



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR AUGUST 29, 2006

Iran's President Mahmoud Ahmadinejad challenged the authority of the UN Security Council, stating that no one could prevent Iran from having a peaceful nuclear program. He questioned the veto right of the UN Security Council's permanent members. The Security Council has given Iran until Thursday to halt its uranium enrichment. He rejected any suspension of uranium enrichment, even if UN Secretary General Kofi Annan asked for it during an upcoming visit to Iran on Saturday. He stated that Iran's response last week to an incentive package was an opportunity for the two sides to resolve the issue. He did not rule out the possibility of direct talks with the US. He also called for a televised debate with US President George W. Bush. Meanwhile, an Iranian senior official said Iran would pursue nuclear activities despite international pressure and invited Western companies to bid for tenders to build nuclear plants. Separately,

Market Watch

Military official in Iraq said Iraqi authorities agreed to a truce with a Shia militia and calm has been restored in the town of Diwaniyah following a clash that left at least 28 people dead on Monday. An Iraqi official said the al-Mahdi army fighters were withdrawing. Under the agreement, Iraq's army would pull back reinforcements while the al-Mahdi army evacuates from a district it took over during the fighting. Iraqi officials have also agreed to reexamine the case of an al-Mahdi army commander who was arrested over the weekend.

According to the Wall Street Journal, the US Commodity Futures Trading Commission was examining whether BP manipulated the crude and gasoline markets. The CFTC has sent subpoenas to BP and other energy traders in its investigation of crude oil over the counter prices in 2003 and 2004. Federal authorities were also investigating whether BP used information about its pipelines and storage tanks at Cushing, Oklahoma to influence benchmarks. The gasoline investigation includes a criminal probe by the Justice Department and is focused on one day's trading on the NYMEX in 2002. BP, which has been summoned before Congress next week over problems at its Alaska pipelines, already face a civil complaint filed by federal commodities regulators for allegedly manipulating much of the US market for propane.

The Federal Open Market Committee released its minutes for its August 8 meeting. It stated that it reviewed information that suggested that the growth of economic activity in the second quarter slowed from its rapid pace in the first quarter. Consumer spending and business investment decelerated after posting substantial increases in the first quarter. Consumer price inflation remained high in July, due to further increases in energy prices and housing costs. The mining sector, which includes oil and natural gas extraction, continued to grow in June, although average growth in the second quarter was below that of the first quarter, in part because the recovery from the from the disruptions caused by last year's hurricanes neared completion.

Venezuela's Vice Oil Minister Bernard Mommer said PDVSA planned to secure majority stakes in four heavy oil projects located along the Orinoco River by December. Each project would be split to separate the oil pumping from the process of upgrading the heavy crude to make it more marketable. Meanwhile, Venezuela's Congress on Tuesday approved an increase in income tax to 50% from 34% on the four Orinoco heavy crude projects.

Nigeria's President Olusegun Obasanjo attempted to dispel fears of foul play during next year's handover of power, promising free and fair elections in April.

the head of the IAEA, Mohamed ElBaradei said the next several weeks would be crucial to resolve Iran's nuclear issue. He stated that Iran's nuclear issue would be dealt with carefully so that the country would not follow in the footsteps of North Korea, which has withdrawn from a non-proliferation treaty and has not allowed inspection by the IAEA.

Iran's Oil Minister Kazam Vaziri-Hamaneh said Iran believes the position of OPEC Secretary General is its right, but does not seek confrontation to get the position. There has been a dispute between Iran and Kuwait over which country's candidate should be appointed secretary general.

Refinery News

Flint Hills Resources is expected to restart a fluid catalytic cracking unit at the West plant of its Corpus Christi, Texas refinery on Tuesday. The unit went offline after the regeneration main air blower shutdown due to an instrumentation failure. The West plant has been undergoing a turnaround, which is set to last until September 12.

Flying J Inc said it was planning to increase the volume shipped in the newly acquired Houston-El Paso oil products pipeline. It acquired Longhorn Pipeline Holdings LLC, which pumps refined oil supplies from Houston to El Paso via its pipeline system.

Shipping sources stated that Iraq restarted pumping of crude through its northern export pipeline to Turkey after it was halted on July 9 due to sabotage attacks. Separately, a pipeline carrying oil byproducts exploded in a southern Iraqi city on Tuesday. Several people had been siphoning fuel from the pipeline when the explosion occurred south of Baghdad. At least 36 people were killed and another 20 were injured.

Sources stated that a North Asian gasoline cargo could be returning to Asia after failing to discharge at its intended US West Coast port. Traders said the 60,000 ton cargo, chartered by BP, was found to have high levels of sulfur and MTBE.

Latvia's Ventspils reported that its reloadings of oil and oil products in July stood at 500,000 tons, unchanged on the month but down from 700,000 tons reported last year.

Ecuador's central bank reported that the country exported 6.54 million barrels between January and June, down 14% on the year. Its export revenue in the first six months stood at \$306.22 million, up from \$261.93 million reported last year.

Platts reported that Argentina's oil exports fell by 59% on the year to 72,510 bpd in the first half of the year, increasing concerns that the country would become a net oil importer. Argentina's oil production fell by 3% to an average of 651,5000 bpd in the first half of the year from 672,000 bpd reported last year. Refineries have been operating at about 99% of their capacity.

Sinopec Corp has increased its medium term plan for expanding refining capacity from 6% annual growth to 8%, with the largest increase in 2008 to meet a rebound in China's oil demand. The new target suggests capacity is expected to grow by an annual compound rate of 7.9% from now to 2008. Sinopec said it aimed to grow its refining capacity by nearly 27% to an estimated 187 million tons or 3.8 million bpd in 2008 from 148.9 million tons or 3 million bpd last year.

Production News

Major oil companies started returning their workers to Gulf of Mexico rigs and platforms on Tuesday as fears that Tropical Storm Ernesto would threaten the oil and gas producing region dissipated. Chevron Corp said it was returning 500 workers it had evacuated over the weekend. ConocoPhillips said all 45

of its workers, who were evacuated on Sunday, would be back by the end of Tuesday. Meanwhile, Royal Dutch Shell said it planned to briefly shut a refined product terminals in Florida overnight Tuesday in preparation for Tropical Storm Ernesto. Generators were being sent to both terminals to provide power in case of area outages following the storm.

Royal Dutch Shell said it hoped to lift a force majeure on exports of Bonny crude from Nigeria soon following a recent increase in production. Shell declared a force majeure on exports of Bonny crude in July and August after a pipeline leak cut production. Separately, Royal Dutch Shell stated that it saw a challenging 2006 after its oil production fell 8% last year due to project delays and natural output declines. Shell Petroleum Development Co's production averaged 924,000 bpd last year, down from 2004's 1 million bpd. Its oil production in 2006 has declined further due to militant attacks. Shell currently has a total of 495,000 barrels of oil equivalent/day of Nigerian production shut in, mostly due to militant attacks.

Nigerian militants, the Movement for the Emancipation of the Niger Delta, ordered the release of a Saipem SpA oil worker who was kidnapped last week in Port Harcourt. It also ordered all militant groups in the Niger Delta to stop kidnapping oil workers. A MEND spokesman said the militia groups had been advised to stop kidnappings for ransom, piracy and robberies, as such acts would no longer be tolerated.

Chad President Idriss Deby said Chad must have a 60% share in the country's oil production. He said Chevron Corp and Petronas, which were ordered to leave the country, had to pay \$486.2 million in back taxes to the public treasury. He however stated that Chad would continue to work with ExxonMobil, which holds a 40% stake in an oil producing consortium in Chad to which Chevron and Petronas also belong. He said the country's decision to expel the oil companies was not aimed to nationalize its oil industry. Meanwhile, ExxonMobil said its operations were not affected despite Chad's decision to expel the oil companies.

China's CNOOC Ltd said its production from offshore China increased by 7.2% to 74.4 million barrels of oil equivalent in the first half.

Australia's Oil Search Ltd said a temporary suspension to production at its oil fields in Papua New Guinea following a spill earlier this month had cause the deferral of 800,000 barrels of oil. Output from the fields was initially halted due to poor weather that caused about 6,700 liters of oil to spill at a loading facility in the Gulf of Papua on August 9.

ExxonMobil Corp still hopes to start output from the \$2.6 billion Cepu oil and gas project by 2008. Initial production would be small as a result of development problems.

OPEC's news agency reported that OPEC's basket of crudes fell sharply to \$66.03/barrel on Monday from \$68.10/barrel on Friday.

Libya set its September official selling price for Essider crude at dated minus \$1.70/barrel, unchanged from August.

Indonesia's Pertamina has allocated 1.85 million barrels of low sulfur waxy residue for September exports, down 18% on the month.

Market Commentary

The oil market breached the 70.00 level as it gapped lower once again from 70.15 to 69.65 on the opening. The market extended Monday's sharp losses and quickly posted a low of 69.30. The market

remained pressured amid the sell off in the natural gas market as Tropical Storm Ernesto continued on its path away from the Gulf of Mexico. However the market, bounced off its low as Iran remained defiant despite the approaching deadline for the country to halt its uranium enrichment. The market backfilled its gap as traded to 70.15 by mid-day. It later settled in a sideways trading range before further buying ahead of the close pushed the market to a high of 70.25 ahead of the close. It settled down 90 cents at 69.71. Volume in the crude market was slightly better with 158,000 lots booked on the day. The product markets were mixed with the gasoline market settling up 61 points at 178.92 and the heating oil market settling down 2.27 cents at 194.32. The gasoline market gapped lower from 177.10 to 175.00 and quickly sold off to a low of 174.75. However the market bounced off its low and erased its losses as it traded to a high of 179.75. The market remained rangebound ahead of the close as it retraced some of its gains. The heating oil market also gapped lower from 196.25 to 194.00, its intraday low. The market bounced off its low and traded to 195.50, where it held some resistance. The heating oil market later posted a high of 195.70 only to see it give up its gains ahead of the close and trade back to its low ahead of Wednesday's release of the weekly petroleum stocks. Volume in the product markets were lighter with 28,000 lots booked in the gasoline market and 54,000 lots booked in the heating oil market.

The oil market on Wednesday will seek further direction from the weekly petroleum stock reports. The reports are expected to show draws in crude stocks of about 1 million barrels, draws in gasoline stocks of close to 1 million barrels and builds in distillate stocks of about 1 million barrels. The market will retrace its losses if the report do show draws in crude stocks and gasoline stocks. The market is also seen supported ahead of the UN Security Council deadline on Thursday for Iran to halt its uranium enrichment. The market is seen finding support at 69.50 followed by its low of 69.30. More distant support is seen at 68.80. Meanwhile resistance is seen at its high of 70.25 followed by its remaining

gap above at 71.20 to 72.40.

Technical Analysis		
	Levels	Explanation
CL 69.71, down 90 cents	Resistance 71.20 to 72.40 70.25	Remaining gap (August 28th) Tuesday's high
	Support 69.50, 69.30 68.80	Tuesday's low Previous low
HO 194.32, down 2.27 cents	Resistance 199.50 to 202.50 195.70 to 196.25	Remaining gap (August 28th) Remaining gap (August 29th)
	Support 194.00 193.90, 192.80, 191.50	Tuesday's low Previous lows
HU 178.92, up 61 points	Resistance 184.50 to 188.25 179.75	Remaining gap (August 28th) Tuesday's high
	Support 177.00, 174.75 174.13, 172.60	Tuesday's low 62% (136.75 and 234.60), Previous low