

W The
Windham Group



ENERGY RISK MANAGEMENT

Howard Rennell, Pat Shigueta &
Zachariah Yurch

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

www.e-windham.com

ENERGY MARKET REPORT FOR MAY 30, 2006

Iran's Foreign Minister Manouchehr Mottaki said Iran is ready to restart negotiations with Britain, France and Germany, on its nuclear standoff. However he ruled out direct talks with the US, unless the US changed its behavior. He said Iran would not accept any pre-conditions to resuming negotiations. Iran said it was also willing to negotiate on the number of uranium enriching centrifuges it uses for research but stressed that it would not stop running the devices entirely as the UN Security Council has called for. Iran's Foreign Ministry spokesman, Hamid Reza, praised Russia and China for their opposition to sanctions on Iran. Meanwhile, the European Union's foreign policy chief, Javier Solana, said if Iran rejected the planned package of incentives meant to convince it to abandon

Market Watch

The US Minerals Management Service said mobile offshore drilling rigs in the Gulf of Mexico have to show that they are up to 50% stronger than they were a year ago. It said it would inspect the type of rope and steel moorings used to anchor rigs to buoys and the sea floor as well as their strength. Anchoring systems would get special consideration. Mobile rigs should be jacked up high enough above the water line to withstand the predicted wave crest generated by a 100 year hurricane. All mobile rigs should have on board satellite tracking gear to help track them down if they go adrift during a storm.

Russia's Gazprom's deputy chief executive has rejected EU demands for the company to open its pipeline network to independent producers and other countries. He also derided plans to bypass Russia with a gas pipeline from Kazakhstan to Europe as unrealistic, arguing that Kazakhstan did not have enough gas to justify the link.

According to the US embassy in Baghdad, more than 400 foreign hostages have been kidnapped in Iraq since April 2004 and up to 30 Iraqis are abducted daily. It said 65% of hostages were released, 18% killed and 17% of cases remained unsolved. Most cases are solved with a payment of \$10,000 to \$50,000.

Venezuela's President Hugo Chavez is set to use this week's OPEC meeting to promote his campaign for oil producers to nationalize the industry, allowing the country to seek a greater share of oil wealth from foreign oil company investors.

A \$13.5 billion buyout of Kinder Morgan Inc has been proposed. The chairman and chief executive, Richard Kinder, along with member of his management team, board of directors and a group of investment firms were seeking to give Kinder Morgan Inc shareholders \$100 cash for every share, an 18.5% premium over KMI's \$84.41 closing price on Friday. The proposal showed that he and his investment partners believe the market is undervaluing the company. The proposed buyout was presented to KMI's board of directors Sunday and is being reviewed by an independent committee. If they agree to the proposal it would go to shareholders for approval.

The Conference Board said its index of consumer sentiment fell to 103.2 in May from an upwardly revised level in April of 109.8. It was weighed down by concerns over rising gasoline prices and diminished optimism about short term economic conditions.

The NYMEX Board of Directors approved the Side by Side Fee Schedule for electronic trading in the NYMEX product slate to be listed on the CME's Globex electronic trading platform. The non-member fee for Crude Oil(WS), Heating Oil (BH) and RBOB (RT) is \$1.50 on a per side basis for each full size contracts and NYMEX miNY contracts.

uranium enrichment, it would be a clear sign that Iran was pursuing enrichment to produce a nuclear weapon. He said he was still hoping for a positive response from Iran. He said some differences remained but Security Council members and Germany were close to consensus after further consultations. In regards to Russia and China, he stated that he was aware of the difficulties the two countries faced in deciding whether to support efforts to draft a UN resolution. However he appealed to both countries to help ensure that Iran did not become a major, long term destabilizing element in the region. The US, Britain, France, China, Russia and Germany are scheduled to meet on Thursday to finalize a package of incentives for Iran to halt its uranium enrichment along with sanctions if it keeps defying international pressure. The Kremlin reported that US President George W. Bush and Russia's President Vladimir Putin discussed Iran in a telephone conversation, calling for further international efforts to resolve the standoff with Iran over its disputed nuclear program.

OPEC's President Edmund Daukoru also stated that OPEC would probably keep formal supply quotas unchanged while it continues to pump as much crude as it can to ease market concerns over shortages. Kuwait's OPEC governor, Siham Razzouqi, said it should keep output levels unchanged when it meets this week in Venezuela to help stabilize high oil prices. OPEC members, Iran, Indonesia, Qatar and the UAE have also stated that they do not want or expect the group to change its production levels. Meanwhile, Venezuela's Energy Minister Rafael Ramirez said OPEC should cut its output if it wanted to address an oversupply of crude oil in world markets.

The EIA reported that the US average retail price of diesel fell by 0.6 cents/gallon to \$2.882/gallon on the week.

Refinery News

Colonial Pipeline froze its gasoline nominations between Houston, Texas and Greensboro, North Carolina because current nominations exceed the company's ability to meet its five day lifting cycle. The action would restrict the amount of gasoline reaching the Northeast as product continues north for distribution on Colonial's Line 3.

According to Credit Suisse, US refining margins were mixed, with overall margins remaining high. It said US Gulf Coast refining margins fell by 41 cents to \$14.66/barrel while West Coast margins also fell by 50 cents to \$28.64/barrel. On the East Coast, refining margins increased by \$1.10 to \$11.10/barrel while Midwest margins increased by 83 cents to \$17.85/barrel.

Flaring was seen at BP Plc's 260,000 bpd refinery in Carson, California early on Tuesday morning due to planned maintenance expected to last through June 11.

According to a filing with the Texas Commission on Environmental Quality, pump failure at its Corpus Christi, Texas refinery has forced a reduction in the processing rate of its sulfur recovery unit.

ConocoPhillips' refinery in Sweeny, Texas suffered a feed loss to a fluid catalytic cracking unit on May 26. Operations at the unit are expected to return to normal as soon as possible.

PDVSA's 50,000 bpd catcracker unit at its 320,000 bpd La Isla refinery is expected to resume operations by the end of the week, following planned maintenance.

Indian Oil Corp said it doubled the capacity of its Panipat refinery to 240,000 bpd.

Nippon Oil Corp said it would refine 4.7% more crude in June than May, when the company was forced to reduce processing volumes due to unexpected production problems. It is expected to

process 4.5 million kiloliters or 943,000 bpd of crude in June. In June, Nippon Oil is expected to close its 145,000 bpd Sendai refinery from the middle of the month for about 30 days.

Sinopec's Maoming's 70,000 bpd crude unit is scheduled to undergo 40 days of regular maintenance starting in mid-June. The refinery's operations in June would, as a result, fall by about 11% from peak rates in May to a planned 253,000 bpd.

PDVSA director Eulogio Del Pino said Iran and Venezuela are discussing the creation of a heavy oil processing plant in the Orinoco belt that could supply Iran with gasoline and other finished products.

Iran is set to build a 120,000 bpd refinery by 2009 to process its low quality sour Soroush and Nowruz crude. A plan by the Oil Products Export Development fund of Iran to oversee construction of the refinery has been approved by the government. Iran has been struggling to find takers for the heavy sour crude. Iran's national oil company has been forced to charter tankers to store the oil due to a lack of buyers.

Russia's Lukoil is expected to halve its June runs at its Norski refinery to about 140,000 bpd for scheduled maintenance. Trading sources stated that it would increase exports toward the Black Sea ports and sell more crude on the domestic market to accommodate excess barrels.

The head of the BP led Baku-Ceyhan pipeline group, said Azeri oil exports via the Turkish Mediterranean port of Ceyhan would amount to at least two cargoes in June and would increase to 300,000-400,000 bpd in a few months. Last week, Azeri Energy and Industries Minister Natic Aliyev said the first cargo with Azeri crude was bought out of Ceyhan by US ExxonMobil and a 2.2 million barrel tanker would load on May 27-28.

India's April fuel imports fell by 5.5% to 823,300 tons from the same period a year earlier. India's crude oil imports in April however increased by 3.1% on the year to 8.02 million tons. Its exports of refined products fell by 6% to 1.28 million tons over the year.

Enbridge Inc was seeking support from shipper to build a \$920 million pipeline from the US Midwest to Canada's oil sands region to import diluents used to leaven tar like oil sands bitumen. The proposed Southern Lights pipeline would have a capacity of 180,000 bpd and would involve a combination of new construction, reversals and expansions of Enbridge's existing crude oil pipeline system. The line would run from Chicago, Illinois to the refining center in Edmonton, Alberta.

According to an analyst, ethanol prices on Brazil's domestic market are expected to remain higher in 2006 compared with last year. Increased domestic demand for ethanol, in addition to strong sugar prices would keep prices higher during the 2006-07 harvest. It is estimated that Brazil would produce 15.6 billion liters of ethanol during the 2006 harvest, a 9% increase over the 14.3 billion liters produced last year.

Production News

China's apparent demand for oil in April increased 10.8% on the year after an increase in state set fuel prices encouraged refiners to increase supplies to the domestic market. It used 6.69 million bpd of oil last month, despite a fall in crude imports. Car sales increased by almost half over the first four months of the year, helping increase gasoline demand by 20% to 1.2 million bpd in April. In April, crude imports fell 1.8% as world prices increased and refiners cut purchases due to negative domestic margins. During the first four months of the year, imports increased 17% to 2.99 million bpd.

The Petroleum and Natural Gas Senior Staff Association of Nigeria dropped its threat to call a strike at the local unit of ExxonMobil. It said it would instead continue talks to resolve an employment dispute. The union had threatened a strike at Mobil Producing Nigeria if the firm's management failed to resolve the dispute after its extended deadline expired on Tuesday.

Brazil's Petrobras said it would more than double its overseas oil and gas production to 545,000 barrels of oil equivalent/day by 2010. Its current production stands at 270,000 boe/d.

OPEC's news agency reported that OPEC's basket of crudes increased by 2 cents/barrel to \$65.12/barrel on Monday. It reported that OPEC's basket of crudes increased by 37 cents/barrel to \$64.09/barrel in the week ending May 26th.

Algeria plans to spend \$32 billion to expand its energy sector over the next five years. It has stated that it was aiming to increase crude oil output from 1.4 million bpd to 2 million bpd by 2010. However its goals depend on attracting new foreign investment and on expanding infrastructure. Pipeline constraints, rig shortages and rising costs could hinder its progress. Despite passing a new hydrocarbons law last year, implementation of the new law has faced delays. The slow progress has set back plans for Algeria's next upstream bidding round to the end of the year. Underlying the logistical challenges is the prospect of increasing political uncertainty as Algeria's President Abdelaziz Bouteflika's health appears frail. A change in administration could isolate Oil Minister Chakib Khelil and under his attempts to reform the energy sector.

Market Commentary

The oil market gapped higher from 71.90 to 72.35 in follow through strength seen in overnight trading. The market was well supported amid the reports that China's apparent demand for oil in April increased by 10.8% to 6.69 million bpd from a year earlier after an increase in state-set fuel prices encouraged refiners to increase supplies to the domestic market. The market traded to 72.55 before it retraced some of its early gains and traded to a low of 72.00. The crude market later bounced off its low and traded mostly sideways before it breached its resistance and posted a high of 72.75. The oil market retraced its gains and backfilled its gap as it sold off to a low of 71.90 ahead of the close. The crude market settled up 66 cents at 72.03. Volume in the crude market was light with 149,000 lots booked on the day. The gasoline market settled up 1.31 cents at 214.99 after it rallied to a high of 219.00 earlier in the session. The market opened up 2.32 cents at 216.00 and settled in a sideways trading range before it rallied to its high. The gasoline market however erased its gains as it sold off to a low of 214.50 ahead of the close. Similar to the crude market, the heating oil market gapped higher from 201.25 to 202.00 in follow through strength seen on Access. The market rallied to its high of 202.70 on

light volume trading. The market however gave up its gains and posted a low of 200.00 ahead of the close. It settled up 2.34 cents at 200.39. Volumes in the product

Technical Analysis		
	Levels	Explanation
CL 72.03, up 66 cents	Resistance 74.35, 75.10 72.75 to 72.95	Previous highs Remaining gap
	Support 71.90 70.90, 69.90, 69.80	Tuesday's low Previous lows
	Resistance 202.70 to 204.25 202.00	Remaining gap(May 15th)
	Support 200.00 197.00, 194.50, 193.60	Tuesday's low Previous lows
HO 200.39, up 2.34 cents	Resistance 221.40, 222.50 217.50, 219.00	Previous highs Tuesday's high
	Support 214.50 208.00, 202.50, 201.50	Tuesday's low Previous lows

markets were good with 40,000 lots booked in the gasoline market and 42,000 lots booked in the heating oil market.

The oil market on Wednesday is seen remaining supported ahead of Thursday release of the weekly petroleum stock reports on Thursday. The market is seen holding its support amid the reports that China's oil demand increased. The Iranian issue also has the potential to continue to push prices significantly higher. The Security Council members as well as Germany are scheduled to meet to further discuss the European Union proposal to halt Iran's nuclear program on Thursday. The market is seen finding support at 71.90 followed by its previous lows of 70.90, 69.90 and 69.80. Meanwhile, resistance is seen at its remaining gap from 72.75 to 72.95 followed by 74.35 and 75.10.