



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR SEPTEMBER 8, 2006

US Undersecretary of State Nicholas Burns said the US expects a UN Security Council agreement on UN sanctions against Iran within weeks unless Iran agrees to freeze its uranium enrichment. He said the US hoped there would be a draft resolution ready for the start of the UN General Assembly. He dismissed suggestions of cracks in the six-power coalition urging Iran to halt its nuclear program, saying that all five permanent Security Council members and Germany insist that Iran must suspend its nuclear operations before negotiations can begin. He said further talks were needed on how harshly to penalize Iran for its refusal to halt its uranium enrichment. However Russia and China have questioned whether sanctions would be effective and whether Iran poses a pressing threat to international security. France has also indicated that it was not yet time for sanctions by suggesting that world powers may be flexible on their demand that Iran suspend its enrichment work before starting talks.

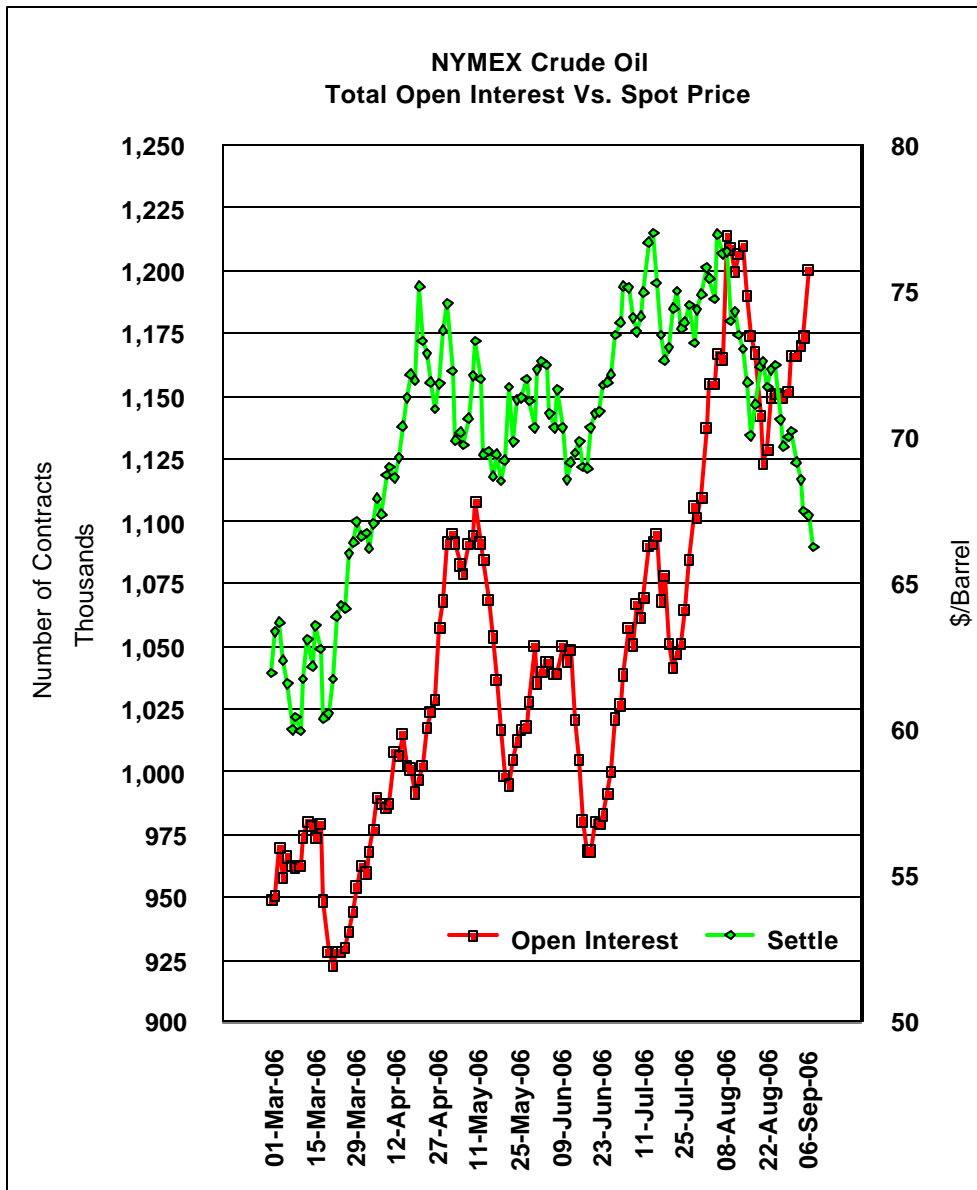
Market Watch

A speaker at the National Grain Trade Council/Transportation, Elevator and Grain Merchants Association said increasing ethanol and biodiesel production had to compete with existing domestic and export markets for raw materials in the future as forecasts show that some major corn producing areas soon could be importing from other states. The President of Brugler Marketing & Management said that preliminary estimates of the 2006-07 crop year indicated that ethanol production would be a rising component of total use and would continue to increase in the 2007-08 year. Meanwhile other speakers stated that they did not expect all of the planned new ethanol plants to be built.

A meeting between Nigerian National Petroleum Corp and representatives of Nigeria's two oil unions, Pengassan and Nupeng, ended in a deadlock on Friday. The oil unions stated that a three day warning strike is still planned to start on September 13. An official of NNPC unsuccessfully appealed to the unions to negotiate with the government and avert the strike. The Ministry of Labor is expected to meet with union officials on Monday after its meeting on Thursday was called off. The oil unions have threatened to withdraw their services indefinitely if the government failed to address the problems in the Niger Delta following the warning strike.

US pension funds injected another \$30-\$40 billion into commodities in the first six months of 2006. At the end of the 2005, a total of \$10 billion was invested in the Reuters-Jefferies CRB Index, \$20 billion the Dow Jones-AIG Commodity Index and \$50 billion in the Goldman Sachs Commodity Index.

A UN official said Israel lifted its naval blockade of Lebanon on Friday. European warships began patrolling off the coast to prevent the entry of weapons for Hezbollah guerillas.



Refinery News

Alon USA was forced to briefly shut its sulfur recovery unit No. 1 at its Big Spring, Texas refinery. The unit was shut after a bearing on the primary blower failed.

Valero Energy Corp said the transition to a new ultra low sulfur diesel fuel specification in the US was going well. A Valero official said it was producing as much on-road diesel as it was before the rule went into effect. US refiners have been in the process of cutting sulfur content in on-road diesel fuel to 15 parts per million from 500 ppm to adhere to new federal environmental regulations. The transition started in June, with refiners phasing in production while retail stations would be required to have the new blend no later than October 15.

South Korea's SK Corp has decided to keep its September crude processing rate at 750,000 bpd as planned despite run cuts by several refiners.

Poland's PKN Orlen said it was hopeful of a resumption of Russian crude supplies to Lithuania's Mazeikiu refinery it has agreed to buy. Russia's oil supplies were cut in July after reports of a leak. It stated that Russia's environmental watchdog RosPrirodNadzor may end its tests sooner than expected. The tests on the Druzhba oil pipeline were expected to last until the end of January.

Azerbaijan's Socar has tendered to sell an 80,000 ton cargo with Azeri Light crude from the Georgian Black Sea port of Batumi. The cargo would load on October 6-7.

Georgia's Black Sea port of Batumi increased its oil and products exports by 26% on the year in August to 932,000 tons due to an increase in Azeri volumes.

Production News

BP's Prudhoe Bay has increased its production to 250,000 bpd. On Thursday, BP Alaska President Steve Marshall stated that it planned to bring the entire Prudhoe Bay field back on line by the end of October, provided the US Department of Transportation approved its plan. He said it has submitted a series of alternative plans involving the Endicott line potentially to have the field back up to 400,000 bpd by the end of October. Meanwhile, the administrator of the Pipeline and Hazardous Materials Safety Administration said there was no time frame for restoring the eastern side of the field.

The October loading program for North Sea Brent crude totaled 6.6 million barrels, up from 5.95 million barrels in September. Meanwhile, the North Sea Ekofisk loading program for October totaled 17.1 million barrels, up from 16.2 million barrels in September. The North Sea Oseberg loading program for October totaled 6.6 million barrels, down from 6.7 million barrels in September.

The Norwegian Petroleum Directorate said the country's oil production fell to 2.27 million bpd in August from 2.38 million bpd in July due to planned field maintenance.

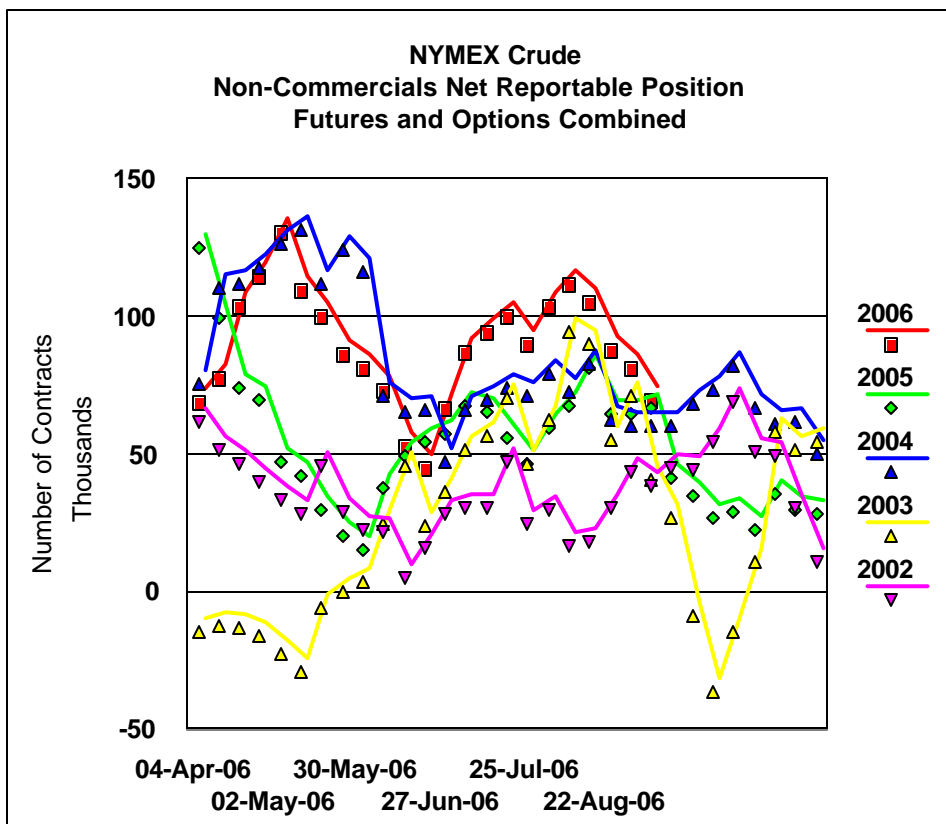
ExxonMobil Corp warned Russia to honor a production sharing agreement to develop the Sakhalin-1 oil and gas block or risk undermining the confidence of foreign investors. Its statement comes as Russia and Exxon dispute over whether the company has automatic rights to develop newly discovered reserves around existing depositions in the Sakhalin-1 project. Russia plans to auction off the new deposits, while Exxon believes its license territory should be increased to include them. ExxonMobil said it was in talks with Russia's government to resolve the issue.

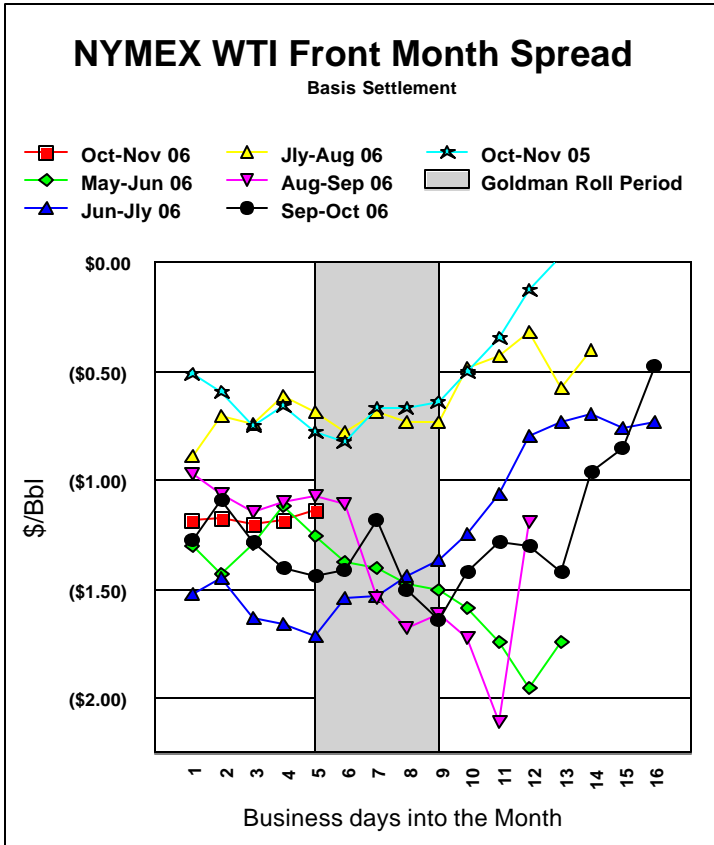
According to Reuters survey, WTI is expected to average \$68.67/barrel in 2006 and \$64.62/barrel in 2007.

OPEC's news agency reported that OPEC's basket of crudes fell by 53 cents/barrel to \$62.84/barrel on Thursday.

Market Commentary

The oil market continued to trend lower and sold off to a low of not seen since early April in follow through selling seen on Thursday. The market remain pressured following the news on Thursday that BP may resume its production at the eastern portion of Prudhoe Bay field by October. The market also remained pressured amid the lack of any new developments regarding the dispute over Iran's nuclear program as it seems it would take some





time for the UN Security Council to agree on a draft resolution imposing sanctions against Iran. The market posted a high of 67.40 on the opening but quickly erased its slight gains and held some support at 66.65. It settled in a sideways trading pattern before a late bout of selling pushed the market to a low of 66.00. It settled down \$1.07 at 66.25. Volume in the crude market was better with 229,000 lots booked on the day. Open interest in the crude market continued to build by a total of 27,074. Open interest in the October contract fell by 1,498 lots while open interest in the November contract built by 11,868 lots amid the market's sell off. The gasoline market opened down 92 points at 163.25 and quickly posted a high of 164.00. However the market erased its gains and continued to trend lower. It traded to a low of 162.30 and settled in a sideways trading range before further selling pushed the market to a low of 160.50 ahead of the close. It settled down 3.26 cents at 160.91. The heating oil market also settled down 4.44 cents at 184.32 after it extended its losses to over 5.3 cents and posted a low of 183.40

late in the session. Volume remained light in the gasoline market with 20,000 lots booked on the day while better volume was seen in the heating oil market, with 52,000 lots booked on the day.

The latest Commitment of Trader report showed that non-commercials in the crude market continued to cut their net long positions, by 13,544 contracts to 47,317 contracts in the week ending September 5. The combined futures and options report also showed that non-commercials in the crude market cut their net long positions by 11,738 contracts to 69,597 contracts on the week. The funds have likely continued to liquidate their net long amid the market's continuing sell off. Non-commercials in the product markets also cut their net long positions. The non-commercials in the gasoline market cutting their position by 464 contracts to 1,580 contracts while non-commercials in the heating oil market cut their

position by 796 contracts to 7,029 contracts on the week.

The oil market on Monday will be driven by the

Technical Analysis		
	Levels	Explanation
CL	Resistance	67.72, 68.85, 69.05
		66.50, 67.00, 67.40
	Support	66.00
		65.60, 65.34, 64.95
		Previous highs
		Friday's high
		Friday's low
		Previous low, 62% retracement (57.55 and 77.95), Previous low
HO	Resistance	191.35, 194.40
		185.50, 187.50, 188.00
	Support	183.40
		182.30, 181.59, 180.25
		Previous highs
		Friday's high
		Friday's low
		Previous low, 62% retracement(159.70 and 217.00), Previous low
HU	Resistance	166.25, 168.00, 173.50
		162.00, 164.00
	Support	160.50
		159.80, 157.55
		Previous highs
		Friday's high
		Friday's low
		Previous lows

developments on the dispute over Iran's nuclear program. The EU and Iran are scheduled to meet on Saturday. The aim is to find out if Iran would halt its nuclear program and begin negotiations on its incentive package. The market on Monday will also be driven by the outcome of the OPEC meeting on Monday, even though OPEC ministers are expected to leave their production quotas unchanged. The crude market, which is oversold, is seen finding support at its low of 66.00 followed by more distant support at 65.60, 65.34 and 64.95. Meanwhile resistance is seen at 66.50, 67.00 and 67.40. More distant resistance is seen at 67.72, 68.85 and 69.05.