



## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR AUGUST 22, 2006**

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Iran's chief nuclear negotiator, Ali Larijani said Iran was ready to enter serious negotiations over its nuclear program. However he did not release any details of its response to the incentive package aimed at halting its nuclear program. Iran's Fars news agency reported that Iran rejected calls to suspend its nuclear activities and instead offered a new formula to resolve the issues through dialogue. Officials representing European Union countries declined to offer any immediate reaction saying they needed to study the Iranian offer. The US ambassador to the UN, John Bolton said the US was prepared to move quickly on a resolution seeking economic sanctions on Iran should it reject the offer of incentives. However it was unclear how fast other council members wanted to move. Meanwhile, Norway's Prime Minister Jens Stoltenberg said Norway would respect any decision by the UN regarding its nuclear program. He said Norway was supporting the UN's work on the nuclear issue in Iran and it could not speculate on whether Norwegian firms would be forced to pull out of Iran if sanctions were imposed.

#### **Market Watch**

BP denied allegations that it manipulated data from inspections its pipelines in Alaska that were shut due to corrosion. The Financial Times reported that the US Environmental Protection Agency was investigating allegations by BP workers that the company manipulated data to avoid replacing pipelines in the Prudhoe Bay oil field.

Royal Dutch Shell's President John Hofmeister said the discovery of severe corrosion in BP's Prudhoe Bay pipeline system does not warrant the introduction of new US regulations.

Venezuela's President Hugo Chavez's top ministers approved an income reform late last week that would increase taxes on oil activities and eliminate a number of tax breaks. The pending income tax reform would increase taxes on oil activities to 50% from 34% of oil deals, including four Orinoco river belt crude projects. Members of Venezuela's National Assembly are expected to issue a final approval soon. Once congress and President Hugo Chavez approve the law adjustments, they would become effective in January.

Russia transferred \$23.7 billion to the Paris Club on Monday, wiping out the last of its Soviet era debts and underlining the extent to which oil and gas revenue has transformed the country's finances. Russia's Finance Ministry said the debt clearance would save the country more than \$12 billion in interest payments on debt that was not due until 2020. Analysts fear that because the government is buoyed by the petrodollars, it has little incentive to foster the kind of political competition and economic diversity that can sustain the country's boom over the long haul should oil prices or demand for Russia's energy resources decline.

Separately, Iranian nuclear energy officials arrived in Russia on Tuesday for talks focusing on the nuclear plant that Russia was building in Iran. Vice President of Iran's Atomic Energy Organization, Mahmoud Hanatian said that the delegation planned to discuss the schedules of delivery of fuels for the plant in the Iranian city of Bushehr and its launch, which is expected late next year.

Despite the diplomatic showdown with Iran over its nuclear program, the Bush administration has agreed to issue a visa to former Iranian President Mohammad Khatami to give a public address at the Washington National Cathedral next month. He is expected to speak in Washington on the dialogue of civilizations and the role Islam, Judaism and Christianity can play in the peace process.

### **Refinery News**

Motiva Enterprises LLC shut part of a crude unit at its Port Arthur, Texas refinery on Tuesday. The unit was shut for repairs after a heat exchanger inside began leaking hydrocarbons to a cooling tower Tuesday morning. A report filed with the Texas Commission on Environmental Quality did not state when the unit is expected to return to service or whether operations were impacted by the outage.

Pasadena Refining Systems had a processing loss of 40,000 bpd due to a shutdown of its fluid catalytic cracking unit. The unit was shut on August 14 due to an equipment malfunction.

Italy's Saras is expected to shut a 45,000 bpd visbreaking unit for about three weeks in October. However a company official said the impact on gas oil output would be negligible. An official said the shutdown would ordinarily cut production of gas oil by about 30,000 tons or one cargo, out of total monthly gas oil production by the Saras refinery of half a million tons. However the official said Saras would minimize the net cutbacks in gas oil supply by running higher quality, low sulfur crude oil and by drawing on stocks held at the Sarroch complex.

Several units at the 400,000 bpd Nerefco oil refinery in Rotterdam were shut following a power failure on Tuesday. A spokeswoman for the Rotterdam environment protection agency said that other refineries at the Rotterdam port were not affected by the power failure.

Iraq's Oil Ministry and union officials said striking workers shut the main pipeline supplying Baghdad with refined oil products on Tuesday. However they stated that crude oil exports were not affected. The head of the workers' syndicate, Hassan al-Asadi said more than 700 workers from the General Company for Oil Lines and Pipes began a strike to press their demands for higher salaries and a share in company profits.

A preliminary export schedule showed that Russia would not supply crude to Lithuania for a second month in a row in September after halting deliveries due to a pipeline leak. Russia supplies to Lithuania dried up after Russian firms lost the bidding battle for Lithuania's refinery and export terminal to Polish oil firm PKN Orlen. With no oil going to Lithuania, Transneft planned to increase supplies to Russia's main Baltic Sea outlet of Primorsk to 5.83 million tons or 1.42 million bpd in September, up from 5.8 million tons in August.

Lithuania's economy minister confirmed that the Butinge oil terminal would be closed for maintenance for 13 days from mid-September.

An increase in Russia's fuel oil demand has prompted the export terminal at St. Petersburg to cut its 2006 shipment forecast by about 25%. Sources stated that the terminal was expected to match last year's record product loadings of 16 million tons but shipments were unlikely to exceed 11.5-12.5 million tons. The port is expected to handle 1.5 million tons of fuel oil in 2006, down from 3.6 million tons in 2005.

India's refiners processed 12.23 million tons of crude in July, up 12.6% from 10.86 million tons reported in the same month a year earlier. Crude oil output increased by 4% on the month to 2.86 million tons in July from 2.75 million tons reported last year.

South Korea's oil product demand increased 0.6% on the year to 1.84 million bpd in July after falling 0.8% in June. It reported that crude oil imports increased by 8.5% on the year to 72.34 million barrels. South Korea's oil product exports increased by 22% on the year to 28.47 million barrels in July, led by diesel shipments that increased by 16% to 9.97 million barrels.

### **Production News**

Venezuela's President Hugo Chavez said that oil sales to China would total 150,000 bpd this year. He said they would sign a series of agreements to give their countries another push in energy coordination.

Iran's military fired on and later occupied the Orizont rig, a Romanian oil rig off the country's Gulf Coast

Nigeria's President Olusegun Obasanjo said the problems in the Niger Delta has cut Nigeria's oil production to 2 million bpd, down from a projected 2.5 million bpd for this year.

Ecuador's Petroecuador and Chinese owned Andes Petroleum reported minor damage caused by unidentified people on two pipelines that feed into Petroecuador's Sote pipeline on Friday. Andes Petroleum said that damage to the pipeline forced it to shutdown pumping operations at its oil field.

Ecuador's central bank reported that the country's average oil production fell to 535,800 bpd in June from 547,867 bpd reported last year. Petroecuador said it averaged 290,867 bpd in June while private companies' oil output averaged 244,933 bpd.

OPEC's news agency reported that OPEC's basket of crudes increased by 90 cents to \$67.92/barrel on Monday.

### **Market Commentary**

The market opened down 30 cents at 72.15 as traders took some profits following Monday's late rally ahead of the close. The market posted a low of 72.10 and quickly bounced off that level as the market awaited Iran's response on the package of incentives aimed at halting its nuclear enrichment program. The market was also buoyed the news that Iran's military fired on and later occupied a Romanian oil rig. The September crude contract rallied to a high of 72.75 and settled in a sideways trading pattern with light

volume trading ahead of its expiration at the close. The market was supported as Iran announced that it was ready for serious

Technical Analysis		
	Levels	Explanation
<b>CL</b> 73.10, down 20 cents	<b>Resistance</b> 74.25, 75.30	Previous highs
	<b>Support</b> 72.60	Double top
	<b>Resistance</b> 73.35	Tuesday's low
	<b>Support</b> 72.30, 71.00	Previous lows
<b>HO</b> 203.66, up 39 points	<b>Resistance</b> 207.30 to 210.00	Remaining gap (August 10th)
	<b>Support</b> 205.70	Tuesday's high
	<b>Resistance</b> 202.70	Tuesday's low
<b>HU</b> 193.93, up 27 points	<b>Support</b> 200.55, 196.50, 196.25	Previous lows
	<b>Resistance</b> 197.00, 202.25, 203.20	Double top, Previous highs
	<b>Support</b> 196.00, 196.50	Tuesday's high
	<b>Resistance</b> 192.00	Tuesday's low
	<b>Support</b> 191.55-191.50, 191.00, 189.50	Previous lows

negotiations while it failed to respond to the incentive package. The market later breached its resistance and rallied to a high of 72.85 ahead of the close. It settled up 18 cents at 72.63. The October crude contract posted an inside trading day as it posted a double top at 73.35. It remained in a sideways trading pattern ahead of the close and settled down 20 cents at 73.10. Volume in the crude market was light with 156,000 lots booked on the day. Meanwhile, the gasoline market also posted an inside trading day. It posted a low of 192.00 and quickly rallied to a high of 196.50 amid the strength in the crude market. The gasoline market however erased its gains and settled in a sideways trading pattern. It settled up 27 points at 193.93. The heating oil market also settled up 39 points at 203.66. The market posted a low of 202.70 on the opening and rallied to a high of 205.70 late in the session. It later gave up some of its gains ahead of the close. Volumes in the product markets remained light with 23,000 lots booked in the gasoline market and 40,000 lots booked in the heating oil market.

The crude market will remain supported by the weekly petroleum stock reports on Wednesday. The reports are expected to show draws in crude stocks of about 1 million barrels, draws in gasoline stocks of over 2 million barrels and builds in distillate stocks of about 500,000 barrels. The market will also remain concerned over Iran's nuclear program standoff with the West. The market will await to see how long the

NYMEX Petroleum Options Most Active for August 22, 2006									
Symbol	Month	Year	Call/Put	Strike	Exp Date	Settle	Prev Settle	Volume	IV
GO	9	6	P	1.9	08/28/2006	0.0266	0.0304	254	44.30
GO	9	6	P	2.05	08/28/2006	0.1212	0.1254	160	45.53
GO	10	6	C	2.11	09/26/2006	0.0392	0.0348	108	44.37
GO	9	6	P	2.32	08/28/2006	0.3807	0.3834	100	59.06
GO	9	6	C	1.95	08/28/2006	0.039	0.0407	74	44.45
LO	10	6	P	70	09/15/2006	0.77	0.81	4,933	26.56
LO	11	6	C	100	10/17/2006	0.15	0.15	4,046	40.47
LO	12	6	P	65	11/14/2006	0.69	0.71	3,025	27.82
LO	11	6	C	80	10/17/2006	1.18	1.3	3,002	28.02
LO	10	6	C	75	09/15/2006	1.23	1.4	2,468	27.04
LO	12	6	C	75	11/14/2006	3.7	3.84	2,131	27.07
LO	12	6	C	80	11/14/2006	1.91	2.05	2,060	27.23
LO	12	6	C	51.5	11/14/2006	23.28	23.45	1,900	51.38
LO	12	6	C	51	11/14/2006	23.78	23.95	1,900	52.73
LO	12	7	P	60	11/13/2007	2.38	2.4	1,900	28.34
LO	10	6	C	77	09/15/2006	0.72	0.86	1,708	27.75
LO	10	6	P	65	09/15/2006	0.08	0.1	1,612	26.53
LO	12	6	C	47	11/14/2006	27.78	27.95	1,500	64.06
LO	12	6	C	45	11/14/2006	29.78	29.95	1,500	70.12
LO	12	6	P	50	11/14/2006	0.01	0.01	1,500	31.26
LO	11	6	P	67	10/17/2006	0.67	0.69	1,500	26.86
LO	12	6	P	70	11/14/2006	1.81	1.83	1,402	27.17
LO	11	6	P	65	10/17/2006	0.37	0.39	1,400	26.78
LO	10	6	C	73	09/15/2006	2.03	2.25	1,167	26.64
LO	12	6	C	76	11/14/2006	3.26	3.41	1,131	27.05
LO	11	6	C	82	10/17/2006	0.88	0.98	1,075	29.01
OH	10	6	C	2.1	09/26/2006	0.0638	0.0635	296	28.11
OH	10	6	P	2.1	09/26/2006	0.081	0.0833	290	28.15
OH	10	6	C	2.09	09/26/2006	0.0682	0.0678	205	28.03
OH	2	7	P	2.1	01/26/2007	0.1168	0.1161	170	30.51
OH	3	7	C	2.21	02/23/2007	0.1768	0.1797	139	30.22
OH	3	7	C	2.41	02/23/2007	0.1125		138	31.43
OH	3	7	P	1.93	02/23/2007	0.0753	0.0747	138	31.26

US is willing to wait as US ambassador to the UN stated that the US was ready to move forward with sanctions if Iran's response was not positive. The market is seen finding resistance at 73.35 followed by 74.25 and 75.30. Meanwhile, support is seen at its low of 72.60 followed by 72.30 and 71.00.