



## ***ENERGY RISK MANAGEMENT***

Howard Rennell, Pat Shigueta &  
Zachariah Yurch

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

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

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### **ENERGY MARKET REPORT FOR JUNE 1, 2006**

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Iran's Foreign Minister Manouchehr Mottaki said Iran was open to talks with the US but rejected a US demand that it halt its uranium enrichment. US President George W. Bush warned Iran that if it refused to stop its uranium enrichment, its case would go to the UN Security Council. Meanwhile, US officials said Russia and China had come around to support the incentives and threats package drafted by Britain, France and Germany, however details on how to balance the offer would be discussed on Thursday. China's Foreign Ministry welcomed the US proposal to hold direct talks with Iran and denied that its opposition to sanctions on Iran was meant to ensure a steady oil supply. US Secretary of State Condoleezza Rice said a last resort military option should talks or sanctions prove

#### Market Watch

Officials stated that Turkey plans tougher security measures to safeguard a \$4 billion pipeline carrying Azeri crude from Baku to the Mediterranean port of Ceyhan. The first oil arrived at Ceyhan on May 28 and the first loading onto tankers is expected to be completed by June 4, later than originally expected. The measures include increasing the number of police stations and special security teams charged with looking after the section of the pipeline that crosses Turkey's territory.

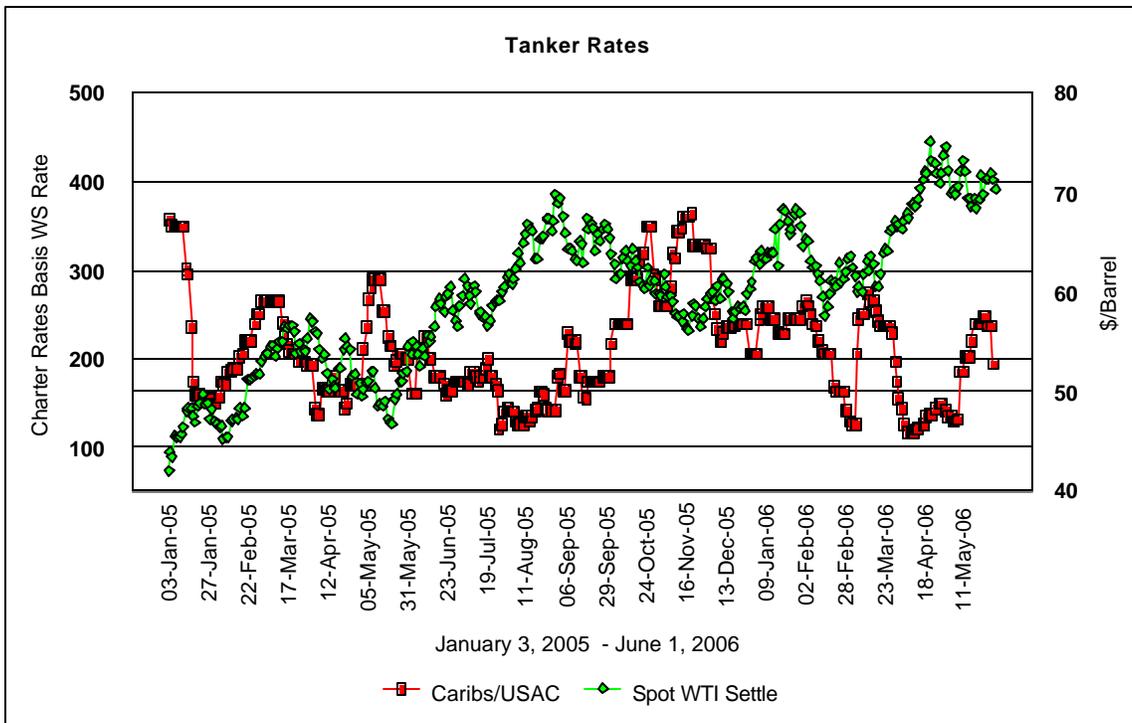
Police and soldiers set up checkpoints and searched cars in Basra on Thursday following Iraq's Prime Minister Nuri al-Maliki's promise to restore stability. Basra is expected to provide an indication of whether he can support his words with action after previous Iraqi leaders failed to ease the Sunni insurgency and sectarian violence threatening oil exports.

Japan's Foreign Minister Taro Aso said Japan is not considering economic sanctions against Iran over its controversial nuclear program.

A Dutch tanker carrying 1,500 tons of diesel collided with a bridge over Germany's Main River on Thursday. Shipping along the river was halted.

WSI Corp forecast that the 2006 Atlantic hurricane season would produce fewer hurricanes and tropical storms than last year but more than average as tropical Atlantic Ocean temperatures remain very warm. It predicted 15 tropical storms for 2006, nine of which are expected to become hurricanes. It said five of those storms would become major hurricanes of Category 3 or higher.

Indonesia is on pace to soon surpass Vietnam as the world's most affected country fighting the bird flu. The World Health Organization expressed growing frustration that they must fight Indonesia's bureaucracy as well as the disease. Health Ministry officials often meet with outside experts to formulate plans to fight bird flu but they are rarely implemented. There have been 36 deaths related to the bird flu in Indonesia and is expected to soon surpass Vietnam's 42 fatalities.



futile, remained on the table. However the US accepted language in a proposed Council resolution to underpin the offer that would rule out an immediate threat of military strikes on Iran.

OPEC on Thursday prepared to

leave its oil production quotas unchanged and continue producing at full capacity, dismissing a call for a production cut by Venezuela. OPEC's President Edmund Daukoru said that current market conditions suggested there was no need for the group to meet again before its scheduled September 11 meeting in Vienna. Meanwhile, Saudi Arabia's Oil Minister Ali al-Naimi said the oil market is oversupplied and overpriced. It estimated that the oil market was oversupplied by about 1 million bpd. He also stated that it saw no extra demand from its customers for oil. Venezuela's President Hugo Chavez said some OPEC countries were considering using the euro for international oil sales instead of the dollar. He also reiterated that OPEC did not need to add more supplies to the world oil markets because the market is well supplied. Earlier, Venezuela's Energy Minister Rafael Ramirez said Venezuela was considering that option to defend its revenues against the falling value of the dollar.

Separately, OPEC ministers stated that they are not concerned that high oil prices pose a risk to the world economy. Policymakers argue that with price increases being fueled by political jitters such as Iran's nuclear ambitions, there is little they can do to ease prices.

According to Oil Movements, OPEC's exports are expected to increase by 100,000 bpd to 24.75 million bpd in the four weeks ending June 17. It said the extra barrels were heading east as Asian demand increased following refinery maintenance turnarounds.

### **Refinery News**

According to a Venezuelan government official, 550,000 bpd of oil earmarked for the US is in storage in Venezuela due to a contractual dispute between ExxonMobil Corp and PDVSA. Three months of test oil production from ExxonMobil's La Ceiba oil field is in storage. The official said Exxon is upset over the issue because it made plans to ship the medium grade crude to one of its US refineries, ahead of the peak gasoline demand period in the US.

The Port of Corpus Christi, Texas was shut following an oil spill late Wednesday. A fire at Valero Energy Corp's Corpus Christi, Texas refinery caused an oil spill of about 250 barrels. A US Coast Guard spokesman said the oil spill in the harbor of Corpus Christi has prevented the departure of two

ships from the harbor and kept another four vessels from entering the harbor. The shipping channel has been closed for an undetermined amount of time. Valero said it cut throughput at its 340,000 bpd Corpus Christi, Texas refinery by 30% following weather related issues. The reduction in feedstock runs cut gasoline production by 50,000 bpd and distillate production by 20,000 bpd.

Meanwhile, Citgo Petroleum Corp's Corpus Christi, Texas refinery has been operating at reduced rates due to weather related complications. Steam production from third party supplier Calpine Corp has been unreliable. In addition, several electrical transformers were out of service due to the storm. Separately, Flint Hills notified the Texas Commission on Environmental Quality of a spill at its Corpus Christi, Texas refinery following bad weather overnight.

ExxonMobil on Wednesday began restarting a hydrocracking unit at its 563,000 bpd refinery in Baytown, Texas following a problem with a compressor. A fluid catalytic cracker at the refinery is expected to resume operations on June 6 following spring maintenance.

One of two reformer units at BP's 460,000 bpd Texas City, Texas refinery shut ahead of Hurricane Rita has returned to service. A source familiar with the refinery's operations did not know when the other reformer would resume operations.

According to a filing with the Texas Commission for Environmental Quality, ConocoPhillips has delayed the repair of a coker unit at its 117,000 bpd refinery in Sweeny, Texas until June 6 in order to assemble personnel and equipment. Meanwhile, ConocoPhillips was delaying the restart of its 190,000 bpd refinery in Trainer, Pennsylvania from late May to early June following spring maintenance.

PDVSA restarted a 50,000 bpd fluid catalytic cracking unit at its La Isla refinery on Tuesday. The unit was shut in March for planned work.

Colonial Pipeline said it would allocate gasoline shipments on Line 1 for the 33<sup>rd</sup> cycle north of Collins, Mississippi. Previously, Colonial froze nominations on Line 1 for cycle 32, which stopped any more gasoline from being scheduled for shipment.

Nigeria is expected to purchase 60 cargoes of gasoline in its third quarter import tender, about 12 cargoes more than expected.

Japan's Natural Resources and Energy Agency reported that the country's refined product demand is forecast to fall to 216.5 million kiloliters or 1.4 million barrels in the fiscal year 2010 from 238.5 million kl in fiscal year 2005. Meanwhile, METI officials stated that for fiscal 2006, Japan's private sector is obliged to hold 36.7 million kl however the volume would fall by 11.1% to 32.7 million kl due to diminishing domestic demand.

Singapore's International Enterprise stated that the country's residual fuel oil inventories fell by 2.131 million barrels to 9.81 million barrels in the week ending May 31. It reported that Singapore's light distillate stocks fell by 756,000 barrels to 7.078 million barrels while middle distillate stocks increased by 1.489 million barrels to 7.441 million barrels on the week.

Ukraine's Ukrtransnafta said it aimed to end next year an arrangement by which the Odessa-Brody pipeline, designed to bring Caspian Oil to Europe, has instead been pumping Russian oil to the Mediterranean. It said the reverse flow was unsatisfactory, as Ukraine expected no growth in Russian oil transit volumes.

## **Production News**

Royal Dutch Shell has cut its oil production by a further 50,000 bpd in Nigeria due to a pipeline leak. The company said it was investigating the cause of the leak, which increased its total production outage in Nigeria to 505,000 bpd after a series of militant attacks earlier this year shut down several of its facilities. Shell said the leak was affecting the Nembe Creek trunk line, which carries crude to the Bonny Island export terminal.

Shipping sources stated that Iraqi oil exports fell by 50,000 bpd to 1.5 million bpd in May compared with 1.55 million bpd in April. Oil exports were halted for a few days at the southern Basra terminal in May. Also, shipments from Iraq's Khor al-Amaya offshore oil terminal were halted last week after a small electrical fire.

Oil product stocks in independent storage tanks in the Amsterdam-Rotterdam-Antwerp area fell over the past week. The weekly data showed gasoline stocks, which was falling in recent weeks, increased to 685,000 tons from 665,000 tons in the week ending June 1<sup>st</sup>. Meanwhile gas oil stocks fell by 70,000 tons to 1.69 million tons in the latest week. Jet fuel stocks fell by 20,000 tons to 315,000 tons while naphtha stocks fell by 10,000 tons to 95,000 tons and fuel oil stocks fell by 5,000 tons to 620,000 tons on the week.

Russia's oil production in May increased to 39.351 million tons or 9.62 million bpd, up from 9.6 million bpd in April, according to preliminary data.

Kazakhstan's Deputy Energy Minister Lyazzat Kiinov suggested Royal Dutch Shell may not be the only party negotiating for a production sharing agreement to explore the Nursultan block in the Caspian Sea.

OPEC's news agency reported that OPEC's basket of crudes fell by 48 cents/barrel to \$64.93/barrel on Wednesday from \$65.41/barrel on Tuesday.

## **Market Commentary**

The oil market opened down \$1.19 at 70.10 and quickly posted a low of 70.05 in follow through selling seen in overnight trading after the US announced it was ready to hold direct talks if Iran halted its nuclear program. The market retraced some of its losses but remained pressured following the release of the weekly petroleum stock reports, which showed larger than expected builds in crude stocks. The market however found some support amid the strength in the gasoline market in light of the DOE showing a smaller than expected build in gasoline stocks. The market also held support amid reports that 550,000 bpd of oil earmarked for the US is in storage in Venezuela due to a contractual dispute

between ExxonMobil Corp and PDVSA. The oil market rallied to a high of 71.90. However the market later retraced its gains and

<b>Technical Analysis</b>		
	<b>Levels</b>	<b>Explanation</b>
<b>CL</b> 70.34, down 95 cents	<b>Resistance</b> 72.75 to 72.95	Remaining gap (May 15th) Thursday's high
	<b>Support</b> 70.50, 71.50, 71.90	
	<b>Support</b> 70.05 69.90, 69.80, 68.40	Double bottom Previous lows
<b>HO</b> 197.07, down 2.46 cents	<b>Resistance</b> 204.70, 205.00 to 206.30	Previous high, Remaining gap (May 15th) Remaining gap (May 31st)
	<b>Support</b> 200.00, 202.00 to 202.30	
	<b>Support</b> 195.00 192.5 to 191.81	Thursday's low Remaining gap (April 10th)
<b>HU</b> 212.72, up 3.15 cents	<b>Resistance</b> 218.45, 219.50	Thursday's high, Previous high
	<b>Support</b> 215.50, 217.00	
	<b>Support</b> 211.00, 210.00, 206.75 206.25, 203.25	Thursday's low

traded back towards its low ahead of the close. It settled down 95 cents at 70.34. The gasoline market opened down 3.32 cents at its low of 206.25 and never looked back. The market extended its gains to over 8.8 cents as it rallied to a high of 218.45 following the release of the DOE report and the supportive news. The market later retraced some of its gains ahead of the close and settled up 3.15 cents at 212.72. The heating oil market also opened down 3.53 cents at 196.00 and traded to a low of 195.00 following the release of the DOE report showing a larger than expected build in distillate stocks. However the market bounced off its low to a high of 202.00 amid the strength in the gasoline market. It later erased its gains and traded back towards its low ahead of the close. It settled down 2.46 cents at 197.07.

The oil market will remain headline driven, as the market will look for further developments on the talks between the UN Security Council members on a package of incentives and threats aimed to get Iran to halt its nuclear program. The market is seen finding support at its low of 70.05 followed by 69.90, 69.80 and 68.40. Meanwhile resistance is seen at 70.50, 71.50 and 71.90. More distant resistance is seen at 72.75 to 72.95.