



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR SEPTEMBER 1, 2006

Iran's Foreign Ministry spokesman Hamid Reza Asefi said talks were needed to end the standoff with the West over its nuclear program. Meanwhile Iran's President Mahmoud Ahmadinejad however reiterated that Iran would not halt its nuclear program. He said Iran would never retreat from its certain rights to peaceful nuclear activities. The deputy head of Iran's atomic energy agency,

Mohammad Saeedi said there was no legal reason for Iran to be referred to the Security Council and that the report showed Iran's cooperation. Separately, Russia's Foreign Ministry said it regrets Iran's decision not to halt its uranium enrichment by Thursday's UN ordered deadline. However Russia cast doubt on whether the Security Council could reach a quick consensus and said threatening Iran would lead to a dead end. Russia said sanctions would only exacerbate the situation. French Prime Minister Dominique de Villepin said he regretted Iran's defiance of the UN deadline but added that talks were possible if Iran changed course. A German government spokesman said it would continue to work for a negotiated solution but added that UN must send a signal to Iran over its defiance of demands to stop enriching uranium. US and other officials stated that no action would be sought against Iran before the EU's foreign policy chief Javier Solana meets with Iran's chief nuclear negotiator, Ali Larijani early week. The EU said it was ready to hold talks with Iran but added that it would not give the country an indefinite amount of time to resolve the standoff over its nuclear program.

Market Watch

The International Sugar Organization said world ethanol production is expected to increase as high as 39 billion liters in 2006, up 16% on the year. Ethanol production in Brazil is estimated to reach 16.9 billion liters, up from 15.9 billion last year. In the US, ethanol output is estimated to reach 18 billion liters in 2006, up from 14.8 billion liters in 2005.

The InterContinental Exchange said it was seeking to lure traders away from the NYMEX with a 70% transaction fee discount on its US crude, heating oil and RBOB futures contracts. Its transaction fee would fall from 70 cents to 20 cents/side and is only available to floor traders active on the NYMEX. The program, which is effective after 2,000 lots are traded in a month, would run from September 4 to February 28.

Refinery News

ExxonMobil Corp said it started shutting down a sulfur conversion unit for scheduled maintenance at its 563,000 bpd Baytown, Texas refinery. It also notified the Texas Commission on Environmental Quality of its intention to shut Shell Claus unit B for maintenance.

Flint Hills started the process of restarting a fluid catalytic cracking unit at the West Plant of its Corpus Christi, Texas refinery on Tuesday. The unit was shut due to an instrumentation failure that caused the loss of the regenerator main air blower.

Japan's Taiyo Oil Co said its Kikuma refinery is expected to remain shut for a week from September 3 following a fire on Wednesday.

Japan's Cosmo Oil Co said it shut two crude distillation units on Thursday for unplanned safety checks due to past data falsification. It shut an 80,000 bpd CDU in its Sakai refinery for at least a month and an 80,000 bpd No. 5 unit at its Yokkaichi refinery for about a week. Cosmo Oil failed to tell local authorities about a hydrogen gas leak accident that occurred in December 1995. The details of the incident came to light in July.

Japan's Idemitsu Kosan Co said it began restarting a light naphtha reformer unit as scheduled. The restart of the reformer, which was shut in 1999 due to low profits, comes amid rising demand for benzene.

Gas oil stocks in independent Amsterdam-Rotterdam-Antwerp storage tanks continued to fall to 2.045 million tons in the week ending September 1, down from 2.155 million tons. Total ARA gasoline stocks increased by 15,000 tons to 645,000 tons on the week amid lower demand. Fuel oil inventories increased by 90,000 tons to 570,000 tons while naphtha stocks increased by 45,000 to 95,000 tons and jet fuel stocks increased by 35,000 tons to 370,000 tons on the week.

An Iraqi oil official stated that Iraq's crude oil exports in August fell 1.8% on the month as shipments from its northern oilfields to the Turkish port of Ceyhan averaged less than 30,000 bpd. Iraq exported 1.63 million bpd in August, down from 1.66 million bpd in July. Meanwhile, the sabotage attacks continued in Iraq, with a bomb attack targeting an oil pipeline. The explosion cut supply to a major electricity station. The pipeline feeds the Musayyib electricity station.

Russia's Transneft said Russia would not restart crude oil exports to Lithuania by pipeline at least until February to allow for a detailed inspection of the pipeline following an oil spill in late July. Transneft halted supplies to Lithuania's Mazeikiu refinery following a spill along the Druzhba-1 pipeline.

Former Soviet Union gas oil exports from Black Sea and Baltic ports increased in August ahead of an increase in export duties. Exports from both regions stood at 2.47 million tons in August, up from 2.39 million tons in July. Shipments from the Black Sea increased by 23,500 tons on the month to 1.10 million tons while exports from the Baltic ports increased by 61,000 tons to 1.37 million tons.

Russian gas oil exports out of Black Sea port of Tuapse and Novorossiisk are set to fall in September. A schedule for Tuapse showed about 11 cargoes of 30,000 tons each set to load in September, totaling 330,000 tons down from 360,000 tons in August. Meanwhile Novorossiisk's IPP terminal is set to load 7 cargoes of 30,000 tons each or 210,000 tons compared with 330,000 tons in August.

Brazil's Petrobras expects to produce enough diesel in 2012 to meet its demand. A new refinery in Pernambuco state and biodiesel produced from plants would primarily contribute to meeting Brazil's needs. Brazil imports about 1.9 billion liters of diesel a year.

Production News

An Alaskan state energy industry regulator issued a notice calling for public comment ahead of a hearing that could determine when BP's Prudhoe Bay oilfield resumes full crude production. The Alaska Oil and Gas Conservation Commission has tentatively scheduled a September 26 hearing to evaluate BP's proposal to install new piping connections to reroute production. The new piping

connections would allow the company to reroute production from three flowstations to Pump station 1, allowing for the resumption of oil production.

Italy's Eni declared a force majeure on 50,000 bpd of crude lost at its Brass River oil field in Nigeria following a sabotage attack on August 24 that damaged its pipelines. An official said the force majeure covers all production lost due to the pipeline leaks.

Russian authorities may order the Sakhalin Energy Ltd energy consortium to stop pumping oil if the company does not correct environmental violations reported over the past year. Sakhalin Energy currently pumps about 80,000 bpd of crude oil.

OPEC's news agency reported that OPEC's basket of crudes increased by 18 cents/barrel to \$65.18/barrel on Thursday.

A Nigerian government official said a Lebanese oil worker kidnapped in the Niger Delta was released unharmed by his abductors on Friday. All 18 oil workers abducted in the Niger Delta in eight separate incidents in August have been released. The Movement for the Emancipation of the Niger Delta called for the unconditional release of all hostages after Nigeria's President Olusegun Obasanjo ordered security services to use force against militants.

Market Commentary

The crude market opened relatively unchanged at 70.30 and quickly posted a high of 70.40. However the market erased its slight gains and continued to sell off during Friday's shortened trading session on expectations of a delay before the UN decides on whether to impose sanctions against Iran. Russia cast doubt on whether the UN Security Council would impose sanctions on Iran and added that sanctions would only exacerbate the situation. The market traded to 69.55 and held some support at that level as some short covering pushed the market back towards the 70.00 level. However the market failed to breach that level and sold off sharply ahead of the close. It posted a low of 69.05 and settled down \$1.07 at 69.19. Volume in the crude market was light with only 97,000 lots booked during the shortened trading session. The product markets ended sharply lower, with the gasoline market settling down 4.87 cents at 173.44 and the heating oil market settling down 4.37 cents at 196.74. The gasoline market posted a high of 177.80 on the opening and quickly sold off. The market traded to 174.75 and held some support before further selling ahead of the close pushed it to a low of 172.65. Similarly, the heating oil market also sold off from a high of 200.50 to 198.30, where it held some support. However a late bout of selling pushed the market to its low of 196.40 ahead of the close. Volumes in the product markets were also light with only 16,000 lots booked in the gasoline market and 27,000 lots booked in the heating oil market.

The oil market on Tuesday will mostly be driven by weekend headlines. The market will await the outcome of a meeting between the EU and Iran

Technical Analysis		
	Levels	Explanation
CL 69.19, down \$1.07	Resistance	71.20 to 72.40
	Support	69.05
		68.65, 68.55, 68.30, 67.55
HO 196.74, down 4.37 cents	Resistance	201.40, 202.75 to 206.00
	Support	196.40
		195.90, 193.00, 191.25
HU 173.44, down 4.87 cents	Resistance	180.00, 181.00, 183.50-186.75
	Support	172.65
		169.50, 169.00

early next week. Technically, the market looks oversold and is seen finding support at its low of 69.05 followed by its previous lows of 68.65, 68.55 and 68.30. More distant support is seen at 67.55. Resistance is however seen at 70.00, 70.40 followed by more distant resistance at a gap from 71.20 to 72.40.