



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR MAY 22, 2006

The head of the IEA, Claude Mandil, stated that high oil prices are eroding world demand growth. However he was cautious about prospects for the future. He said even if demand fell, the world would struggle to cope with any severe supply disruptions.

Qatar's Oil Minister Abdullah al-Attiyah said OPEC would likely keep its oil production unchanged when it meets on June 1. Separately, Venezuela's Energy Minister Rafael Ramirez said high oil prices have nothing to do with OPEC production. However he stated that market fundamentals indicate the need for a production cut by the cartel.

According to the Lundberg Survey, the average retail price of gasoline fell by about 1.4 cents/gallon in the

Market Watch

The Federal Trade Commission said it found no evidence that oil companies illegally manipulated gasoline prices or constrained oil refining operations last year. However it said it found 15 examples in the wake of Hurricane Katrina that fit lawmakers' definition of price gouging at the refining, wholesale or retail level. It said factors such as regional and local market trends appeared to explain the pricing in nearly all the cases.

Iraq's Prime Minister Nouri al-Maliki pledged maximum force against terrorists during his first cabinet meeting on Sunday. He said he expected to name candidates within two to three days to head the Interior and Defense Ministries. He reiterated plans to reorganize the Iraqi security forces with an emphasis on Baghdad. Meanwhile, on Sunday, a suicide bomber killed at least 18 people in a largely Shi'ite Baghdad neighborhood of Karranda. In Shula, another heavily Shi'ite neighborhood, a member of Shi'ite cleric Moqtada al-Sadr's Mahdi army militia was killed as he tried to defuse a car bomb that was left at a checkpoint. Also, a bomb targeting an Iraqi police patrol killed five people in the mixed neighborhood of New Baghdad.

French Finance Minister Thierry Breton said the European Commission should produce a weekly report on the state of oil stocks to increase transparency in the market.

One of Russia's leading exchanges, the RTS, said it would start trading futures in Urals export blend crude in June. The RTS and oil pricing agency Platts signed an agreement on the use of Platts' prices for futures and options contracts to be traded on the exchange. Starting June 8, the RTS would start trading futures and options on contracts for Urals crude as well as gas oil, fuel oil and jet kerosene.

New pollution rules to limit ship emissions in the Baltic Sea came into effect on Friday, with few signs the measures were causing any disruption to merchant shipping. Under international shipping rules, all vessels entering the first Sulfur Emission Control Area are allowed to burn marine fuels with a maximum limit of 1.5% sulfur content. The new rules are increasing demand across oil markets for low sulfur bunker fuels and are expected to increase premiums further relative to high sulfur grades as refiners pay more to produce the cleaner spec.

The head of the National Atmospheric and Oceanic Administration said there was an 80% chance that the Atlantic hurricane season beginning June 1 would be above normal. It is not expected to be as strong as the record season of 2005. It said 13-16 named storms are expected this year, including 8-10 hurricanes and 4-6 severe hurricanes.

past two weeks ending May 19 to \$2.93/gallon.

Refinery Update

May:

ConocoPhillips' 180,000 bpd Trainer, Pennsylvania refinery is seen resuming normal operations by May 22.

Giant's Yorktown, Virginia refinery is expected to operate at 72,000 bpd moving forward after it ran at 35,000 bpd during the first quarter.

Flint Hills' West Plant at its 288,000 bpd Corpus Christi, Texas refinery is undergoing maintenance since May 8.

Murphy's restart of its 125,000 bpd Meraux, Louisiana refinery was pushed back to mid-May. Crude oil was expected to be loaded in mid-May, with normal operations seen returning in about three weeks.

Western started 5-7 days of maintenance on a sulfur recovery unit's tail gas unit at the North Plant at its El Paso, Texas refinery on May 16. Western said the North Plant would not process sour crude during the maintenance period.

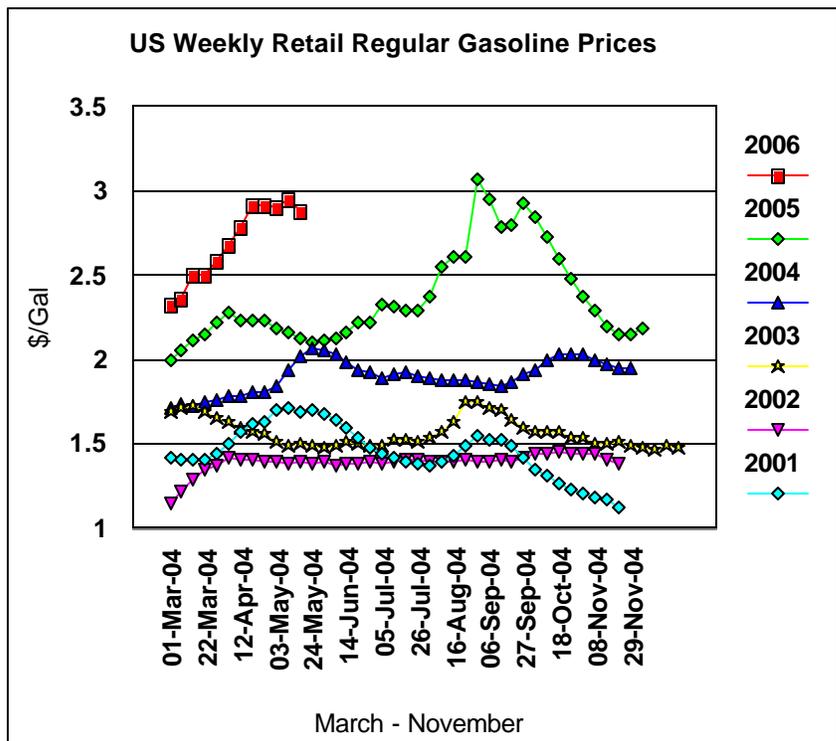
Germany's Chancellor, Angela Merkel said she and China's President Jintao Hu agreed during talks that Iran must not have nuclear weapons or proliferate weapons of mass destruction. However Germany's Chancellor did not say whether the two sides discussed possible sanctions on Iran.

The EIA reported that the US average retail price of gasoline fell by 6.4 cents/gallon to \$2.883/gallon in the week ending May 22. The EIA also reported that the US average retail price of diesel fell by 3.2 cents/gallon to \$2.888/gallon on the week.

Iraq's Oil Minister said he would seek clear laws designed to attract billions of dollars in foreign investment and vowed to promote a culture of transparency in the country's oil industry. Iraq's new Oil Minister, Hussain al-Shahristani said the oil ministry would be technically ready to present the law to parliament in three months but political backing was needed. He said oil revenues of any agreement should go to the central government for distribution to regions and provinces based on population.

Refinery News

Valero's 190,000 bpd St. Charles, Louisiana refinery was operating at 50% of capacity following a fire at its diesel hydrotreater over the weekend. The refinery is expected



to recover a portion of the production by next week while the damaged hydrotreater remains out of service for repairs. It said it did not expect gasoline output to be significantly affected.

Wynnewood Refining Co said it detected a hydrochloric acid leak from the alkylation unit at its 55,000 bpd Oklahoma refinery damaged in a fire on May 12. There is no estimate as to when repairs on the alkylation unit will be completed and the unit will return to service. The refinery was operating at 40,000 bpd.

According to Credit Suisse, US refining margins fell from April's record levels to below \$2/gallon. West Coast margins fell by \$6.37 to \$29.68/barrel in the week ending May 19. On the Gulf Coast, margins fell \$3.85/barrel to \$15.63/barrel as refiners continued to return from planned maintenance. Midwestern margins fell to \$17.60/garrel, down \$4.47 from a week earlier. Credit Suisse also reported that Rocky Mountain margins increased by \$1.23/barrel to \$31.59/barrel on the week.

Kazakhstan's President Nursultan Nazarbayev stated that Kazakhstan and Turkey agreed to build an oil refinery on the Turkish shore of the Black Sea to process Kazakh crude. He said the refinery would help ease pressure on the Bosphorus straits.

Taiwan's Formosa Petrochemical Corp is set to cut its June diesel exports by 21% from May levels to 330,000 tons due to an upcoming refinery turnaround, further tightening the region's supply.

China Aviation Oil Trading is seeking fresh jet fuel supply of 88,000 tons for June in addition to an earlier tender purchase of 325,000 tons for the month. If awarded, the volume would increase its June import volumes to 413,000 tons.

Production News

Royal Dutch Shell Plc said the Shell Exploration & Production Co's Mars platform resumed partial production. Shell said production would continue to increase its production over the next several weeks. Its production would be restored to pre-Katrina rates of 140,000 bpd by the end of June.

The Petroleum and Natural Gas Senior Staff Association of Nigeria extended its strike ultimatum by two days to Thursday, giving ExxonMobil more time to resolve an employment dispute. The union had originally stated that Tuesday would be the deadline for a resolution to the dispute.

Separately, Shell has appealed against a Nigerian court ruling that it pay \$1.5 billion to residents of the country's oil producing region. A high court had given Shell until 1200 local time on Monday to pay the fine but Shell said it would not comply until the appeal was heard. The ruling was to compensate the Ijaw community for environmental damage. Meanwhile, Ijaw militants said they would increase their attacks on oil installations.

US Treasury Secretary John Snow said Iraqi officials believed they could double their oil production if the new government improved security. He made his comments following a meeting with Iraq's central bank governor, Sinan al-Shabibi, about conditions in Iraq now that a new national unity government is in place. He said Iraq's daily production was running at about 1.6 million barrels. He said it was heartening that Iraq finally had a government in place under Prime Minister Nuri al-Maliki with a cabinet that includes Shi'ites, Sunnis and Kurds.

Separately, an Iraqi oil official said Iraq's crude oil exports from the southern oil fields in the first 20 days of May fell by 84,000 bpd to 1.535 million bpd from 1.619 million bpd in April.

Russia's Fuel and Energy Ministry reported that the country's diesel fuel production increased by 13.4% on the year to 5.209 million tons in April. It reported that its diesel fuel exports increased by 26.2% on the year to 2.914 million tons in April.

Deputy Prime Minister Alexander Zhukov said Russia would remain a reliable supplier of energy to Europe, increasing its deliveries of oil and gas over time. He said Russia would not only maintain but increase supplies of fuel and energy resources. He said fears of Russia being an unreliable supplier was groundless. Meanwhile, in a letter to senior EU officials, Energy and Industry Minister Viktor Khristenko said there was no reason to doubt Russia's commitment to supply it gas and other forms of energy.

The Petroleum Association of Japan reported that the country's gasoline stocks are expected to fall to a total of 2.18 million kiloliters or 13.7 million barrels at the end of May due to regular maintenance. It is below the five year end of May average of 2.29 million kiloliters.

South Korea's Korea National Oil Corp reported that the country's oil products demand fell to 1.94 million bpd in April from 2.08 million bpd in the same month last year. Crude imports increased by 11% to 2.32 million bpd in April from 2.1 million bpd reported last year. Exports of refined petroleum products increased by 36% to 718,000 bpd while its products imports fell by 18% to 457,000 bpd due to weaker domestic demand.

Brazil's Petrobras is expected to increase its oil output next year by 560,000 bpd. Petrobras produced 1.796 million bpd from its Brazilian fields in April. It expects to produce an average of 1.91 million bpd for 2006.

OPEC's news agency reported that OPEC's basket of crudes increased to \$63.41/barrel on Friday from \$62.95/barrel on Thursday.

Market Commentary

The oil market reversed its earlier losses and ended the session sharply higher ahead of the June crude contract's expiration at the close. The crude market gapped lower from 68.01 to 67.60 and quickly posted a low of 67.55. However the market retraced its losses and backfilled its gap as it traded to 68.20 and held some resistance at that level. The crude market later settled in a sideways trading pattern after it traded to 68.75. However the June crude contract breached that level and rallied to a high of 69.90 on some late buying ahead of its expiration. The market settled up 70 cents at 69.23. The July crude contract also settled up 67 cents at 69.96 after the market rallied to a high of 70.25

ahead of the close. Volume in the crude market was lighter today with 200,000 lots booked on the day. The product markets

Technical Analysis		
	Levels	Explanation
CL 69.23, up 70 cents	Resistance 70.35, 71.60 to 72.95	Previous high, Remaining Gap (May 15th)
	Support 70.25	Double top
	69.10, 68.40 67.85, 67.60, 67.25	Monday's low Previous lows
HO 193.26, up 1.25 cents	Resistance 198.25, 199.55 to 204.25	Previous high, Gap (May 15th)
	Support 193.70, 195.50	Monday's high, Double top
	191.00, 190.20 188.65, 187.30, 186.60	Monday's low 50% retracement (166.50 and 210.80), Previous lows
HU 205.74, up 1.90 cents	Resistance 206.75, 213.00 to 216.75	Previous high, Gap (May 15th)
	Support 206.50	Monday's high
	203.75, 202.80, 200.00 197.50, 195.00, 193.30	Monday's low Friday's low, Previous lows

also ended the session in positive territory, with the gasoline market settling up 1.90 cents at 205.74 and the heating oil market settling up 1.25 cents at 193.26. The gasoline market opened down 51 points at 201.00 and quickly posted a low of 200.00. The market however bounced off its low and rallied to a high of 206.50 ahead of the close. The markets rebounded as the sell off earlier in the session brought bargain hunters to the markets. Meanwhile, the heating oil market gapped lower from 191.70 to 190.50 on the opening. The market posted a low of 190.20 early in the session before the market bounced off its low and rallied to a high of 193.70 ahead of the close amid the strength in the crude market. Volumes in the product markets were good with 40,000 lots booked in the gasoline market and 37,000 lots booked in the heating oil market.

The oil market on Tuesday will likely remain supported after the market ended at its highs during today's session. It is seen trading mostly sideways as the market positions itself ahead of the weekly petroleum stock reports. The market is seen finding its support at 69.10 and its low of 68.40 followed by 67.85, 67.60 and 67.25. Meanwhile, resistance is seen at 70.25 followed by 70.35 and its gap from 71.60 to 72.95.