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ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR AUGUST 24, 2006

The US has been working with fellow UN Security Council permanent members in addition to Germany on a possible UN response to what the Bush administration characterized as Iran's inadequate answer to demands that it cease its nuclear program. Iran has maintained that it has offered positive and clear signals to resolve the dispute over its nuclear program. French Foreign Minister Phillipe Douste-Blazy said Iran should suspend uranium enrichment if it wants to resume negotiations while Russia's Foreign Ministry said it would continue to work on a negotiated solution and China appealed for patience and more dialogue. Meanwhile, Germany's Chancellor Angela Merkel said that Iran's response was unsatisfactory and was missing a decisive sentence on its uranium enrichment intentions. Diplomats later stated that the Security Council and Germany would likely reject Iran's terms for talks due to its failure to refer to the possibility of halting its uranium enrichment. The Iranian response does not suggest an enrichment moratorium even after negotiations resume. The UN has set a deadline of next Thursday for a formal reply by Iran.

Market Watch

The US National Hurricane Center upgraded the tropical wave off the Windward Islands to a tropical depression Thursday afternoon. It said it could develop into a tropical storm during the next 24 hours. A private weather forecaster said there was a possibility the storm could threaten the western half of the Gulf in about a week.

Nigerian militants in the Niger Delta threatened to avenge the killing of at least 10 militants and restated their aim to halt Nigeria's exports. The militants were killed during an attempt to free a hostage on Sunday when their boat ran into a heavily armed military convoy on Brass Creek in the southern state of Bayelsa. Separately, six foreign oil workers kidnapped in a nightclub raid in Port Harcourt were released after the government paid a ransom. Ten other hostages have been freed in recent days in addition to the six on Wednesday.

The International Monetary Fund welcomed China's recent increase in interest rates but stated that macro-economic policies were not sufficiently tight to curb credit growth. China increased its interest rates on August 18 for the second time in four months to tame growth in credit and investment that the central bank said posed pressing problems for the economy.

Ship agents stated that the completion of maintenance work on the Panama Canal locks has been delayed by one day to Friday, increasing the estimated traffic delay up to a week. The maintenance work on the canal locks has resulted in a temporary reduction in transit slots since August 14. The backlog of delayed ships in the Panama Canal was pegged at about 75, compared with 90 seen on Wednesday and 33 in mid-August. The traffic congestion problem was expected to take between 7-10 days to clear. Traders stated that some oil products tankers were expected to deliver gasoline and naphtha to the US Gulf Coast and the Caribbean from Chile and Colombia in late August. In regards to deliveries to the US West Coast, about 5-7 Panamax tankers were fixed to load crude in the Caribbean and the US Gulf in the second half of August.

OPEC's President Edmund Daukoru said he did not see OPEC cutting its crude production or returning it to its quota system any time soon. He said OPEC was producing in excess and was more concerned with stabilizing oil prices than a cut in production.

According to Oil Movements, OPEC's oil exports are expected to fall by 70,000 bpd to 24.94 million bpd in the four weeks ending September 9. It stated that westbound seaborne crude oil exports from the Middle East are expected to increase by 420,000 bpd to 3.3 million bpd in the four weeks ending September 9, mostly led by Saudi Arabia. It estimated that Saudi Arabia increased its production by about 200,000 bpd in the August to September period to compensate for supply losses at BP's Prudhoe Bay oilfield.

Refinery News

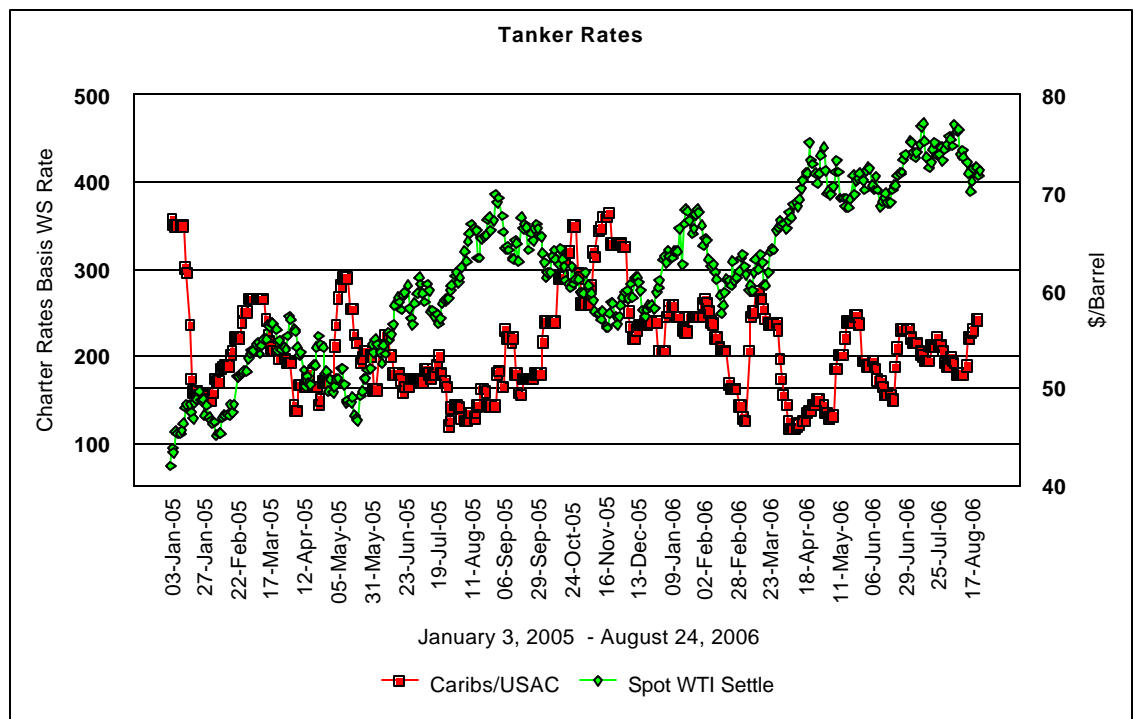
The Renewable Fuels Association said construction has started on a new ethanol biorefinery in Iowa. The plant would produce 100 million gallons of ethanol and 320,000 tons of distillate grains annually from 35 million bushels of local corn. Currently, 101 ethanol biorefineries nationwide have a capacity to produce more than 4.8 billion gallons annually.

The 400,000 bpd Nerefco oil refinery has started all of its units which were hit by a power failure earlier in the week. The power failure occurred at a utility plant on Tuesday.

Indonesia's Pertamina shut its 8,000 bpd platformer unit at its 120,000 bpd Dumai refinery on August 16 for about 20 days of maintenance. A Pertamina official said domestic oil product stocks were sufficient at about 23.5 days of demand.

Shell Eastern Petroleum has shut its 34,000 bpd hydrocracker in its 500,000 bpd Singapore refinery for regular maintenance that is expected to last through the end of the month.

Russia's 140,000 bpd Salavat refinery is expected to undergo maintenance for about 15 days in September. The maintenance would allow Salavat to process more gas condensate in October, when



Gazprom closes its Astrakhan gas condensate processing plant for a major upgrade. Gas oil stocks in independent Amsterdam-Rotterdam-Antwerp storage tanks fell by 130,000 tons to 2.155 million tons in the week

ending August 24. Meanwhile total ARA gasoline stocks fell by 30,000 tons to 630,000 tons on the week while naphtha stocks fell by 5,000 tons to 50,000 tons. Fuel oil inventories fell by 40,000 tons to 480,000 tons while jet fuel stocks fell by 45,000 tons to 335,000 tons on the week.

An Iraqi senior oil official said Iraq was planning to develop a port in southern Iraq within a year, which includes an oil terminal that expected to complement the current offshore facility in Basra. The new terminal with onshore storage facilities would serve as a substitute to the Basra offshore oil terminal. It would have six dedicated berths for crude loadings and would be capable of handling Very Large Crude Carriers. The proposed project is part of a plan to build a commercial port at Ras al-Besha.

India's Oil Ministry reported that the country's oil product sales increased by 0.4% on the year in July to 8.98 million tons. Its diesel sales increased by 5.1% on the year to 3.27 million tons in July while petrol sales increased by 3.9% on the year and naphtha sales fell by 11.9% on the year.

Singapore's International Enterprise reported that the country's residual fuel stocks fell by 1.113 million barrels to 13.851 million barrels in the week ending August 24. It also reported that light distillate stock fell by 1.25 million barrels to 7.655 million barrels while its middle distillate stocks increased by 121,000 barrels to 9.281 million barrels on the week.

Production News

BP Plc said oil production at its Prudhoe Bay oilfield, already running at half capacity due to pipeline corrosion, has been cut by 90,000 bpd to 110,000 bpd for several days due to a technical fault. It said its production was cut after a natural gas compressor in Gathering Center 2 failed. BP also stated that the inspection of its western Prudhoe Bay pipeline is being hampered by asbestos in the insulation material that covers the pipeline. Removal of the insulation has been halted over the last couple of days. BP has been removing the insulation in order to test the pipeline's integrity.

According to the Joint Oil Data Initiative, Saudi Arabia's crude oil output fell to 8.93 million bpd in May, down about 250,000 bpd from market estimates. JODI also stated that a lack of data on Venezuela's oil production was causing problems for the world oil database intended to provide more transparency in the energy markets. It stated that Venezuela has not submitted output data since July 2005.

A senior official with Iran's National Iranian Oil Co denied reports that Iran has halted production of heavy crude. Iran's Abrar Eqtesadi newspaper quoted an official saying that Iran halted production from fields, which produce heavy crudes but did not identify any specific crudes.

The Financial Times reported that Russia was extracting more oil than Saudi Arabia, making it the largest producer of oil. OPEC statistics show that in the period since 2002, Russian companies have surpassed Saudi producers on an on-and-off basis. According to OPEC, Russia produced 9.236 million bpd in June, 46,000 bpd over Saudi Arabia's production.

Pemex said it has restarted the development of mature oil fields in the Gulf of Mexico. It started production at the Carpa field. The new field reactivates operations in the oil producing area known as Faja de Oro Marina or offshore golden lane discovered in the 1960s. It said that an investment of \$260 million, it expected the area to produce 20,000 bpd by the end of next year. Pemex is undertaking a number of projects to counter the loss of output from its Cantarell field. Production at Cantarell is expected to fall by 8% to 1.86 million bpd this year and fall further to 1.68 million bpd next year.

Venezuela's President Hugo Chavez said the country hoped to lift its crude sales to China to 1 million bpd within a decade. On Wednesday, he stated that Venezuela aimed to increase its sales to 500,000 bpd in 2009, up from its current sales of 150,000 bpd.

Libya's National Oil Corp stated that Libya planned to increase its oil production to 2 million bpd by mid-2007 and to more than 3 million bpd by 2010/12. The head of the NOC said he expected excellent offers from foreign firms bidding during the country's third oil licensing round.

OPEC's news agency reported that OPEC's basket of crudes fell by 54 cents/barrel to \$67.45/barrel on Wednesday.

Market Commentary

The oil market opened down 26 cents at 71.50 and quickly posted a low of 71.40. The market however bounced off that level and never looked back as traders awaited the UN Security Council's response to Iran's call for more talks on its nuclear program. BP also announced that it cut its production by another 90,000 bpd to 110,000 bpd at its Prudhoe Bay oilfield due to a technical fault. The market was also supported by reports of storm activity in the Caribbean. The National Hurricane Center said a tropical wave off the Windward Islands in the Caribbean could become a tropical depression or storm. The crude market posted an inside trading day as it failed to breach its previous trading range amid the light trading volume. It rallied to a high of 72.50 late in the session and settled in a sideways trading range ahead of the close. It settled up 60 cents at 72.36. Volume was light in the crude market with 126,000 lots booked on the day. The gasoline market also posted an inside trading day as it opened at a double bottom of 183.00 and never looked back. The market rallied to a high of 188.10 amid the strength in the oil market. It later retraced some of its gains and traded to 185.50 ahead of the close. It settled up just 21 points at 186.15. Meanwhile, the heating oil market settled up 2.68 cents at 202.94. The heating oil market, which also posted an inside trading day, opened at its low of 199.25. The market also retraced most of its previous losses and rallied to a high of 203.10 amid the strength in the crude market. Volumes in the product markets were lighter today with 27,000 lots booked in the gasoline market and 43,000 lots booked in the heating oil market.

The oil market on Friday will remain supported as the market will continue to watch for further developments of the tropical depression that has formed off the Windward Islands in the Caribbean. According to the latest National Hurricane Center forecast, the depression was moving toward the west near 22 mph with maximum sustained winds of about 35 mph. The depression is expected to become a tropical storm during the next 24 hours. Its current track would take storm in the western portion of the Gulf of Mexico next week. The oil market's losses will also be limited as the market awaits the UN Security Council's response to Iran's call for talks on its nuclear program. The market is seen finding support at its low of 72.00 followed by 71.40, 71.10 and 71.00. More distant support is seen at

70.20, 70.10 and 69.70. Meanwhile resistance is seen at its highs of 72.50 and 72.67 followed by 73.35 and 74.25.

Technical Analysis		
	Levels	Explanation
CL 72.36, up 60 cents	Resistance 73.35, 74.25	Double top, Previous high
	Support 72.50, 72.67	Thursday's high, Wednesday's high
HO 202.94, up 2.68 cents	Resistance 205.70, 207.30 to 210.00	Previous high, Remaining gap (August 10th)
	Support 201.50, 199.50, 199.25 198.25, 196.50, 196.25	Thursday's high, Wednesday's high Thursday's low Wednesday's low, Previous lows
HU 186.15, up 21 points	Resistance 196.50, 197.00, 202.25, 203.20 188.10, 193.75	Previous high, Double top, Previous highs Thursday's high, Wednesday's high
	Support 185.50, 183.00 182.28, 178.50, 174.13	Double bottom (183.00) Backfills gap, Previous low, 62%(136.75 and 234.60)continuation chart