



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR AUGUST 9, 2006

BP Plc has ordered replacement for about 60% of its Prudhoe Bay transit pipeline system. It said initial inspections revealed that the West side of the field appeared fit to operate, with severe corrosion confined to pipelines in the East side of the field. BP said it would decide whether to reopen the West side, which accounts for 200,000 bpd of production, after examining another 1,000 feet of pipeline at the end of the week. The Department of Transportation has not yet decided whether or not to endorse BP's plan to partially operate the field and it currently drawing up new inspection guidelines for the company in addition to existing corrective action orders. BP has so far shut in 200,000 bpd and continues its phased shutdown. The head of BP, Robert Malone said the cause of the deterioration of the pipeline was bacteria. He said the bacteria secreted an acidic substance that was harmful to the pipeline. Separately, Alaska's Governor Frank Murkowski promised to hold BP responsible for its actions leading to the shutdown of the Prudhoe Bay oilfield and scrutinize its plans to restart the field.

Meanwhile, the Trans Alaska Pipeline System is expected to be able to keep oil moving from the Alaska North Slope to the port at Valdez despite the lost production from BP's Prudhoe Bay field. Alyeska Pipeline Service Co said the pipeline would be able to maintain sufficient pressure to keep unaffected North Slope output moving south to tankers at Valdez.

The Houston Chronicle reported that the section of BP's pipeline shutdown due to corrosion was exempt from regulatory oversight by the Department of Transportation's Office of Pipeline Safety because the pipeline were considered low risk for ruptures.

DOE Stocks

Crude – down 1.1 million barrels
Distillate – down 200,000 barrels
Gasoline – down 3.2 million barrels
Refinery runs – up 0.88%, at 91.6%

Petrologistics said it Saudi Arabia is likely to increase its production to 9.5 million bpd this month to meet a shortfall of crude following BP's decision to shutdown the Prudhoe

Market Watch

Shipping sources sated that BP was scrambling to move oil from across the world to make up for lost production at its Prudhoe Bay oilfield. Its inquiries for fixtures ranged from Very Large Crude Carriers to suezmaxes and smaller ships from the Middle East Gulf, West Africa, the Mediterranean and the Caribbean.

Maine's governor John Baldacci has written to President Bush urging the release of oil reserves in response to the closure of the Prudhoe Bay oilfield. He stated that there was an increasing level of worry and concern about whether gasoline and heating fuels would be available when needed.

A Nigerian parliamentary committee has ordered Chevron to pay \$492 million in back taxes to the government.

Bay oilfield. It said the additional 500,000 bpd from Saudi Arabia could be brought onstream within days. Separately, oil majors said they had no plans yet to request more oil from Saudi Arabia to fill losses from BP's Prudhoe Bay field.

Lebanon's Prime Minister Fuad Saniora said no progress has been made to end weeks of fighting. He said there were contacts on several fronts to end the violence but there was nothing new so far. He said he did not expect the UN Security Council to issue a resolution in the next two days. Lebanon and its Arab supporters have been demanding that Israel withdraw its forces from southern Lebanon immediately after a ceasefire agreement is reached. Diplomatic efforts to reach an agreement on a UN resolution to end the Israeli-Hezbollah conflict failed over differences between the US and France on Arab demands for an Israeli withdrawal from southern Lebanon. While Israel approved a broader ground offensive in southern Lebanon, France was supporting Lebanon's call for Israeli troops to pull out once hostilities end while the US continue to support Israel's insistence to remain until an international force is deployed.

Iraq's Shi'ite Muslims have started to promote a plan to partition the country as a way of separating the warring sects as the sectarian violence continues. Some Iraqis have talked about dividing the capital, with the Tigris River as a kind of border. Shi'ites have long advocated some autonomy in the south, similar to the Kurds enclave in the north, with its own defense forces and control over oil exploration. However Sunni leaders said the Shi'ites were taking advantage of the escalating violence to control Iraq's oil. Iraq's oil is concentrated in the north and south while much of the Sunni dominated west and northwest lacks oil and gas.

Refinery News

Valero Energy Corp's chairman, Bill Greehey said sour crude discounts, which have contributed to record profits in the past few years, may narrow because of the cut in Alaska North Slope crude output.

A 20,000 bpd hydrotreater at ExxonMobil's 155,000 bpd Torrance, California refinery has been shut due to an early morning compressor failure.

Shell Oil said its 67,000 bpd catalytic cracking unit at its 340,000 bpd Deer Park, Texas refinery was running at reduced rates while repairs were made to a wet gas compressor on August 9-10.

Kuwait's 270,000 bpd Mina Abdullah refinery is expected to shutdown for 10 days starting November 1 for scheduled maintenance. The shutdown is not expected to affect overall production of Kuwaiti refinery products. The refinery's operations manager said the other two refineries would take care of production and added that some products in the tank farms would sustain the turnaround.

Cargill Inc announced plans to build a biodiesel plant and glycerin refinery next to its existing soybean processing facility in Kansas City under a joint agreement with Missouri soybean farmers. Construction is scheduled to start this fall with biodiesel production beginning in the summer of 2007.

The Shetland Island Council stated that Brent crude loadings from Sullom Voe fell to 261,119 tons in the week ending August 8, down from 378,877 tons in the previous week.

China's National Development and Reform Commission said the country's first strategic oil reserve would start operations in October, a month after construction is due to be completed at the site. The Zhenhai facility is expected to have a storage capacity of 5.2 million cubic meters.

Indonesia's Pertamina reported that the country's fuel imports in September would remain steady at about 10 million barrels. Its imports include 2.4 million barrels of gasoline and about 6 million barrels of diesel.

The Petroleum Association of Japan stated that gasoline stocks increased about 50,000 barrels to 12.27 million barrels or 1.95 million kl in the week ending August 5. It also reported that Japan's kerosene inventories increased by 10% to 3.25 million kl. Commercial crude stocks increased by 0.2% to 18.62 million kl or 117.1 million barrels on the week. Japan's average refinery operation rate increased to an average of 86.7% of capacity last week, up from 86% a week earlier.

Production News

BP said it continuously carried out rigorous monitoring and inspections at its North Sea Forties oil pipeline system. This follows BP's decision to shut the Prudhoe Bay field in Alaska after severe corrosion was discovered its pipeline.

Norway's Petroleum Directorate reported that Norway's crude oil production in July increased by 8% on the month to 2.424 million bpd.

NYMEX Most Active Petroleum Options for August 9, 2006									
Symbol	Month	Year	Call/Put	Strike	Exp Date	Settle	Prev Settle	Volume	IV
GO	9	6	C	2.4	08/28/2006	0.0148	0.0253	328	40.30
GO	9	6	P	2	08/28/2006	0.0164	0.0103	215	37.99
GO	9	6	C	2.5	08/28/2006	0.0066	0.0121	176	41.37
GO	10	6	C	2.5	09/26/2006	0.0255	0.0313	141	43.37
GO	9	6	P	2.2	08/28/2006	0.0906	0.0657	141	38.34
LO	12	6	P	60	11/14/2006	0.16	0.16	3,711	29.75
LO	6	7	P	55	05/17/2007	0.76	0.75	3,500	32.00
LO	12	6	C	100	11/14/2006	0.7	0.73	3,330	35.45
LO	9	6	P	75	08/17/2006	0.72	0.82	3,297	28.75
LO	10	6	C	105	09/15/2006	0.12	0.11	3,077	47.95
LO	10	6	P	72	09/15/2006	0.88	0.89	2,950	29.87
LO	9	6	C	80	08/17/2006	0.26	0.32	2,501	29.94
LO	12	7	C	100	11/13/2007	2.79	2.87	2,501	26.13
LO	10	6	C	85	09/15/2006	0.79	0.88	2,243	31.57
LO	12	6	C	90	11/14/2006	1.6	1.64	2,066	32.14
LO	6	7	P	60	05/17/2007	1.34	1.33	2,020	30.90
OH	9	6	C	2.15	08/28/2006	0.0388	0.0442	450	30.07
OH	10	6	C	2.32	09/26/2006	0.0431	0.0453	76	30.95
OH	10	6	C	2.27	09/26/2006	0.0566	0.0592	75	30.61
OH	9	6	C	2.11	08/28/2006	0.0551		70	29.80
OH	10	6	C	2.24	09/26/2006	0.0663	0.0692	70	30.38

Royal Dutch Shell said it was making progress in fixing a pipeline in Nigeria, a step towards resuming part of the oil output shutdown in Nigeria. A leak on a pipeline last month forced the shut in of 210,000 bpd of Bonny Light crude and prompted Shell to declare a force majeure on

exports. A Shell spokeswoman was unable to state when the repairs would be completed.

Two Norwegians and two Ukrainians were kidnapped from a supply ship off the coast of Nigeria. The vessel was carrying supplies to an oil rig off Nigeria. Meanwhile, Nigerian militants holding a German contractor hostage issued a photograph of him on Wednesday in an email statement, which also restated their demands for the release of two jailed ethnic Ijaw leaders.

A revised Bonny light loading program for September showed the loading of six full cargoes of 950,000 barrels and three other smaller parcels of crude, totaling the equivalent of eight full cargoes.

OAO Russian Railways said Russia shipped an average of 186,700 bpd of oil to China via rail over the first seven months of the year. Its shipments were up 23% on the year. It reported that shipments in July fell to 118,000 bpd in July from 234,000 bpd in June.

The head of Iraq's South Oil Co said the country has started a plan to increase oil production from its southern oil fields to 2.25 million bpd from the current 2 million bpd. He also stated that the company was implementing a project to increase export capacities at its 1.6 million bpd Basra and its 300,000 bpd Khor al-Amya terminals.

Indonesia's BPMIGAS said oil reserves in the Jeruk oil discovery offshore east Java may be only half the earlier forecast of 170 million barrels.

OPEC's news agency reported that OPEC's basket of crudes increased by 52 cents/barrel to \$72.64/barrel on Tuesday.

Market Commentary

The oil market, which posted an inside trading day, ended the session relatively unchanged after erasing its early gains. The market opened up 17 cents at 76.48 and quickly traded above the 77.00 level following the release of the DOE report, which showed draws across the board. The market continued to trend higher and posted a high of 77.40. However the market erased its gains and tumbled to a low of 76.20 ahead of the close as the Sep/Oct crude spread came in and settled at 1.18. The September crude contract settled up just 4 cents at 76.35. Volume in the crude market was excellent with over 363,000 lots booked on the day, of which 305,000 lots traded via spreads. Meanwhile the gasoline market settled down 5.41 cents at 217.22 as it erased its gains ahead of the close despite the supportive report showing larger than expected draws in gasoline stocks. The market traded to a high of 224.00 early in the session but quickly gave up its gains despite the reports and settled in a sideways trading pattern. The market however tumbled more than 6 cents to a low of 216.50 ahead of the close. The heating oil market also rallied to a high of 215.35 before it settled in a sideways trading pattern. Similar to the crude and gasoline markets, the heating oil market erased its gains and sold off to a low of 210.00 ahead of the close. It settled down 1.01 cents at 210.63. Volumes in the product markets were good with 37,000 lots traded in the gasoline market and 50,000 lots traded in the heating oil market.

The oil market on Thursday is seen retracing some of its sharp losses. The market will continue to be driven by the headlines

Technical Analysis		
	Levels	Explanation
CL Resistance 76.35, up 4 cents Support	78.15, 78.50, 79.45 77.05, 77.40	Previous high, 62% retracement (79.45 and 72.80), Previous high Wednesday's high
	76.20 76.15, 76.05 to 75.40	Wednesday's low Previous lows
HO Resistance 210.63, down 1.01 cents Support	215.90, 217.00, 218.40, 221.00 214.00, 215.35	Previous highs Wednesday's high
	210.00 207.10, 205.00 to 204.80	Wednesday's low Previous low, Remaining gap (August 1)
HU Resistance 217.22, down 5.41 cents Support	228.50, 230.25-230.50, 234.75 224.00	Double top, Remaining gap (August 3rd), Previous high Double top
	216.50 216.00 to 215.80, 212.00	Wednesday's low Remaining gap (June 29th), Previous low

as it remains to be seen if BP would partially operate the Prudhoe Bay field while the market remains concerned over the other geopolitical problems. The market is seen finding support at 76.20, 76.15 and its gap from 76.05 to 75.40. Meanwhile resistance is seen at 77.05, 77.40 followed by 78.15, 78.50 and 79.45.

