



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR SEPTEMBER 25, 2006

In an interview published in Sunday's edition of the Washington Post, Iran's President Mahmoud Ahmadinejad said Iran was open to discuss everything if the US stopped its threats of imposing sanctions against his country. He said Iran believed that talks were better than threats and confrontation. Iran's Foreign Minister, Manouchehr Mottaki said nuclear talks between Iranian and European negotiators were on track. He said he believed a negotiated solution to Iran's standoff with the West over its nuclear program is possible. He said European Union foreign policy chief Javier Solana and Iran's top nuclear negotiator Ali Larijani are expected to hold a third meeting very soon. Meanwhile, French Foreign Minister Philippe Douste-Blazy said Iran still had weeks to suspend its uranium

enrichment and avoid sanctions. Separately, Iran's Vice President Gholamreza Aghazadeh, head of Iran's Atomic Energy Organization, held talks with Russia's Federal Nuclear Agency chief Sergei

Market Watch

Analysts stated that oil prices could fall to the mid-\$50s before cold weather or OPEC action limit the decline in prices. Easing supply concerns and increasing inventories have cut US oil prices from a record high of \$78.40/barrel to about \$60/barrel and fundamentals and technical indicate further losses.

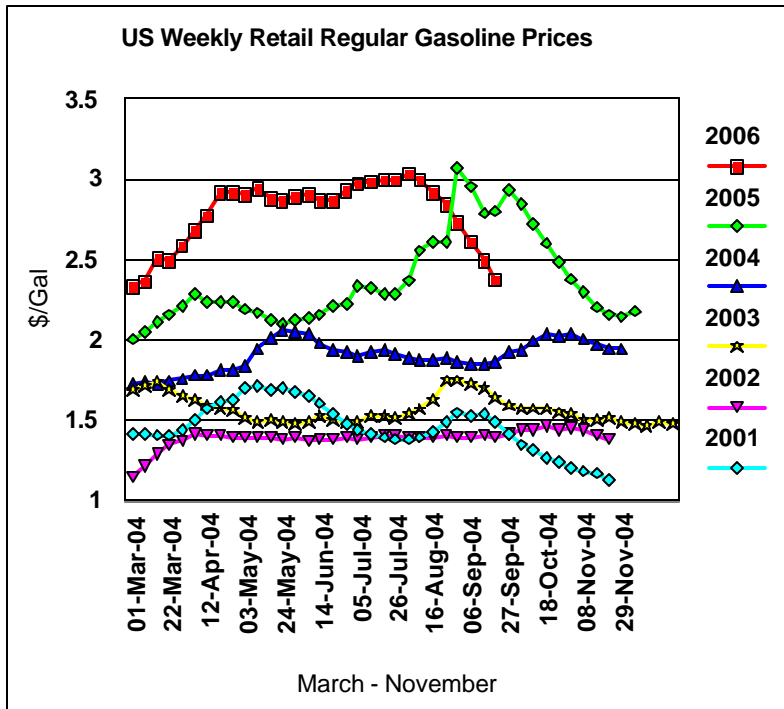
In a Washington Post interview, Iraqi President Jalal Talabani said Iraq was not in chaos. He believes that within two years, Iran would be able to train the army and have the capacity to face terrorism. He stated that he did not believe Iraq should split into three parts. He said Iraq would remain united.

The IntercontinentalExchange said it has not been materially affected by Amaranth's losses and its decision to halt energy trading. It said the markets had weathered Amaranth's energy trading collapse.

Venezuela's President Hugo Chavez said his socialist projects could withstand oil prices falling to \$50/barrel.

Alberta's Energy Minister said Alberta was ending a three decade old tax credit for the oil industry in an effort to increase government revenue by \$99 million. It is eliminating the Alberta Royalty Tax Credit in 2007.

According to DEBKAfile's military sources, Turkish and Iranian air units, armored, paratroop, special operations and artillery forces are poised for an imminent coordinated invasion of the northern Iraqi autonomous province of Kurdistan. It stated that the target is the Quandil Mountains, where some 5,000 Kurdish rebels from Turkey and Iran are. Turkish and Iranian assault troops were deployed 7-8 km inside Iraqi territory. Washington believes a Kurdish-Iranian military thrust quickly flaring into a comprehensive conflict that would envelop the whole of Iraqi Kurdistan as well as southern Turkey and Armenia. Iran for its part is waiting for Turkey to make the first move in Iraqi Kurdistan.



Kiriyenko and complained that Russia was dragging its heels over supplying nuclear fuel for the Russian built nuclear plant.

A senior Iranian oil official said that oil prices were likely to fall unless demand increased more than expected or if forecasts on non-OPEC supply fell short.

OPEC's President Edmund Daukoru said he was holding talks with OPEC ministers over the fall in oil prices but said there were no plans yet for an emergency meeting. He said OPEC was monitoring the news that BP would increase its production at Prudhoe Bay by about 150,000 bpd to 400,000 bpd by the end of the week.

According to an AAA survey, the retail

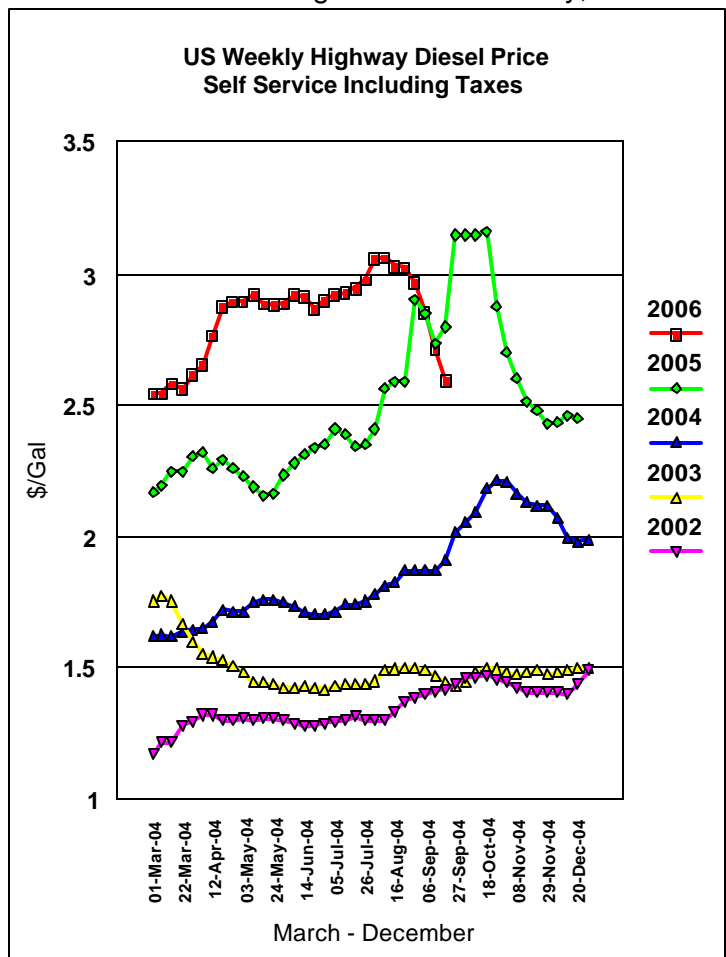
price of gasoline in the US continued to fall. It reported that the US average retail price of gasoline stood at \$2.384/gallon on Monday. Separately, the Lundberg Survey reported that the average retail price of gasoline stood at \$2.42/gallon as of Friday.

The EIA reported that the US average retail price of gasoline fell by 11.9 cents to \$2.38/gallon in the week ending September 25. It also reported that the US average retail price of diesel fuel fell by 11.8 cents/gallon to \$2.595/gallon on the week.

Refinery News

Motiva Enterprises LLC cut operations of a catalytic reformer unit at its Port Arthur, Texas refinery on Sunday. Charge to the unit was cut after a hydrogen booster compressor was shut due to excessive high temperature on a cylinder.

Valero Energy Corp reported a problem with the complex one regenerator due to an instrumentation malfunction at its 90,000 bpd Houston, Texas refinery on Saturday. The complex on regenerator resumed operations following the completion of repairs. Traders stated that its catalytic cracking unit was shut



briefly as a result.

Shell Oil Co's 334,000 bpd refinery in Deer Park, Texas slowed decoking operations on Sunday.

NYMEX Petroleum Options Most Active for September 25, 2006									
Symbol	Month	Year	Call/Put	Strike	Exp Date	Settle	Prev Settle	Volume	IV
GO	10	6	P	2.05	09/26/2006	0.5499	0.5788	190	196.88
GO	12	6	C	1.8	11/27/2006	0.0228		110	37.84
GO	12	6	P	1.3	11/27/2006	0.0135		110	36.53
GO	10	6	P	1.83	09/26/2006	0.3299	0.3588	100	137.81
GO	11	6	P	1.75	10/26/2006	0.2411	0.2475	100	42.76
LO	12	6	C	70	11/14/2006	0.6	0.53	9,568	30.82
LO	12	6	P	60	11/14/2006	1.76	2.07	4,343	30.92
LO	12	6	C	74	11/14/2006	0.27	0.25	3,880	32.25
LO	12	6	P	58	11/14/2006	1.18	1.39	2,974	32.11
LO	11	6	P	59	10/17/2006	0.98	1.32	2,971	33.45
LO	11	6	C	60	10/17/2006	2.76	2.28	2,301	33.03
LO	12	6	C	68	11/14/2006	0.92	0.81	2,263	30.53
LO	11	6	C	68	10/17/2006	0.28	0.23	2,230	33.57
LO	11	6	P	60	10/17/2006	1.32	1.74	1,771	33.08
LO	11	6	C	64	10/17/2006	0.99	0.79	1,605	32.87
LO	12	6	C	62.5	11/14/2006	2.69	2.37	1,590	30.44
LO	12	6	C	65	11/14/2006	1.7	1.48	1,416	30.42
LO	12	6	C	75	11/14/2006	0.22	0.21	1,412	32.56
LO	11	6	C	60.5	10/17/2006	2.46	2.03	1,405	32.84
LO	11	6	P	55	10/17/2006	0.27	0.4	1,374	36.54
LO	3	7	C	80	02/14/2007	0.63	0.59	1,301	28.14
LO	3	7	C	65	02/14/2007	3.96	3.7	1,300	27.36
LO	6	7	C	80	05/17/2007	1.36	1.29	1,257	26.37
LO	6	7	P	65	05/17/2007	5.02	5.26	1,175	26.90
LO	1	7	P	56	12/14/2006	1.05	1.22	1,100	31.92
LO	12	6	P	62.5	11/14/2006	2.86	3.33	1,090	30.46
LO	12	7	C	90	11/13/2007	1.22	1.17	1,050	25.03
OB	6	7	C	2.1	05/25/2007	0.094	0.0959	250	31.03
OB	4	7	C	1.96	03/27/2007	0.0993	0.1022	180	31.99
OB	5	7	C	1.8	04/25/2007	0.1687		120	28.95
OH	11	6	P	1.9	10/26/2006	0.2071	0.2195	250	35.91
OH	11	6	C	1.72	10/26/2006	0.0582	0.0534	225	32.72
OH	11	6	P	1.55	10/26/2006	0.0134	0.0159	200	33.38
OH	12	6	C	1.8	11/27/2006	0.0677	0.0681	175	30.07
OH	12	6	C	1.86	11/27/2006	0.0497	0.051	160	31.07
OH	11	6	C	1.68	10/26/2006	0.078	0.071	158	32.76
OH	11	6	P	1.68	10/26/2006	0.0517	0.0582	157	32.72
OH	12	6	C	1.73	11/27/2006	0.0982	0.0958	150	29.61
OH	11	6	P	1.86	10/26/2006	0.1728	0.1847	150	35.15
OH	10	6	P	1.92	09/26/2006	0.2636	0.2728	150	98.44
OH	10	6	P	1.94	09/26/2006	0.2836	0.2928	150	108.28
OH	11	6	P	1.88	10/26/2006	0.1898	0.2019	150	35.61

According to Reuters, refinery margins in Europe fell last week as gas oil and gasoline prices remained under pressure. Complex Rotterdam refineries saw profit margins fall \$2.21 from the previous week to \$3.22/barrel. In the Mediterranean, profit margins at complex refiners running Urals crude fell \$1.67 from the previous week to \$3.80/barrel as gas oil and gasoline prices relative to crude prices fell. US Gulf refineries running US light crude saw margins increase by 35 cents from the previous week to \$1.26/barrel. In Singapore, refinery margins at complex plants running Dubai crude increased by 55 cents to \$3.84/barrel.

China's implied oil demand increased by 9.2% in August, easing off four months of double digit growth. Its demand growth was led by increases in gasoline and fuel oil

demand, which increased by 14% and 24%, respectively. China's General Administration of Customs reported that its crude oil imports increased by 34.8% to 11.82 million tons or 2.78 million bpd in August while its crude exports totaled 732,111 tons or 173,109 bpd, up 45.2% on the year. China's

imports of fuel oil increased by 55.9% on the year to 3.1 million tons in August while its diesel imports increased by 9.4% on the year to 25,742 tons.

Production News

BP restarted 100,000 bpd of production at the eastern portion of the Prudhoe Bay oilfield over the weekend, increasing its total production to 350,000 bpd. BP said it expected its production to reach 400,000 bpd by Saturday.

The head of Nigeria's Department of Petroleum Resources said Nigeria was preparing to auction 50 oil and gas exploration blocks in October. He said the DPR had not concluded its valuation of the blocks and had yet to finalize dates for the auction. He added that the DPR would impose stringent conditions on bidders to avoid a repeat of an auction last August, after which Nigeria received less than half of the \$2.6 billion originally pledged because many bidders were unable to pay.

The head of Russia's environmental agency RosPrirodNadzor signed an order for a full investigation into the Sakhalin-2 oil and gas project. Meanwhile, Russia's Natural Resources Minister Yuri Trutnev said the environmental investigation at the project would not lead to a withdrawal of the operating consortium's license. He said the investigation should only cover the environmental aspects of the project and not interfere with the economics. Royal Dutch Shell and Exxon Mobil said it was business as usual at their Sakhalin-1 and Sakhalin-2 projects.

OPEC's news agency reported that OPEC's basket of crudes increased to \$56.12/barrel on Friday from a revised \$55.92/barrel on Thursday. It also reported that OPEC's basket of crudes fell by \$2.37/barrel to an average of \$57.16/barrel in the week ending September 22.

Nigeria has cut the October official selling price for Bonny Light and Qua Iboe crudes to Dated BFO crude plus 95 cents/barrel. It is down from September's price of Dated BFO plus \$2.10/barrel. Its Escravos crude was cut to Dated BFO plus 25 cents, down from September's price of Dated BFO plus \$1.40 and its Forcados crude price was also cut to Dated BFO plus \$90 cents, down from Dated BFO plus \$2.00 in September.

Market Commentary

The oil market gapped lower from 60.20 to 60.05 in light of the comments made by Iran's President over the weekend. He stated that Iran was open to discuss everything if the US halted its threats to impose sanctions against Iran. The market quickly sold off to a low of 59.65. However the market erased its losses and backfilled its gap as it rallied to a high of 62.15 in afternoon trading. The market rallied amid rumors that OPEC would cut its production. OPEC's President Edmund Daukoru said he and other OPEC ministers were talking about the recent fall in oil prices. However he stated that there was no plan for an emergency meeting yet. The market later retraced some of its gains and settled up 90 cents at 61.45. Volume in the crude market remained light with only 118,000 lots booked on the day. The gasoline market also gapped lower from 146.50 to 145.25 and quickly posted a low of 144.75. However the market erased its losses and extended its gains to over 3.3 cents as it traded to a high of 153.25 amid the strength in the crude market. The market later retraced some of its late gains and settled up 2.89 cents at 150.01. The heating oil market opened 1 cent lower at 163.70 and posted a low of 163.20. The market erased some of its losses and settled in a sideways trading range before it rallied to a high of 168.30 amid the rally in the crude market. It too retraced some of its gains and settled up 92 points at 165.64. Volumes in the product markets were light with 27,000 lots booked in the gasoline market and 40,000 lots booked in the heating oil market.

The oil market will likely remain range bound following today's short covering rally. The market is seen awaiting further developments on OPEC and Iran's talks with the EU as well as the release of the weekly petroleum stock reports. The market is seen finding support at 61.30, 60.00 and its low of 59.65. Further support is seen at 59.60, 59.55 and 59.25. Meanwhile resistance is seen at its highs of 62.15 and 62.20. More distant resistance is seen at 65.15 and 65.20.

Technical Analysis		
	Levels	Explanation
CL 61.45, up 90 cents	Resistance 62.20, 65.15, 65.20 62.15	Previous highs Monday's high
	Support 61.30, 60.00, 59.65 59.60, 59.55, 59.25	Monday's low Previous lows
HO 165.64, up 92 points	Resistance 169.30, 176.20 168.30	Previous highs Monday's high
	Support 165.00, 163.20 159.70	Monday's low Previous low
HU 150.01, up 2.89 cents	Resistance 159.00, 162.00, 162.25 153.25	Previous highs Monday's high
	Support 149.00, 146.00, 144.75 143.40, 138.50	Monday's low Previous lows