



## ***ENERGY RISK MANAGEMENT***

Howard Rennell, Pat Shigueta &  
Zachariah Yurch

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

**www.e-windham.com**

---

### **ENERGY MARKET REPORT FOR MAY 2, 2006**

---

Saudi Arabia's Oil Minister Ali al-Naimi said, during a joint appearance with US Energy Secretary Sam Bodman, that record high oil prices above \$70/barrel were not in the interest of Saudi Arabia or the US. He also said that cutting reliance on foreign imports would not increase energy security as previously stated by President George W. Bush. Saudi Arabia's Oil Minister also stated that future attacks by terrorists on the country's oil infrastructure were likely. He said terror groups were determined to hit the country's oil exports. However he stated that the US

#### Market Watch

The states of New York, California, Connecticut, Maine Massachusetts, New Mexico, Oregon, Rhode Island and Vermont have sued the Bush administration for lenient automotive fuel economy standards that they said worsen the energy crunch, contribute to air pollution and climate change. The lawsuit charged that the US National Highway Traffic Safety Administration has failed to meet federal laws requiring government to determine the impact of regulation on fuel conservation and the environment.

New Jersey's Governor Jon S. Corzine said he would not fight for his proposal to bring self service gasoline pumping to the state. Last week he said self service gasoline pumping could lower prices by as much as 6 cents/gallon. However his proposal has not been overwhelmingly embraced. Lawmakers stated that they were not convinced of the savings and worried that the move could actually mean increased prices for full service gasoline while new self serve gasoline would be sold at current prices.

US House Majority Leader John Boehner said Senate Majority Leader Bill Frist's plan to issue \$100 rebates to offset high gasoline prices was not well received in the House of Representatives. He said the rebate would not solve the problem. The House is expected to take up two energy related bills this week, one to crackdown on gasoline price gouging and another to increase oil refinery capacity.

Societe Generale said crude oil prices have good support around \$75/barrel but added that \$80/barrel is less likely without further supply loss. It said that even though the market has not yet reached a turning point, upward momentum is slowing and bullish sentiments are weakening.

AXA Investment Managers said the world economy has so far managed to remain resilient in the face of high oil prices. It said geopolitical concerns would continue to keep prices high. However it stated that persistently high or even increasing oil prices would translate into lower economic growth. In particular, consumer spending is likely to be hit by the energy tax.

The European Commission said it was concerned about moves by Bolivia to nationalize its energy sector, where several European companies have made investments.

Intercontinental Exchange Inc said its first quarter net income more than doubled to \$19.7 million from \$8.87 million a year ago as high oil and gas prices led to record trading volumes. The exchange recorded three consecutive months of record volume in the quarter, with total volume in March more than doubling to 6.8 million contracts compared with a year ago.

Germany's Finance Ministry said Germany's conservative-Social Democrat government's plan would compel German oil refineries to blend 2% biofuel content in petrol until 2009 and 4.4% biodiesel content in conventional diesel.

and Saudi Arabia have worked to reduce the danger. Meanwhile, US Energy Secretary Sam Bodman said the US and Saudi Arabia would maintain their oil trade relationship. He said Saudi Arabia's oil reserves and the US' SPR should allow both countries to work together to ensure the world has adequate oil supplies in emergencies. He also stated that the Bush administration does not believe a Senate bill to allow the US to sue OPEC for fixing oil prices would be viewed as legal by a court of law.

Iran's Foreign Minister said Russia and China officially informed Iran they would not support sanctions or military action over its nuclear program. Western diplomats said China and Russia would likely support a UN resolution demanding a halt to Iran's work on uranium enrichment but are not yet ready to support moves towards sanctions. Senior officials from the US, Britain, China, France, Russia and Germany are scheduled to meet later on Tuesday to prepare for a meeting of their foreign ministers on Iran on May 9. US Undersecretary of State Nicholas Burns said European governments would likely put forward some form of Chapter 7 resolution, that would may any demands mandatory and allows the use of sanctions and possibly force. Britain, France and Germany are expected to introduce the text of a new resolution on Iran on Wednesday. Meanwhile, the head of Iran's atomic energy agency, Manouchehr Mottaki said Iran had enriched uranium to 4.8% but would not enrich above 5%, keeping the country's enrichment work within a range used for nuclear power stations.

Iran's Deputy Oil Minister Mohammed Hadi Nejad-Hosseini said world oil prices could exceed \$100/barrel by the winter as demand outpaces supply. He said oil supply in the short term could not be increased. He also stated that there was some possibility of a US attack on Iran. However he said Iran would not halt its oil exports even in the event of an attack by the US on its nuclear installations. He said he hoped the UN would not impose any sanction on Iran's oil and gas industry. Separately, a senior commander in the Iranian Revolutionary Guards said Iran would target Israel first if the US did anything "evil."

The head of the EIA, Guy Caruso, said oil prices remain high as global supply is stretched thin due to insufficient spare production capacity and recent supply disruptions. He said oil demand was growing at a faster pace than demand despite the high oil prices. While world oil supplies are expected to grow by 800,000 bpd this year and by 1.5 million bpd in 2007, demand is expected to grow by 1.5 million bpd and 1.7 million bpd, respectively. In regards to ethanol, the head of the EIA stated that US ethanol supply should be adequate for 2006. He said that between domestic production and a small amount of foreign imports of ethanol, US refiners should be able to make up for 130,000 bpd of MTBE that has been used.

### **Refinery News**

ERG's refinery complex at Priolo, Sicily was fully shut on Tuesday, shutting in about 400,000 bpd of crude distillation capacity. It shutdown its 160,000 bpd Isab Nord refinery at Priolo on Sunday following a pipeline fire. The outage coincided with a full maintenance shutdown since the weekend at its 240,000 bpd Isab Sud refinery. Oil tanker operations at ERG's Isab terminal at the port of Augusta were suspended by the port authority until further notice. The operations were suspended for safety checks.

A portion of Valero Energy Corp's Houston, Texas refinery suffered a loss of power Monday that resulted in the shutdown of the Complex 1 regenerator, refinery steam system and sat gas compressor.

Tesoro Petroleum Corp is scheduled to partially shut down its 58,000 bpd refinery in Mandan, North Dakota on May 5 until about May 15 for maintenance work. The company said that work would be performed on one of its main process units.

A Pertamina official said Indonesia and Saudi Arabia are considering building a new 400,000 bpd export oil refinery in Indonesia. It would be the third new plant planned for Indonesia.

### **Production News**

Total SA plans to shut its Girassol oilfield off the coast of Angola in mid-May for work to expand its output capacity. The shutdown is needed to connect a new oilfield, Rosa, to Girassol's production vessel, allowing Girassol to maintain oil output at capacity of 250,000 bpd for longer.

Shipping sources reported that Iraqi oil exports in April increased by 140,000 bpd on the month to 1.5 million bpd as the weather conditions improved. This is contrary to the 1.619 million bpd reported on Monday.

Russia produced an average of 9.6 million bpd of crude oil and condensate in March. It is up 0.3% from March and up 3.2% from April 2005. Russia's Energy Ministry reported that its crude exports via major ports fell by 1.9% in April to 10.811 million tons or 2.64 million bpd. Meanwhile supplies via the trunk pipelines of Transneft fell to 4.39 million bpd in April from 4.5 million bpd in March.

Russia set a record high duty of \$199.80/ton on crude oil exports from June, up from \$186.40/ton, following another increase in world prices over the past two months.

Azerbaijan's Socar forecast the country's oil production would increase to over 30 million metric tons in 2006 or 602,000 bpd. In 2005, it produced 22.2 million tons or about 447,000 bpd.

Turkey's Council of Ministers approved the license to build a crude pipeline from the Black Sea to the Mediterranean. The Samsun-Ceyhan pipeline is scheduled to be jointly built by Eni and Turkey's Calik Enerji after the project is ratified by Turkey's President Ahmet Necdet Sezer.

OPEC's news agency reported that OPEC's basket of crudes increased by 68 cents/barrel to \$66.22/barrel on Monday from \$65.54/barrel on Friday. It also reported that OPEC's basket of crudes increased by 14 cents/barrel to \$66.34/barrel in the week ending April 28.

### **Market Commentary**

The energy complex extended its gains seen during Monday's session, as the oil market remained underpinned by Iran's defiance over its nuclear program. The markets were also supported by the news that ERG's refinery complex at Priolo, Sicily was fully shut on Tuesday following the pipeline fire on Sunday. Oil tanker operations at ERG's Isab terminal at the port of Augusta were also suspended by the port authority until further notice. The oil market gapped higher from 73.85 to 73.90 and quickly traded above the 74.00 level to 74.25. The market

<b>Technical Analysis</b>			
	<b>Levels</b>	<b>Explanation</b>	
<b>CL</b> 74.61, up 91 cents	<b>Resistance</b>	75.35 74.90	Previous high Tuesday's high
	<b>Support</b>	74.45, 73.80, 73.50 72.10, 71.00, 70.75	Tuesday's low Previous lows
	<b>Resistance</b>	210.50 208.75	Previous high Tuesday's high
	<b>Support</b>	206.90, 205.30 201.60, 200.50, 199.00	Tuesday's low Previous lows, Double bottom
<b>HU</b> 217.51, up 2.85 cents	<b>Resistance</b>	220.50, 221.50, 223.00 216.30	Previous highs Monday's high
	<b>Support</b>	215.80, 214.00, 212.50 209.50, 206.00, 205.00	Tuesday's low Previous lows

later retraced some of its gains and backfilled its gap as it posted a low of 73.50. The crude market however bounced off its low and traded mostly sideways before further buying pushed the market close to 75.00. The market posted a high of 74.90 ahead of the close and settled up 91 cents at 74.61. Volume in the crude market was much better today with over 220,000 lots booked on the day. Open interest continued to build, this time by a total of 10,790 lots. Open interest built by 7,776 lots in June contract and by 4,872 lots in the July contract amid the rally in prices. The product markets also settled higher, with the gasoline market settling up 2.85 cents at 217.51 and the heating oil market settling up 2.00 cents at 207.88. The gasoline market opened up 94 points at 215.60 and quickly traded to 216.00 before it erased its gains and sold off to a low of 212.50. The market however bounced off its low and rallied to a high of 218.50 amid the strength in the oil market. Meanwhile the heating oil market, which opened slightly lower at 205.75, posted a low of 205.30. The market traded mostly sideways before further buying pushed it to a high of 208.75 late in the session. Volumes in the product markets were good with 32,000 lots booked in the gasoline market and 42,000 lots booked in the heating oil market.

The oil market will remain supported by Iran's defiance over its nuclear program as the US, Britain, France and Germany are expected to introduce a new resolution on Iran on Wednesday. It will also seek further direction from the weekly petroleum stock reports. The reports are expected to show draws of 100,000 barrels in crude stocks, draws of 400,000 barrels in distillate stocks and draws of 800,000 barrels in gasoline stocks. The market is seen finding support at 74.45, 73.80, 73.50 and 72.10. More distant support is seen at 71.00 followed by 70.75. Meanwhile resistance is seen at 74.90, 75.00 and 75.35.