

**W** The  
Windham Group



## ***ENERGY RISK MANAGEMENT***

Howard Rennell, Pat Shigueta &  
Zachariah Yurch

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

**[www.e-windham.com](http://www.e-windham.com)**

---

### **ENERGY MARKET REPORT FOR APRIL 25, 2006**

---

President George W. Bush has ordered an investigation into possible gasoline price gouging. During the last few days, President Bush asked the Energy and Justice Departments to open inquiries into whether the price of gasoline has been illegally manipulated. He announced that the attorney general and Federal Trade Commission would send a letter to all 50 state attorneys general urging them to enforce any charges of price gouging that may have contributed to rising gasoline prices. He called on energy companies to reinvest their profits into expanding refining capacity, developing technologies and researching alternative energy sources. He also called on Congress to find a way to approve permits to build new refineries a year after they are filed.

#### **Market Watch**

According to the American Public Transportation Association, a higher number of riders on mass transit has persisted since gasoline rallied to \$3/gallon last fall and increased steadily since then. It said people are trying to avoid the high cost of gasoline by using public transportation. However according to recent government figures, US gasoline demand is 0.8% higher this year than in 2005 despite gasoline prices averaging 60 cents higher.

Saudi Arabia has booked an eighth Very Large Crude Carrier to the US in May, increasing spot oil exports for the month to 16.6 million barrels. Vela International Marine has provisionally hired a tanker to carry 285,000 tons to the US Gulf on May 15.

Chief executive of HSBC Holdings, Stephan Green, said that \$70/barrel is a fundamental demand driven change that would test the economies of oil importing countries. He said the high oil price was creating large surpluses for oil producing nations but was contributing to big current account deficits.

BP Plc chief executive John Browne said Venezuela's demand for more oil revenue risks foreign investment. Venezuela's President Hugo Chavez said that all of the country's energy reserves belong to the state and has undertaken a campaign to reassert sovereignty over them. By alienating companies such as BP, Venezuela's President may fail in his quest to attract \$15 billion in new investment to help double the country's production by 2012.

According to Toronto-Dominion Bank, the price of crude oil may fall to \$55/barrel by year end as record high prices cut consumption and slow US economic growth.

China's National Development and Reform Commission said it believed oil prices would remain high due to faster than forecast world economic growth and limited surplus oil production capacity. It said uncertainty regarding oil supplies from producers such as Iran and Nigeria has also been a factor in the current price strength adding that the weaker dollar and capital outflows to commodities would continue to add to a speculative premium. It said to cushion the impact of rising oil prices on China's economy suggested the government should pay closer attention to its pricing policy.

The American Trucking Association said the trucking industry would spend \$6.6 billion more on diesel this year than last year due to high fuel prices. It estimated that the industry would spend \$94.3 billion in 2006 compared with \$87.7 billion last year.

President Bush also order the Energy Department to give oil refiners until fall to pay back oil reserve loans and directed the EPA to use all available waiver authority on clean fuel rules. He also said the US government should form a state task force to reduce the number of specialized clean fuel blends. Meanwhile, the Federal Trade Commission plans to finish by May 19 the results of an investigation Congress ordered last summer into whether oil companies were manipulating gasoline prices or constraining oil refining operations.

The US EPA said it would act quickly to issue fuel waivers when needed to help alleviate supply shortages. The EPA has been reviewing a waiver request by Pennsylvania Governor Edward G. Rendell that would allow gasoline suppliers in the state to sell fuel that did not meet federal Clean Air Act reformulated gasoline guidelines.

White House spokesman Scott McClellan said President Bush would oppose a windfall profits tax on oil companies. Some members of Congress have stated that windfall profit tax should be considered.

Valero Energy Corp chief executive Bill Klesse said he supported President Bush's plan to stop filling the SPR. However he stated that it would likely provide only temporary relief from high energy prices.

Iran's top nuclear negotiator, Ali Larijani, said Iran would halt its cooperation with the UN's IAEA if the Security Council imposed sanctions against it. He added that Iran may even hide and accelerate its nuclear program if the Security Council takes any other harsh measures. His statement was Iran's strongest statement of defiance yet before the deadline the Security Council has given the country to halt its uranium enrichment. He also stated that Iran would not abide by the Friday deadline set by the Security Council to suspend its uranium enrichment. In response, the IAEA said it would not comment on Iran's threat. US Secretary of State Condoleezza Rice said Iran's threats further isolated it from the international community. She said the Security Council had to issue something more concrete than its statement which gave Iran 30 days to comply with IAEA directives. France said it provisionally scheduled a meeting on May 2 of political directors of the council's five permanent members plus Germany to discuss the next moves on Iran. Separately, Iran's Ayatollah Ali Khamenei said during a meeting with the Sudan's President, Omar al-Bashir, that Iran was ready to transfer its nuclear program to neighboring countries.

Meanwhile, China continued to insist on negotiations amid the mounting pressure from the West for the UN Security Council to impose sanctions on Iran over its nuclear program. China's Foreign Ministry spokesman Qin Gang reiterated its call on all sides to maintain restraint and exercise flexibility.

Iraq's Oil Ministry's inspector general, Ali al-Alaak, said insurgents have succeeded in crippling the country's energy industry. He said the government has ignored calls for help in the fight against corruption and smuggling. He said lack of reliable forces to protect pipelines was one major reason why only 30% of energy projects were completed in 2005. He said Iraq was in store for some dark times if the new government failed to improve security at oil facilities and tackle corruption and smuggling. He said oil smuggling was one of the main reasons behind billions of dollars in crude export losses, saying it had become the most important and prominent danger to the economy. In a report he also accused the government of collusion with a smuggling network and criticized authorities for failing to implement legal measures to combat the illegal trade.

According to US commanders and diplomats, local police and politicians, hundreds of Shi'ite Muslim militiamen have deployed in recent weeks to Kirkuk, vowing to fight any attempt to shift control of Kirkuk to the Kurdish governed north. US officials have called the Shi'ite armed groups the deadliest threat to security in much of the country. The Mahdi army has sent at least two companies, each with

about 120 fighters. The Badr Organization, the armed wing of Iraq's largest Shi'ite political party, has also increased its presence and opened several offices across the region. Kurdish leaders have stated their intention to use force if necessary to gain control of the city. A few hundred Shi'ite militiamen would be no match for the tens of thousands of Kurdish fighters.

Iraqi Prime Minister designate Jawad al-Maliki said that failure to disband militias threatened to push Iraq into civil war.

### **Refinery News**

The Texas Natural Resource Conservation Commission reported that the Sweeny refinery in Texas shut 50% of its electrostatic precipitator for maintenance on Tuesday.

US oil refineries are expected to increase their fuel production in the coming weeks as several idled refineries resume operations after completing repairs or maintenance soon. Analysts expect the recovery in refining operations to put downward pressure on both refined products and crude oil prices as US gasoline production increases. BP and ConocoPhillips recently began restarting two hurricane damaged refineries with a combined capacity of over 700,000 bpd and a number of other refineries that are shut for maintenance should restart by mid-May. The resumption of normal refining operations would bring some relief to the market but even with US refineries well supplied with crude, analysts cautioned prices are unlikely to fall significantly given the risk of oil supply disruptions and the ongoing shortage of spare oil production capacity that would be needed to cover any disruption.

Valero Energy Corp chief executive Bill Klesse said he saw synergies for the refiner in the 270,000 bpd Houston refinery being offered for sale by Lyondell Chemical Co and Citgo Petroleum Corp. Valero estimated combined throughput at its refineries to be 2.975 million bpd in the second quarter. It said its production of gasoline formulated to blend with ethanol is expected to lag by between 20,000 and 30,000 bpd compared with gasoline it previously produced with MTBE. Valero said total US gasoline production was expected to fall by 145,000 bpd due to the switch to ethanol.

Operations at Venezuela's Cardon refinery stood at more than 90% following an outage earlier in the month. A PDVSA official said the outage may delay loadings by one to two days. However he guaranteed international shipments would not be affected.

Total SA said it would restart its 158,000 bpd Provence refinery in France at the end of the week following maintenance work. About half of the plant was shut in early February for planned turnaround.

### **Production News**

Royal Dutch Shell has yet to begin restarting 455,000 bpd of oil production that was shut in following militant attacks in February.

ExxonMobil Corp stated that all personnel except for security at its oil operations were told to remain home following the threats by ethnic militants. Earlier, ExxonMobil Corp evacuated some of its staff from its administrative headquarters in Nigeria following threats against the company by ethnic rebels. ExxonMobil also stated that it increased security at its 420,000 bpd Qua Iboe oil export terminal due to rumors of possible militant attacks. Its operations however remained normal despite the evacuations of its staff. Separately, Nigerian militants said in an email that they planned to stage another car bomb attack this week somewhere in the Niger Delta.

Denmark's Energy Minister Flemming Hansen said the Danish energy authority would approve A.P. Moeller-Maersk's plan to increase production from the Halfdan field in the North Sea. Maersk was

targeting a production increase at Halfdan of 14.6 million barrels, which would come from two of the four new wells during an unspecified time period. The Halfdan field produced 101,000 bpd in February.

Royal Dutch Shell expects production at its Urdaneta West field to increase to 60,000 bpd from 45,000 bpd over the next few years. Shell recently converted its Urdaneta West operations from a subcontracting agreement to a joint venture known as a mixed company in which PDVSA holds a 60% stake.

China's apparent demand for oil increased by 6% on the year in March to 6.44 million bpd. However analysts stated that some of the expansion likely came from products going into storage ahead of a long anticipated increase in retail fuel prices.

Industry officials said China's refiners are cutting domestic jet fuel supply in order to increase diesel production, forcing the country's aviation fuel imports to increase. Sinopec Corp and PetroChina scaled back second quarter jet fuel supply to CAOSC by 600,000 tons below earlier plans. Meanwhile, China's first quarter jet kerosene imports increased 84% year on year to 1.214 million ton, with March imports up 183% at 577,000 tons.

Taiwan's Chinese Petroleum Corp issued a term tender to purchase 330,000 tons of Middle East full range naphtha for supplies between July 2006 and June 2007, 50% less than its purchase for the year ago period.

Indonesia is expected to import 4.6 million barrels of diesel for May, up from April's 4.2 million barrels.

OPEC's news agency reported that OPEC's basket of crudes increased to \$67.37/barrel on Monday from \$66.84/barrel on Friday.

BP Plc said its net profits increased 7% in the first quarter compared to last year due to high oil prices and better refining results than expected. BP's underlying net replacement cost profit was \$5.282 billion. BP's strong results were driven by its upstream oil and gas production unit, with higher oil prices more than compensating for a 1.6% fall in production to 4.035 million barrels of oil equivalent/day.

Turkey's government has selected Calik Enerji to build a 550 km or 349 mile Samsun-Ceyhan pipeline, which would transport crude from the Black Sea to the Mediterranean. The pipeline carrying Russian and Caspian basin crude is aimed at bypassing the shipping bottleneck in the congested Turkish Bosphorus straits. The pipeline is expected to transport 50 million-70 million tons of oil a year.

### **Market Commentary**

The oil market opened up 42 cents at 73.75 as it retraced some of Monday's sharp losses amid the continuing rhetoric concerning Iran's nuclear program. The market was well supported by Iran's chief nuclear negotiator's statement that Iran would suspend its ties with the UN's IAEA if sanctions were imposed against it. The crude market was also supported as China's apparent demand reportedly increased by 6% on the year in March. The oil market rallied to a high of 73.90 early in the session. However the market just as quickly erased its gains and traded to a low of 71.75 as the Iranian comments were overshadowed by President Bush's statement. He ordered the suspension of deliveries to the SPR until the fall and directed the EPA to grant waivers to relieve any supply shortages. He also called for a probe into whether there has been any gasoline price gouging and called on energy companies to reinvest their profits into expanding refining capacity, developing technologies and researching alternative energy sources. The market however bounced off its low

and retraced some of its losses ahead of the close as it traded back towards the 73.00 level. It settled down 45 cents at 72.88. Volume in the crude was excellent with over 311,000 lots booked on the day. The gasoline market opened slightly lower at 217.00 and posted a high of 217.25 early in the session. However the market extended its losses to over 10 cents as it sold off to a low of 207.00 in light of the statements made by President Bush. The market later bounced off its low and settled in a sideways trading pattern. It settled down 4.48 cents at 212.91. Meanwhile, the heating oil market settled up 2.64 cents at 205.81. It posted an early high of 206.00 before it sold off to a low of 202.00 in follow through selling seen in the crude and gasoline market. The market however surprisingly retraced its losses and posted a high of 206.30 ahead of the close. Volumes in the product markets were excellent with 61,000 lots booked in the gasoline market and 52,000 lots booked in the heating oil market.

The oil market will seek further direction from the weekly petroleum stock reports, which are expected to show a small draw of less than 500,000 barrels in crude stocks, a draw of about 2 million barrels in gasoline stocks and a draw of about 1.5 million barrels in distillate stocks. The market, which may continue to trade lower early in the session following the statements made by President Bush, is seen finding support as the market will remain concerned about the situation concerning Iran and its nuclear program. The market is seen finding support at 72.50, 72.15 and 71.75. More distant support is seen at 71.71, 70.80 and 70.40. Meanwhile resistance is seen at 73.00, 73.90, 74.45 and 75.35.

Technical Analysis		
	Levels	Explanation
<b>CL</b> 72.88, down 45 cents	<b>Resistance</b> 74.45, 75.35	Previous highs
	<b>Support</b> 73.00, 73.90	Tuesday's high
<b>HO</b> 205.81, up 2.64 cents	<b>Resistance</b> 209.20	Tuesday's low
	<b>Support</b> 206.30, 206.80	Previous lows, 38% retracement (62.40 and 75.35)
<b>HU</b> 212.91, down 4.48 cents	<b>Resistance</b> 205.00, 203.25, 202.00	Previous high
	<b>Support</b> 201.50, 201.40, 197.50	Tuesday's high, Monday's high
	<b>Resistance</b> 223.00, 225.50	Tuesday's low
	<b>Support</b> 215.00, 217.25	Previous lows
	<b>Resistance</b> 209.50, 207.00	Monday's high, Previous high
	<b>Support</b> 205.35, 204.85	Tuesday's high