



ENERGY RISK MANAGEMENT

Howard Rennell, Pat Shigueta &
Zachariah Yurch

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

www.e-windham.com

ENERGY MARKET REPORT FOR AUGUST 18, 2006

Former Iranian President Akbar Hashemi Rafsanjani warned the US not to escalate the dispute over Iran's nuclear program. He said he hoped the issue could be solved through negotiations. This followed statements made by US Undersecretary of State Nicholas Burns that the UN would act fast next month and impose sanctions if Iran does not halt its nuclear program. Under a UN Security Council resolution, Iran must halt its uranium enrichment by August 31. Iran has set itself an August 22 deadline to respond to a demand by six world powers that Iran halt its nuclear program in return for economic and other incentives.

The UN said the ceasefire between Israel and Hezbollah was holding and added that checkpoints were set up in two southern towns of Yater and Hadatha after Israeli troops withdrew. A Lebanese military official stated that Lebanon's army also started setting up checkpoints near dozens of illegal border crossings with Syria and Israel in an effort to prevent arms supplies from reaching Hezbollah guerillas. Meanwhile, in the fifth day of a ceasefire, there was still no firm details for a deployment of an enhanced international force that is supposed to expand from 2,000 to

Market Watch

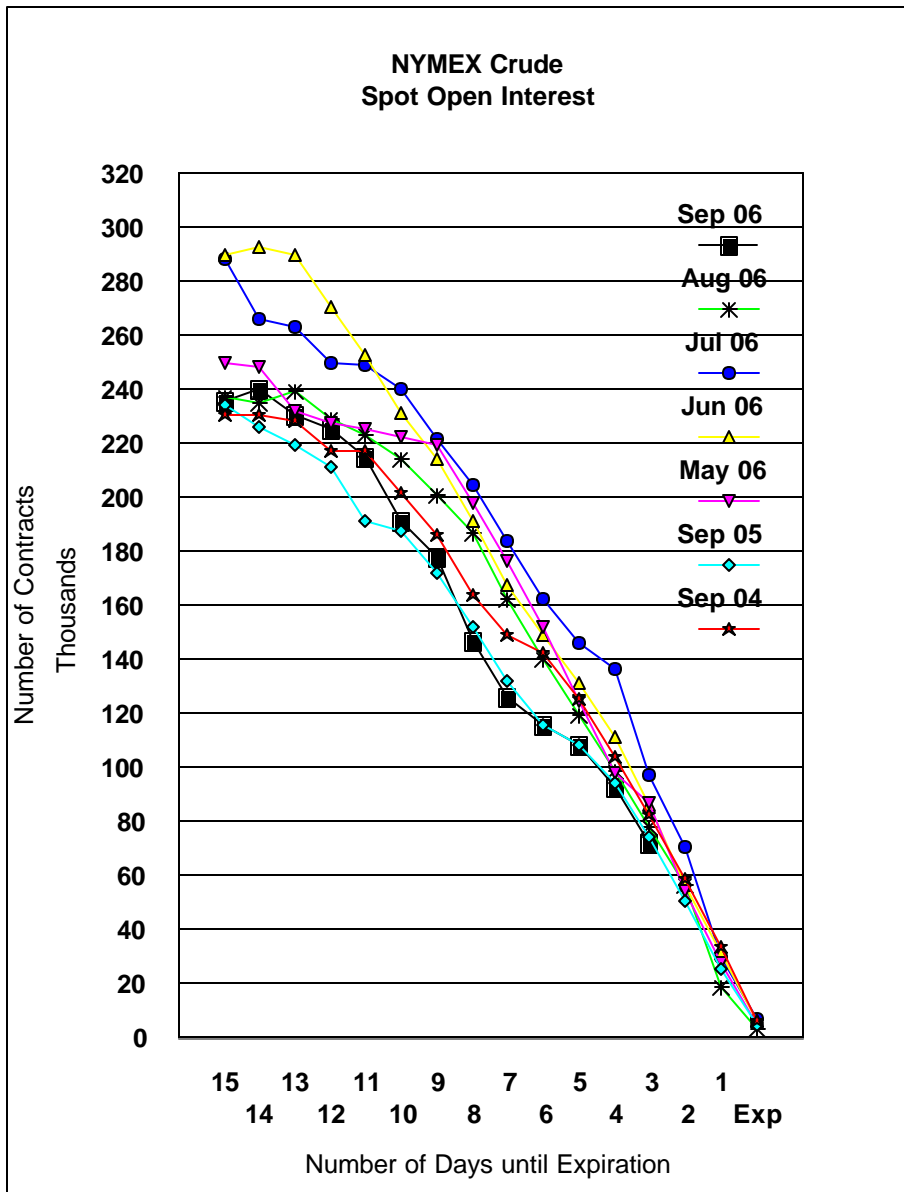
According to a Dow Jones Newswires survey, US oil prices are forecast to be \$64.80/barrel next year, down 6% on the year as fears over geopolitical risk dissipate, US supply worries ease and the reality of a US economic slowdown starts to hit demand. Analysts stated that barring an escalation of tensions between the US and Iran that would lead to a halt in exports, the general view is that the risk premium of some \$15-\$20/barrel that is still priced into oil futures was likely to begin declining further into next year.

Amaranth Advisors denied reports that the hedge fund was in trouble because of positions it had taken on the energy futures market. An investor was quoted as saying that "Amaranth is not directionally focused, and therefore, has done well across the energy spectrum, despite the recent gyrations in energy markets."

Venezuela's President Hugo Chavez has accused the opposition of a US backed plan to undermine his reelection victory in December. He vowed to crush the alleged plan and deliver the opposition its most humiliating defeat yet. He said all of his challengers were "the empire's lackeys" and "want to see Venezuela again become a US colony." He said Washington and his opponents were plotting a destabilizing plan to discredit his victory and added that if the opposition boycotted the election, he would seek to end term limits so that he could govern past 2013.

The University of Michigan's preliminary August consumer sentiment index fell to 78.7% from 84.7% in July. Conflict in the Middle East and higher gasoline prices in the first half of August also increased consumers' expectations for inflation. The report's preliminary August reading on one year US inflation expectations was 4.2%, up from 3.2% in July.

China increased its benchmark lending and deposit rates today to curb an investment boom and slowdown economic expansion. The change may cut the country's demand for oil.



15,000 troops and join an equal number of Lebanese soldiers.

Refinery News

The Valdez crude export terminal has seen a modest fall in the number of crude tankers in recent weeks as oil companies reduce shipments in light of the shut in production at BP's Prudhoe Bay oilfield. The Valdez Terminal usually receives about 360 tankers per year or almost one tanker per day. This week, the terminal is scheduled to receive four tankers followed by four more next week. The shut in production at Prudhoe Bay has limited flow on the Trans-Alaska Pipeline System to about 600,000 bpd, down from its normal range of at least 800,000 bpd.

Flying J Inc said it purchased Longhorn, which owns and operates the refined oil products common carrier pipeline system that runs from the Gulf Coast near Houston to El Paso. The pipeline could transport up to 72,000 bpd and the capacity could

reach 225,000 bpd eventually.

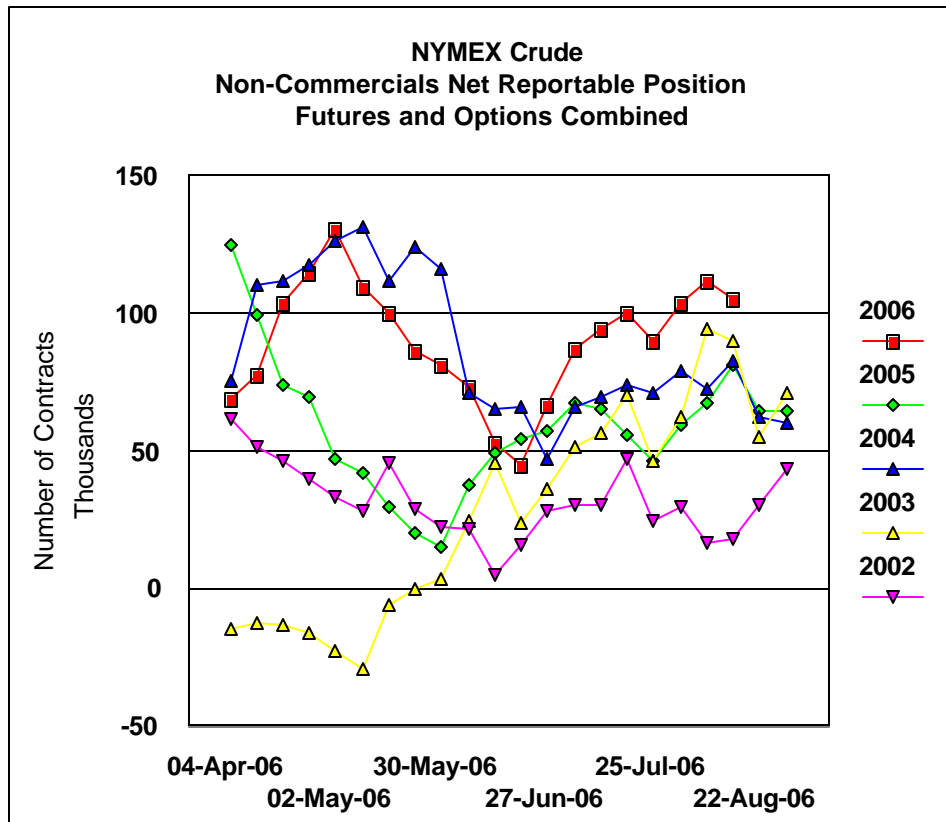
Kuwait's 270,000 bpd Mina Abdullah refinery is due to shut a hydrocracker for maintenance in December after the refinery completes a 10 day turnaround in November.

Iran's Deputy Oil Minister Mohammad Reza Nematzadeh said Iran would continue to import gasoline despite talk of the need to import rationing on gasoline consumption. He said the government has allowed the oil ministry to import gasoline until the parliament decides on the gasoline budget. Iranian officials are concerned that rationing could spark unrest in a country where many consider access to inexpensive fuel to be a national right.

Sinopec Corp is expected to export about 85,000 tons of gasoline for September lifting, up 30% on the month.

China Aviation issued a tender to buy 646,000 tons of jet fuel for October-November delivery, about 40% less than the total purchases for August-September delivery. It issued a tender for 427,000 tons of jet fuel for October and for 219,000 tons for November. The company purchased 500,000 tons for August and 485,000 tons for September.

PetroChina has started work to revamp its refining facilities in northeast Fushun but is expected to keep the refinery's capacity unchanged. A 160,000 bpd crude unit is expected to be completed by September 2008, when the refinery would shut two smaller units with a combined capacity of similar size. The plant would also add new secondary units to replace old ones by mid-2009, but its total crude run capacity would remain the same at 200,000 bpd.



Production News

BP stated that crude oil production from the western half of the Prudhoe Bay oilfield has been restored to more than 200,000 bpd. It however would not speculate on when it would be able to safely resume full production from Prudhoe Bay.

Mexico's Pemex reported that its crude oil production in July averaged 3.232 million bpd, down from 3.287 million bpd in June. It added that its crude exports fell to 1.635 million bpd in July from 1.776 million bpd in June.

Iraqi and Jordanian officials stated that Iraq agreed to supply Jordan with 10% of its crude oil needs under a discount price. An Iraqi official said Iraq would supply Jordan 10,000 bpd of its crude oil needs. Jordan has been relying on imported Saudi and Kuwait crude since the fall of Saddam Hussein's government in 2003.

Kazakhstan's State Statistics Agency reported that Kazakhstan's crude oil and gas condensate production reached 37 million tons in January-July, up 3.7% on the year. Its crude production increased by 6.3% to 30.817 million tons in January-July while production in July alone increased by 18.3% on the year to 4.74 million tons.

OPEC's news agency reported that OPEC's basket of crudes fell again to \$66.85/barrel on Thursday from \$68.24/barrel on Wednesday.

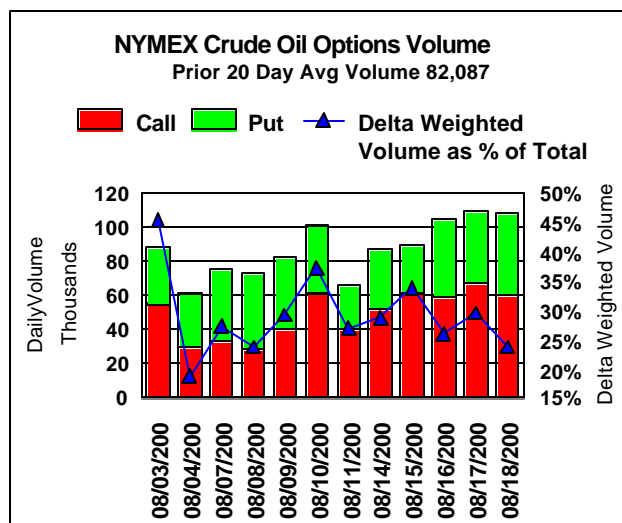
Market Commentary

The oil market, which held support at the 70.00 level amid the September crude option expiration on Thursday, opened 34 cents higher at 70.40 as it retraced some of its previous losses. The market was supported by the comments made by US Undersecretary of State Nicholas Burns, who stated that the UN would impose sanctions on Iran if the country did not halt its nuclear program. The market however breached its support at 70.00 and posted a low of 69.60. The market just as quickly bounced off its low as it once again failed to remain below the 70.00 level. The market settled in a sideways trading pattern before it rallied to a high of 71.19 ahead of the close. The market was supported by a private weather forecast stating that a low pressure disturbance coming up from the Yucatan Peninsula could emerge in the South Central part of the Gulf late Monday or early Tuesday and develop into a hurricane. The forecast stated that there could be strong tropical storm development. The market settled up \$1.08 at 71.14 as traders were reluctant to remain short ahead of the weekend. Volume in the crude was good with 205,000 lots booked on the day. Open interest in the crude market continued to fall by a total of 15,996 contracts. Open interest in the September contract fell by 20,993 contracts

as traders continued to liquidate their positions ahead of its expiration on Tuesday. The gasoline market settled up

Technical Analysis			
	Levels	Explanation	
CL	Resistance 71.14, up \$1.08	73.15, 73.90 71.19 to 71.70	Previous highs Remaining gap (August 17th)
	Support	70.50, 70.00 69.60 to 69.30, 68.80	Friday's low, Previous lows
HO	Resistance 198.95, up 2.45 cents	204.05, 205.00, 207.30 to 210.00 200.60 to 201.00	Previous highs, Remaining gap (August 10th) Remaining gap (August 17th)
	Support	198.00, 196.50 196.25, 194.50, 193.90	Friday's low Previous lows
HU	Resistance 196.69, up 3.53 cents	202.25, 203.20, 206.80 197.00	Previous highs Friday's high
	Support	194.00, 193.25 191.50, 191.00, 189.50, 185.00	Friday's low Previous lows

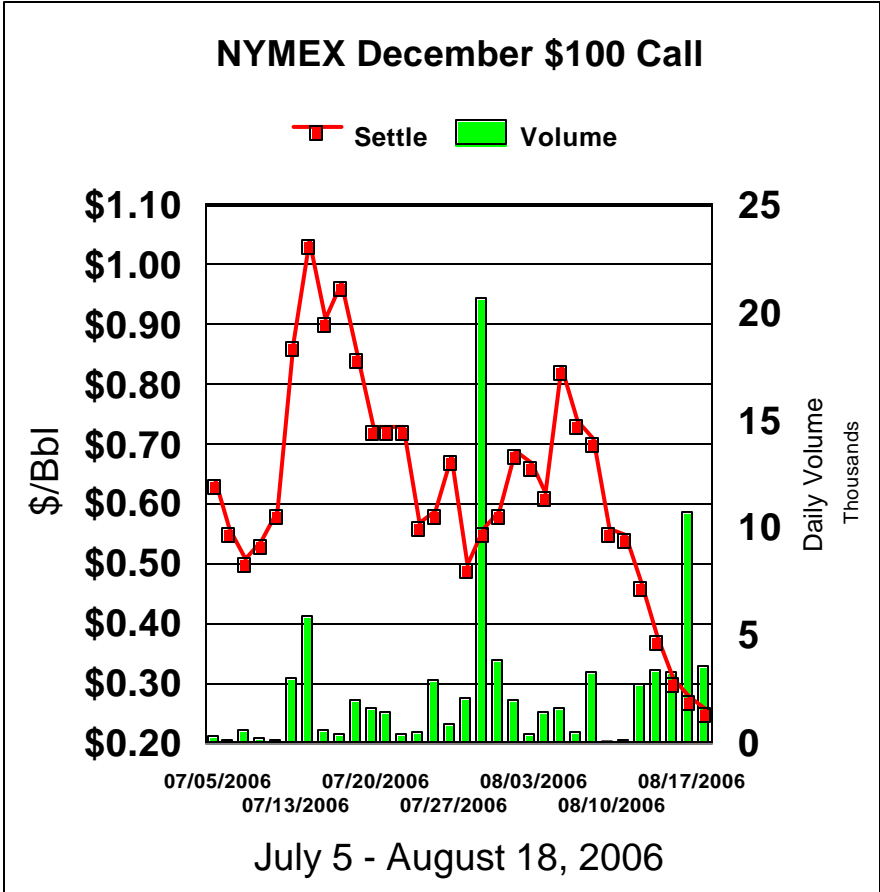
3.53 cents at 196.69 after it rallied to a high of 197.00 ahead of the close. The market posted a low of 193.25 early in the session and quickly backfilled its gap as it rallied to a high of 197.00. It later settled in a sideways trading pattern ahead of the close. The heating oil market also settled up 2.45 cents at 198.95 after the market rallied to a high of 200.60. The market seemed ready to post an inside trading day but rallied to its high on the close. Volumes in the product markets were light with 19,000 lots booked in the gasoline market and 39,000 lots booked in the heating oil.



The crude oil option market continued to attract good interest today as volume exceeded over 100,000 contracts for the third day in a row. In addition interest in far out of the money calls seemed to be the attraction again as it appeared hedge funds continued to build positions in these strikes such as the December 100 call, which today traded nearly 3600 times between 28-30 cents. (This interest in the far out of the money calls is reflected in the drop in the percentage of the delta trade weighted volume versus total volume traded in the options).

The Commitment of Traders report showed that non-

commercials in the crude market increased their net long position by 13,264 contracts to 83,794 contracts in the week ending August 15th. The combined futures and options report showed that non-commercials cut their net long position by 6,324 contracts. Given the market's sharp sell off and the fall in open interest in recent days, non-commercials have likely cut more of their net long positions. Meanwhile non-commercials in the product markets cut their net long positions, with non-commercials in the gasoline cutting their position by 6,866 contracts to 7,933 contracts and non-commercials in the heating oil cutting their position by 7,278 contracts to 10,397 contracts.



The crude market on Monday is seen remaining supported as it continued to hold support just below the 70.00. The market will look for further developments of the lower pressure disturbance forecasters stated could emerge in the Gulf of Mexico. The market will also be supported as the market awaits Iran's decision on Tuesday on whether it would halt its nuclear program in exchange for economic and other incentives. The market is seen finding support at 70.50, 70.00 followed by its low of 69.60 and 69.30. More distant support is seen at 68.80. Meanwhile resistance is seen at 71.19 to 71.70 followed by 73.15 and 73.90.