



ENERGY RISK MANAGEMENT

Howard Rennell, Pat Shigueta &
Zachariah Yurch

(212) 624-1132 (888) 885-6100

www.e-windham.com

ENERGY MARKET REPORT FOR SEPTEMBER 18, 2006

An Iranian government official denied reports that the country was ready to consider halting its uranium enrichment for up to two months. He said any mention of Iran agreeing to suspend its nuclear program was just a misconception. He reiterated that Iran would not accept any preconditions for talks on its disputed nuclear program. Meanwhile Iran's Vice President Reza Aghazadeh said Iran would respond to hostile action over Iran's refusal to halt its uranium enrichment by cutting international inspections of its nuclear program. He issued the threat as the head of the UN's IAEA, Mohamed ElBaradei urged Iran and the UN members to begin talks on easing world concerns that Iran could be seeking to make an atomic bomb. Concerns over Iran's nuclear intentions dominated statements at the opening session of the IAEA conference, with Japan, the US, the EU and others urging Iran to comply with the Security Council demand it freeze its uranium enrichment.

Market Watch

Goldman Sachs Group Inc is positive on the oil market during the fourth quarter. It said demand would likely improve. It said it recommended being long December 2006 against a short December 2007 position as the price disparity encouraged traders to hold oil in storage to benefit from higher prices next year. Goldman Sachs also stated that a 35% fall in gasoline prices since August may increase demand by 200,000 bpd and a colder winter may increase prices in the fourth quarter at a time when production is constrained. It also stated that the increase in US diesel inventories was mainly attributable to a switch in grades to ultra low sulfur grades.

Amaranth Advisors LLC said the \$7.5 billion hedge fund was down about 35% for the year to date due to heavy losses in the natural gas market. It said it met every margin call to date and added that it was in discussions with prime brokers and other counterparties and was working to protect its investors. A person familiar with the fund said it was up a little more than 20% for the year, as recently as mid-August.

Separately, Russia's Federal Nuclear Agency chief Sergei Kiriyenko said that a Russian built nuclear plant in Iran would be commissioned in the autumn of 2007.

The EIA reported that the average US retail price of gasoline fell by 12.1 cents to \$2.497/gallon in the week ending September 18. It also reported that the average US retail price of diesel fell 14.4 cents/gallon to \$2.713/gallon.

Refinery News

Flint Hills Resources shut a gas oil hydrotreater in the West Plant of its Corpus Christi, Texas refinery on Saturday. Flint Hills shut the unit to perform maintenance on a compressor in the unit. It also started a week long turnaround of an alkylation unit.

Crude runs were cut at ConocoPhillips' Sweeny, Texas refinery following a mechanical failure in a hydrogen unit on Sunday. The unit is expected to remain shut for seven to ten days for repairs.

PDVSA shut its catalytic conversion, alkylation, hydrotreater and other related units at the Amuay refinery on Saturday for planned work. The work is expected to last six to nine weeks.

South Korea's GS Caltex is expected to keep its crude oil processing rate for October at 600,000 bpd, steady on the month.

Indonesia's Pertamina was seeking to purchase 140,000 barrels of prompt gasoline on the spot market after a brief electrical outage at its Balikpapan refinery.

Saudi Aramco has yet to decide whether it would expand one of its existing Yanbu refineries on the Red Sea coast as it proceeds with projects to build two new joint venture refineries. The projects would add 800,000 bpd to its domestic refining capacity.

Venezuela's Oil Minister Rafael Ramirez said Venezuela was considering building a 150,000 bpd oil refinery in Syria with Iran.

Iran has booked a 106,000 deadweight-ton tanker on a short term contract of 20-30 days for crude oil storage. It was unclear where the National Iranian Tanker Company would take delivery of the tanker. It was the first time NITC has entered the market for floating storage since the second quarter of this year, when it booked more than 20 million barrels of tanker space to store and blend its Soroush and Nowruz crude grades.

Iraq's State Oil Marketing Organization said Iraq would need to purchase 21,000 metric tons/day of oil products for the rest of the year. It needs to import 12,000 tons of gasoline, 6,000 tons of kerosene and 3,000 tons of liquefied petroleum gas for the rest of the year. Meanwhile, a senior Iraqi official said Iraq's crude oil exports for the first two weeks of September fell by 3.1% on the month to 1.58 million bpd due to bad weather conditions at the southern oil terminal and the suspension in exports from the northern terminal.

Russian pipeline exports are expected to fall by 130,000 bpd in the fourth quarter from a record third quarter despite a bigger loss of capacity on the idle pipeline to Lithuania. A pipeline exports schedule showed overall exports would total 4.32 million bpd in October-December 2006 compared with a record high of 4.45 million bpd in July-September.

Thailand's Energy Ministry reported that its crude imports during January-August 2006 fell by 1.5% on the year to 842,000 bpd. It said its demand for diesel in the same period fell by 8.4% to 50.9 million liters/day while demand for gasoline fell by 2.5% to 19.6 million liters/day.

Production News

The US Department of Transportation said it would decide in weeks or maybe longer whether to allow BP Plc to restart the flow of oil through a pipeline on the eastern half of the Prudhoe Bay field in Alaska.

BP Plc said it did not expect production from its Thunder Horse field in the Gulf of Mexico to begin before the middle of 2008 due to new technical problems.

Russia's Resources Ministry said it had cancelled its own ecological approvals for Royal Dutch Shell's Sakhalin-2 project, which could effectively halt the project. The move follows weeks of disputes between the ministry and the company over ecological compliance.

Statoil ASA's Asgard oil field has restarted full production following 17 days of planned maintenance.

Separately, Statoil agreed to pay \$700 million for rights to two US Gulf of Mexico deepwater discoveries and one exploration prospect from US oil producer Plains Exploration & Production Co. The new assets are located in the Greater Tahiti area and include the Caesar discovery, operated by Royal Dutch Shell, in which Statoil would have a 17.5% interest and the Chevron-operated Big Foot discovery, in which Statoil would have a 12.5% working interest. It would also have a 12.5% stake in the Chevron-operated Big Foot North prospect.

China's National Bureau of Statistics stated that the country's crude oil output for August was unchanged on the year at 15.54 million tons or 3.67 million bpd. The country's crude oil production during the first eight months of the year was up 1.8% on the year at 122.93 million tons or 3.71 million bpd. Its crude runs increased by 3.5% on the year in August to 25.14 million tons or 5.94 million bpd. It reported that gasoline production fell by 0.2% to 4.54 million tons while kerosene output fell by 16.8% to 820,000 tons.

OPEC's news agency reported that OPEC's basket of crudes fell to \$58.44/barrel on Friday from \$59.22/barrel on Thursday. OPEC's basket of crudes fell by \$3.61/barrel to an average of \$59.53/barrel in the week ending September 15.

Malaysia's Petronas agreed to pay the taxes Chad said it owed and would continue to operate in the country.

Iran has given Japan's INPEX Holdings Inc 15 more days to finalize an estimated \$2 billion deal to develop the Azadegan oilfield. Iran's Oil Minister Kazem Vaziri-Hamaneh did not specify when the 15 day period would start. It had previously stated that it had until September 15 to finalize the deal.

Market Commentary

The oil market opened 22 cents higher at 63.55 in light of comments made by Iranian officials concerning their nuclear program. An Iranian official denied that Iran would temporarily halt its uranium enrichment for two months. Also, Iran's Vice President Reza Aghazadeh said Iran would respond to hostile action over Iran's refusal to halt its uranium enrichment by cutting international inspections

of its nuclear program.

The market however erased its gains and sold off to a low of 62.85 amid the losses in the natural gas market following the reports that

Technical Analysis		
	Levels	Explanation
CL 63.80, up 47 cents	Resistance 64.75, 65.75	Previous highs
	Support 64.45	Monday's high
	Resistance 63.00, 62.85	Monday's low
	Support 62.05, 61.61 to 61.00, 59.60	Previous low, Gap(March 22), Previous low
HO 172.57, up 2.34 cents	Resistance 177.50, 181.90	Previous highs
	Support 174.40	Monday's high
	Resistance 172.00, 170.10	Monday's low
	Support 168.60, 167.25, 167.00, 164.00	Previous lows
HU 157.96, up 46 points	Resistance 162.25, 166.70	Previous highs
	Support 162.00	Monday's high
	Resistance 156.50, 154.50	Monday's low
	Support 154.10, 153.50, 151.50, 147.00	Previous lows

NYMEX Petroleum Options Most Active Strikes for September 18, 2006									
Symbol	Month	Year	Call/Put	Strike	Exp Date	Settle	Prev Settle	Volume	IV
GO	11	6	P	1.54	10/26/2006	0.0431	0.051	200	39.07
GO	10	6	P	1.97	09/26/2006	0.3904	0.3951	125	66.45
GO	10	6	P	1.55	09/26/2006	0.0263	0.0328	60	42.60
GO	10	6	P	1.6	09/26/2006	0.0514	0.059	57	43.07
GO	10	6	P	1.57	09/26/2006	0.0348	0.0419	20	42.45
LO	11	6	C	70	10/17/2006	0.61	0.64	4,890	32.47
LO	12	6	C	74	11/14/2006	0.65	0.66	4,524	30.29
LO	12	6	C	70	11/14/2006	1.38	1.35	3,340	29.71
LO	1	7	C	80	12/14/2006	0.53	0.54	2,623	30.53
LO	1	7	C	70	12/14/2006	2.22	2.17	2,350	28.81
LO	11	6	C	65	10/17/2006	1.97	1.89	2,239	30.88
LO	12	6	C	75	11/14/2006	0.54	0.56	2,089	30.55
LO	12	6	P	70	11/14/2006	5.91	6.29	2,060	30.01
LO	12	6	C	43.5	11/14/2006	21.94	21.52	1,600	62.85
LO	12	6	C	90	11/14/2006	0.05	0.06	1,575	36.32
LO	12	6	C	95	11/14/2006	0.03	0.03	1,528	38.88
LO	12	6	P	65	11/14/2006	2.8	3.09	1,388	29.68
LO	12	6	C	40	11/14/2006	25.44	25.02	1,300	75.86
LO	2	7	P	65	01/17/2007	3.27	3.48	1,300	28.45
LO	2	7	P	55	01/17/2007	0.68	0.75	1,300	30.62
LO	12	6	P	60	11/14/2006	1.14	1.29	1,240	31.96
LO	12	6	C	80	11/14/2006	0.24	0.27	1,218	32.75
LO	11	6	P	62	10/17/2006	1.22	1.46	1,159	31.56
LO	12	6	C	41.5	11/14/2006	23.94	23.52	1,100	70.15
LO	12	6	C	37	11/14/2006	28.44	28.02	1,000	87.98
OB	12	6	C	1.75	11/27/2006	0.0764	0.0709	125	35.53
OB	4	7	P	1.96	03/27/2007	0.1832		40	30.70
OB	4	7	C	1.96	03/27/2007	0.1455	0.1477	40	30.53
OH	1	7	C	2.25	12/26/2006	0.0238	0.0236	227	31.53
OH	1	7	C	2.05	12/26/2006	0.0569	0.0558	227	30.18
OH	2	7	C	2.05	01/26/2007	0.0796	0.078	225	29.59
OH	2	7	C	2.25	01/26/2007	0.0389	0.0384	225	30.92
OH	12	6	C	1.85	11/27/2006	0.0897	0.0865	150	30.09
OH	3	7	C	2.25	02/23/2007	0.0492	0.0489	130	30.95
OH	3	7	C	2.05	02/23/2007	0.0918	0.0908	127	29.65
OH	10	6	P	2	09/26/2006	0.2743	0.2977	101	44.30
OH	12	6	P	1.95	11/27/2006	0.1683	0.1781	100	31.99

fund, Amaranth Advisors was liquidating its natural gas positions following large losses. The market later bounced off its low and extended its gains to over \$1.12 as it rallied to a high of 64.45 amid some good buying. The market however gave up some of its gain ahead of the close and settled up 47 cents at 63.80. Volume in the crude market was good with over 200,000 lots booked on the day. Meanwhile, the gasoline market opened unchanged at 157.50 and quickly sold off to a low of 154.50 amid the losses in the crude market. It however bounced off that level and rallied 4.5 cents to a high of 162.00 amid the strength in the crude market. The market later retraced some of its gains ahead of the close and settled up 46 points at 157.96. The heating oil market also opened

higher before it quickly sold off to a low of 170.10. The market however bounced off its low and rallied to a high of 174.40 in afternoon trading. The market held some support at 173.50 but quickly breached that level ahead of the close. It settled up 2.34 cents at 172.57. Volumes in the product markets were better today with 21,000 lots booked in the gasoline market and 64,000 lots booked in the heating oil market.

The oil market on Tuesday is seen trading mostly sideways as the market remains buoyed by the continuing standoff over Iran's nuclear program. Its losses will remain limited by Iran's statements that it would not temporarily halt its nuclear program. The market looks like it has found its support as it stochastics finally crossed to the upside. The market is seen finding support at 63.00 followed by

62.85. More distant support is seen at 61.61 to 61.00 followed by 59.60. Meanwhile resistance is seen at 64.45 followed by 64.75 and 65.75.