



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR SEPTEMBER 19, 2006

US Secretary of State, Condoleeza Rice said failure to confront Iran over its nuclear program would present the international community with a credibility problem. She said talks were underway between the EU and Iran without preconditions. However she stated that the US was still pursuing the path of sanctions should Iran not follow the UN Security Council resolution. She is scheduled to talk with foreign ministers from the permanent five members of the UN Security Council as well as Germany and Italy on how to deal with Iran later on Tuesday. US President George W. Bush urged Iran to immediately begin negotiations on its nuclear program and warned Iran that a delay would bring consequences. Meanwhile, a senior Iranian envoy said Iran was disappointed by the way it was being treated.

Market Watch

According to Accuweather, winter temperatures are expected to be slightly warmer than normal in the Northeast US. It said the development of a modest El Nino phenomenon would influence regional temperatures, making them colder than last year but still slightly above the long term trend. Its outlook supports comments made last week by the National Oceanic and Atmospheric Administration that fresh signs of a moderate El Nino were improving the odds of a warmer than normal winter in the Northeast.

Water levels on the Rhine River increased after recent rain and shipping has returned to normal. Low water surcharges had been imposed on parts of the river after water fell below the level at which ships could sail fully loaded.

Venezuela's President Hugo Chavez defended Iran's nuclear program during a visit by Iran's President Mahmoud Ahmadinejad. Venezuela's President warned the world of dire consequences if Iran was attacked by the US. He has threatened to cut oil supplies to the US if provoked. In regards to Venezuela's own nuclear ambitions, President Chavez said all countries needed to develop alternative sources of energy, including atomic power.

UN Secretary General Kofi Annan warned that Iraq was in danger of sliding into a civil war during his address at the UN. He called for urgent action from Iraqi leaders and the international community. He said that while Iraq had made important progress in the past two years, with national elections and a constitutional process, Iraq was under the constant threat of sectarian violence. Meanwhile, Iraq's parliament delayed a debate of a bill on federalism after a fresh wave of violence killed 50 people and the UN warned that Iraq could descend into civil war.

OPEC's Acting Secretary General, Mohammed Barkindo said he believed the fundamentals of the oil market were out of balance, with above average crude stocks failing to have an impact on prices. He said if prices fell too low OPEC could consider some sort of intervention. He added that OPEC did not have an official price level that would trigger a production cut. He however stated that geopolitics were

having a greater effect on prices than market fundamentals, which could keep prices artificially high. In regards to BP's announcement of a delay in crude production from its Thunder Horse platform, he said he delay did not ease the group's fears of excess supply in the second half of the year. Meanwhile OPEC's President Edmund Daukoru said a short term fall in oil prices would not trigger a major review of OPEC's output quotas. He added that he was confident that the oil market would firm as winter approached. He also stated that the delay in restarting the Thunder Horse platform pushed back any short term need by OPEC to cut its output to prevent prices from falling.

Separately, Saudi Arabia's Oil Minister Ali al-Naimi said OPEC did not intend to return to its price band mechanism.

The IEA's executive director Claude Mandil said demand for OPEC oil would be 100,000 bpd more in 2007 than previously estimated after BP delayed the start up of its Thunder Horse oilfield in the Gulf of Mexico until 2008. He also stated that he was concerned over Russian steps to put pressure on Royal Dutch Shell's Sakhalin-2 oil and gas project. He said Russia's move may deter investment.

The EIA also stated that it would revise down its US oil production forecast for 2007 following BP's announcement that it would delay the restart of its Thunder Horse platform.

The head of Libya's National Oil Corp, Shokri Ghanem said oil prices would probably stay around \$60/barrel or higher and were unlikely to fall back to \$20-\$30/barrel or even the \$40-\$50/barrel range. He said prices had been increased by a range of factors, including political tensions and lack of refining capacity as well as strong economic growth and demand.

Refinery News

Delek US Holdings' 55,000 bpd Tyler, Texas refinery was shutdown on Monday following a power outage. The refinery's major units, including the fluid catalytic cracking unit was restarting on Monday.

South Korea's Hyundai Oilbank Corp is expected to keep its crude oil processing rates for October at 320,000 bpd. The 390,000 bpd refinery cut its runs to 320,000 bpd for September due to poor fuel oil margins.

Traders stated that purchases of West African crude by Asian refiners increased for the second consecutive month as China and India increased their buying of October loading cargoes. Asian refiners purchased 1.01 million bpd of West African crude for October, up from 982,000 bpd in September.

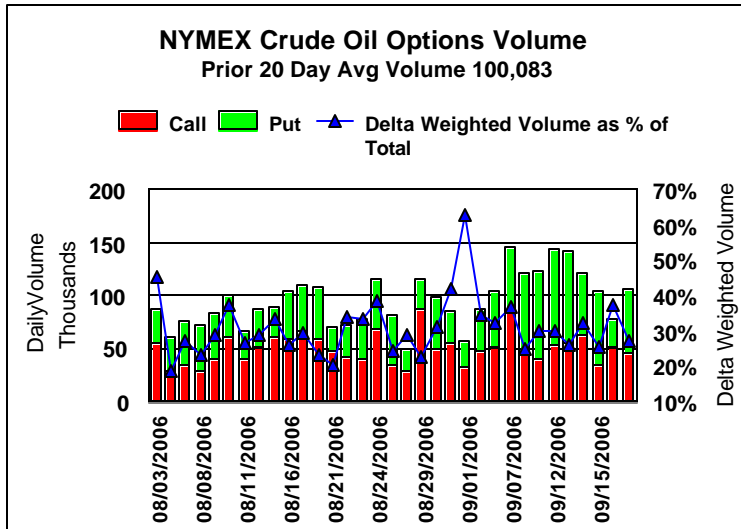
Production News

Nigeria's Finance Minister Nenadi Usman said Nigeria's average production stood at 1.9 million bpd, with a total of about 600,000 bpd of shut in production. She said Nigeria expects to increase its oil production soon as it works to restore oilfields attacked by militants in February.

Chevron Corp said it had other competitive oil field developments in the deep water of the US Gulf of Mexico. The company recently announced that a well test in the Jack field revealed potential reserves of 3 billion-15 billion barrels of oil. It said it would take another year to complete tests in the Jack field to more precisely determine how much oil is in the area and how much can be recovered.

Indonesia's BPMIGAS expects the country's crude oil and condensate production to fall to 1.03 million bpd in 2006 from 10.6 million bpd in 2005 due to ageing fields and a lack of significant development.

OPEC's news agency reported that OPEC's basket of crudes increased to \$58.67/barrel on Monday from a revised \$58.45/barrel on Friday.



The Director of Exploration of the National Iranian Oil Co, Mahmoud Mohaddes, said Iran would put the exploration of 24 oil blocks out to international tender within the next two months.

Chevron said it hoped to increase production of heavy crude oil from Saudi Arabia's neutral zone through the use of steamflood technology, which has so far been quite promising.

Colombia's Finance Minister Alberto Carrasquilla said the country needs more investment in its oil sector. This followed

comments made by the IMF that it needed to invest more in its oil industry. The IMF said that except for Brazil, Latin American countries had failed to capitalize on a doubling in crude prices in the past two years to increase production.

Market Commentary

The crude market opened 25 cents higher at 64.05 and quickly rallied to a high of 64.45, where it posted a double top. The market, which failed to breach its resistance, erased its early gains and sold off sharply. The market never looked back and extended its losses to over \$2.20 as it posted a low of \$61.60 ahead of the close. It fell below the 62.00 level for the first time since late March. The market was pressured in light of OPEC officials stating that it was unlikely to cut its production following BP's announcement of a delay in restarting its Thunder Horse platform in the Gulf of Mexico. The market however shrugged off comments made by Secretary of State, Condoleezza Rice, who stated that the international community would face credibility problems if it failed to confront Iran over its nuclear program while President George W. Bush warned that a delay would bring consequences. The market settled down \$2.14 at 61.66.

Volume in the crude market was excellent with over 226,000 lots booked on the day. The product markets also settled sharply lower, with the gasoline

Technical Analysis			
	Levels	Explanation	
CL 61.66, down \$2.14 cents	Resistance	64.75, 65.75	Previous highs
		63.05, 64.45	Double top
	Support	61.60	Tuesday's low
HO 169.16, down 3.41 cents	Resistance	177.50, 181.90	Previous highs
		172.90, 176.20	Tuesday's high
	Support	168.80	Tuesday's low
HU 150.38, down 7.58 cents	Resistance	159.00, 162.25, 166.70	Tuesday's high, Previous highs
		151.00, 155.25	
	Support	148.00	Tuesday's low
	147.00, 143.40	Previous lows	

market settling down 7.58 cents at 150.38 and the heating oil market settling down 3.41 cents at 169.16. The gasoline market quickly posted a high of 159.00 before it continued to trend lower. The market extended its losses to over 9.9 cents as it posted a low of 148.00 on continued selling pressure. The market retraced some its losses ahead of the close. The heating oil market also posted

a high of 176.20 early in the session before it sold off to a low of 168.80 ahead of the close. The market remained pressured ahead of the close amid the expectations that the weekly petroleum stock

NYMEX Petroleum Options Most Active Strikes for September 19, 2006									
Symbol	Month	Year	Call/Put	Strike	Exp Date	Settle	Prev Settle	Volume	IV
GO	10	6	C	1.6	09/26/2006	0.0092	0.031	154	47.07
GO	10	6	C	1.52	09/26/2006	0.0296		35	44.53
GO	10	6	C	1.66	09/26/2006	0.0035	0.0142	27	49.22
GO	10	6	C	1.7	09/26/2006	0.0017	0.0081	25	49.83
GO	10	6	P	1.6	09/26/2006	0.1053	0.0514	25	47.07
GO	10	6	C	1.51	09/26/2006	0.0337		20	44.14
GO	10	6	C	1.48	09/26/2006	0.0493		20	43.99
LO	6	7	P	55	05/17/2007	1.71	1.47	8,351	30.55
LO	12	6	P	60	11/14/2006	1.64	1.14	8,312	31.29
LO	12	7	P	60	11/13/2007	3.78	3.42	5,150	27.53
LO	12	6	C	74	11/14/2006	0.42	0.65	4,671	31.88
LO	6	7	P	65	05/17/2007	4.66	4.02	4,050	27.57
LO	6	7	C	100	05/17/2007	0.32	0.46	3,700	28.79
LO	12	6	C	70	11/14/2006	0.87	1.38	3,650	30.58
LO	11	6	P	59	10/17/2006	1.01	0.56	2,926	33.72
LO	12	6	P	55	11/14/2006	0.63	0.43	2,701	34.81
LO	6	8	P	50	05/15/2008	2.05	1.9	2,350	28.41
LO	12	6	C	75	11/14/2006	0.35	0.54	2,218	32.21
LO	11	6	C	75	10/17/2006	0.13	0.21	2,045	39.45
LO	11	6	P	62.5	10/17/2006	2.4	1.39	1,890	32.62
LO	12	6	C	77	11/14/2006	0.25	0.39	1,750	33.06
LO	11	6	C	67	10/17/2006	0.73	1.23	1,524	33.95
LO	11	6	P	53	10/17/2006	0.18	0.09	1,433	38.52
LO	11	6	P	56	10/17/2006	0.45	0.24	1,426	36.17
LO	11	6	P	60	10/17/2006	1.31	0.73	1,411	33.17
LO	1	7	C	80	12/14/2006	0.37	0.53	1,373	31.72
LO	12	6	P	58	11/14/2006	1.14	0.78	1,342	32.73
LO	11	6	P	61	10/17/2006	1.67	0.95	1,317	32.58
LO	11	6	C	71	10/17/2006	0.3	0.49	1,233	36.66
LO	3	7	C	63.5	02/14/2007	5.58		1,200	28.21
LO	12	6	P	65	11/14/2006	3.96	2.8	1,188	30.50
LO	11	6	C	64	10/17/2006	1.47	2.44	1,028	32.69
LO	1	7	C	74	12/14/2006	0.88	1.24	1,000	30.31
OB	4	7	C	2	03/27/2007	0.1083	0.1319	140	31.42
OB	4	7	P	1.84	03/27/2007	0.1441		140	30.26
OB	10	6	P	1.6	09/26/2006	0.0705	0.0296	10	45.45
OB	12	6	P	1.6	11/27/2006	0.0938	0.0631	10	36.53
OB	11	6	P	1.6	10/26/2006	0.0913	0.0537	10	39.91
OH	10	6	C	1.8	09/26/2006	0.006	0.0097	825	39.38
OH	3	7	P	1.93	02/23/2007	0.1622	0.1493	650	28.01
OH	3	7	P	1.6	02/23/2007	0.0348	0.0333	650	28.70
OH	1	7	C	2.25	12/26/2006	0.0151	0.0238	270	30.03
OH	12	6	C	2	11/27/2006	0.0367	0.046	266	33.22
OH	2	7	C	2	01/26/2007	0.0746	0.0949	220	28.19
OH	1	7	C	2.02	12/26/2006	0.0465	0.0646	207	28.49
OH	11	6	C	1.9	10/26/2006	0.0216	0.0343	200	31.99
OH	11	6	P	1.6	10/26/2006	0.0156	0.0131	200	30.45

reports would show a build in distillate stocks. Volumes in the product markets were lighter today with 23,000 lots booked in the gasoline market and 47,000 lots booked in the heating oil market. The options market remained active today with volume reaching over 100,000 contracts for the ninth time out of the last 10 trading sessions. But unlike yesterday when calls had accounted for nearly two-thirds of the day's volume and possibly signaling the market had bottomed out, today's price declines saw traders flocking back to the puts especially those out of the money. Also of note is the seasonal interest returning to the heating oil options today, with over 5,000 lots traded on the day, the highest level since last winter.

The oil market, which failed to sustain its early gains will be mostly driven by the weekly petroleum stock reports. The reports are expected to

show a draw of about 1.5 million barrels in crude stocks, a small build of less than 500,000 barrels in gasoline stocks and a build of 1.5 million barrels in distillate stocks. If the reports continue to show builds in product stocks, the complex will remain pressured even if the markets technically look oversold. The crude market is seen finding some support at its low of 61.60 followed by 61.00 and 59.60. Meanwhile, resistance is seen at 63.05 followed by 64.45, 64.75 and 65.75.