



## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR SEPTEMBER 20, 2006**

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The EIA said gasoline wholesale and futures prices suggests retail prices would continue to fall to \$2.25/gallon. However a decline to below \$2/gallon would require a further drop in crude prices.

The DOE reported that the US inventories of propane built by 1.626 million barrels to 67.31 million barrels in the week ending September 15. It reported that inventories in the East Coast fell by 425,000 barrels to 4.937 million barrels while inventories in the Midwest built by 457,000 barrels to 26.489 million barrels and inventories in the Gulf Coast built by 1.449 million barrels to 32.839 million barrels on the week.

#### Market Watch

JPMorgan Chase & Co and Citadel Investment Group have taken over Amaranth Advisors LLC's energy position, including what is left from their position in natural gas. The exposure is estimated at \$2 billion. The sale comes two days after Amaranth told its investors that it had lost billions of dollars in the natural gas market.

Venezuela's President Hugo Chavez took his verbal battle with the US to the floor of the UN General Assembly on Wednesday calling US President George W. Bush "the devil." He accused the US of "domination, exploitation and pillage of peoples of the world." Separately, Venezuela's President Hugo Chavez said that the government was ready this winter to double the amount of heating oil it donates to several US cities. Last winter, Citgo delivered free and heavily discounted heating oil to low income communities and Indian tribal reservations in several cities in the Northeast. He also stated that the price of oil could easily increase to \$200/barrel in the event of a US attack on his country.

Venezuela's tax agency Seniat billed the local subsidiaries of Chevron Corp and BP Plc a combined \$56.6 million for unpaid tax for the fiscal year 2005.

NYMEX confirmed today they are preparing yet another attempt to launch a Gulf Coast conventional gasoline contract before the end of the year. A NYMEX official reported that the exchange is looking at launching the contract for trading on its GLOBEX platform first, with trading in open outcry starting only after the unleaded contract finishes trading on December 29<sup>th</sup>.

#### DOE Stocks

**Crude** – down 2.8 million barrels  
**Distillate** – up 4.1 million barrels  
**Gasoline** – up 600,000 barrels  
**Refinery runs** – up 0.43%, at 93.4%

#### Refinery News

A hydrodesulfurization unit at Alon USA's Big Spring, Texas refinery was shut on Wednesday for repairs.

Citgo Petroleum said a small fire started at its 165,000 bpd refinery in Corpus Christi, Texas early Tuesday. The fire was quickly extinguished. The 30,000 bpd reformer unit

was shut and was expected to restart on Wednesday.

BP Plc has decided to upgrade its 410,000 bpd Whiting, Indiana refinery to process heavy Canadian crude.

Valero signed a definitive agreement to purchase Koch's St. James crude oil facility in Louisiana for \$140 million. The acquisition includes 17 crude oil tanks and three heated product tanks with a total capacity of about 3.3 million barrels. It said it expected the acquisition to close in the next 90 days.

Hellenic Petroleum is scheduled to shutdown its 67,000 bpd Thessaloniki refinery for two or three weeks of maintenance in November.

Nippon Oil Corp said it planned to process 18% less crude in October. The cut is mainly due to regular maintenance at two of its refineries. It shut a 150,000 bpd crude distillation unit at its Negishi refinery and a 140,000 bpd crude distillation unit at its Mizushima refinery for maintenance.

Cosmo Oil co said there was an explosion at its oil refinery in Osaka on Wednesday. It was currently in the process of suspending operations at the refinery for maintenance. The explosion came from a heating device.

Exxon Mobil Corp has stopped filling an oil pipeline at its Sakhalin-1 project. It is scheduled to undergo technical checks. The stoppage followed the revocation of environmental approvals for Royal Dutch Shell's Sakhalin-2 project. Separately, Russia's ambassador to Japan said that Sakhalin-2 project would be completed. He said talks between Russia's Gazprom and Royal Dutch Shell would be concluded by the end of the year and that Gazprom would take a 20% stake in the project.

The Petroleum Association of Japan reported that Japan's inventories of kerosene are expected to exceed 5 million kiloliters by the end of the month due to lower demand.

Indonesia's Pertamina has allocated 1.85 million barrels of low sulfur residue for October exports, unchanged on the month.

China's Energy Research Institute of the National Development and Reform Commission said China is unlikely to manage its strategic oil reserves together with the IEA. It said China would share information on its strategic oil reserves with the IEA but would decide how to release the reserves according to the country's actual situation. China is expected to declare the first strategic reserve ready for use next month.

### **Production News**

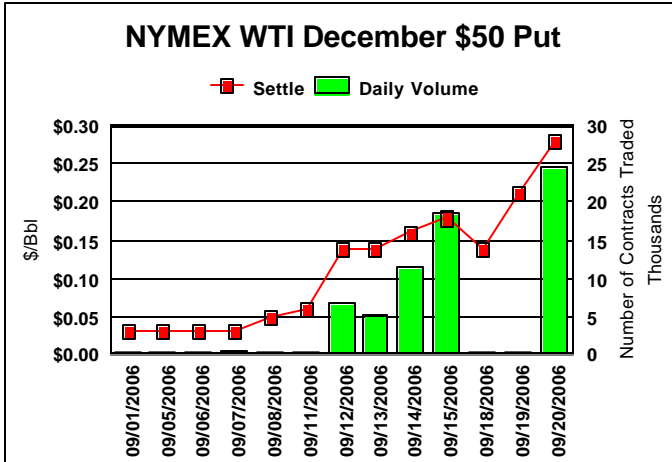
Saudi Aramco said that operations at its main oil export terminal at Ras Tanura were operating normally following a fire early Wednesday. It said there was no interruption to its operations. The company said it was investigating the cause of an accidental hydrocarbon leak.

The UAE's Energy Minister Mohammed bin Dhaen al-Hamli said the country was producing more than 2.7 million bpd of crude oil. He said the UAE planned to increase its refining capacity to 1.1 million bpd in the near future from 600,000 bpd.

Iraq's Oil Minister Hussein al-Shahristani said several major oil companies have informed him that they were ready to start negotiations with Iraq to develop its oil fields before enacting a new hydrocarbon law that is expected to be ready by the end of this year. Iraq's Oil Minister stated last week that Iraq's oil sector would need \$20 billion in investment to double its oil production to about 4-4.5 million bpd in

five years. He said the new law would set up a new Iraqi National Oil co that would supervise upstream and downstream operations.

Mexico's Pemex said it produced 3.25 million bpd of crude oil in August, up from 3.23 million bpd in July. Its crude exports increased to 1.78 million bpd in August from 1.64 million bpd in July.



Brazil's Petrobras said that through 2011, it planned to invest more than \$1.7 billion in exploration and production in the deepwater Gulf of Mexico and more than \$1 billion in revamping its acquired Pasadena, Texas refinery.

OPEC's news agency reported that OPEC's basket of crudes increased by 18 cents/barrel to \$58.85/barrel on Tuesday.

**Market Commentary**

The oil market gapped lower from 61.60 to 60.90 in follow through selling seen on Tuesday. The market partially backfilled its gap as it traded to 61.35 early in the session. However the market erased its gains following the release of the weekly petroleum stock reports, which pushed the product markets lower in light of the larger than expected builds reported in distillate stocks and gasoline stocks. The crude market traded to 60.60 and settled in a sideways trading range before it posted a high of 61.55 as the larger than expected draw reported in crude stocks helped limit its losses. The market, which failed to completely backfill its gap, erased its gains and sold off to a low of 59.80 as traders liquidated their positions ahead of the October contract's expiration at the close. The October crude contract settled down \$1.20 at 60.46. The November crude contract settled down \$1.43 at 60.74 after it sold off to a low of 60.65 late in the session. Volume in the crude market was good with 213,000 lots booked on the day. Meanwhile, the gasoline market posted a high of 151.00 on the opening and quickly retraced its gains following the release of the DOE and API reports, which showed larger than expected builds of 600,000 barrels and 449,000 barrels, respectively. The market traded to 147.00 before it erased some of its losses and traded back towards its high. However a late bout of selling once again pushed the market to a low of 146.10 on the close. It settled down 3.67 cents at 146.71. The heating oil market also posted a high of 169.30 early in the session. However the market sold off to 165.75 following the release of the DOE and API reports, which showed builds of 4.1 million barrels and 3.906 million barrels, respectively. It later

extended its losses ahead of the close and posted a low of 164.60. It settled down 4.38 cents at 164.78. Volumes in the

Technical Analysis		
	Levels	Explanation
CL 60.74, down \$1.43	Resistance	65.15, 65.20 Previous highs
		61.00, 62.20 Wednesday's high
	Support	60.65 Wednesday's low
		59.80, 59.60, 59.55, 59.25 Previous lows
HO 164.78, down 4.38 cents	Resistance	176.20, 177.50 Previous highs
		168.50, 169.30 Wednesday's high
	Support	164.60 Wednesday's low
		164.00, 159.70 Previous lows
HU 146.71, down 3.67 cents	Resistance	159.00, 162.00, 162.25, 166.70 Previous highs
		151.00 Wednesday's high
	Support	146.10 Wednesday's low
		143.40, 138.50 Previous lows

**NYMEX Petroleum Options Most Active Strikes for September 20, 2006**

Symbol	Month	Year	Call/Put	Strike	Exp Date	Settle	Prev Settle	Volume	IV
GO	11	6	C	1.65	10/26/2006	0.0322	0.0408	200	42.45
GO	10	6	C	1.56	09/26/2006	0.0074	0.0169	100	47.22
GO	10	6	P	2	09/26/2006	0.5331	0.4962	100	105.82
GO	10	6	P	1.95	09/26/2006	0.4833	0.4462	100	99.67
LO	12	6	P	50	11/14/2006	0.28	0.21	24,665	38.04
LO	6	7	P	60	05/17/2007	3.28	2.91	8,735	28.79
LO	1	7	P	50	12/14/2006	0.42	0.32	8,104	35.61
LO	12	6	P	60	11/14/2006	2.15	1.64	7,210	31.39
LO	12	6	P	55	11/14/2006	0.83	0.63	5,798	34.49
LO	11	6	C	65	10/17/2006	0.81	1.16	4,125	34.58
LO	4	7	P	60	03/15/2007	2.83	2.44	4,000	28.62
LO	4	7	P	65	03/15/2007	4.96	4.3	4,000	27.84
LO	11	6	P	60	10/17/2006	1.88	1.31	3,641	34.24
LO	12	6	C	78	11/14/2006	0.17	0.21	3,502	35.38
LO	12	6	C	80	11/14/2006	0.12	0.15	3,426	36.01
LO	1	7	C	80	12/14/2006	0.29	0.37	3,307	32.84
LO	1	7	P	80	12/14/2006	17.55	16.08	3,250	37.16
LO	12	6	C	65	11/14/2006	1.69	2.22	3,124	31.38
LO	2	7	C	90	01/17/2007	0.19	0.23	3,100	33.64
LO	2	7	P	45	01/17/2007	0.13	0.1	3,000	32.90
LO	11	6	C	78	10/17/2006	0.04	0.08	2,970	42.11
LO	11	6	P	56	10/17/2006	0.66	0.45	2,936	36.30
LO	6	7	P	72	05/17/2007	9.44	8.49	2,350	28.02
LO	12	6	P	62.5	11/14/2006	3.39	2.59	2,226	31.47
LO	12	6	C	62.5	11/14/2006	2.62	3.34	2,203	31.48
LO	3	7	C	80	02/14/2007	0.7	0.85	2,200	28.90
LO	12	6	P	58	11/14/2006	1.48	1.14	2,155	32.37
LO	11	6	P	49	10/17/2006	0.07	0.05	2,085	41.80
LO	4	7	C	66	03/15/2007	4.21		2,020	27.71
LO	12	6	C	70	11/14/2006	0.65	0.87	2,016	31.93
LO	2	7	C	75	01/17/2007	0.9	1.15	2,007	28.97
LO	3	7	C	75	02/14/2007	1.22	1.52	2,005	27.90
OB	6	7	C	2.1	05/25/2007	0.0999		400	30.86
OB	5	7	C	2.06	04/25/2007	0.0919	0.1055	150	30.61
OB	5	7	P	1.8	04/25/2007	0.1326		150	28.90
OH	11	6	C	1.85	10/26/2006	0.024	0.0317	700	34.53
OH	12	6	C	2.15	11/27/2006	0.0146	0.019	591	37.14
OH	12	6	C	2.1	11/27/2006	0.0181	0.0235	396	36.30
OH	12	6	P	1.75	11/27/2006	0.0893	0.0687	328	30.45
OH	3	7	C	2.06	02/23/2007	0.0577		255	28.94
OH	12	6	P	1.65	11/27/2006	0.0475	0.0347	250	30.84
OH	12	6	C	1.91	11/27/2006	0.043	0.0555	245	33.07
OH	11	6	P	1.7	10/26/2006	0.0661	0.0436	215	31.53
OH	11	6	P	1.62	10/26/2006	0.0332		210	31.92
OH	11	6	P	1.65	10/26/2006	0.0438	0.027	208	31.76
OH	11	6	C	2	10/26/2006	0.0071	0.0098	203	35.99
OH	11	6	C	1.9	10/26/2006	0.0155	0.0216	200	34.53

product markets were light with 19,000 lots booked in the gasoline market and 48,000 lots booked in the heating oil market.

The option market today in crude oil booked its highest volume for the year, as nearly 190,000 contracts changed hands with puts accounting for nearly 62% of the volume. By far the most active strike today was the December \$50 put which traded over 24,000 times. This has remained a focus for traders over the past week.

Even though the market remains oversold, it will likely remain under pressure following the weekly petroleum stocks reports, which continues to push the product markets lower. The market may retrace some of its sharp losses early in the session but is seen testing its support levels amid the lack of any bullish news. The market is seen testing its support at 60.65 followed by the 60.00 level. More distant support is seen at 59.80, 59.60, 59.55 and 59.25.

Meanwhile resistance is seen at 61.00 followed by its high of 62.20. More distant resistance is seen at 65.15 and 65.20.