



ENERGY RISK MANAGEMENT

Howard Rennell, Pat Shigueta &
Zachariah Yurch

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

www.e-windham.com

ENERGY MARKET REPORT FOR SEPTEMBER 26, 2006

The Washington Times reported that Iran was close to an agreement that would include a temporary suspension of uranium enrichment for 90 days and clear the way for nuclear talks. However Iran wants

to keep the agreement secret. It stated that the deal could be completed either Tuesday or Wednesday when EU foreign policy chief Javier Solana and Iranian negotiator Ali Larijani are scheduled to meet. The Washington Times reported that several US officials were opposing the agreement as a further concession to Iran.

Market Watch

Russia has agreed to ship nuclear fuel for a controversial nuclear power plant it is building in Iran by March 2007. The head of state company Atomstroexport building the plant said all the plans connected with the Bushehr plant have been finalized. The plant is expected to be launched in September 2007 and begin producing electricity in November 2007.

US Secretary of State Condoleezza Rice said she did not support a gasoline embargo on Iran as a way of punishing the country for refusing to give up its uranium enrichment program. She said there were limitations on the oil card against Iran. In an interview with The New York Times, US Secretary of State said the US was willing to give the EU more time to see if it could find a formula by which Iran would agree to suspend its uranium enrichment. She however stated that if the talks failed, she was optimistic that China and Russia would support punitive measures against Iran.

Refinery News

ExxonMobil Corp said it was still investigating the cause and impact of a brief fire on Monday in a fluid catalytic cracking unit at its 183,000 bpd Chalmette, Louisiana refinery.

PDVSA said most units of its 130,000 bpd El Palito refinery have resumed operations following a power outage on Monday. However its fluid catalytic cracking unit is not expected to resume operations until Thursday. The units were shut as a safety measure following a power failure.

Valero Energy Corp said operations at its Houston, Texas refinery were not affected by unanticipated work on equipment related to a gasoline producing unit. Maintenance on the fourth stage separator in Complex 1, which contains a fluid catalytic cracking unit, started mid-day Tuesday.

ConocoPhillips is scheduled to perform maintenance on a reformer unit at its 239,000 bpd refinery in Lake Charles, Louisiana in October.

In a report filed with the Texas Commission on Environmental Quality, Delek US Holdings said a brief power outage at its Tyler, Texas refinery caused equipment in a gasoline producing unit to shut briefly. The refinery also lost power to equipment in two sulfur recovery units.

South Korea's SK Corp plans to maintain its October crude processing rate at 750,000 bpd. It has been keeping its crude runs steady since August even though other refiners have cut their runs.

Indian Oil Corp is expected to continue importing over 100,000 tons of kerosene a month this fiscal year to make up for its lower production and a lack of supplies from private refiner Reliance. It has purchased 150,000 tons of kerosene for its September commitments and 80,000 tons for next month so far. IOC's refineries have cut production of kerosene to maximize the output of products such as diesel and jet fuel.

Production News

BP Plc said it was increasing its production from its Prudhoe Bay oilfield and was on schedule to restart 150,000 bpd by the weekend. On Monday, BP said it restarted 100,000 bpd of production from the eastern portion of Prudhoe Bay field, increasing its production to 350,000 bpd. By the weekend, the field is expected to reach 400,000 bpd, just 50,000 bpd below full capacity. There is no timeline for the restart of the last 50,000 bpd from the field.

Iran's OPEC governor Hussein Kazempour Ardebili said Iran can sustain its production above its official OPEC quota of 4.1 million bpd and dismissed reports to the contrary by secondary sources. He said the secondary sources' refusal to take Iran's word on output is sometimes politically motivated. He also stated that Iran's slow pace in increasing its production capacity is due to the old age of the reservoirs, Iran's lack of access to modern technology due to US sanctions and the increase in oil services from about \$1-\$2/barrel, up to \$7-\$8/barrel.

Saudi Arabian Monetary Agency's Vice Governor Muhammad al-Jasser said oil prices at \$60/barrel were still very healthy. He also stated that Saudi Arabia is set to invest \$100 billion in its energy sector over the next five years.

Iran's Deputy Oil Minister Mohammad Hadi Nejad Hosseinian said talks between Iran and China's Sinopec on developing Iran's Yadavaran oilfield would be completed within two months. Sinopec Group agreed in October 2004 to develop the field and purchase 10 million tons of liquefied natural gas a year for 25 years. However the completion of the deal has been subject to protracted negotiations and several delays. The Yadavaran oilfield has estimated reserves of about 3 billion barrels and is expected to produce 300,000 bpd.

China Petrochemical News reported that China has completed the construction of strategic petroleum reserve tanks in Zhenhai two months ahead of schedule. Previously, the National Development and Reform Commission said the 5.2 million cubic meters of storage space would be available for use in October. China is also building another three tank farms as part of the first phase of a reserve plan, due for completion in 2007-2008. China aims to build up reserves that could meet 90 day domestic demand.

Nigeria's Department of Petroleum Resources said eight revoked oil blocks would be included in a licensing round of 50 blocks in October. The eight blocks were left dormant for up to ten years.

Russia's Natural Resources Minister Yuri Trutnev said Russia would not stop the Sakhalin-2 oil and gas project until a full environmental investigation has been completed, a process that could take up to one month.

Algeria's Sonatrach cut the official selling price for its Saharan Blend crude in October to Dated BFO plus 75 cents, down from Dated BFO plus \$1.15 for September.

OPEC's news agency reported that OPEC's basket of crudes fell to \$54.92/barrel on Monday, down from \$56.15/barrel on Friday.

Market Commentary

The oil market opened 45 cents lower at 61.00 in follow through selling seen overnight in light of the reports regarding talks between Iran and the EU. The Washington Times reported that Iran was close to an agreement with the EU that would include a temporary suspension of its uranium enrichment, clearing the way for talks. The market traded to 60.80 before it bounced off that level and rallied to a high of 62.00. The market, which failed to test its previous high, erased its gains and sold off to a low of 60.60 late in the session. The crude market posted a mostly neutral trading session as it settled down 44 cents at 61.01. Volume in the crude remained light. The product markets also posted inside trading days. The gasoline market sold off to a low of 149.00 early in the session amid the weakness in the crude market. It however bounced off that level and rallied to a high of 152.50 amid the reports that PDVSA's El Palito refinery was shut following a power outage. The market however erased its gains and sold off to a low of 148.75 ahead of the close amid the expectations that the weekly petroleum stock reports would show small builds in gasoline stocks. It settled down 83 points at 149.18. The heating oil market, which opened at its low of 164.20, bounced off its low and posted a double top at 168.30. The market failed to breach its resistance and erased its gains ahead of the close. The market sold off in light of the expectations that distillate stocks would continue to build. The heating oil market settled 14 points higher at 165.78.

The oil market on Wednesday will seek further direction from the weekly petroleum stock reports. The reports are expected to show draws in crude stocks of close to 2 million barrels, small builds in gasoline stocks of about 500,000 barrels and builds in distillate stocks of about 2 million barrels. The market will also remain concerned over the developments on the talks between Iran and the EU. The market is seen finding support at its low of 60.60 followed by 59.65, 59.60, 59.55 and 59.25.

Meanwhile resistance is seen at 62.00, 62.15, 62.20 followed by more distant resistance at 65.15 and 65.20.

Technical Analysis		
	Levels	Explanation
CL 61.01, down 44 cents	Resistance 62.15, 62.20, 65.15, 65.20	Previous highs
	Support 62.00	Tuesday's high
	Support 60.60	Tuesday's low
HO 165.78, up 14 points	Resistance 169.30, 176.20	Previous highs
	Support 168.30	Double top
	Support 164.20	Tuesday's low
HU 149.18, down 83 points	Resistance 153.25, 159.00, 162.00, 162.25	Previous highs
	Support 152.50	Tuesday's high
	Support 148.75	Tuesday's low
	144.75, 143.40, 138.50	Previous lows