



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR AUGUST 14, 2006

Israel's Defense Minister Amir Peretz said that despite isolated skirmishes with Hezbollah fighters, the UN imposed ceasefire was holding in south Lebanon. He said it has started coordination with the UN Interim Force in Lebanon to start handing over the ground. Meanwhile, a Lebanese government official said Hezbollah must disarm and the Lebanese government should extend its control across areas where the guerrillas have operated with near autonomy. Lebanon's Defense Minister Elias Murr said the Lebanese army would deploy 15,000 soldiers on the north side of the Litani River before the end of the week. He said he expected international troops to begin arriving within the next 10 days. Separately, the US State Department said the UN declared ceasefire in Lebanon, if fully implemented, would be a strategic setback for Iran and Syria because it would strengthen democracy in Lebanon and stabilize the border with Israel. US President George W. Bush said that Hezbollah was wrong to declare victory in its battle with Israel. Earlier, Hezbollah leader Sheik Hassan Nasrallah claimed a strategic, historic victory in its nearly month long war with Israel.

Market Watch

The flow of shipping traffic in the Panama Canal is expected to slow down over the next few weeks due to a temporary reduction in transit slots during maintenance on the waterway. Over the weekend, the Panama Canal Authority started its week long maintenance work on the locks of the canal. There were 33 vessels waiting to sail through the canal.

OPEC's President Edmund Daukoru said OPEC would not hold an emergency meeting ahead of its scheduled meeting on September 11. However he stated that OPEC was ready to intervene if a shortage resulted from the partial closure of BP's 400,000 bpd Prudhoe Bay oilfield. He said surplus production capacity could be brought on to calm the markets.

The EIA reported that the US average retail price of gasoline fell by 3.8 cents/gallon to \$3.00/gallon in the week ending August 14. It also reported that US average retail price of diesel increased by 1 cent/gallon to \$3.065/gallon on the week.

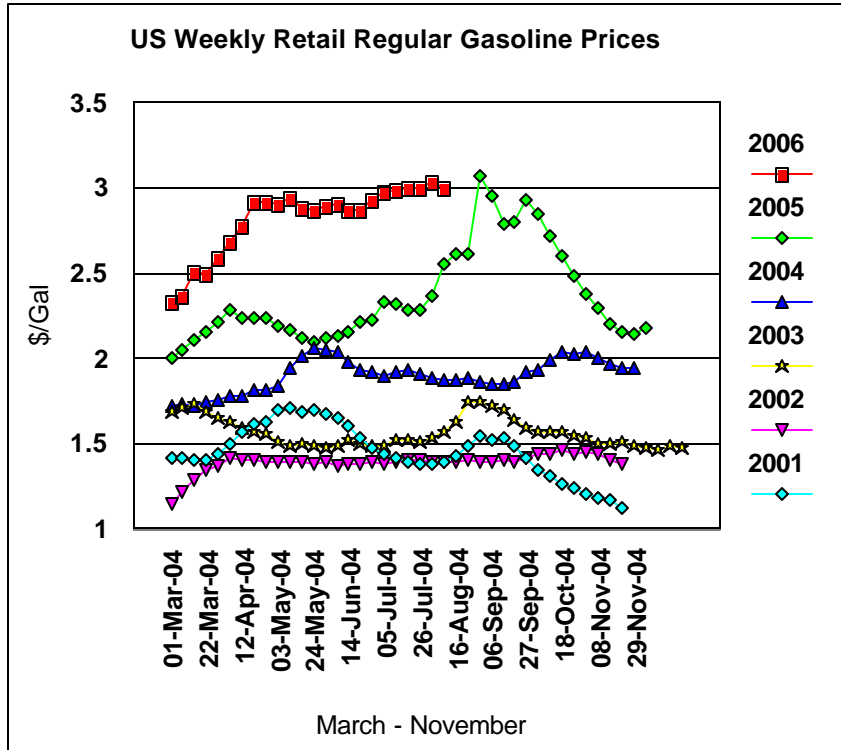
The EIA reported that US crude oil imports in June increased by 5.2% on the month to 10.779 million bpd. Canada remained the top supplier of crude to the US with exports of 1.799 million bpd. Mexico was the second largest supplier at 1.734 million bpd while Saudi Arabia was the third largest supplier of crude to the US at 1.549 million bpd. Venezuela's crude supplies to the US fell to 1.008 million bpd.

Refinery News

Late Friday, BP announced that it would maintain production in the western part of Prudhoe Bay because it was confident of the integrity of the pipeline. BP pledged to continue inspections of the route and implement unprecedented oil spill response measures. The western portion of the field was

producing 150,000 bpd and is expected to increase to 200,000 bpd by the end of the month once maintenance on Gathering Center 1 is completed. BP does not yet have a timeframe for restarting the eastern half of its 400,000 bpd Prudhoe Bay oilfield in Alaska. BP said it would continue to supply its Alaskan crude customers with oil. Separately, BP said a pipeline alternative for restoring some of BP's production in eastern Prudhoe Bay likely would not be ready until at least October.

US West Coast refiners maintain that their crude supplies are sufficient despite ConocoPhillips and ExxonMobil declaring force majeure on some of their contractual obligations.



Royal Dutch Shell has booked a 50,000 ton tanker to ship crude to the US West Coast from China. It is scheduled to load crude from the Zhoushan port on August 30. It would take about 18-20 days before the tanker arrives in the US.

Flint Hills Resources restarted a sulfur recovery unit at its 288,000 bpd Corpus Christi, Texas refinery over the weekend following a brief power outage that caused the unit to shutdown on Friday.

ConocoPhillips restarted a reformer unit at its Trainer, Pa refinery over the weekend. The unit was ramping up to full capacity about a week later than originally expected.

Shell Oil Co delayed repairs on the 67,000 bpd catcracker unit at its 340,000 bpd refinery in Deer Park, Texas until Monday. The repairs were originally scheduled for last week.

Pasadena Refining Systems shut a fluid catalytic cracking unit at its 100,000 bpd Pasadena, Texas refinery following an equipment malfunction on Sunday.

The Virgin Islands Police department said it secured the 500,000 bpd Hovensa refinery following a bomb threat last Thursday. The police department received a call indicating a possible aircraft attack on the refinery.

US refinery margins fall last week as high gasoline stocks and waning demand cut crack spreads while margins at European topping units was supported by a modest bounce in fuel oil. Profit margins at US Gulf refineries cracking Brent crude were halved to \$6.68/barrel from \$12.76 last week. US Gulf refineries cracking US light crude saw their margins fall to \$9.71 from \$16.04 last week.

Japanese refiners said they were operating normally after power failures that hit Tokyo and some parts of eastern Japan earlier on Monday.

Taiwan's Bureau of Energy reported that it consumed 844,474 bpd of oil products in June, down 5.7% on the year. Overall demand in the first half of the year increased by 3.9% to 832,167 bpd. It reported that diesel consumption in June fell by 13.3% on the year to 99,151 bpd while demand in the first six months fell by 2.3% to 99,083 bpd. Gasoline consumption fell by 7.7% in June to 178,447 bpd and by 2% to 179,102 bpd in the first half of the year. It reported that fuel oil demand fell by 3.3% to 108,943 bpd while demand in the first six months of the year increased by 1.3% to 111,142 bpd. Its refinery utilization rate in June fell to 92.3% from 97.6% in May. Its crude imports increased by 5.7% in the year to 966,167 bpd in June.

Production News

Armed men in Nigeria's city of Port Harcourt kidnapped four foreign oil workers, including an American and a British worker. News of the kidnappings came after the release of three Filipino gas workers, who were taken hostage 10 days ago. Separately, Norway's ambassador in Nigeria said negotiators were close to a deal to free two Norwegians and two Ukrainians, who were kidnapped from an oil service ship off the coast of Nigeria last week.

The head of Iraq's SOMO said Iraq has invited oil companies which deliver Iraqi crude to Asian customers to lift 2 million barrels of Basra Light crude above the contracted amount in September. He said the move came as Iraq's oil production from southern oil fields started to increase. Meanwhile, Iraq's Oil Minister Hussain al-Shahristani said the country's oil production increased to 2.5 million bpd after the northern pipeline to Ceyhan was repaired. He said plans were underway to increase the country's production to between 2.9 million bpd and 3 million bpd by the end of the year. Separately, an Iraqi oil official said Iraq's crude oil exports from its southern oil fields during the first 11 days of August averaged 1.4 million bpd, down from 1.51 million bpd in July.

Iran's Oil Minister Kazem Vaziri-Hamaneh and his Iraqi counterpart, Hussain al-Shahristani signed an agreement under which Iran would import Iraqi crude and in return send back refined products. Iran's Oil Minister said Iraq would supply up to 100,000 bpd of crude to two refineries in Abadan and Kermanshah and in return Iraq would receive 2 million liters of Iran's kerosene by road tankers. The ILNA news agency reported that the two countries were also considering cooperation on oilfields that straddle their border.

Venezuela's PDVSA signed agreements with BP to finalize the conversion of subcontracting deals to state majority joint ventures. Venezuela this year completed a process of converting 32 oilfield subcontracting deals that produced about 500,000 bpd to joint ventures with PDVSA majority.

Sudan is expected to export its first crude cargo from the 40,000 bpd Thar Jath oilfield, totaling 400,000 barrels from the end of August. The oilfield began production in June. Production from the field is expected to increase to about 60,000 bpd by the end of the year.

According to the US Agriculture Department, China produced about 920,000 tons of ethanol last year and is expected to increase its production to about 4 million tons by 2010.

OPEC's news agency reported that OPEC's basket of crudes fell by 60 cents/barrel to \$70.34/barrel on Friday.

Market Commentary

The oil market gapped lower from 73.75 to 73.00 as market concerns eased following the news that a UN brokered ceasefire between Israel and Hezbollah came into effect on Monday. The market was also pressured as BP said it would maintain production at the western portion of the Prudhoe Bay oilfield. The crude market continued to trend lower and posted a low of 72.60 in light of the

developments over the weekend, which prompted speculators to liquidate some of their long positions. The market however bounced off its low and retraced most of its losses as it partially backfilled its gap and posted a high of 73.60 ahead of the close. It settled down 82 cents at 73.53. Volume in the crude market was lighter today with 172,000 lots booked on the day. The gasoline market, which posted a mostly neutral trading session, gapped lower from 200.50 to 198.30 in light of the news. The market extended its losses to over 10 cents as it sold off to a low of 195.50 early in the session. However the market bounced off its low and erased its losses as it backfilled its gap. The market posted a high of 200.50 and settled in a sideways trading pattern ahead of the close. It settled down 7.38 cents at 199.05. Meanwhile, the heating oil market also gapped lower from 202.00 to 200.50 and sold off to a low of 198.80 within the first hour of trading. However similar to the rest of the complex, the heating oil market bounced off its low and erased its losses. The market backfilled its opening gap as it posted a high of 202.10 ahead of the close. It settled down 2.59 cents at 201.47. Volumes in the product markets were also light with 27,000 lots booked in the gasoline market and 40,000 lots in the heating oil market.

The oil market will likely continue to trade in a range and backfill its remaining gap. However the market's gains are seen limited as its stochastics are still trending lower. The market is seen finding resistance at its gap from 73.60 to 73.75 followed by 74.55 and 75.60 to 76.20. Its gains will also be limited as the situation in the Middle East is calm at the moment while the news that BP would continue to operate the western portion of the oilfield eases the market's concerns. The market is seen holding support at 73.00 followed by 72.60, 72.55, 72.50 and 71.45.

Technical Analysis		
	Levels	Explanation
CL 73.53, down 82 cents	Resistance 74.55, 75.60 to 76.20 73.60 to 73.75	Previous high, Remaining gap (August 10th) Remaining gap (August 14ht)
	Support 73.00, 72.60 72.55, 72.50, 71.45	Monday's low Previous lows
HO 201.47, down 2.59 cents	Resistance 205.00, 207.30 to 210.00, 215.35 202.10	Previous high, Remaining gap (August 10th), Previous high Monday's high
	Support 200.20, 198.80 197.70, 197.60, 197.30, 194.50	Monday's low Previous lows
HU 199.05, down 7.38 cents	Resistance 206.80, 212.00 to 216.50 200.50	Previous high, Remaining gap (August 10th) Monday's high
	Support 198.00, 195.50 195.00, 193.00, 192.50	Monday's low Previous lows