



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR SEPTEMBER 14, 2006

On Thursday, Nigeria's oil workers' unions, Nupeng and Pengassan, called off their three day strike, which started on Wednesday following appeals by the government. Most of the union members are expected to return to work on Friday morning. Earlier shipping agents stated that oil tanker loadings resumed at Nigeria's Brass export terminal overnight following a brief interruption due to the strike. A tanker that was turned away on Wednesday was able to load successfully overnight.

Iran's President Mahmoud Ahmadinejad said he believed the dispute with the West over his country's nuclear program could be resolved through negotiations. He said he was open to new conditions. He said he did not believe there would be any sanctions imposed on the country. The US on Wednesday said Iran was aggressively pursuing the development of nuclear weapons. The US said Iran should face sanctions

Market Watch

The IMF's chief economist, Raghuram Rajan said world oil prices are likely to remain volatile as supplies remain tight. He said what is not clear is if all the geopolitical events that have calmed the markets would continue. The IMF's World Economic Outlook stated that higher oil prices had some dampening effect on world demand, however strong GDP growth in the US and China had prevented a fall in overall consumption. It said spare capacity would likely remain tight. It raised its 2007 oil price forecast to \$75.50/barrel from its previous estimate of \$63/barrel. It raised its forecast for world economic growth while warning that inflation, oil prices and the US housing slowdown threatened the expansion.

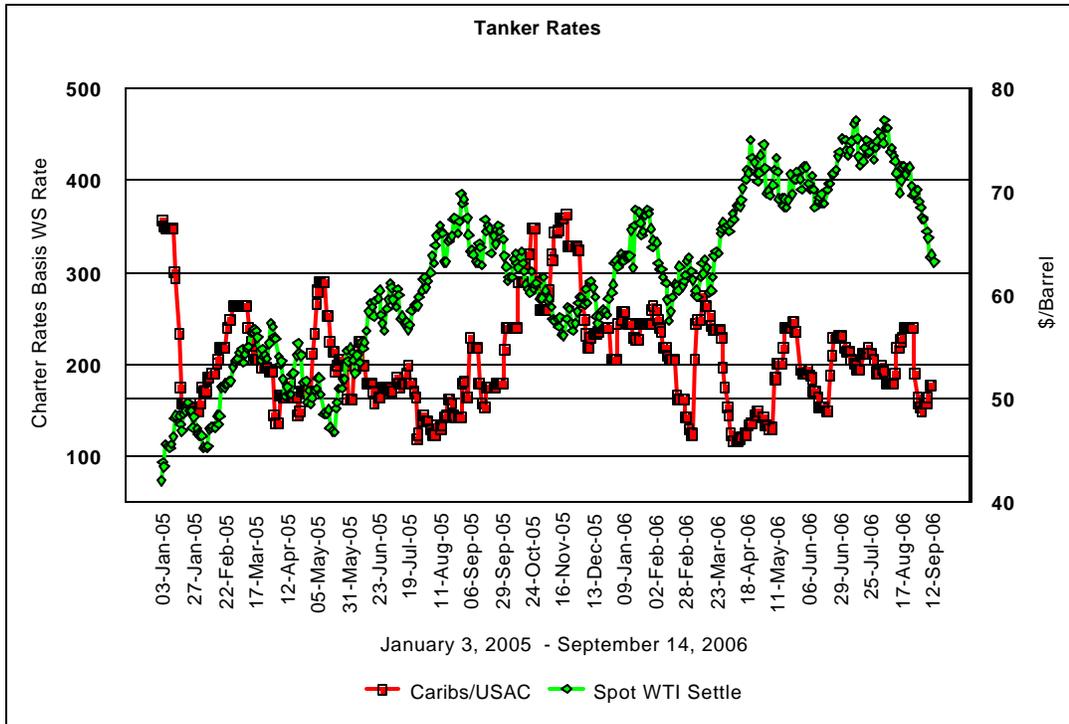
Low Rhine River water levels in parts of Germany have started to cause restrictions on shipping in some areas. Low water surcharges were being imposed at Cologne after water fell below the level at which ships could sail fully loaded.

BP Plc and Royal Dutch Shell Plc are close to signing renegotiated contracts with the US government to pay royalties on oil and natural gas drilling leases they signed in 1998 and 1999. The director of the Minerals Management Services said the government's contract negotiations have yet to address the threshold price above which companies would pay royalties.

According to a Dow Jones survey, analysts increased their forecast for light, sweet crude by 30 cents to \$69/barrel for 2006. They however cut their fourth quarter estimates by 60 cents to \$67.40/barrel.

Some western oil companies have been urging consumers to use less energy to cut prices and slow rising world demand. Chevron ran an advertisement in Britain's Financial Times encouraging consumers to use less fuel. France's Total has advised the French government and the European Union to cool oil demand to avoid a supply crunch.

The NYMEX set a daily volume record for crude oil futures of 428,125 contracts on Wednesday, surpassing its previous record of 406,314 contracts on August 30. The increase was mainly driven by NYMEX's extension of electronic trading on the CME's Globex platform. Physically settled crude oil futures traded on Globex reached a record 136,645 contracts, leaving 291,480 contracts traded during open outcry.



now while EU allies said it was not too late for a negotiated solution. Meanwhile, China's Prime Minister Wen Jiabao reiterated his opposition to imposing sanctions against Iran. He stated a solution to the standoff over Iran's nuclear program could still be reached through peaceful efforts. His comments came as China's Foreign Ministry

called on Iran to work together with the UN's IAEA.

In a letter addressed to Rep. Peter Hoekstra, chairman of the House intelligence committee, IAEA officials stated that a report by the committee contained some erroneous, misleading and unsubstantiated statements on Iran's capabilities. It is the first time the IAEA has publicly disputed US allegations about its Iran investigation. The agency noted five major errors in the committee's 29 page report, which said Iran's nuclear capabilities are more advanced than either the IAEA or US intelligence has shown. Among the committee's assertions is that Iran was producing weapons grade uranium at its facility in Natanz. The IAEA said that assertion was incorrect, adding that Iran had enriched uranium to 3.5% while weapons grade uranium is enriched to a level of 90% or more. The committee is working on a separate report about North Korea. A draft of the report includes several assertions about North Korea's weapons program that the intelligence officials said they cannot substantiate, including an assertion that North Korea was enriching uranium.

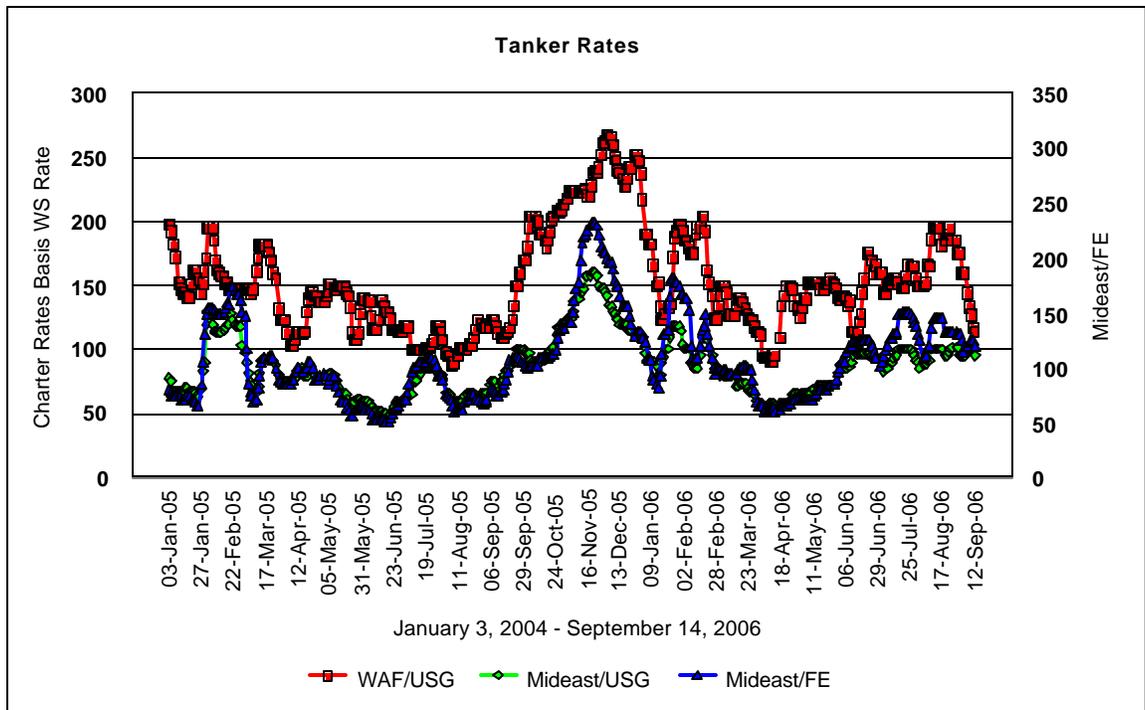
According to Oil Movements, OPEC's oil exports are expected to fall by 200,000 bpd to 25.05 million in the four weeks ending September 30, down from 25.25 million bpd in the four week period ending September 2.

Refinery News

BP Plc found a leak on its 129,000 bpd fluid catalytic cracking unit cooling tower at its 460,000 bpd Texas City, Texas refinery on Thursday. A report filed with the Texas Commission for Environmental Quality, BP expects the even to end on September 17. The refinery has been operating at half its capacity after it was shut due to Hurricane Rita.

Valero Energy Corp said a malfunction in a sulfur recovery incinerator at its 95,000 bpd Three Rivers, Texas refinery caused feed to the unit to be blocked on Wednesday. A report filed with the Texas Commission on Environmental Quality did not state whether production was impacted.

A coker unit at ConocoPhillips' Sweeny refinery in Texas flared on Tuesday due to a pressure spike. A report filed with the Texas Commission on Environmental Quality did not say whether the incident impacted production at the refinery.



Total SA suffered a problem on Wednesday while it attempted to restart its fluid catalytic cracking unit at its Port Arthur, Texas refinery from a power outage. The wet gas compressor in the fluid catalytic cracker was shut as the unit was being restarted.

ConocoPhillips is expected to shut one of three reformers at its 194,000 bpd Ponca City, Oklahoma refinery in mid-October for four to five weeks of turnaround.

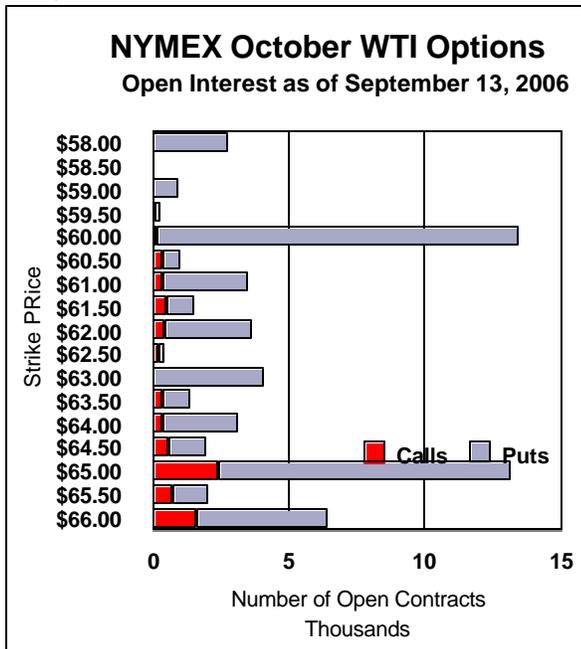
The Renewable Fuels Association said construction has started on a 100 million gallon/year bio-refinery Hereford, Texas.

Shell Eastern Petroleum has cut runs at its 500,000 bpd Bukom Island refinery in Singapore after Asian refining margins fell into negative territory for about a month. Details on the size of the run cuts were not available.

Refineries in Singapore and South Korea have added to the run cuts reported in Asia. The fall in refining profits have driven plants to take more than 160,000 bpd of capacity offline. ExxonMobil Corp has cut its output by 8-10% at its 600,000 bpd Singapore refinery since August. Royal Dutch Shell has also cut runs at its 500,000 bpd Singapore refinery. In South Korea, SK Incheon Oil Ltd cut its September crude oil processing rate to 170,000 bpd from a planned level of 190,000 bpd due to poor margins. It said it would maintain its processing rate at 170,000 bpd in October.

The National Biodiesel Board stated that US biodiesel production capacity was increasing faster than the industry previously forecast. It estimated that US biodiesel output capacity would increase to 1.5 billion gallons by 2015, up from its previous forecast of 1 billion gallons. Production of biodiesel in the US is expected to total about 250 million gallons in 2006, up from 75 million gallons in 2005.

Gas oil stocks in Amsterdam-Rotterdam-Antwerp storage tanks fell once again amid pre-winter buying to 1.875 million tons in the week ending September 14. Meanwhile gasoline stocks increased by 45,000 tons to 730,000 tons while fuel oil stocks increased by 80,000 tons to 595,000 tons on the week. Naphtha stocks fell by 10,000 tons to 90,000 tons while jet fuel stocks fell by 45,000 tons to 305,000 tons on the week.



Singapore's International Enterprise reported that the country's residual fuel stocks built by 760,000 barrels to 13.644 million barrels in the week ending September 14. It reported that light distillate stocks fell by 1.429 million barrels to 6.891 million barrels while middle distillate stocks fell by 179,000 barrels to 8.082 million barrels on the week.

Vitol was offering two November loading cargoes of the new light sweet Sakhalin-1 Sokol crude on the spot market after it won a tender by Rosneft.

Latvia's Ventspils Nafta expects its crude pipeline link from Russia to reopen once the government's 38.6% stake in the company is sold next month. Ventspils was a key Russian crude export terminal but Russia cut supplies to the pipeline in 2003 in what analysts saw as a move to put pressure on Latvia, which joined the EU and NATO a year later. Ventspils has been exporting oil

products by rail and sea.

China's National Development and Reform Commission said the country planned to more than triple its fuel ethanol production to 3 million tons by 2010 to reduce its dependence on imported oil. It said fuel ethanol should make up more than 5% of the country's gasoline consumption, compared with less than 2% currently. China has four government sponsored fuel ethanol plants with total annual capacity of 1.02 million tons.

Production News

The US Department of Transportation said it was reviewing BP's request to restart production in the eastern portion of the Prudhoe Bay oilfield. A spokesman declined to say exactly when the administration would make a decision on the request.

Norway's oil production fell by 110,000 bpd in August to 2.27 million bpd. Norway's production fell as seasonal maintenance cut output from the Brage, Fram, and Tordis oilfields.

Saudi Arabia's Oil Minister Ali al-Naimi said the country would add about 1.2 million bpd of Arab Extra Light and Arab Light crude production by June 2009. He also stated that Saudi Arabia would add 1.25 million bpd of additional production, of which 900,000 bpd would be Arab Heavy by 2011.

Mexico's Energy Minister Fernando Canales said Mexico's oil production is expected to increase to 3.3 million bpd toward the second half of next year from current levels of 3.22 million bpd. He said the losses from its Cantarell field was about 200,000 bpd on an annualized basis but the new sources of oil stemmed the overall decline to 80,000 bpd.

Venezuela appeared to be making small concessions in its efforts to bring extra heavy oil operations under state control. PDVSA previously said it would take 60% stakes in each project however Venezuela's Deputy Oil Minister Bernard Mommer said it would only seek 51% stakes. Oil Minister Rafael Ramirez reassured his Orinoco partners that they would retain control of the downstream side of the projects. While PDVSA appeared to make small concessions, oil majors must still cede operational control of the production zones to PDVSA.

A Petrobras official stated that offshore oil and gas discoveries in recent years could add 10 billion barrels of oil equivalent to the company's reserves. Of the total, 7.3 billion boe corresponds to potential oil reserves and 2.7 billion boe corresponds to potential natural gas reserves.

Ecuador's Central Bank reported that the country's oil export revenues totaled \$574.31 million in July, up 28% on the year. In terms of volume, Ecuador exported 9.38 million barrels in July 2006, down 4% on the year.

Russia's OAO Surgutneftegaz said it expects to increase its oil production by 5% next year to 70.3 million tons from an expected 67.1 million tons this year. Its refining throughput is expected to increase by 9.4% to 21 million tons or 422,000 bpd next year.

Malaysia's Petronas said it was in talks with Chad to resolve a tax dispute. On Wednesday, a Chad government official said Petronas had until the end of Thursday to pay taxes or else it would not be allowed to sell oil from Chad.

Sasol Ltd delayed output of oil products from a gas to liquids plant in Qatar following a technical failure. The company initially planned to start selling the plant's products in the fourth quarter of this year. The plant is expected to produce about 34,000 bpd of fuel and bas oil from gas pumped out of Qatar's Persian Gulf North Field.

OPEC's news agency reported that OPEC's basket of crudes fell below \$60/barrel on Wednesday to \$59.08/barrel. It was the first time the basket price fell below \$60/barrel since March 29 when it stood at \$59.95/barrel.

Market Commentary

The oil market opened relatively unchanged after the market eased off its overnight highs on news that loadings at Nigeria's Brass terminal resumed. The market quickly posted a high of 64.20. However the market erased its gains and continued to trend lower. It posted an early low of 63.50 amid reports that

Nigeria's oil unions called off their strike following appeals from the government. The market was also pressured by the sell off in the

Technical Analysis		
	Levels	Explanation
CL 63.22, down 75 cents	Resistance 64.75, 65.75, 66.50	Previous high
	Support 63.50, 64.20	Thursday's high
	Resistance 63.00	Thursday's low
	Support 62.20, 61.61 to 61.00, 59.60	Previous low, Gap(March 22), Previous low
HO 171.10, down 3.18 cents	Resistance 177.50, 181.90, 183.70	Previous highs
	Support 173.20, 174.00	Thursday's high
	Resistance 169.50	Thursday's low
	Support 168.60, 167.25, 167.00	Previous lows
HU 155.22, down 9 points	Resistance 158.20, 162.25, 166.70	Previous highs
	Support 156.00, 157.65	Thursday's high
	Resistance 153.50	Thursday's low
	Support 151.50, 147.00	Previous lows

natural gas market following the release of the EIA natural gas storage report, which showed a larger than expected build of 108 bcf. The crude market found support at 63.50 and settled in a sideways trading pattern before further selling ahead of the close pushed the market to a low of 63.00. It settled down 75 cents at 63.22. Volume in the crude was excellent with over 299,000 lots booked on the day, of which 229,000 lots traded via spreads. The gasoline market opened down 49 points at 155.70 and quickly rallied to a high of 157.65 on reports of several refinery problems. However the market erased its gains and settled in a sideways trading pattern. The market breached its support levels and sold off to a low of 153.50 ahead of the close. It settled down just 9 points at 155.22. The heating oil market also continued to trend lower and settled down 3.18 cents at 171.10 after the market sold off to a low of 169.50 ahead of the close. The market was pressured by the weakness in the crude market as well as the sharp sell off in the natural gas market following the bearish inventory report. Volume in the gasoline market remained light with 22,000 lots booked on the day while volume in the heating oil market was better with over 78,000 lots booked on the day.

Friday is expiration day for the October Crude option contracts. As a result of the recent price move in the underlying futures, there is limited open interest in the close to the money strikes, that could act as a possible magnet for trading in the futures tomorrow. Only the \$60 puts has a significant open interest currently and that seems to be a stretch to see prices to move tomorrow. In fact this strike saw open interest actually decline by over 2100 lots on Wednesday.

The market on Friday will likely retrace some of its losses and hold its support ahead of the weekend. The markets' losses will be limited as the market awaits for further developments on the Iranian issue. Technically the market looks oversold and is seen finding support at its low of 63.00 followed by 62.20 and a gap from 61.61 to 61.00. Meanwhile resistance is seen at 63.50 followed by its high of 64.20. More distant resistance is seen at 64.75, 65.75 and 66.50.