



## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR AUGUST 25, 2006**

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Russia's Defense Minister Sergei Ivanov ruled out any discussion of imposing sanctions against Iran over its nuclear program for now, saying that they had proved ineffective internationally in the past and there was still room for diplomacy. Germany's Foreign Minister Frank-Walter Steinmeier said Iran was willing to hold new talks provided the five permanent members of the UN Security Council and Germany pledge to hold off on UN sanctions. Meanwhile, French President Jacques Chirac said that Iran's response to the package of incentives was a little ambiguous, especially on the key question of enriching uranium. European Union foreign policy chief Javier Solana said he expected new talks in days with Iran's chief nuclear negotiator Ali Larijani on its response to a package of incentives to halt uranium enrichment. Separately, the Islamic Republic News Agency reported that Iran would soon announce fresh achievements in its peaceful nuclear activities.

#### **Market Watch**

French President Jacques Chirac said Europe must have a coherent and active energy policy in light of high oil prices and CO2 emissions targets.

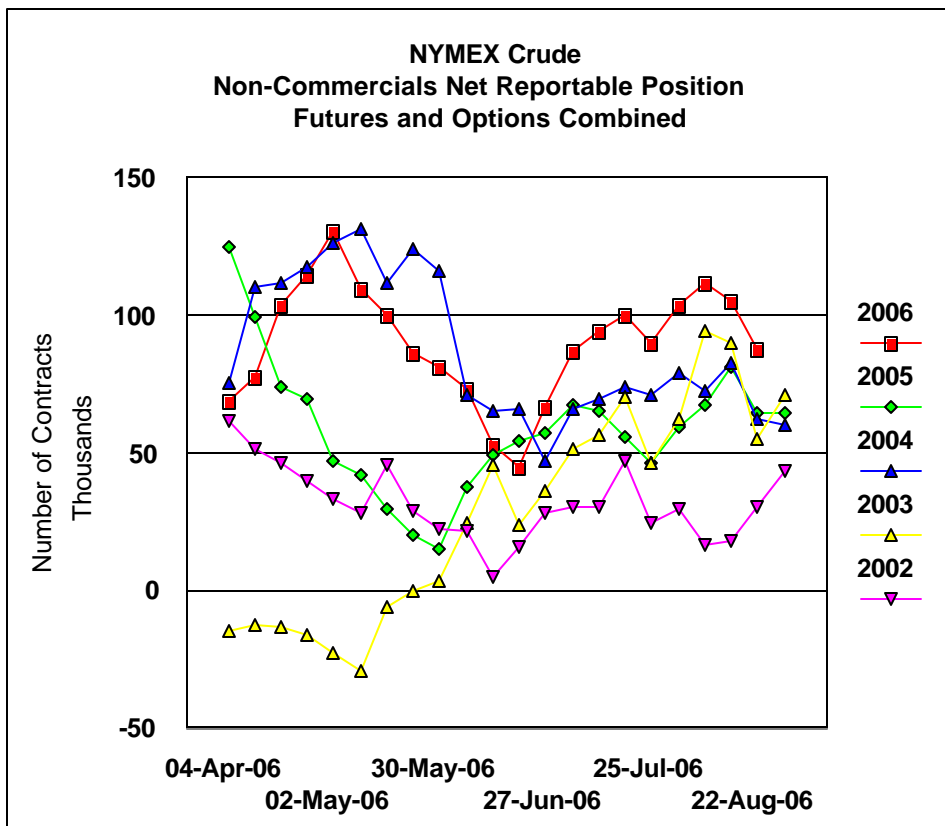
A former energy minister in Ecuador, Fernando Santos said several foreign oil companies operating in the country were considering an international challenge against a new law that forces them to hand over to the state part of their revenues. He said he has been approached for advice by several oil firms that were considering filing an arbitration claim against the government. Ecuador in April approved a law that obliges companies to hand over at least 50% of their oil revenue above a benchmark price agreed in their original contracts. The country's top court on Wednesday rejected a local challenge to the law, striking down any possibility of more appeals in Ecuador.

Venezuela's Energy and Mines Minister Rafael Ramirez said the world had ample supplies of oil and there was no justification oil prices to increase to record highs. OPEC ministers are expected to meet on September 11. OPEC President Edmund Daukoru has stated that the group would not cut its production for at least the rest of 2006 as it works to stabilize oil prices.

Israel said that it would lift its air and sea blockade of Lebanon after the Lebanese army and international force take its place to prevent Hezbollah from importing new arms.

#### **Refinery News**

Three tugboat accidents that closed sections of the lower Mississippi River on Thursday could disrupt shipments of finished products to Midwestern refineries. On Friday afternoon, the US Coast Guard reopened the three blocked areas to limited traffic. Before the sections were reopened, 11 vessels headed north and 22 headed south were waiting to pass. A Coast Guard spokesman said it was not known whether those vessels were transporting gasoline components.



Valero Energy Corp said it did not anticipate significant effects from Tropical Depression 5 on operations at its 275,000 bpd Aruba refinery. It said all of its Gulf Coast refineries have completed pre-season hurricane preparation and are prepared to respond quickly to a hurricane threat.

BP Plc said it may start evacuating nonessential personnel from US Gulf of Mexico drilling rigs on Friday ahead of Tropical Depression 5. It said its production in the Gulf would not be affected by any evacuations from drilling rigs.

Shell reported flaring at its 99,000 bpd Los Angeles refinery in Wilmington, California due to an equipment shutdown on Friday morning.

Alon USA shut equipment associated with a sulfur recovery unit at its Big Spring, Texas refinery. The No. 1 Shell Claus Offgas Treating or SCOT unit was temporarily shut on Thursday so that an internal inspection of the unit's boiler could be completed.

Tesoro Corp has provisionally booked a medium sized crude oil tanker from Oman to the US West Coast. The refiner has booked the 105,000 ton tanker for loading on September 18.

Syria's Ministry of Oil and Mineral Resources has been negotiating with China National Petroleum Corp to build a new oil refinery in Deir Al Zour in northeast Syria. The project would establish a production capacity of 70,000 bpd of crude.

Venezuela's President Hugo Chavez said that China Petroleum Chemical Corp planned to build a refinery in Venezuela. He also reiterated that Venezuela planned to increase its exports of crude to China to 500,000 bpd in 2009 from the current level of 150,000 bpd.

China's apparent demand for oil increased by 12.2% in July to 6.67 million bpd, according to Reuters. However analysts stated that the government's push to dampen the economy, including two interest rate increases in four months could pull growth down towards more moderate full year expectations.

Meanwhile, official customs data showed that China imported 10.64 million tons of crude in July, down 2.6% on the year. Its light diesel imports in July fell by 19.8% on the year to 17,895 tons while fuel oil imports increased by 52.6% on the year to 3.13 million tons. Customs data also showed that China's

exports of gasoline fell by 64.5% to 192,349 tons, while exports of light diesel fell by 45.5% on the year to 67,044 tons.

India reported that its crude oil imports in July increased by 24% on the year to 9.5 million tons. Meanwhile its imports of oil products stood at 1.21 million tons. Its oil product sales in July increased by 0.45% on the year to 8.98 million tons, with its diesel sales totaling 3.27 million tons.

**Production News**

BP Plc temporarily halted a government ordered inspection of the oil transit pipeline on the western portion of the Prudhoe Bay oilfield while it evaluates potential risks to its workers from exposure to asbestos in the pipeline insulation. Oil production at the field stood at 110,000 bpd. It expects to return to more than 200,000 bpd once repairs to a natural gas compressor at a gathering center on the western side of the field is completed in a few days.

OPEC's news agency reported that OPEC's basket of crudes fell by 33 cents/barrel to \$67.01/barrel on Thursday.

**Market Commentary**

The oil market gapped higher from 72.50 to 73.45 on concerns that a tropical depression in the Caribbean could develop into a hurricane next week as it moves into the Gulf of Mexico. The market was also supported amid the possibility that UN sanctions would be imposed on Iran, although Russia did not expect any action for the moment. The crud market quickly rallied to a high of 73.75 before it retraced its gains and backfilled its gap. The market sold off to a low of 72.40 ahead of the close as the tropical depression failed to strengthen into a tropical storm by the close. The crude market settled up 15 cents at 72.51. Volumes in the crude market remained light with 147,000 lots booked on the day. The gasoline market also gapped higher from 188.10 to 189.50 and quickly rallied to a high of 191.90. However the market, which continued to trade within Wednesday's trading range, erased its gains and settled in a sideways trading pattern as it held some support at 188.50. The market later breached that level and sold off to a low of 188.25 ahead of the close. Meanwhile, the heating oil market also gapped higher from 203.10 to 207.50 amid the strength in the crude market. The market quickly traded to a high of 208.50. However similar to the rest of the complex, the heating oil market erased its gains and sold off sharply to a low of 202.50 ahead of the close. It settled up just 4 points at 202.98. Volumes in the product markets were light with 23,000 lots booked in the gasoline market and 41,000 lots booked in the heating oil market.

The latest Commitment of Traders report showed that non-commercials in the crude market cut their net long

positions by 14,879 contracts to 68,915 contracts in the week ending August 22. The combined futures and options report also showed that

Technical Analysis		
	Levels	Explanation
CL 72.51, up 15 cents	Resistance	74.25, 75.30
		73.10, 73.75
	Support	72.40
		71.40-71.00, 70.20, 70.10, 69.70
HO 202.98, up 4 cents	Resistance	210.00, 215.35
		206.00, 207.50
	Support	202.50
		199.25, 198.25, 196.50, 196.25
HU 189.51, up 3.36 cents	Resistance	193.75, 196.50, 197.00
		190.25, 191.90
	Support	188.25 to 188.10
		183.00, 182.28, 178.50, 174.13

non-commercials cut their net long positions by 17,518 contracts to 87,936 contracts amid the market's recent sell off. Meanwhile non-commercials in the gasoline market also cut their net long positions by 1,522 contracts to 6,411 contracts while non-commercials in the heating oil market increased their net long positions by 3,177 contracts on the week.

The crude market on Monday will be driven by the developments of Tropical Storm Ernesto, which strengthened late Friday. The storm could develop into the first hurricane of the season next week. It is expected to continue moving in a west northwestward. The tropical storm is on a track expected to take it near Jamaica on Sunday and either into Mexico's Yucatan Peninsula or the Gulf of Mexico by Tuesday. The market will be well supported if the storm strengthens and continues on its current track. The market is seen finding support at 72.40 followed by its previous lows of 71.40-71.00, 70.20, 70.10 and 69.70. Resistance is seen at 73.10, 73.75 followed by 74.25 and 75.30.

