

**W** The  
Windham Group



## ***ENERGY RISK MANAGEMENT***

Howard Rennell, Pat Shigueta &  
Zachariah Yurch

**(212) 624-1132 (888) 885-6100**

**www.e-windham.com**

---

### **ENERGY MARKET REPORT FOR AUGUST 10, 2006**

---

British police foiled a plot to blow up aircraft mid-flight between Britain and the US. While British police sources did not rule out an al-Qaeda link, they played down the idea of direct involvement by the militant group. US Homeland Security Secretary Michael Chertoff said it suggested an al-Qaeda plot but as investigations were still underway, it was not a definitive conclusion. Britain and the US both heightened security, causing delays at airports following the announcement of the plot, which police source said was believed to involve a liquid chemical device. Unconfirmed media reports stated that six to ten airliners had been targeted in the plot. Britain's Interior Minister John Reid said police were confident that the main players were detained overnight. He said 21 people were arrested.

Israel said it would hold off on a new ground offensive in Lebanon until the weekend to give ceasefire efforts another chance. Israel's Security Cabinet on Wednesday approved a major expansion of the war. However prospects for a ceasefire resolution by the UN Security Council were uncertain with the US and France still divided over a timetable for an Israeli withdrawal from Lebanon.

OPEC stated that it would hold an emergency meeting before its scheduled September meeting if market conditions required it. It said the group stood ready

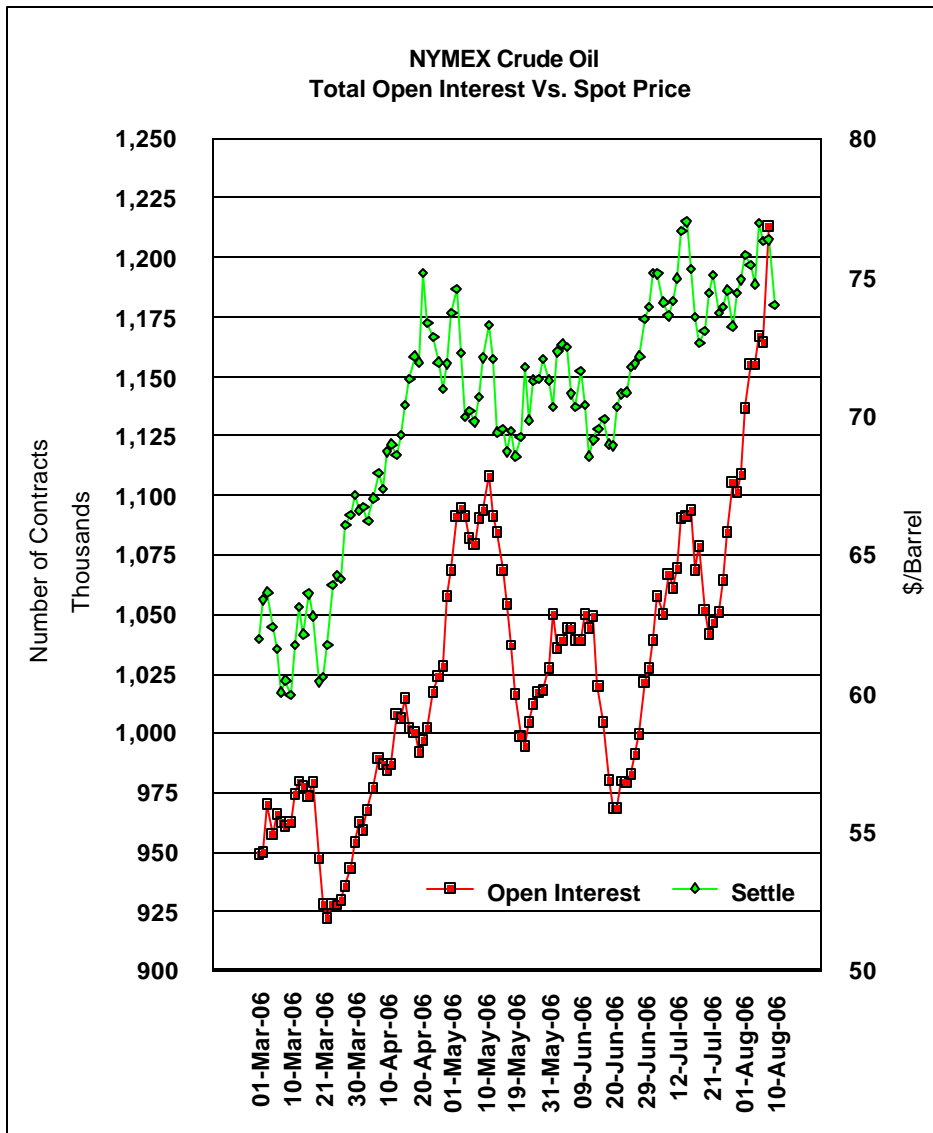
#### **Market Watch**

The Goldman Sachs Commodity Index said it would roll the remainder of its NYMEX reformulated gasoline contract position into crude, heating oil and gasoil in October. It said it would not add to its RBOB exposure. Goldman Sachs had initially planned to roll all of its reformulated gasoline position into the new RBOB contract. Goldman Sachs said it would continue to monitor market conditions and keep market participants apprised of its intentions with respect to the GSCI and the gasoline futures market and would make additional announcements.

Calyon Financial said it expected the IEA to make sizable downward revisions to its world oil supply forecast following BP's shutdown of the Prudhoe Bay oilfield. The IEA's report is due on Friday.

ICE said physical delivery against the expired August ICE gas oil contract fell to 504 lots or 50,400 tons, down from 100,200 tons in July.

Eight presidential candidates opposing Venezuelan President Hugo Chavez called off a primary election set for Sunday. They unanimously agreed to support the front runner and best financed candidate, Gov. Manuel Rosales. They believe he stands the best chance against President Chavez in the December 3 presidential race. In a recent poll, 9% of the respondents said they would vote for Rosales, while 56% said they would vote for Chavez. Venezuela's President has built a strong following among the poor because of his use of the country's oil wealth to promote health, education, housing and discount food programs. Meanwhile, Gov. Manuel Rosales in a speech talked about what some analysts said were Chavez's vulnerabilities, such as massive foreign aid programs, government approved takeovers of land and buildings and the perception that crime was increasing.



to do all in its power to correct any imbalance in the market following BP's decision to shut the Prudhoe Bay oilfield. It added that it was confident there was no shortage in the market. Meanwhile, Libya's Oil Minister, Shokri Ghanem said OPEC is unable to calm the oil market. He said there was no spare capacity.

According to Oil Movements, OPEC's oil exports are expected to increase by 570,000 bpd to 25.24 million bpd in the four weeks ending August 26 compared with 24.67 million bpd in the previous four weeks ending July 29.

**Refinery News**

Differentials for conventional gasoline fell 4 cents to 10 cents under the screen early Thursday as a threat of a tropical storm was seen easing.

BP said it planned to maintain supply to Flint Hills

Resources' 220,000 bpd refinery in North Pole, Alaska.

BP PLC on Thursday continued to produce about 200,000 bpd from the western portion of the Prudhoe Bay oilfield. It said was not declaring force majeure on deliveries of oil from Prudhoe Bay because its portion of crude from the field goes primarily to its own refineries in Washington and California. BP confirmed that crews attempting to complete an integrity survey of the oil transit pipelines at its Prudhoe Bay oilfield were only looking at the bottom sixth of the lines. It is expected to decide by Friday whether to shutdown the western half of the field after closing the eastern portion of the field earlier in the week. BP expects the replacement of corroded pipelines at the Prudhoe Bay oilfield to cost about \$100 million. The company has not stated how much the lost production would cost but its average profit margin of \$25/barrel suggests that a full outage would cost BP \$2.6 million/day or \$350 million if the field was fully shut until year end. Analysts also expect the loss of Alaskan crude to hit profitability at BP's refineries on the US West Coast.

BP has booked two large oil tankers from West Africa to the US Gulf, one with US West Coast options in an effort to fill any supply gap following its decision to shut the Prudhoe Bay field. A 260,000 ton vessel was booked from West Africa to the US Gulf with US West Coast options while a 130,000 ton

vessel was also booked from West Africa to the US Gulf. They are expected to load on September 7 and August 24, respectively. Separately, a 1 million barrel cargo of Norwegian crude has been sold out of storage in South Korea into the US West Coast. Norway's Statoil leases about 11 million barrels of storage tanks in South Korea. Industry sources also stated that ConocoPhillips was moving at least 600,000 barrels of September loading Malaysian light sweet Tapis crude to the US West Coast. Tesoro Corp has also booked an 80,000 ton crude tanker from Oman to the US West Coast. The tanker is expected to load in early September.

ConocoPhillips has declared force majeure on deliveries of crude from Prudhoe Bay. It said it was trying to minimize delay or disruption of shipments.

The Texas Natural Resource Conservation Commission reported that an internal floating roof tank at Shell's Deer Park refinery in Texas was shut for a few hours on Thursday morning for inspection and repairs.

PDVSA's alkylation unit at its 130,000 bpd El Palito refinery is expected to be fully operational on Thursday following Wednesday's restart of its 54,000 bpd fluid catalytic cracking unit.

Singapore's International Enterprise reported that the country's residual fuel stocks fell by 358,000 barrels to 14.73 million barrels in the week ending August 9. It reported that light distillate stocks also fell by 239,000 barrels to 7.478 million barrels while middle distillate stocks increased by 194,000 barrels to 7.985 million barrels on the week.

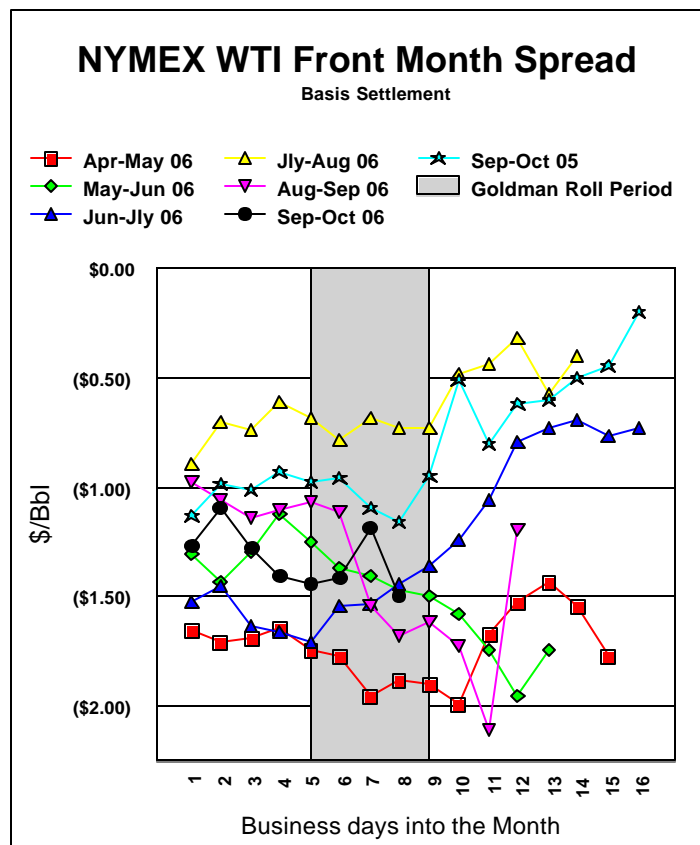
China's crude oil imports in July fell by 3.9% on the year to 10.64 million tons or 2.5 million bpd, the lowest level in 11 months. China's crude imports in the first seven months increased by 12.9% on the year to 83.98 million tons or 2.89 million bpd. Its oil product imports in July stood at 3.74 million tons while its oil product imports during the first seven months increased by 21.2% to 21.97 million tons.

Indonesia's Energy Ministry reported that the country was a net importer of crude oil for the third consecutive month in July due to falling production and higher processing by domestic refineries. The country's crude imports fell to 328,000 bpd in July from 382,000 bpd June while its crude exports fell by 18.7% to 300,000 bpd in July from 369,000 bpd in June.

Shipping returned to normal long the Rhine River in Germany following a sharp rise in water levels. Low water surcharges were no longer being imposed. Extra surcharges had been levied on cargo in recent weeks after a heat wave reduced water levels, preventing vessels from sailing fully laden.

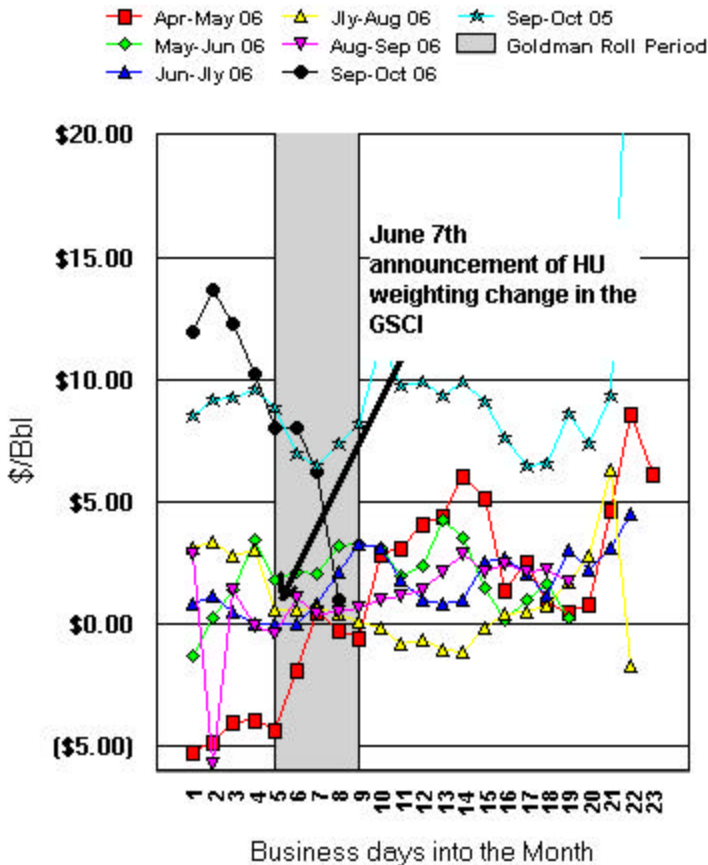
### Production News

Sources stated that oil has started to flow again through a pipeline that carried Nigerian Bonny Light crude. Shell declared a force majeure on



180,000 bpd of oil production in late July following a leak at the pipeline. A spokeswoman for Shell confirmed the pipeline resumed operations. Shell said that when fully operational, the pipeline's output would reach 173,000 bpd. However the company did not have any update regarding its force majeure.

### NYMEX HU Front Month Spread Basis Settlement



Trade sources stated that Saudi Arabia is expected to keep its supply to oil majors and European and Asian refiners steady in September. Oil majors in Europe were receiving about 80% of their contract volumes while refiners were receiving about 70-75%. Saudi Arabia is also expected to supply full contracted volumes to Asian refiners in September and restore full supply to one South Korean refinery that received a 7% cut in contracted volumes in August.

The North Sea Brent crude system is scheduled to load an average 198,000 bpd in September, down from 219,000 bpd in August. Separately, Royal Dutch Shell said the North Sea Brent oilfield would undergo work starting August 20.

Norway's North Sea Statfjord crude system is scheduled to load 313,000 bpd in September, up 10,000 bpd from the previous month. Meanwhile, Norway's Oseberg crude system is scheduled to load 223,000 bpd in September, down from 228,000 bpd in August. The North Sea Ekofisk crude system is expected to load

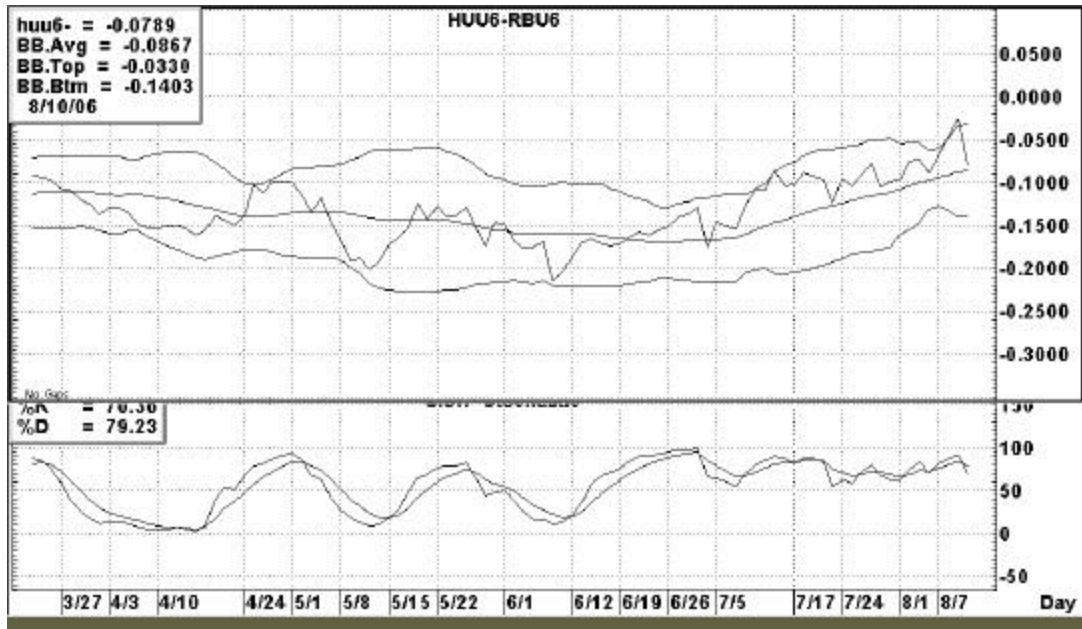
about 540,000 bpd in September, up from about 482,000 bpd in August. The North Sea Gullfaks crude system is scheduled to load 7.695 million barrels, down from 9.405 million barrels in August.

Nigerian union officials said oil industry workers in Nigeria, fearful of the increase in kidnapping incidents were refusing to go to certain locations. The Movement for the Emancipation of the Niger Delta has vowed to renew attacks on oil facilities across the region this month. Gunmen kidnapped two foreign oil workers on Thursday in southern Nigeria amid an increase in violence targeting the oil industry. Officials stated that a Belgian and Moroccan oil worker were kidnapped as they traveled through the southern city of Port Harcourt. This followed the kidnapping of two Norwegian and two Ukrainian workers during a raid on a supply vessel on Thursday. Meanwhile, the Movement for the Niger Delta People sent an email to reporters containing a message purportedly written by a German oil industry worker taken hostage last week. The message said the hostage was being treated well and wanted to go home.

OPEC's news agency reported that OPEC's basket of crudes fell to \$72.53/barrel on Wednesday from \$72.67/barrel on Tuesday.

**Market Commentary**

The oil market gapped sharply lower from 76.20 to 75.40 as British police foiled a plot to blow up aircraft mid-flight between Britain and the US, prompting fears of a cut in air travel and lower consumer confidence.



The crude market, which posted a high of 75.60, continued to tumble amid the reports that oil flow at a Nigerian pipeline resumed. The market was further weighed down by the sharp losses in the gasoline market following the announcement that Goldman Sachs would not roll its remaining gasoline positions into RBOB. The crude market extended its losses to \$2.45 as it sold off to a low of 73.90 ahead of the close. The market settled down \$2.35 at 74.00. Volume in the crude market was excellent with 292,000 lots booked on the day. Open interest in the crude market built by a total of 48,916 lots.

Open interest in the September contract fell by 13,104 lots and open interest in the October contract built by 28,264 contracts as traders rolled their

Technical Analysis		
	Levels	Explanation
CL	Resistance	77.40, 77.45
	74.00, down \$2.35	74.60, 75.60 to 76.20
	Support	73.90
HO	Resistance	72.95, 72.80
	202.50, down 8.13 cents	215.35
	Support	205.00, 207.30 to 210.00
HU	Resistance	202.20
	198.89, down 18.33 cents	200.50, 200.00, 197.70, 197.60
	Support	220.71, 224.00
		209.25, 212.00 to 216.50
		198.00
		197.30, 195.80, 195.00, 193.00

positions and continued to add to their longs. The gasoline market fell more than 19 cents on the day as traders liquidated their positions following the Goldman Sachs announcement. The market gapped lower from 216.50 to 210.00 and posted a high of 212.00 on the opening. However the market continued to sell off and tumbled to a low of 198.00 ahead of the close. It settled down 18.33 cents at 198.89. The September RBOB contract also settled down 13.09 cents at 206.78 with the Sep HU/RB spread widening to 7.89 cents amid the liquidation. The heating oil market also settled sharply lower, down 8.13 cents at 202.50. The market, which was pressured by the sell off in the crude and gasoline market, gapped lower from 210.00 to 205.50 and tumbled to a low of 202.20 ahead of the close.

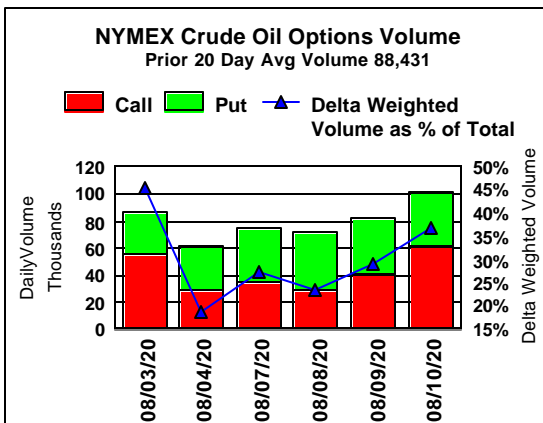
Volumes in the product markets were excellent with 67,000 lots booked in the gasoline market and 77,000 lots booked in the heating oil market.

**NYMEX Most Active Petroleum Options for August 10, 2006**

Symbol	Month	Year	Call/Put	Strike	Exp Date	Settle	Prev Settle	Volume	IV
GO	9	6	P	2	08/28/2006	0.0801	0.0164	508	42.297
GO	9	6	P	2.1	08/28/2006	0.1457	0.0431	344	43.374
GO	10	6	C	2.2	09/26/2006	0.0439	0.0804	343	41.836
GO	9	6	C	2.1	08/28/2006	0.0349	0.1151	337	43.297
GO	11	6	C	2	10/26/2006	0.1091	0.167	315	36.991
GO	9	6	C	2.3	08/28/2006	0.0071	0.0317	312	45.22
LO	10	6	C	85	09/15/2006	0.5	0.79	5507	32.655
LO	12	6	P	70	11/14/2006	1.7	1.38	5251	28.918
LO	9	6	P	74	08/17/2006	1.18	0.43	4226	28.909
LO	12	6	P	75	11/14/2006	3.54	2.97	3635	28.971
LO	9	6	C	76	08/17/2006	0.46	1.47	2611	29.108
LO	11	6	C	78	10/17/2006	3.07	4.08	2485	29.224
LO	11	6	C	82	10/17/2006	1.86	2.52	2416	30.152
LO	10	6	C	77	09/15/2006	2.06	3.18	2247	28.92
LO	9	6	C	75	08/17/2006	0.75	2.06	2094	28.784
LO	10	6	C	76	09/15/2006	2.49	3.71	1852	29.012
LO	12	6	C	29.5	11/14/2006	47.39	49.16	1850	129.28
LO	9	6	C	100	08/17/2006	0.01	0.01	1812	80.442
LO	12	6	C	47	11/14/2006	29.89	31.66	1800	65.544
OH	1	7	C	2.5	12/26/2006	0.0824	0.0998	301	32.184
OH	11	6	P	2	10/26/2006	0.0533	0.0398	223	30.858
OH	12	6	C	2.29	11/27/2006	0.1075	0.1372	202	30.185
OH	10	6	C	2.18	09/26/2006	0.0578	0.0899	158	30.473
OH	10	6	C	2.17	09/26/2006	0.0611	0.0944	150	30.416
OH	9	6	C	2.1	08/28/2006	0.0257	0.06	150	30.339
OH	10	6	P	1.98	09/26/2006	0.0413		150	30.493

The oil market is seen retracing some of its sharp losses early in the session before it continues to trend lower amid the lack of any new bullish headlines. The market, which posted an island reversal, is seen trending lower as it stochastics also crossed to the downside following today's sharp losses. It may also continue to trade lower as the gasoline

market continues to pressure the oil complex. The market is seen finding support at 73.90 followed by its previous lows of 72.95 and 72.80. Meanwhile resistance is seen at 74.60 and its gap from 75.60 to 76.20. More distant resistance is seen at 77.40 and 77.45.



Please note that the last announcement by Goldman Sachs concerning a reduction in its allocation of the HU contract in its index, back on the evening of June 7<sup>th</sup>, saw the July August HU spread the following day fall by 2.4 cents and by nearly 3 cents by the end of the roll period. The spread for the next several days after the roll period saw the front month contract bse another penny before trying to stage a rebound over the final few days of trading.