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## ***ENERGY RISK MANAGEMENT***

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

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Iran renewed its defiant stance on Sunday, vowing to ignore a likely UN Security Council resolution against its nuclear program. It also said it would strike back if it came under military attack. Iran's President Mahmoud Ahmadinejad said insisted Iran was within its rights under the Nuclear Nonproliferation Treaty to enrich uranium to fuel reactors for civilian electricity generation. Iran's chief nuclear negotiator Ali Larijani, said Iran would continue to defy the council. His comments were contrary to earlier remarks by Foreign Ministry spokesman Hamid Reza Asefi, who suggested there

#### Market Watch

The head of the Mossad intelligence service, Meir Dagan, met with counterparts in the CIA to pass on Israel's latest findings on Iran's nuclear progress last week. It said that Iran is closer to having a nuclear weapon than previously thought. Meanwhile Israeli Prime Minister Ehud Olmert said he was confident that the West would not allow Iran to possess unconventional weapons. He denounced Iran's President Mahmoud Ahmadinejad in some of the strongest language yet heard from an Israeli leader. A source was quoted by the London Sunday Times as saying that the Mossad intelligence service had evidence of hidden uranium enrichment sites in Iran.

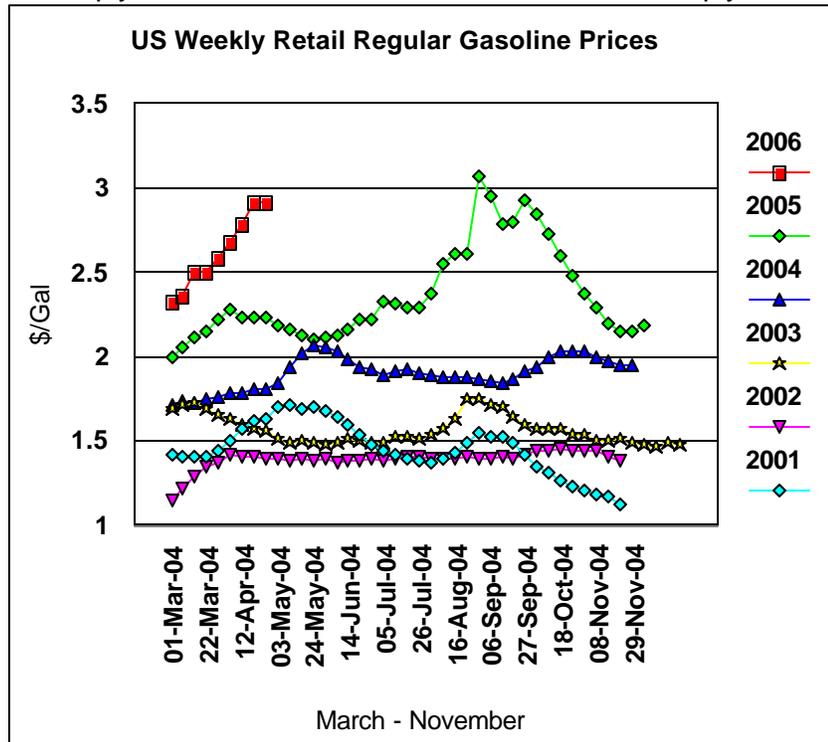
According to a report by Strategic Forecasting Inc, the US is considering financial measures as a way of dealing with Iran. The options the US is reportedly pursuing including pressuring financial institutions in Europe to stop banking with the Iranian government and industry. Another option that has been considered is a global divestment campaign that would force Iran to halt its nuclear ambitions. It stated that its best approach would be to reach out publicly to organizations that are centered around a moral message that are politically active and credible in both the US and Europe and send a clear message that Iran is a threat to the world and to its own people. If a divestment campaign against Iran progressed well, the Iranian regime would be faced with internal, external, financial and political problems.

Iraq's President Jalal Talabani said he and US officials have met with leaders of seven of the country's armed insurgent groups and believe a deal with insurgents is possible. He said he believed some of the Sunni Muslim Arab insurgents could be persuaded to stop the violence in exchange for a role in the political process. He however did not suggest that a deal would end the violence in Iraq. Negotiations continued on Sunday but no deal was expected for at least a few days.

According to the Dubai newspaper Al Bayan, Turkey's Abdullah Gul disclosed that during US Secretary of State Condoleezza Rice's visit, she requested the use of the Incirlik air base for a US strike against Iranian nuclear installations. The Secretary of State was said to have offered Turkey in return a nuclear reactor for electricity but was turned down. It has refused the US request as Ankara does not believe the US would go through with military action against Iran. Turkey's Abdullah Gul said that with 165 nuclear sites scattered in Iran, its program is indestructible. Turkey also perceives that the Bush administration's domestic situation as too shaky to pursue an effective military attack on Iran. Turkey also has no intention to join a US-Israeli military collaboration against Iran while its actions against radical Kurdish PKK rebel strongholds in northern Iraq are increasing tensions in their relationship with the US.

A leading contender for Venezuela's presidency said private companies should get more freedom to invest in the oil industry. Julio Borges, one of the leaders of the opposition said government involvement in the energy sector is healthy but with limits.

could still be room to consider a proposal to move Iran's enrichment work to Russia. UN ambassadors from the US, Britain and France are expected to introduce a resolution this week to legally oblige Iran to comply with the council's demands. Failure to comply with the resolution could see Iran face limited



sanctions, although veto-wielding council members China and Russia have stated that they do not favor such a move for now.

Separately, Iran's deputy oil minister M.H. Nejad Hosseini warned that UN sanctions against Iran over its nuclear program would increase oil prices. He also said that UN is not likely to impose sanctions against Iran's oil industry.

A car bombing in Nigeria's city of Warri destroyed at least five tanker trucks late Saturday. An army spokesman said there were no casualties. The Warri refinery has not been functioning for several months and the tanker trucks were empty at the time of the explosion. The Movement for the Emancipation of the Niger Delta

said it used a mobile phone to detonate 30 kg of dynamite in the bombing. It said the attack was a warning to all people working in the oil industry in Nigeria. It also made specific threats against China, which has just signed a major oil deal with Nigeria. It warned the Chinese government and oil companies to stay away from the Niger Delta region. It said the bombing was a final warning to oil workers and future attacks would be directed against individuals. On Sunday, the Niger Delta Peoples Salvation Front urged embassies and foreign missions in the country to advise their nationals in the Niger Delta to leave. It warned it would launch a devastating military campaign that would have grave impact on the world economy.

The US EPA plans to finalize a rule that would eliminate the US oxygenate standard this week. However the effective date of the repeal remains uncertain. Separately, an attorney with Kelley Drye Collier Shannon and the outside counsel for the Society of Independent Gasoline Marketers of America said the likely delay in finalizing a rule to eliminate the US oxygenate standard is not expected to have any impact on the end of most, if not all MTBE usage in the US. However it may limit temporarily the ability of refiners to meet market needs by producing non-oxygenate reformulated gasoline. He said there is no question that the oxygenated fuels rule would be eliminated but it would not be on May 5, as originally planned. The delay would not have a significant impact because much of the supply chain has by now changed over production and storage tanks at terminals and service stations to ethanol blended gasoline.

The EIA reported that the average retail price of gasoline increased by .05 cents to \$2.919/gallon in the week ending May 1. It also reported that the average retail price of diesel increased by 2 cents/gallon to \$2.896/gallon on the week.

The EIA chief Guy Caruso said gasoline prices could be reaching a peak. He also stated that a delay in the US EPA's plan to lift an oxygenate requirement for gasoline could help ease supply issues.

According to a report by the US special inspector general for Iraqi reconstruction, corruption in Iraq's oil and gas sector continues unchecked and could have devastating effects on efforts to stabilize the country. Iraq's oil output averaged 2.18 million bpd in March, below 2.58 million bpd before the March 2003 US led invasion. The report said the situation in the oil and gas sector has changed little since January. It said efforts to protect oil and electrical infrastructure ultimately proved to be unsuccessful, despite \$147 million spent to train more than 20,000 Iraqis to guard pipelines and power plants. The report however did state that it made significant strides toward providing essential services to Iraqis.

Qatari Energy Minister Abdullah al-Attiyah said OPEC would not be able to offset geopolitical risks, which are increasing oil prices, at its next meeting on June 1.

**Refinery News**

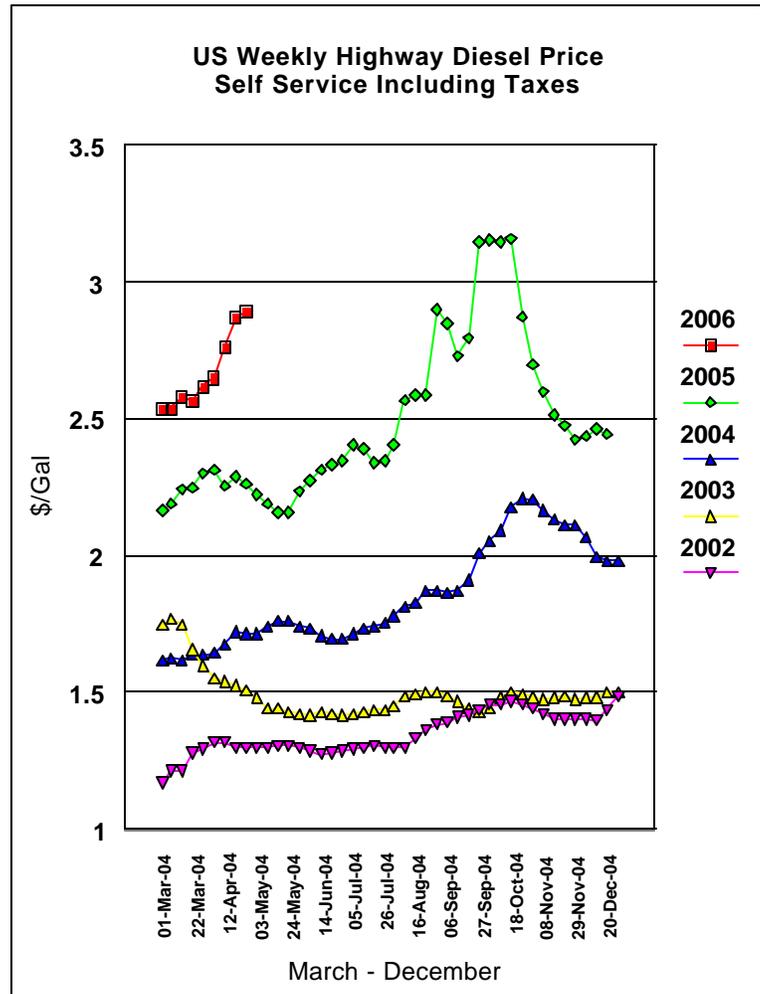
Citgo Petroleum cut operations on a fluid catalytic cracking unit at its 156,000 bpd refinery in Corpus Christi, Texas. A switch in the equipment providing feedstock to the FCC led to a malfunction causing the cut back in operation.

ConocoPhillips Rodeo refinery outside San Francisco was shutdown due to a brief power outage on Monday. It shutdown production for less than an hour.

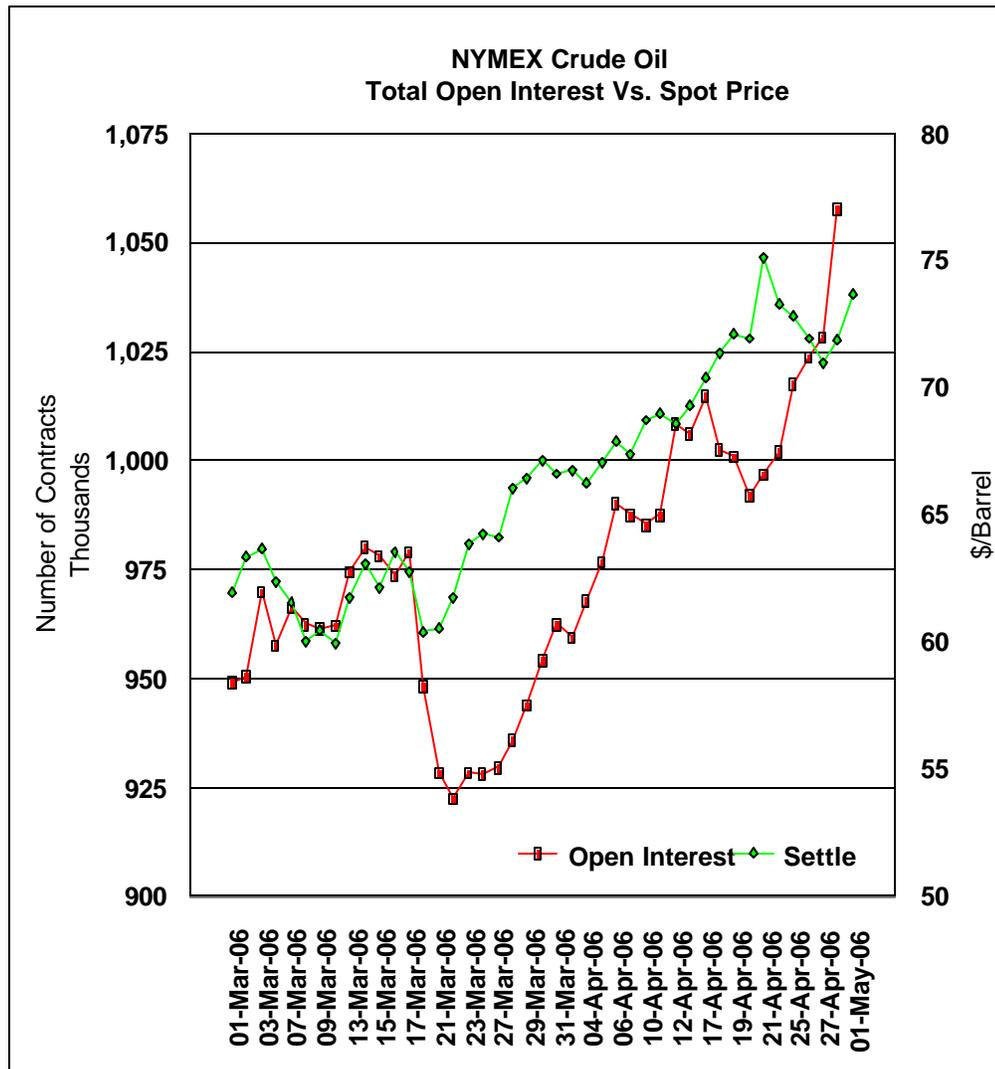
Italy's ERG's ISAB Impianti Nord refinery at Priolo in Sicily was shutdown due to a pipeline fire on Sunday. There was no damage to the refinery itself but a company spokeswoman could not say when the refinery would be back on line or if production would be affected in the longer term.

Alon USA Energy Inc said it would make two acquisitions that would more than double its refining capacity and expand its asphalt production as well. It said it would purchase Paramount Petroleum Corp for \$307 million cash and assume \$100 million in debt. The deal is expected to close late in the second quarter or early in the third quarter. Alon also plans to buy the assets of Edgington Oil Co for \$52 million cash, a deal expected to close in the second quarter.

Saudi Aramco said it hoped to sign deals with Total and ConocoPhillips for two new refineries in Saudi Arabia by the end of May. The new refineries, each with a capacity of 400,000 bpd, would be export



oriented. It also said that together with its partners, it would spend \$50 billion over the next five years to increase refining capacity in Saudi Arabia and abroad.



**Production News**

The Minerals Management Service stated that between 4% and 5% of offshore oil and gas production in the Gulf of Mexico would be permanently lost as a consequence of last year's hurricanes.

Royal Dutch Shell has yet to restart 455,000 bpd of oil production shut down in Nigeria after militant attacks in February. It has not started its assessment of the EA field, a step required before restarting output.

Iraqi oil exports increased to 1.619 million bpd in April, the second highest monthly level since the postwar recovery.

Saudi Aramco said Saudi Arabia was

producing between 9 million and 9.5 million bpd of oil. Meanwhile Saudi Arabia's Oil Minister Ali al-Naimi said the country would continue to be the most reliable supplier of oil to the world, with help of new technology. It plans to spend \$50 billion to increase its production capacity from 11 million bpd to 12.5 million bpd by 2009. Saudi Arabia's Oil Minister also stated that there was no output ceiling in practice for members of OPEC. He said the market remained well supplied.

Saudi King Abdullah issued a decree Sunday lowering domestic gasoline prices by about 25% effective immediately. According to a government statement, the decrease was expected to reach 30% by the year's end. The price of regular gasoline was cut to 16 cents/gallon. It also cut the price of diesel to about 6.7 cents/gallon.

UAE's Oil Minister Mohamed al-Hamili said the country's oil production would reach 2.7 million bpd by the end of the year, up 3.8% from its current production. He also estimated that country's production capacity would soon reach 3.5 million bpd. He also stated that should a shortage occur in the market, OPEC could use its spare production capacity, which stands at 2 million bpd.

Abu Dhabi National Oil Co has increased the retroactive selling price for its Murban crude for April by \$6.65 to \$67.50/barrel. It set the April price for Lower Zakum at \$67.50/barrel, up \$6.65 from March and for Umm Shaif at \$66.80/barrel, up \$6.60 on the month. It also raised the price for Upper Zakum by \$6.45/barrel to \$63.95.

**Market Commentary**

The oil complex traded sharply higher with light volume trading as the situation in Iran and Nigeria continued to contribute to the markets’ strength. The markets were also well supported amid reports of a fire at ERG’s 160,000 bpd Impianti Nord refinery in Sicily. Over the weekend, Iran vowed to ignore a likely UN Security Council resolution against its nuclear program and to strike back if it came under military attack. New violence in Nigeria also supported the markets. The Movement for the Emancipation of the Niger Delta said it was responsible for a car bombing in Nigeria’s city of Warri which destroyed at least five tanker trucks late Saturday. The militants said it was a warning to all people working in the oil industry in Nigeria. Finally a report from one of the investment banks this morning highlighting the potential for \$100 per barrel crude oil also lent support to the bulls. The crude market opened up 42 cents at 72.30 and quickly posted a low of 72.10. The market bounced off its low and never looked back amid the supportive news. The market rallied to a high of 73.85 ahead of the close. It retraced more than 62% of its move from a high of 75.35 to a low of 70.75. The crude market settled up \$1.82 at 73.70. Volume was light with 149,000 lots booked on the day. Open interest in the crude market built by a total of 29,174 lots as the market retraced its recent losses on Friday. Open interest saw the largest build of 18,750 lots in the July contract. The product markets also settled sharply higher with the gasoline market leading the complex. The gasoline market opened 88 points higher at 209.80 amid the refinery news. The market posted a low of 209.50 and quickly bounced off that level. It extended its gains to over 7.3 cents as it rallied to a high of 216.30 late in the session before it retraced some of its gains ahead of the close. The heating oil market also bounced off a low of 201.60 and extended its gains to more than 5 cents as it rallied to a 206.25. The market later settled in a sideways trading pattern before it rallied even further to a high of 206.40. It settled up 4.59 cents at 205.88. Volumes in the product markets were light with 26,000 lots booked in the gasoline market and 36,000 lots booked in the heating oil market.

The crude market will likely retrace some of its gains. However its losses will be limited amid the continuing geopolitical risks that have kept the market supported. The market is seen finding support at 73.05, 72.10 followed by 70.75 and 70.40. More distant support is seen at 69.50 and 69.40. Meanwhile resistance is seen at 73.85 followed by 73.90, 74.45 and 75.35.

Technical Analysis		
	Levels	Explanation
<b>CL</b> 73.70, up \$1.82	<b>Resistance</b> 73.90, 74.45, 75.35	Previous highs
	<b>Support</b> 73.85	Monday's high
	<b>Resistance</b> 73.05, 72.10	Monday's low
	<b>Support</b> 70.75, 70.40, 69.50, 69.40	Previous low, 38% retracement (62.40 and 75.35), Previous lows
<b>HO</b> 205.88, up 4.59 cents	<b>Resistance</b> 207.70, 208.10	Double top, Previous high
	<b>Support</b> 206.40	Monday's high
	<b>Resistance</b> 205.10, 201.60	Monday's low
	<b>Support</b> 200.50, 199.00	Previous low, Double bottom
<b>HU</b> 214.66, up 5.74 cents	<b>Resistance</b> 220.50, 221.50, 223.00	Previous highs
	<b>Support</b> 216.30	Monday's high
	<b>Resistance</b> 214.00, 211.50, 209.50	Monday's low
	<b>Support</b> 206.00, 205.00	Previous lows