



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR SEPTEMBER 27, 2006

Iran's chief nuclear negotiator Ali Larijani met with European Union foreign policy chief Javier Solana in Berlin on Wednesday. A spokeswoman for EU foreign policy chief Javier Solana said Iran and the EU negotiators paused following five hours of intense talks and added that talks would resume on Thursday. Separately, according to The Washington Times Iran dismissed reports that it was close to a deal that would include a temporary suspension of its uranium enrichment. The deputy head of Iran's Atomic Energy Organization, Mohammed Saedi said it was not negotiating a secret temporary halt of its uranium enrichment program. The Washington Times reported that the Bush administration hoped Iran would agree to suspend its uranium enrichment

Market Watch

Russia's Foreign Minister Sergei Lavrov said Russia was not aiming to scrap the contract for a \$20 billion Royal Dutch Shell venture and was not seeking to push foreign companies out of its energy sector. Shell angered Russia's government by doubling the estimated costs of its Sakhalin-2 oil and gas project. The cost increase has also angered Gazprom, which was seeking to swap one of its fields for a quarter of Sakhalin-2 and prompted threats of investigations and the withdrawal of an ecological permit.

Neste Oil said it planned to become the largest biodiesel producer over the next decade using its biomass to liquids technology to make clean, renewable diesel. Its new biodiesel projects would total at least 2 million metric tons per year in installed capacity over 10 years.

Turkey's Prime Minister Tayyip Erdogan rejected suggestions by Iraq's President Jalal Talabani that Turkey was meddling in his country's affairs. Iraq's President said Iraq was losing patience with what he called interference from Turkey, Iran and Syria. He said Iraq was asking the countries to stop interfering in Iraq's internal affairs and respect the sovereignty and independence of Iraq.

Iraq's Kurdish regional government raised the threat of secession on Wednesday if the Iraqi government did not withdraw claims to a say in the development of oil resources in their northern districts.

Mutual fund tracker Morningstar Inc said that despite a 10% fall this year in mutual funds with heavy exposure in energy and commodities was unlikely to drive them from the sector. It said the fall in 10 large commodity funds it monitors has coincided with a fall in oil and metals prices this year. It said returns from the funds were off by an average of 9.5% for 2006 through September 22.

during the meeting between Iran and the EU. US Secretary of State Condoleezza Rice telephoned the EU's foreign policy chief Javier Solana and renewed US support for his talks with Iran. She said if Iran's nuclear negotiator Ali Larijani agreed to a suspension of its nuclear program "we would be on a

course for negotiations.” Meanwhile, a European diplomat confirmed a report in a German magazine, which said that Britain, France, and Germany would be willing to start preliminary talks with Iran even if it has not suspended its nuclear program first.

OPEC President Edmund Daukoru said there was a view within OPEC that action needed to be taken to curb the fall in oil prices. He said he started consultations with member countries. However he ruled out the likelihood of an emergency meeting before OPEC’s next scheduled meeting in December. Meanwhile, Kuwait’s Oil Minister Sheikh Ali al-Jarrah al-Sabah said OPEC was not inclined to cut its production as most members believed prices were still good despite the recent decline in prices. He said OPEC would discuss the market situation at its next ministerial meeting in December. A Gulf source stated that an emergency OPEC meeting to discuss falling oil prices was unlikely before the month of Ramadan ends in late October. An annual meeting of Gulf Arab oil ministers has been postponed to November from October.

The DOE reported that US inventories of propane increased by 1.64 million barrels to 68.95 million barrels in the week ending September 22. It reported that inventories in the East Coast increased by 10,000 barrels to 4.947 million barrels, while inventories in the Midwest fell by 219,000 barrels to 26.27 million barrels and inventories in the Gulf Coast built by 1.935 million barrels to 34.774 million barrels on the week.

Refinery News

PDVSA said its El Palito refinery is expected to restart its 54,000 bpd fluid catalytic cracking unit on Thursday following a power outage on Monday that temporarily halted operations at the refinery. PDVSA said it has enough inventory to supply its customers as it restarts the rest of its production units. Separately, PDVSA reported that the distillation unit at its 200,000 bpd Puerto La Cruz refinery was shutdown for planned maintenance. The unit is expected to resume operations on September 30.

In a report filed with the Texas Commission on Environmental Quality, Alon USA said planned maintenance on a carbon monoxide boiler associated with a fluid catalytic cracking unit at its Big Spring, Texas refinery is expected to cut the unit’s operations. The work is expected to last about a week from September 27 to October 4.

Total said that France’s main energy union CGT called for a 24 hour strike at the company’s petrochemical refinery in Carling over planned job cuts on September 28. The union is expected to strike at Total’s Gonfreville oil refinery on September 29.

The Shetland Island Council reported that Brent crude liftings from Sullom Voe increased to 242,966 tons in the week ending September 26, up from 237,658 tons the previous week.

Lithuania’s Mazeikiu Nafta is expected to receive 350,000 tons of oil by rail from Kazakhstan’s KazMunaiGas. The agreement would add to the list of new suppliers for Lithuania’s Mazeikiu Nafta refinery. The refinery has suffered supply problems since late July when the pipeline was suddenly cut following reports of a leak.

Russia’s gas oil exports from Russia’s Black Sea port of Novorossiisk are expected to total 330,000 tons in October.

The Petroleum Association of Japan reported that kerosene stocks increased by 4.4% to 5 million kiloliters or 31.45 million barrels in the week ending September 23. Despite a government forecast calling for a normal to mild winter, refiners have built stocks early to ensure they have enough supplies to meet demand, compensate for heavier than usual autumn maintenance and take advantage of the

contango in the market. The PAJ reported that the crude inventories fell by 6.5% on the week to 17.13 million kl or 107.74 million barrels. Japanese refiners ran their facilities at an average 82.2% of capacity, down from 86% the previous week.

NYMEX Petroleum Options Most Active Strikes for September 27, 2006									
Symbol	Month	Year	Call/Put	Strike	Exp Date	Settle	Prev Settle	Volume	IV
GO	11	6	P	1.5	10/26/2006	0.0418	0.0601	702	39.99
GO	11	6	C	1.7	10/26/2006	0.0256	0.0171	50	41.14
GO	11	6	C	1.65	10/26/2006	0.0375	0.0257	50	40.61
GO	11	6	P	1.4	10/26/2006	0.015		38	40.53
LO	12	6	P	50	11/14/2006	0.12	0.18	9,269	38.19
LO	12	6	P	60	11/14/2006	1.26	1.8	6,112	31.15
LO	12	7	C	100	11/13/2007	0.75	0.56	4,727	25.87
LO	12	6	C	100	11/14/2006	0.01	0.01	3,806	44.34
LO	12	6	C	95	11/14/2006	0.01	0.01	3,700	39.84
LO	12	6	P	58	11/14/2006	0.83	1.19	3,455	32.54
LO	12	6	P	55	11/14/2006	0.42	0.61	3,164	34.59
LO	11	6	P	60	10/17/2006	0.76	1.37	2,641	32.85
LO	12	6	C	65	11/14/2006	2.22	1.47	2,500	29.80
LO	2	7	C	75	01/17/2007	1.04	0.71	2,381	27.69
LO	12	6	P	63	11/14/2006	2.3	3.26	2,252	29.80
LO	11	6	C	65	10/17/2006	1.05	0.55	2,181	31.86
LO	12	6	C	80	11/14/2006	0.11	0.07	2,094	33.68
LO	6	7	P	58	05/17/2007	2.17	2.51	2,000	28.76
LO	6	7	C	67	05/17/2007	5.36	4.4	2,000	26.44
LO	6	7	C	70	05/17/2007	4.09	3.29	1,858	26.05
LO	6	7	P	55	05/17/2007	1.54	1.79	1,850	29.73
LO	9	7	C	80	08/16/2007	2.29		1,750	25.14
LO	12	6	P	57	11/14/2006	0.67	0.96	1,506	33.29
LO	11	6	C	63	10/17/2006	1.84	1.05	1,478	31.77
LO	1	7	C	65	12/14/2006	3.23	2.35	1,450	29.03
OB	12	6	P	1.5	11/27/2006	0.0468		200	37.07
OH	1	7	C	2	12/26/2006	0.0486	0.0348	540	28.34
OH	1	7	C	2.01	12/26/2006	0.0463	0.033	530	28.42
OH	1	7	C	2.32	12/26/2006	0.0093	0.0062	50	30.53
OH	7	7	P	1.6	06/26/2007	0.0627		40	27.76
OH	7	7	C	1.9	06/26/2007	0.146		40	27.05
OH	7	7	C	2.15	06/26/2007	0.0791		40	28.53

Japan Energy Corp said it would refine 5.77 million kl or 394,500 bpd of crude oil in the October-December period, up 6% on the year.

Sinopec Corp and PetroChina are not expected to import diesel for October following an unexpected increase in imports and as a new refinery comes begins operations.

Meanwhile, Sinopec Corp is expected to export about 80,000 tons of gasoline for October, up from 70,000 tons exported in September.

Production News

ConocoPhillips said it would lift its force majeure declaration on Alaska North

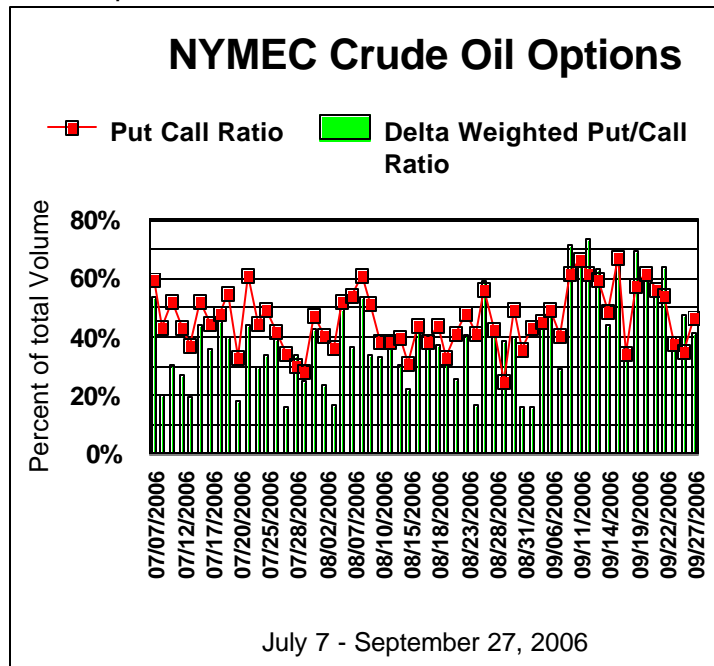
Slope crude shipments at the end of October as BP restores full crude shipments from the Prudhoe Bay oilfield. ConocoPhillips said it would be able to fulfill its crude supply contracts by October 31. Meanwhile, ExxonMobil Corp said it would lift its force majeure on its ANS shipments by mid-October. ConocoPhillips and ExxonMobil declared force majeures on August 10 and August 11, respectively.

Iran's Oil Minister Kazem Vaziri Hamaneh said Iran set a deadline of September 29 for Japan's Inpex Holdings to decide on the development of the Azadegan oil field. He said he hoped Inpex would come forward with a firm and positive answer. However he stated if the response was negative, Iran would begin the development activities. Japan has been under pressure to relinquish the project due to Iran's refusal to stop its uranium enrichment program.

Iraq's Oil Ministry reported that Iraq's oil exports from its southern oilfields averaged 1.65 million bpd so far in September.

Nigeria's Minister of State for Petroleum Resources, Edmund Daukoru said the cost of executing oil and gas projects in the Niger Delta has increased between 50% and 70% as a result of the crisis in the region. He said the crisis has forced many companies to threaten to relocate from Nigeria. It has also cast doubt over Nigeria's ability to meet its target output of 3 million bpd by the end of the year. He said Nigeria's oil production stood at 2.3 million bpd to 2.4 million bpd.

Nigeria's Central Bank stated that the country's oil production in July totaled 2.16 million bpd, down from 2.3 million bpd in June. It said its crude exports in July totaled 1.75 million bpd, down from 1.85 million bpd in June.



Libya's Oil Minister Shokri Ghanem said announcements of new oil discoveries in the country are expected soon as more than 26 oil companies are performing seismic work and exploring for oil. Libya has previously stated that it aimed to double its production to 3 million bpd in the near future. Libya's Oil Minister also stated that the country was not very concerned about the sharp fall in oil prices and added that market volatility was due to the tension in the Middle East.

Oman's energy ministry undersecretary, Nasser bin Khamis al-Jashmi, said it was negotiating production sharing agreements for three oil blocks. Oman has previously stated that it planned to spend \$10 billion in the next five years to increase its oil production to 900,000 bpd and natural gas

production to 7-80 million cubic meters per day.

OPEC's news agency reported that OPEC's basket of crudes was unchanged at \$55.86/barrel on Tuesday from Monday's revised level.

Market Commentary

The oil market opened 39 cents higher at 61.40 and traded to 61.70 ahead of the release of the weekly petroleum stock reports. The market was supported amid comments made by OPEC officials that OPEC ministers were consulting over the sharp decline in oil prices. OPEC's President, Edmund Daukoru said something had to be done to steady the market, however he ruled out the likelihood of an emergency meeting before it scheduled meeting in December. The oil market however sold off to a low of 60.10 following the release of the DOE and API reports, which helped push the complex lower. The DOE reported a smaller than expected draw in crude stocks and a large build in total petroleum stocks of over 9 million barrels on the week. The crude market however held its support at the 60.00 level and erased its losses. The market was supported amid the OPEC comments as well as some talk of an Iranian official stating that Iran would not halt its uranium enrichment while Iran's chief nuclear negotiator and the EU's foreign policy chief were meeting. The crude market extended its gains to over \$2 as it posted a high of 63.05 on the close. It settled up \$1.95 at 62.96. Volume in the crude market remained light with 174,000 lots booked on the day. The gasoline market quickly sold off

to a low of 146.00 in light of the larger than expected builds in gasoline stocks of over 6 million barrels. The market however bounced off its low and erased its losses. It extended its gains to over 5.3 cents as it posted a high of 154.50 ahead of the close amid the strength in the oil market. The heating oil market also bounced off its low of 164.40 in follow through buying seen in the oil market despite the larger than expected build in distillate stocks. The market rallied to a high of 171.80 ahead of the close and settled up 5.63 cents at 171.41. Volume in the gasoline market was light with 13,000 lots booked on the day while volume in the heating oil market was better with 55,000 lots booked on the day.

The option market saw calls account for the majority of interest in the crude oil options market for the third straight day, an occurrence not seen since the end of August and the beginning of September. But is interesting to note that there is a tug of war between the bears and bulls as the December \$50 put and \$100 call were both well traded on the day.

The oil market on Thursday will remain headline driven after the market rallied despite the bearish DOE and API reports. The market will be driven by the developments on the meeting between Iran's chief nuclear negotiator and the EU's foreign policy chief. Their talks are expected to resume on Thursday. If there is no agreement following the meeting and Iran fails to halt its nuclear program, the market is seen retracing its recent losses. However if Iran decides to temporarily halt its nuclear program, the market is seen testing its support at the 60.00 level once again. More distant support is seen at

59.65, 59.60, 59.55 and 59.25. Resistance is however seen at its high of 63.05 followed by more distant resistance at 65.15 and 65.20.

Technical Analysis			
	Levels	Explanation	
CL	Resistance 62.96, up \$1.95	65.15, 65.20 63.05	Previous highs Wednesday's high
	Support	61.85, 61.00, 60.10 59.65, 59.60, 59.55, 59.25	Wednesday's low Previous lows
	HO	Resistance 171.41, up 5.63 cents	176.20 171.80
	Support	168.00, 164.40 164.20, 163.20, 159.70	Wednesday's low Previous lows
HU	Resistance 153.99, up 4.81 cents	159.00, 162.00, 162.25 154.50	Previous highs Wednesday's high
	Support	150.00, 146.00 144.75, 143.40, 138.50	Wednesday's low Previous lows