meanwhile its Arab Extra Light bound for the US was set at WTI minus \$2.05, unchanged on the month. Its Arab Light was set at WTI minus \$5.75, up 25 cents, its Arab Medium was set at WTI minus \$8.15, up 75 cents and its Arab Heavy was set at WTI minus \$11.20, up 95 cents. Its prices for crude bound for Asia were mixed, with its Arab Super Light set at the Oman/Dubai average plus \$6.85, down 40 cents. Its Arab Extra Light was set at the Oman/Dubai average plus \$3.70, up 5 cents and its Arab Light was set at WTI plus 35 cents, unchanged. Its Arab Medium was set at the Oman/Dubai average minus \$2.80, up 5 cents and its Arab Heavy was set at the Oman/Dubai average minus \$5.85, up 10 cents on the month.

OPEC's news agency reported that OPEC's basket of crudes increased slightly to \$71.09/barrel on Friday, up from \$71.08/barrel on Thursday.

### **Market Commentary**

The crude market gapped higher from 75.40 to 76.05, its low, in light of the supportive news that BP was shutting down its Prudhoe Bay oilfield due to corrosion on the Prudhoe Bay transit pipeline. The shutdown, announced on Sunday night and expected to take several days to complete, would cut 400,000 bpd of production. The market traded mostly sideways and held some early resistance at 76.50 before further buying pushed the market to a high of 77.30 in afternoon trading. The market was further supported by the news that BP was planning to replace about 16 miles of the 22 miles of the transit

pipeline, meaning that the field may remain shut for weeks if not months. The crude market later settled in a

Technical Analysis		
	Levels	Explanation
CL 76.98, up 2.22 cents	Resistance 78.15, 78.50, 79.45	Previous high, 62% retracement (79.45 and 72.80), Previous high Monday's high
	Support 77.30	
HO 214.35, up 5.39 cents	Resistance 218.40, 221.00	Previous highs Monday's high
	Support 214.00, 212.00 to 211.50 207.10, 205.00 to 204.80	
HU 225.16, up 2.01 cents	Resistance 230.25-230.50, 234.75	Remaining gap (August 3rd), Previous high Double top
	Support 228.50 223.25 220.50, 218.25, 218.00, 216.00	

sideways trading pattern ahead of the close and ended the session up \$2.22 at 76.98. Volume in the crude market was excellent with over 255,000 lots booked on the day. The gasoline market surprisingly settled up just 2 cents higher despite the strength in the complex. The market opened up 3.85 cents at 227.00 and quickly posted a double top at 228.50. The market later settled in a sideways trading pattern as it held good support at 226.00. The gasoline market however breached its support level and retraced its gains as it posted a low of 223.25 ahead of the close. It settled up 2.01 cents at 225.16. Meanwhile, the heating oil market gapped higher from 211.50 to 212.75 on the opening and partially back filled its gap as it traded to a low of 212.00. The heating oil market later bounced off its low and extended its gains to over 8 cents as it posted a high of 217.00. The market gave up some of its gains ahead of the close and settled up 5.39 cents at 214.35. Volumes in the product markets were better with 31,000 lots booked in the gasoline market and 50,000 lots booked in the heating oil market.

The oil market may retrace some of today's sharp gains. However its losses will remain limited in light of the shut-in production. The market will also remain supported amid the continuing conflict in the Middle East and the reports of further problems in Nigeria. The market is seen finding support at its gap from 76.05 to 75.40 followed by its previous lows of 74.15, 72.95 and 72.80. More distant support is seen at 72.55 and 72.50. Meanwhile resistance is seen at 77.30 followed by 78.15, 78.50 and 79.45.

Symbol	Month	Year	Call/Put	Strike	Exp Date	Settle	Prev Settle	Volume	IV
GO	9	6	P	2.1	08/28/2006	0.0243	0.0337	206	37.375
GO	9	6	C	2.5	08/28/2006	0.0158	0.017	193	39.99
GO	9	6	C	2.3	08/28/2006	0.0603	0.0589	109	37.914
GO	9	6	P	2.15	08/28/2006	0.0379	0.0499	101	37.375
GO	11	6	P	1.98	10/26/2006	0.0866	0.107	100	37.029
LO	12	7	P	60	11/13/2007	2.35	2.49	3200	30.438
LO	10	6	C	80	09/15/2006	2.36	1.49	3005	30.088
LO	12	6	P	75	11/14/2006	2.68	3.29	2725	29.351
LO	9	6	P	70	08/17/2006	0.05	0.19	2260	31.339
LO	9	6	C	80	08/17/2006	0.48	0.23	2217	29.784
LO	9	6	P	73	08/17/2006	0.27	0.8	2171	29.973
LO	10	6	P	60	09/15/2006	0.01	0.01	2000	31.415
LO	10	6	P	55	09/15/2006	0.01	0.01	2000	40.605
LO	12	7	C	100	11/13/2007	2.95	2.69	1735	25.51
LO	12	6	C	100	11/14/2006	0.82	0.61	1585	35.139
OH	12	6	C	2.5	11/27/2006	0.0847	0.0737	926	32.838
OH	12	6	C	2.4	11/27/2006	0.1126	0.0983	919	32.165
OH	12	6	P	1.96	11/27/2006	0.0419	0.0509	500	32.953
OH	12	6	C	2.46	11/27/2006	0.095	0.0827	394	32.569
OH	12	6	P	2.1	11/27/2006	0.0786	0.0929	322	32.3