



## ***ENERGY RISK MANAGEMENT***

Howard Rennell, Pat Shigueta &  
Zachariah Yurch

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

**www.e-windham.com**

---

### **ENERGY MARKET REPORT FOR JULY 25, 2006**

---

Saudi Arabia's King Abdullah appealed to the world to stop Israeli attacks on Lebanon. He stated that if peace efforts failed, the Middle East could be engulfed in a war. Saudi Arabia's king Abdullah has decreed donations totaling \$1.5 billion to Lebanon. He assigned \$500 million for the reconstruction of Lebanon and \$1 billion to be deposited in Lebanon's central bank to support the economy. Iran's President Mahmoud Ahmadinejad also warned that the conflict could move through the entire Middle East. He said Iran was against any form of violence in the Middle East.

Meanwhile, Jordan's Foreign Minister Abdul-Ilah al-Khatib said Arab nations are expected to insist on an immediate ceasefire. He said they would also push to strengthen the ability of the Lebanese government to assert its authority over all its territory. He also stated that the Arab countries supported the idea of installing an international force in southern Lebanon that could stop the cross border fighting.

Separately, a top Hamas official said Israeli soldiers would only be released as part of a prisoner swap. He raised the possibility of teaming up with the Shi'ite militant group Hezbollah to negotiate terms that would lead to the release of Palestinian and Lebanese prisoners in Israel in exchange for the Israeli soldiers.

US Secretary of State Condoleezza Rice declared that the US wants an urgent and enduring peace where problems are solved without war. Following a meeting with Palestinian President Mahmoud Abbas, she stated that there was a need for sustainable peace. She reiterated the US' position that a cessation of hostilities should come with conditions, saying that there was no desire on the part of US officials to come back in weeks or months after terrorists find another way to disrupt any potential cease fire. Meanwhile Germany's defense minister said a cease fire should be in place before there is any thought of sending international troops to Lebanon. Israel has suggested that it would accept an international force to ensure the peace in southern Lebanon.

#### Market Watch

A US State Department official said the world could handle a cut in oil exports from Iran.

Oil trader T. Boone Pickens said he expected that US oil futures would top \$80/barrel by year's end. However he was less optimistic that prices would reach the \$100/barrel level.

Enbridge Inc said it started construction of a southern access extension pipeline, which would extend its crude oil mainline from Flanagan, Illinois to the hub at Patoka, Illinois. The pipeline could begin service as early as 2009 with initial capacity of 400,000 bpd, which could be increased to 800,000 bpd.

#### **Refinery News**

Colonial Pipeline said it would freeze nominations for three cycles and eliminate a cycle on Line 18. It said it was eliminating cycle 43 to bring the line back in sync with tank farm deliveries at Atlanta junction.

The EPA announced that it would waive its gasoline rules for parts of Illinois through August 4. Concerns that the shutdown of ConocoPhillips' Wood River refinery would squeeze gasoline supply in parts of the state prompted Governor Rod Blagojevich to request a waiver. The waiver would allow gasoline stations to distribute and sell conventional gasoline instead of reformulated gasoline in the counties of St. Clair, Madison and Monroe.

Meanwhile, ConocoPhillips said it hoped to resume operations on units at its Wood River refinery in Illinois by sometime next week. The 306,000 bpd refinery was shutdown last Wednesday after losing power during severe storms. The company said it was beginning to restart several operating units.

Sources stated that ExxonMobil Corp planned to perform work on two distillate units at its 349,000 bpd Beaumont, Texas refinery. The work is expected to last three to four weeks. Separately, ExxonMobil said its 96,000 bpd fluid catalytic cracking unit at its Torrance, California refinery is in restart mode. The unit was shutdown for planned maintenance earlier in the month.

Citgo Petroleum completed planned maintenance at its 156,000 bpd refinery in Corpus Christi, Texas. A reformer unit was shut due to a fire in early July and then underwent planned maintenance the following week. Meanwhile it stated that it still had work scheduled for some units on its 425,000 bpd Lake Charles, Louisiana refinery for the fourth quarter while work was also scheduled at its 167,000 bpd refinery in Lemont, Illinois during the third quarter.

Chevron Corp's 243,000 bpd refinery in Richmond, California and ConocoPhillips' 76,000 bpd refinery in Rodeo, California reported flaring since Saturday as increasing temperatures have disrupted processes at the refineries. The refinery problems have not affected gasoline differentials in the spot market because refiner storage tanks were full across the state.

Venezuela's 180,000 bpd Hamaca heavy project is on schedule to complete a planned turnaround at its upgrading refinery towards the end of August. It started the maintenance at the upgrader during the first week of July.

ExxonMobil said it was ready to export about 500,000 barrels of crude from the La Ceiba field after waiting four months for PDVSA to authorize the cargo.

China's 160,000 bpd Hainan oil refinery plans to begin trial runs on August 5 after equipment problems forced a two month delay.

Cosmo Oil Co. Ltd. is expected to restart its 120,000 bpd crude distillation unit at its Sakaide refinery on Wednesday following planned maintenance. The unit was shut on July 8.

China's apparent demand for oil continued to increase in June. It reported an increase of 15% on the year in June. According to Reuters, implied oil product demand reached 7.02 million bpd as refinery output increased, fuel oil imports reached its second highest level and gasoline exports fell to the lowest level seen since early 2004. Separately, the General Administration of Customs reported that crude oil imports in June totaled 11.789 million tons. It reported that imports in the first six months of the year increased by 15.6% to 73.334 million tons. Its crude exports in June stood at 482,971 tons while in the first six months exports fell by 17% to 2.999 million tons.

China's Sinopec Corp is expected to maintain its August gasoline exports at 55,000 tons while West Pacific Petrochemical Co is expected to cut its gasoline exports by 60,000 tons to 90,000 tons. Gasoline exports from China are expected to total 145,000 tons on the week.

South Korea is expected to increase its spot diesel exports for August lifting by 12% on the month to 940,000 tons. However refiners are expected to cut August shipments of jet fuel to 525,000 tons from 650,000 tons reported in July.

### **Production News**

BP's Thunder Horse oil and gas platform in the US Gulf of Mexico is set to start production in early 2007, instead of the second half of 2006. The platform is expected to have a peak production capacity of 200,000 bpd of oil and 200 mmcf/d of natural gas.

An industry source stated that Iraq has yet to resume pumping oil along its northern pipelines to Turkey.

Shell said a pipeline leak at the Bonny oilfield has cut 180,000 bpd of crude production, increasing its supply losses to 653,000 bpd. The leak occurred at Shell's Sanbarth-Krakrama pipeline, section of the Nembe Creek trunk line. The pipeline is linked to the 390,000 bpd Bonny crude stream. Shell said force majeure has not been declared for Bonny exports and added that it had no timeframe on when its production would resume.

According to the central bank of Nigeria, the country's oil production in May increased to 2.29 million bpd, up from 2.15 million bpd in April. Its crude exports stood at 1.84 million bpd, up from 1.7 million bpd in April.

OPEC's news agency reported that OPEC's basket of crudes fell to \$67.99/barrel on Monday from \$68.44/barrel on Friday.

Nigeria has increased its August official selling price for Bonny Light and Qua Iboe crudes by 35 cents to Dated plus \$1.35/barrel. The official selling price for its Escravos crude was increased by 30 cents to dated plus 65 cents while the price for its Forcados crude was increased by 25 cents to dated plus \$1.20.

### **Market Commentary**

The oil market opened 20 cents higher at 75.25 and quickly posted a high of 75.30. However it breached

the 74.00 level as it traded to 73.80 amid the rumors that the two kidnapped Israeli soldiers at the center of the Middle East conflict were released by

<b>Technical Analysis</b>		
	<b>Levels</b>	<b>Explanation</b>
<b>CL</b> 73.75, down \$1.30	<b>Resistance</b> 75.30, 75.55, 78.15 74.00, 74.45	Double top, Previous highs
	<b>Support</b> 73.55 73.51, 72.55	Double bottom Previous lows
<b>HO</b> 194.39, down 2.60 cents	<b>Resistance</b> 198.50, 198.99, 201.30, 203.61 197.60	Previous high, 38% (211.10 and 191.50), 50% and 62% Double top
	<b>Support</b> 193.60 193.30, 192.80, 191.50	Tuesday's low Monday's low, Previous lows
<b>HU</b> 228.49, down 2.93 cents	<b>Resistance</b> 233.00, 234.60, 235.00 229.50, 232.80	Previous highs Tuesday's high
	<b>Support</b> 226.00 225.00, 223.25, 219.75	Tuesday's low Previous lows

Hezbollah. However the market bounced off its early low as Israeli officials denied knowledge of the prisoners' release. The rumor may have been sparked by talk of an exchange of prisoners. The oil market traded back above the 74.00 level only to see the market sell off once again and post a double bottom at 73.55 ahead of the close. It settled down \$1.30 at 73.75. Volume in the crude market was light with 149,000 lots booked on the day. The gasoline market also settled in negative territory as it gave up its previous gains. The market posted a high of 232.80 on the opening but quickly started to erase its gains. It extended its losses to over 5.4 cents as it posted a low of 226.00 ahead of the close. The market traded off its highs amid reports that Illinois was seeking waivers that would allow sales of conventional gasoline instead of reformulated gasoline in wake of the problems at ConocoPhillips' Wood River refinery. The gasoline market settled down 2.93 cents at 228.49. Meanwhile, the heating oil market posted a high of 197.60 on the opening but sold off to a low of 193.60 amid the sell off in the rest of the complex. It was also pressured amid the expectations that the weekly petroleum stock reports would show builds in distillate stocks. It settled down 2.60 cents at 194.39. Volumes in the product markets remained light with 47,000 lots booked in the gasoline market and 44,000 lots booked in the heating oil market.

The oil market is seen remaining in its recent trading range as the Middle East conflict continues. The market will seek further direction from the weekly petroleum stock reports which are expected to show draws of 100,000 barrels in crude stocks, draws of 400,000 barrels in gasoline stocks and builds of 1.6 million barrels in distillate stocks. If the reports show draws in crude and gasoline stocks, the market is seen holding its support levels. The market is seen finding its support at 73.55 followed by 73.51 and 72.55. Meanwhile resistance is seen at 74.00, 74.45 and its double top at 75.30. More distant resistance is seen at 75.55.