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## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR APRIL 28, 2006**

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The IAEA stated that Iran has successfully enriched uranium and continued its activities in defiance of the UN Security Council's demands. The finding was contained in a report drawn up by IAEA head, Mohamed ElBaradei that reflected a standstill between Iran and IAEA inspectors pursuing open questions linked to possible attempts by Iran to make nuclear arms. The report said inspector tests confirmed Iran's claim that it enriched uranium with a cascade of 164 centrifuges to the low level needed for fueling nuclear power plants. It was also building two new cascades of 164 centrifuges at its underground enrichment plant. IAEA inspectors were monitoring the construction. On Monday, diplomats from the US, Britain and France are expected to begin pushing for a resolution that would obligate Iran to abide by the council's demands. If

#### **Market Watch**

According to Deutsche Bank analyst Adam Sieminski, another shock to the oil market could push oil prices above \$100/barrel. He noted the recent ethnic and tribal disputes in Nigeria, which have cut its production by 500,000 bpd and the risk that all of Iran's 2 million bpd of oil exports could become involved in a sanctions dispute or military confrontation. He also stated that compounding the problems associated with crude production, the world's refining system has also been operating at high capacity utilization rates. He also noted that weather forecasters were predicting another active hurricane season for 2006.

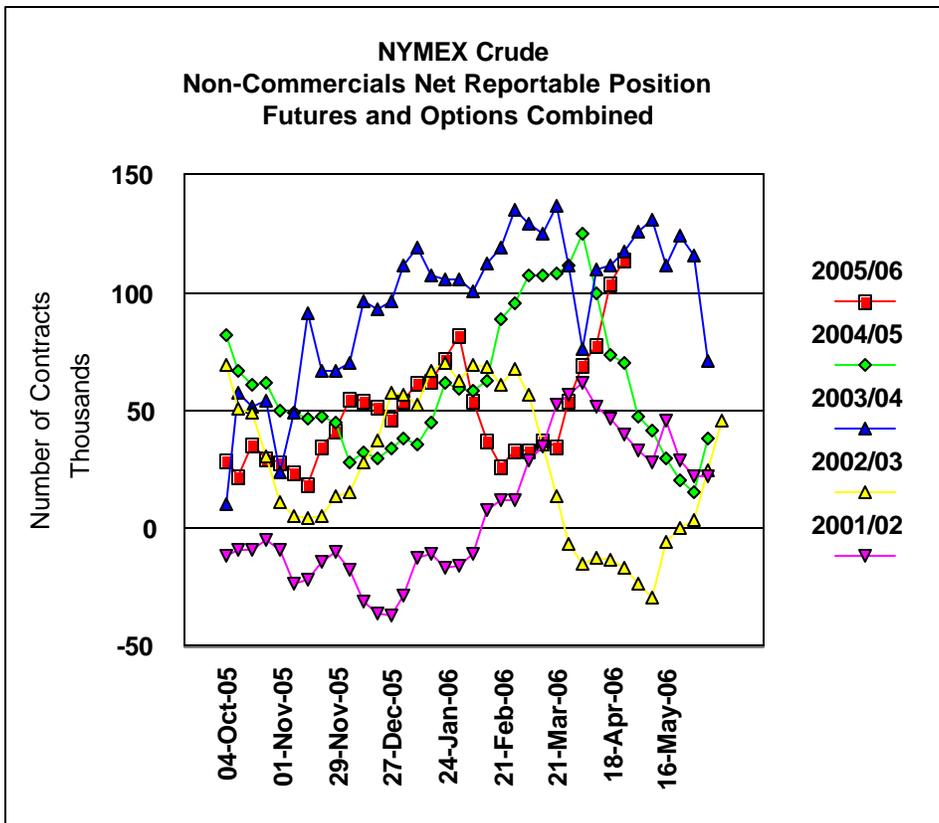
According to Iraq's Oil Ministry's inspector general, the spread of smuggling has turned Iraq from a major exporter of petroleum products into an importer. The report called for urgent action to stop the abuses and punish those involved, including new legislation and penalties. Smuggling and other rackets in Iraq were costing the country more than \$18 billion a year in direct losses and missed opportunities. The report estimates that 10%-20% of the refined products that Iraq is now obliged to import from neighboring Turkey, Syria and Jordan are being smuggled back to their countries of origin after receiving Iraqi government subsidies to bring the price down for local consumption.

The CFTC's commissioner, Walter Lukken, said there was no evidence of manipulation in the gasoline futures market. He said the energy prices were following the fundamentals of supply and demand. Similarly, the NYMEX's President and chief executive, James Newsome blamed market fundamentals for high prices.

While US drivers are concerned over the prospect of paying \$3/gallon gasoline prices this summer, drivers in Britain and much of Europe are paying double or more due to high taxes. However even in Europe, there is growing alarm over the effect of rising crude oil prices on fuel costs. The European Union's energy commissioner, Andris Piebalgs, said high oil prices were destroying economic growth in Europe. Drivers in 11 European countries are paying an average of \$6/gallon for gasoline, according to Britain's AA Motoring Trust.

The US Commerce Department reported that the US economy expanded in the first quarter at an annual pace of 4.8%, led by increased consumer spending and the largest increase in business spending since 2000. The increase in GDP followed a 1.7% annual rate of increase in the previous three months.

The American Trucking Associations' advanced seasonally adjusted Truck Tonnage Index fell by 3.2% in March following a revised 3.6% fall in February. The seasonally adjusted index stood at 110.1, the lowest level since November 2003. Its non-seasonally adjusted index increased by 15.4% from February to 118.7.



Iran refuses, they would then pursue international sanctions, either through the Security Council or with other countries that support imposing sanctions. US Ambassador to the UN, John Bolton said the Security Council should pass a resolution under Chapter 7 of the UN Charter, which provides for sanctions or military action. UK Foreign Secretary Jack Straw said his government would ask the Security Council to increase the pressure on Iran. Meanwhile Russia and China remain at odds over how much pressure to exert. Iran, which has been publicly defiant, has offered in private talks with senior European officials to slow down the program if the US, Britain

and France back away from Security Council action. Several European diplomats have however stated that the offer is unacceptable. Earlier, Iran's President Mahmoud Ahmadinejad said UN Security Council resolutions would not make Iran give up its uranium enrichment.

US Energy Secretary Sam Bodman said a plan by Senate Republicans to give taxpayers a \$100 check to ease the burden of high gasoline prices has merit. A proposal by Senate Majority leader Bill Frist would also suspend until September 30 the 18.4 cents/gallon retail gasoline tax. The US Energy Secretary also stated that US President George W. Bush would likely use his authority to increase US automobile mileage standards this year if Congress allows it. The Bush administration asked Congress to give it authority to issue Corporate Average Fuel Economy standards. President Bush is scheduled to meet with the Big Three US automakers to discuss a possible increase in CAFÉ standards.

Separately, the Bush administration on Thursday also asked major US oil companies and refiners to make emergency plans to ensure gasoline supplies if a hurricane disrupts energy infrastructure or cuts the electricity at service stations.

According to Oil Movements, world oil stocks at sea on route from OPEC members are expected to rebound starting in mid-May after falling to near three year lows near the end of April. Stocks at sea basis its four week moving average stood at 454.1 million barrels, down from 50.27 million barrels in early March. Saudi Arabia has increased its bookings for May cargoes above levels seen last year while West African liftings bound for the US are also likely to bounce modestly higher in mid-May to 1.4 million bpd, up from little over 1.3 million bpd around May 1.

**Refinery News**

Motiva has chosen its Port Arthur, Texas refinery as the site for a 325,000 bpd refinery expansion it is studying. If approved by Motiva's board of directors, the expansion would make the Port Arthur refinery one of the largest in the country.

ConocoPhillips cut its operations at its 238,000 bpd Bayway refinery in Linden, NJ following a problem late Thursday with its 145,000 bpd fluid catalytic cracking unit. The unit is expected to operate at about 100,000 bpd for the next ten days. Separately, its 180,000 bpd Trainer, PA refinery is expected to resume normal operations by May 15 after six weeks of turnaround maintenance that started at the end of March.

Fuel suppliers in Texas stated that several service stations in Houston and Dallas areas were out of gasoline after transportation problems resurfaced with the switch to ethanol from MTBE. A source said the problem was more logistical than supply related because of a change in transportation methods required for the switch to ethanol. He said about 60 out of 400 gas stations had problems but added that Motiva expected to complete the conversion this weekend.

ERG's 240,000 bpd Isab Sud refinery in Sicily is scheduled to begin shutting down over the weekend for 47 days of maintenance. The plant accounts for over half of the total volume of 436,000 bpd due to be offline in May in the Mediterranean.

Traders stated that a decline in northwest European refinery maintenance shutdowns next month would make more gasoline available for exports to the US in time for the summer. Traders estimate that about 1.8 million tons of spot gasoline have been shipped from Europe this month to the US, up from 1.3 million tons in March. In April, there was an average of at least 572,000 bpd or 3.5% of total crude distillation capacity offline, while in May the total shutdowns are expected to fall to 460,000 bpd or 2.8% of capacity and to 247,000 bpd or 1.5% in June. However, according to Reuters there may be an increase in Mediterranean refinery maintenance work in May, exacerbating the diesel supply tightness and restricting availability of Eurograde gasoline. Refinery maintenance shutdown 357,000 bpd of Mediterranean capacity in April while in May, the total shutdowns are estimated at 436,000 bpd.

French unions have called for tug crews to go on strike in the northern port of Le Havre starting on Monday. The port is a major loading and discharge point for a range of petroleum products in northwest Europe, especially middle distillates like diesel and jet fuel.

A tanker carrying more than 300,000 barrels of crude oil, which ran aground off Puerto Rico on Thursday, successfully refloated amid the high tides on Friday.

### **Production News**

Russia is scheduled to suspend oil cargo traffic to the port of St. Petersburg for several days in July to increase security measures during the Goup of Eight meeting. The restrictions are scheduled for July 13-18. Also, the navigation on the Neva river would be fully closed for five days preventing cargoes with fuel oil and vacuum gasoil from reaching the port.

Angola's Sonangol said the country is on track to increase oil production by more than 40% to 2 million bpd by the end of 2007 due to the progress at its Girassol field.

Petrologistics reported that former Soviet Union fuel oil and gas oil exports were forecast to have increased in April due to milder weather and lower demand. Fuel oil exports in March stood at 950,000 bpd while gas oil exports fell to 970,000 bpd.

Russia's government excluded the Timan-Pechora region from areas that can get tax breaks, striking the hopes for lower taxes of a venture there between Lukoil and ConocoPhillips. The government decided to give tax breaks from 2007 to firms tapping East Siberia, as well as to companies developing depleted oil fields in Russia. The Timan-Pechora region was excluded because the area is closer to infrastructure and requires less spending. The tax exemptions for East Siberia would help the region increase its production to 15 million tons or 300,000 bpd by 2015. Economy Minister German Gref said more than 12% of Russia's overall oil production of 9.5 million bpd could be subject to the new tax breaks worth \$770 million in 2007, increasing to \$1 billion in 2009.

Russia's Finance Ministry stated that country's crude export duty would increase to \$199.80-\$200/metric ton starting June 1, up 7.3% from the current level. Its fuel oil duty would increase to \$79-\$79.20/metric ton while its oil products duty would increase to \$146.90-\$147/metric ton.

Japan's Ministry of Economy, Trade and Industry stated that the country's crude oil imports increased by 8.8% on the year in March to 24.38 million kiloliters. Its commercial crude stocks totaled 17.32 million kl at the end of March, down 3.5% year on year. Kerosene inventories fell by 23.2% to 2.1 million kl at the end of March. It also reported that total oil product sales stood at 21.25 million kl. Its gasoline sales fell by 2.3% to 5.24 million kl.

India's oil product exports in March increased by 35.7% on the year to 1.9 million tons from 1.4 million tons reported a year ago. India's diesel exports in March increased to 800,000 tons from 500,000 tons last year. India's overall oil product exports in the last fiscal year ending March 31, stood at 21.4 million tons, up from 17.5 million tons reported in the previous year.

Indonesia's Vice President Jusuf Kalla said the country did not plan to increase subsidized domestic oil prices despite rising world oil prices. Indonesia's parliamentary commission approved subsidizing 41.5 million kiloliters or 206.9 million barrels of oil products in 2006. Separately, Finance Minister Sri Mulyani Indrawati said the government's budget deficit was likely to increase to about 40 trillion rupiah or \$4.54 billion in 2006 from 22.4 trillion with oil prices ranging between \$60 to \$70/barrel. The government has set aside 54.3 trillion rupiah in oil subsidies in 2006 compared with 89.2 trillion rupiah in 2005.

OPEC's news agency reported that OPEC's basket of crudes fell to \$65.63/barrel on Thursday from \$66.94/barrel on Wednesday.

### **Market Commentary**

The oil market opened more than 70 cents higher at 71.70 following its recent sell off. The market trade lower early in the session to 71.20 before it retraced its losses in light of the expected findings on Iran's nuclear program by the UN's IAEA. The market quickly bounced off its early low and rallied to a high of 72.65 following the IAEA announcement that Iraq was enriching uranium and was continuing related activities in defiance of the council's demands. The market later sold off sharply to a low of 71.00 amid the lack of bids in the market. The oil market however once again retraced its losses ahead of the close and settled up 91 cents at 71.88. Volume in the crude market was excellent with over 287,000 lots booked on the day. The product markets ended the session in positive territory ahead of the May contracts' expiration. The gasoline market opened up 1.31 cents and quickly breached its previous high as it rallied to a high of 213.00. The market however erased its gains and sold off to a low of 207.50 amid the losses seen in the oil market. The May gasoline contract later bounced off its low and retraced its losses ahead of its expiration at the close. It settled up 2.02 cents at 209.21. The June gasoline contract settled up 3.37 cents at 208.92. Meanwhile the heating oil market also rallied to a high 203.00 late in the session ahead of its expiration. The market which sold off to a low of 199.00, settled up 2.72 cents at 201.29. The June heating oil contract also settled up

1.93 cents at 201.29. Volumes in the product markets were good with 50,000 lots booked in the gasoline market and 56,000 lots booked in the heating oil market.

The Commitment of Traders report showed that non-commercials in the crude market continued to increase their net long positions. The funds increased their net long positions by 7,274 contracts in the week ending April 25 to 74,023 contracts. This was amid the market's recent rally to its high amid the geopolitical risks. The combined futures and options report also showed that non-commercials increased their net long positions by 10,729 contracts to 114,422 contracts on the week. Meanwhile, non-commercials in the heating oil market increased their net long positions by 2,506 contracts to 15,236 contracts while non-commercials in the gasoline market increased their net long positions by 4,705 contracts to 23,879 contracts on the week.

The oil market on Monday will likely remain supported as some of the permanent members of the UN Security Council are expected to begin working on a resolution to force Iran to halt its nuclear program next week. The market is seen remaining concerned in light of this geopolitical risk. The market is seen finding support at 71.00, 70.75, 70.40, 69.50 and 69.40. Meanwhile resistance is seen at 72.20, 72.65 and 73.05. More distant resistance is seen at 73.90.

Technical Analysis		
	Levels	Explanation
<b>CL</b> 71.88, up 91 cents	<b>Resistance</b> 73.05, 73.90	Previous highs
	<b>Resistance</b> 72.20, 72.65	Friday's high
	<b>Support</b> 71.00	Friday's low
	70.75, 70.40, 69.50, 69.40	Previous low, 38% retracement (62.40 and 75.35), Previous lows
<b>HO</b> 201.29, up 1.93 cents	<b>Resistance</b> 207.70, 208.10	Double top, Previous high
	<b>Resistance</b> 203.00, 204.20	Friday's high
	<b>Support</b> 200.50	Friday's low
	199.00, 196.20	Double bottom, Previous low
<b>HU</b> 208.92	<b>Resistance</b> 211.00, 215.00, 215.95	Previous highs
	<b>Resistance</b> 210.50	Friday's high
	<b>Support</b> 206.00	Friday's low
	205.00, 203.00, 202.60	Previous lows