



ENERGY RISK MANAGEMENT

Howard Rennell, Pat Shigueta &
Zachariah Yurch

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

www.e-windham.com

ENERGY MARKET REPORT FOR JUNE 14, 2006

Iran's Foreign Minister Manouchehr Mottaki said the package of incentives designed to persuade Iran to suspend its nuclear program was a step forward. He said after Iran reviewed the incentives, it would consult with Germany, the UK and France and decide together how to handle the issue. He added that Iran's right to develop nuclear technology for peaceful purposes had to be compatible with setting adequate guarantees to overcome the concerns of the international community.

Meanwhile, Iran's atomic negotiator, Ali Larijani said there was no world consensus pushing it to stop enriching uranium as the Non-Aligned Movement ignored US calls to endorse the package of incentives to end its uranium enrichment program. The five UN Security Council permanent

Market Watch

Traders and shipping brokers reported at least 1.5 million tons of spot arbitrage gasoline due for loading in Europe for export to the US in June. That amounts to about 40 cargoes headed for New York Harbor or the US Gulf Coast. They said the volume represented a steady flow of transatlantic gasoline exports through the month so far from Northwest Europe, the Baltic and the Mediterranean. The June figure compared with flows of about 2-2.5 million tons in May.

Saudi Arabia has booked five more Very Large Crude Carriers to the US Gulf in July, increasing spot fixtures to the US and Europe for the month to 16.5 million barrels.

The UAE's official news agency reported that six Gulf countries adopted a contingency plan in case of a blockage of shipping through the mouths of the Gulf and the Red Sea. The move came amid the tension between the US and Iran over its nuclear program and a warning by Iran's Supreme Leader that world energy flows could be disrupted if the US made any wrong move against Iran.

Halliburton may be chosen to widen the Baku-Ceyhan pipeline transporting oil from the Caspian to the Mediterranean. A Socar official said did not state a figure for the future maximum capacity of the pipeline, which is expected to come on stream next month but said the question was still under discussion. Without work to expand capacity, the pipeline is expected to pump more than 1 million bpd. Increasing the pipeline's capacity would enable the pipeline to pump 25-30 million tons of oil a year or 520,000-625,000 bpd from Kazakhstan and other sources.

The Labor Department reported that US consumer prices in May increased by 0.4% following April's 0.6% increase. It reported that core prices, excluding food and energy, increased by 0.3%. Consumer prices in the first five months of the year were up at an annual rate of 5.2% compared with a 3.6% increase reported last year.

Federal Reserve Bank of Dallas President Richard Fisher said he was uncomfortable with current inflation levels and that the Fed had to act to ensure that inflation was kept at bay.

China's cabinet called for moves to cool the economy after reports showed that industrial output grew 17.9% from a year earlier in May while the M2 measure of money supply was 19.1% higher than a year earlier. China is keen on making its economy less reliant on investment and exports and more so on private consumption to make the economy less vulnerable to external shocks and trade conflicts.

Standard & Poor's Ratings Services found that almost all US oil and gas producers and refiners use derivatives to manage risks related to oil and gas commodity prices, using a variety of financial instruments and hedging practices.

DOE Stocks

Crude – down 900,000 barrels
Distillate – up 2.1 million barrels
Gasoline – up 2.8 million barrels
Refinery runs – up 1.87%, at 92.7%

members and Germany hoped a debate on Thursday of the IAEA's governing board would help persuade Iran to accept their offer.

Iraqi oil shipments to the Turkish port of Ceyhan were halted late Tuesday due to a lack of stored crude supplies.

Exports from Kirkuk restarted on Saturday after months of no activity and Iraq had managed to pump about 250,000 bpd of Kirkuk oil to the Turkish port. Total stocks at Ceyhan increased to about 3.65 million barrels by Wednesday. Separately, Iraq's Oil Minister Hussain al-Shahristani said Iraq was considering reopening a 200,000 bpd oil export pipeline to Syria. He also stated that he planned a shake up at state oil firms, including State Oil Marketing Organization in a bid to end corruption.

Iran's Governor to OPEC, Hussein Kazempour Ardebili said crude oil prices would fluctuate but remain high in the short term. He said the world oil market would be influenced by world economic growth forecasts, limitations to refining capacity, the possible imposition of economic sanctions on some oil producing countries as well as a range of geopolitical factors.

The API reported that US demand for oil and petroleum products in May fell by 0.8% on the year to 19.973 million bpd. It was down 166,000 bpd on the year. Gasoline demand fell by 301,000 bpd or 3.3% to 8.956 million bpd in May as fuel costs increased 35%. API reported that distillate demand increased by 1.2% to 4.102 million bpd in May as deliveries of new ultra low sulfur diesel increased sharply. In regards to supply, crude oil and refined products imports increased to 14.331 million bpd. It reported that total oil imports accounted for 72% of petroleum use.

The DOE reported that US inventories of propane totaled 42.53 million barrels in the week ending June 9th, up 1.363 million barrels on the week. It reported that propane inventories in the East Coast increased by 222,000 barrels to 4.097 million barrels while inventories in the Midwest increased by 474,000 barrels to 18.23 million barrels and inventories in the Gulf Coast increased by 544,000 barrels to 19.158 million barrels on the week.

Refinery News

A fire broke out following an explosion at Valero's 215,000 bpd refinery in Quebec while a refinery unit that had been down for maintenance was being restarted. Valero said the fire was extinguished and should not have any impact on production.

Alon USA Energy Inc is considering repairs to a SCOT unit at its 70,000 bpd refinery in Big Spring, Texas. The unit began releasing sulfur dioxide on Tuesday night. It is expected to decide later this week what repairs are needed on the unit.

Explorer Pipeline Co restarted its refined oil products pipeline Tuesday afternoon. The entire system was operating at scheduled rates on Wednesday following a gasoline tank fire on Monday.

Colonial Pipeline is not expected to allocate gasoline shipments on Line 1 for the 35th cycle north of Collins, Mississippi after allocating the previous two cycles. Its 33rd and 34th cycles were allocated.

BP Plc said there was no shortage of oil refining capacity in the world but added that there were constraints in the ability of refineries to process heavy crude. It said that if only a fraction of planned new refining projects proceeded, world capacity would continue to be sufficient to match increasing demand for oil products. Separately, BP reported that growth in energy production and consumption in

2005 fell to 2.7%, down from a 4.4% increase in 2004. It said energy consumption growth in the US fell by 0.1% while energy consumption growth in China fell by 15.5%.

China's National Statistics Bureau reported that China's crude runs in May were up 5.7% on the year. Refineries processed 25.21 million tons or 5.94 million bpd of crude in May compared with 6.09 million bpd in April. In the first five months of the year, crude runs increased 4.6% on the year to 123.87 million tons or 5.99 million bpd. An increase in China's domestic oil production continued to lag behind refiners' demand last month, forcing it to import about 45% of their crude in the first five months of the year compared with 40% in all of 2005. Oil production increased by 2.5% to 15.72 million tons or 3.7 million bpd in May.

China's Sinopec Corp and PetroChina are set to skip diesel imports for the sixth consecutive month in July in light of the government capped fuel prices.

Neste Oil stated that a four day strike has almost halted the building of a diesel production line at its main Porvoo refinery in southern Finland. The production line, which is expected to be operational by the end of 2006, would increase Neste's annual production capacity of sulfur free diesel fuel and jet fuel by over 1 million tons.

The BP led Baku-Ceyhan pipeline is scheduled to load 116,000 bpd of Azerbaijan's oil in July. The pipeline started loading its first cargo on June 3 after delays to the startup of over a year. BP expects the flow of Azeri crude from the pipeline to reach 300,000 to 400,000 bpd in a few months.

Pertamina reported that Indonesia's oil product stocks increased to 21 days of demand from below 20 days last week. A Pertamina official said it would like to maintain 21-22 days worth of forward demand.

According to the Petroleum Association of Japan, Japan's gasoline inventories fell by 9,942 kiloliters or .49% to 2.01 million kl in the week ending June 10. On a year on year basis, gasoline stocks were down 5.21%. It reported that gasoline imports fell to 21,506 kl or 135,000 barrels from 103,046 kl or 650,000 barrels the previous week. Meanwhile, commercial crude stocks were steady at 19.25 million kl or 121.1 million barrels, up 0.1% from the week before. Average refinery operations increased 2.6% to 71.7% last week.

Production News

US President George W. Bush said the US government was working with Iraqi officials to establish repair teams to fix damage from attacks on Iraq's energy infrastructure.

Petrologistics reported that Saudi Arabia cut its oil exports to Asia by 570,000 bpd amid a fall in demand due to a heavy round of refinery maintenance. Saudi Arabia's production fell to 9.05 million bpd in May. Saudi Arabia shipped 220,000 bpd less crude to Asia in May than April and 350,000 bpd less in April than in March. Meanwhile buyers in the west took 180,000 bpd more Saudi crude in May than April, compensating in part for the fall in exports to Asia.

Production at Venezuela's western oil fields have fallen 21% over the past four years, indicating that it has failed to recover from two strikes in 2002. PDVSA estimated its production in western oil fields at 1.202 million bpd in April, down from 1.521 million at the start of 2002.

An official at the National Iranian Oil Co said Iran would put the exploration and development of 12 oil blocks out to international tender. In January of 2004, the NIOC put out to international tender the

exploration and development of 16 oil blocks, however contracts on only four of the blocks have been finalized so far.

OPEC's news agency reported that OPEC's basket of crudes fell to \$63.20/barrel on Tuesday from \$65.41/barrel on Monday.

Thailand's Energy Ministry expects that the country's oil demand in the second half of the year would continue to fall as the net crude importer faces slowing economic growth and high prices. Crude oil imports in 2006 are expected to fall 2-3% from 870,000 bpd last year, down 5.4% from a year earlier. Imports of crude fell by 1.9% to 831,000 bpd in the first five months of the year.

Petroecuador exported 26.5 million barrels of crude oil in the first five months of the year, up 18% from 22.39 million barrels reported last year.

Market Commentary

The oil market sold off early in the session and posted a double bottom at 68.30 following the release of the DOE reports which showed larger than expected builds in product stocks. The market however bounced off its low and traded to 69.25 despite the continuing build reported in total petroleum stocks of 6.7 million barrels. The market later retraced its gains and traded back towards its low. However as it failed to test the 68.30 level, the market bounced off that level once again and rallied to a high of 69.40 ahead of the close. It settled up 58 cents at 69.14. The news of a fire at Valero's Quebec city refinery lent some support to the market. Volume in the crude market was good with 230,000 lots booked on the day. The gasoline market however settled in negative territory, down 1.59 cents at 203.59. The market posted a high of 207.00 early in the session before it sold off in light of the larger than expected builds reported in gasoline stocks. The DOE reported a build of 2.8 million barrels in gasoline stocks while the API also reported a build of over 2.9 million barrels. The market sold off to a low of 202.00, where it held some support. However the market later breached that level and posted a low of 200.50. The gasoline market bounced off its low and traded to 204.00 ahead of the close amid the refinery news. Similar to the crude market, the heating oil market sold off to a low of 191.50 in light of the larger than expected builds reported in distillate stocks. The market however bounced off its low and traded to 194.10, where it held some resistance. The heating oil market, which settled in a sideways trading pattern, later breached its high and rallied to a high of 194.50 ahead of the close. It settled up 43 cents at 193.59. Volume in the product markets were good with 40,000 lots booked in the gasoline market and 45,000 lots booked in the heating oil market.

The oil market will likely continue to retrace its previous losses as it seems to have found good support at its low of 68.30. The market, which will remain headline driven amid the continuing concerns over Iran, is seen finding further buying if the market trades back towards the low 68.00s. More

Technical Analysis		
	Levels	Explanation
CL 69.14, up 58 cents	Resistance 69.60 to 70.20	Remaining gap (June 13th)
	Support 69.40	Wednesday's high
	Support 68.30 67.85, 67.60, 67.25, 66.55	Double bottom Previous lows
HO 193.59, up 43 points	Resistance 196.25 to 198.60	Remaining gap (June 13th)
	Support 194.50	Wednesday's high
	Support 193.00, 191.50 189.65, 188.90, 188.00	Wednesday's low Previous lows
HU 203.59, down 1.59 cents	Resistance 210.50 to 212.00	Remaining gap (June 13th)
	Support 204.00, 207.00	Wednesday's high
	Support 202.00, 200.50 198.00, 197.25	Wednesday's low Previous lows

distant support is seen at 67.85, 67.60, 67.25 and 66.55. Meanwhile resistance is seen at 69.40 followed by its gap from 69.60 to 70.20.