THE ANGUS ENERGY REPORT

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Post-report Calls:		HEATING OIL (OCT)	GASOLINE (OCT)	NATURAL GAS (OCT)	CRUDE OIL (OCT)
Crude -------	HIGH	1.8370	1.6225	5.860	66.44
.10 higher	LOW	1.7550	1.5350	5.520	63.59
Products ------	**SETTLE**	**1.7597**	**1.5521**	**5.574**	**63.76**
Heat-150 lower	CHANGE	***-.0457***	***-.0425***	***-.096***	***-1.85***
Gasoline 100 higher					
Natural Gas ---	14 DAY RSI	21	19	32	20
.05 lower	5 DAY MA	1.8414	1.6075	5.726	66.09
	9 DAY MA	1.9023	1.6667	5.876	67.61
	14 DAY MA	1.9480	1.7245	6.295	68.96

NYH Barge (est.)		NYMEX #2 Oil		NYMEX #2 Oil	Jan '07 futures
09/06/06	1.8410	09/06/06	1.9110	09/06/06	2.0529
09/07/06	1.8039	09/07/06	1.8876	09/07/06	2.0344
09/08/06	1.7607	09/08/06	1.8432	09/08/06	2.0033
09/11/06	1.7342	09/11/06	1.8054	09/11/06	1.9679
09/12/06	1.6922	09/12/06	1.7597	09/12/06	1.9118

-D.O.E. stats…. **Crude oil stocks** fell 2.90 mmbls. **Distillate stocks** rose 4.64 mmbls. **Gasoline stocks** rose .11 mmbls. **Operating capacity** fell 0.5% to 93.0%. This week's surprise was in distillates. The 4+ mmbls build was about twice what was expected, and heating oil is off by about a penny and a half. The rest of the complex is fairly steady, so it seems the attention will stay on the "other stories" out there. The draw in crude oil MIGHT support prices later in the session.

-Where are the smiles? For the past three years, prices have pretty much done nothing but go up. If it was cold, they went up. If it was warm, they went up. If someone sneezed in Iraq, Iran, Venezuela, Nigeria, etc. – they went up. Customers had taken on the mantra that caps were nothing but fixed prices. For the first time in a long while, prices have actually showed a substantial drop. So, where are the smiles? For cap-offering companies (most of the Angus clientele), you are likely (a) selling oil at well below your stated cap, (b) making full margins on each delivery – if not more, and (c) – my favorite – are probably delivering oil at a cheaper price than the "cheap fixed price" that some of your customers left you for.

-That last one, (c), had been the toughest to deal with this summer. With all the companies out there offering bizarrely low new-customer fixed offers – often 30-, 40-, or 50-cents lower than their posted prices, there have definitely been a good deal of customer losses. It can be quite frustrating to just "lose another one", and no one likes for that to happen. But, there is some sense of satisfaction when some of those lost customers want to come back to the original company for the cap that they thought they didn't need. As with everything else, things need to be put into proper perspective. Firstly, look at how many customers have NOT called, and are happy that prices have actually followed suit (as we mentioned a few weeks ago) from the lead given to us by the precipitous drop in gasoline. It's "noisy" when anyone leaves, and the last few weeks have seen plenty of noise. Secondly, would you or your customers be happier if prices had rallied 50 cents higher, instead of lower, and that you were charging the full cap price level?

-Customers always want the best of all worlds – they don't want prices to go up, and when prices go down, they want to pay even less. The notion of the cap is just that – it's a ceiling to make sure that things don't get "too crazy", with the allowance for prices to drop (and to fatten up margins). It is not easy dealing with customers – especially when some "marketing genius" is out there figuring that if they sell oil for a $.25/gallon margin this year (new customers, only) that the same customer won't realize that margins have been "jacked up" the following year. If you are nodding your head, bear in mind that 500 other dealers are nodding their heads with you at the same time. The mention of your delivery price, today, to any customers who left you "for a better" deal – especially a fixed "better deal" should be quite gratifying. And, while gratification might not bring back those customers, at least you will understand why you spent all that money on those expensive options.

-"Why would I spend 15-18 cents *per gallon on protection?"*. If we had a dollar for every time we heard that question.... From the totally removed, and math-based perspective, that has been an easy question to answer over the past 6 months – volatility, fear, news, supply, value of underlying futures, etc. However, the question still remained. Here is the answer: from the beginning of "the hedging season", through the beginning of August, spot heating oil prices increased by 55 cents per gallon. Since reaching the peak in early August, prices have fallen 40 cents per gallon. If you are making a promise to a customer, and see a market that has had 2 swings of 40 cents per gallon, or more, BEFORE the heating season, is 15-18 cents too much to spent to back up your promise?

-Fixed troubles. For those of you who offered a fixed-price to your customers, the sell-off has been anything but fun. Hopefully, your contract with the customer has some iron-clad provisions for breaking the contract, and hopefully you are prepared to pursue your legal rights. Some of you have taken advantage of our "Fixed-Price Hedge" to deal with the issue of falling prices (as we are seeing), in a warm-weather environment (see the end of this comment), and the issue of needing extra oil, due to cold weather, should prices rally, once again. For the former concern (low prices / warm weather), the latest National Weather Service forecast for the September-November time period is calling for "warmer than normal" conditions, across much of the U.S. There is early talk of an El Nino condition, which could push towards a warmer than normal winter. I'm not the biggest believer in long-term forecasts (although I still do believe that Chad Pennington will make it through the entire season without injury), but if you are a heating oil dealer – you have warm weather exposure. ***If this hasn't been addressed, it is a conversation that you should have***.

-OPEC meeting update. The group met earlier in the week, and as expected left quotas unchanged. There were the usual comments, such as trying to make some moves such that "quotas" and "production" really have something to do with one another, but nothing that we haven't seen a hundred times before. Some in the group also expressed "concern" over falling prices (how can you afford to support terrorism if you are ONLY getting $65/bbl.?!?), with one commentator calling "$60/bbl. the new $20/bbl." – remember when they wanted to "defend $20/bbl." Next meeting is scheduled for December, but left window open for meeting to address any "emergencies" – like a continued drop in prices.

- As far as the numbers go, this drop has really shaken many of those "Wall Street Guys" who were supposedly the evil driving force behind the high prices (see the pandering-to-the-audience complaints by a number of industry spokespeople). Heating oil is off almost 50 cents/gallon, gasoline is off by about 65 cents/gallon, and crude oil is off by $16/bbl. from the highs. From a purely technical perspective, for those who are wondering how low this can go (frankly) without any real bearish news, Relative Strength Indexes (RSI), which range from 0-100, are about 20 for the 3 commodities. Anything under 30 is said to be "oversold". About 20 is "very oversold". It doesn't mean that a rally is imminent, but (purely from a technical perspective) a bounce is due. How the market handles that bounce might lead the market direction into October.

- Let's not forget our friends in Iran. Last we left them, there was strict deadline by which they needed to stop uranium enrichment, or face sanction by the U.N. So, the deadline approached, and..... they didn't stop the enrichment. Bullish? Not this week. In playing the political/diplomatic game, the Iranians have found a way to, once again, bully those without strong backbones. Talks were scheduled, then delayed, then scheduled, and eventually the meetings started. Surprisingly, they played the "suspension card" early, and as a fig leaf, the Iranians have mentioned "possibly" self-imposing a 2 month hiatus of the enrichment, but not yet. So, as each day passes, they just get to rub everyone's noses "in it". This is the one major situation that can really explode out of nowhere, and that we must keep a close eye on. Should Iranian production cease to hit the world markets, even for a short time, we may not have seen the highs – that we all hope are firmly in place.

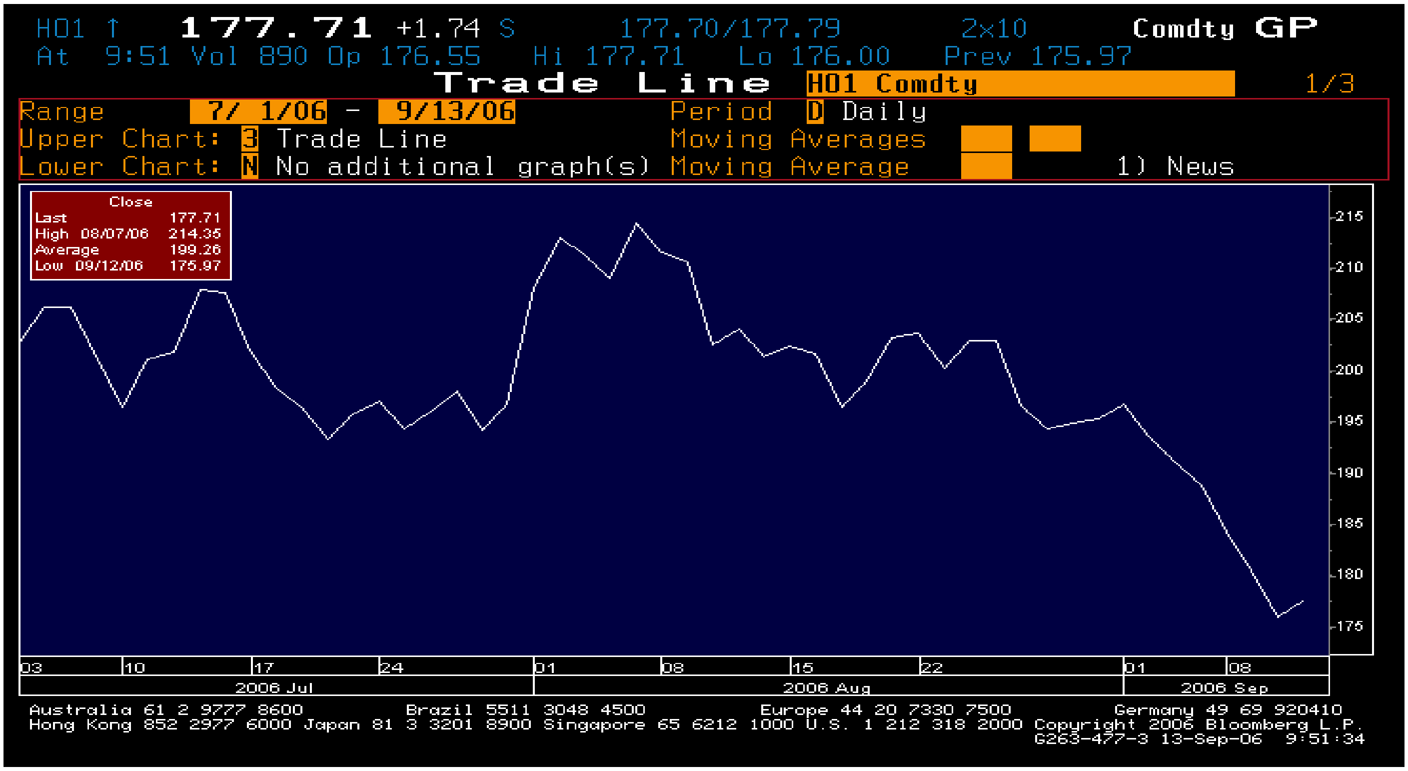
-Nigerian strike. It is amazing that during a bullish run in prices, every bit of news is viewed through "bullish-colored" glasses, and during any sell-off, the "bearish-colored" glasses come out. Oil workers in Nigeria announced the start of a 3-day "Warning Strike" today. In the month of August over 20 oil workers were taken hostage by Niger Delta militants, bringing the 2006 total to over 50. This warning strike will take 20,000 workers off the job. Had this happened in early August, we might have seen a $3/bbl. jump in the price of crude oil. Today, it gets barely a yawn.

- So, what price should I be charging? As a Best Buy customer, you may have started to receive your customized "Today's Cost" calculator. If you don't have September positions (swaps, wetbarrels, futures, options), this daily update might not start until the 1st of October. The information contained within will reflect an "all-in" cost for the gallons that you will be purchasing that day, for delivery to your cap customers. In an "up market" it is easy to just charge the cap price, and to figure that – if hedged properly – additional costs will be offset set option settlements. However, in a weak market, as prices fall, you still need to factor in a number of things – same as above. You can't just say, prices fell by 30 cents, so I'll lower my price by 30 cents." Option premiums must be factored in. Pre-purchased supply must be factored in, etc. The "Today's' Price" will act as a guide to inform you of YOUR cost, so that you can set your sales price (at, or below the cap) accordingly.

-Nat gas bottoming out? While oil dealers have been looking at the falling prices of oil, large (dual-fuel) customers have been looking at the steep discounts that prompt natural gas have to prompt heating oil. Amazingly, October natural gas costs are estimated to be about 50% cheaper than costs for January, just 3 months later. Look for some possible narrowing of the gas to oil and/or the gas to gas spreads.

-9/11. Thankfully, the 5-year anniversary of the day that changed our country has come and gone without incident. Al-Qaeda warnings persist, as does the war on terror. Although all we wish for is a safe world, we do have to be aware of what the impact may be on our business, in the event of future terror strikes. Arguments can be made for strong rallies in prices, as well as for steep declines. The one certainty is that volatility is not going anywhere soon. Have a successful week.

Is oil CHEAP?



Or is it EXPENSIVE?