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ENERGY MARKET REPORT FOR MAY 3, 2006

The US Undersecretary of State for political affairs, R. Nicholas Burns said the US was working with European allies to prepare a binding UN resolution demanding that Iran immediately stop its nuclear related activities and would push for economic and diplomatic sanctions if it refuses. Meanwhile, Russia and China contend that imposing sanctions would be counterproductive. According to the US official, members of the Security Council were discussing a ban on weapons sales to Iran, a prohibition on

transferring nuclear technology to Iran that could be used for peaceful or military purposes and a ban on other commercial activities that could benefit Iran's nuclear program. Officials were also discussing restricting international travel by senior Iranian officials. A senior official at the Iranian Embassy in

Market Watch

Senior White House economist, Edward Lazear said that proposals to cut the gasoline tax would take energy policy in the wrong direction by encouraging consumption. He said that while any severe energy supply shock would be potentially problematic for the economy, he added that the economy so far has seemed very resilient in the face of higher energy costs.

Oil industry executives said only a worldwide recession could cut crude prices that have set new records this year. They stated that sustained oil prices between \$80 and \$90/barrel would be the most likely trigger of the recession but an event like a pandemic could not be ruled out. In the short term, supply growth is expected to continue to lag growing demand growth. About 2.3 million bpd of production is expected to be added in the next two years while world demand is expected to increase by 3.2 million bpd. Long-term oil production is expected to grow from a current 85 million bpd to 100 million bpd between 2015 and 2025.

An official of the US Minerals Management Service said that several energy companies have approached the MMS about the possibility of a Floating Production, Storage and Offloading facility in the Gulf of Mexico. Petrobras America confirmed the company was considering such an option for its Cascade development with partners Devon Energy and BHP Billiton, along with two other deep water prospects in the Gulf.

Canada's conservative government cut funds devoted to goals of the Kyoto accord. Environmental groups said Canada is now in line with the Bush Administration, which has dismissed the international agreement. The cuts were included in a federal budget submitted to Parliament by Prime Minister Stephen Harper. The government said it would develop a new program to reduce smog and offered tax credit to try to increase public transit usage. The government's environment program however drew immediate protest.

Venezuela's President Hugo Chavez was scheduled to meet with Bolivia's President Evo Morales and discuss Bolivia's nationalization of the country's oil and gas industry.

DOE Stocks

Crude – up 1.7 million barrels

Distillate – down 1.1 million barrels

Gasoline – up 2.1 million barrels

Refinery runs – up 0.68%, at 88.8%

Paris, Seyyed Ali Moujani said that Iran is not worried about more sanctions because it is already suffering from sanctions and embargos. A French military analyst said Iranian officials late last year prepared for possible broader punitive steps by reportedly removing money from European banks. He said the only sanction available was to prevent the export of Iranian oil. However the US Undersecretary of State for

political affairs said sanctions against Iran's oil and gas industry was not under consideration because they would strike too hard at ordinary Iranians. He said the purpose of the sanctions would be to target Iran's policies and its political leadership. The UN Security Council is scheduled to meet next Monday to discuss its stance on Iran.

Iran's top nuclear negotiator, Ali Larijani, told leaders of the UAE the region's security concerns over its nuclear program were baseless. He denied the Bushehr nuclear plant posed a risk to the region. He said it would be another year before nuclear fuel was brought to the plant for processing and dismissed questions from neighboring Arab states about the nuclear plant's security. He also stated that Iran welcomed any mediation efforts by the seven countries within the Gulf Cooperation Council to ease the rising tensions resulting from its confrontation with the west.

OPEC's Secretary General, Mohammed Barkindo said it has no plans to alter its oil production policy before its June meeting. He also stated that it has not received any proposals from any of its members for a change in its policy.

The US government has called on Iraq's neighboring countries to respect the country's territorial sovereignty as Turkey amassed troops along its border with northern Iraq. General Bekir Kalyoncu, a Turkish military officer said that Ankara reserved the right to enter Iraqi territory to pursue separatist Kurdish rebels based there. The US Secretary of State, Condoleezza Rice, urged Turkey in late April to refrain from unilateral action against Iraq based Kurdish separatists, calling instead for renewed trilateral cooperation to the fight the threat. Meanwhile, the Iraqi Defense Ministry said the Iran violated Iraq's borders twice in April. The director of the joint operation center said the Iranian army crossed the Iraqi borders on April 21 and April 26. Iran has denied that it made any incursion into Iraq or bombarded suspected positions of the Kurdistan Workers Party inside Iraq's autonomous Kurdish enclave.

The DOE reported that US inventories of propane increased by 1.559 million barrels to 34.439 million barrels in the week ending April 28. It showed that inventories in the East Coast increased by 38,000 barrels to 3.338 million barrels while inventories in the Midwest increased by 1.064 million barrels to 14.365 million barrels and inventories in the Gulf Coast increased by 497,000 barrels to 16.152 million barrels.

Refinery News

ERG's 400,000 bpd refinery complex at Priolo in Sicily remained fully shut on Wednesday following a fire at one plant and maintenance work at its other plant. It was still unclear when the 160,000 bpd Isab Nord refinery at Priolo would reopen after a fire on Sunday at a pipeline transporting crude oil to the plant forced its closure. Its 240,000 bpd Isab Sud refinery was also fully shut for planned maintenance work that started on Monday and was due to last for 45-50 days.

Royal Dutch Shell's 420,000 bpd Pernis refinery is operating at 40-45% of its normal capacity after two major units were shut for maintenance.

ConocoPhillips' 180,000 bpd refinery in Trainer, Pennsylvania has delayed its restart. It is expected to return to normal operations on May 18 following planned maintenance in April. It was previously expected to restart on May 12 and return to normal operations on May 14. Meanwhile operational problems have plagued ConocoPhillips' fluid catalytic cracking unit at its 238,000 bpd refinery in Linden, NJ after it returned to service. The 140,000 bpd unit has been operating at reduced rates since April 27 and is expected to remain at lower levels until about May 10.

Canada's Enbridge plans to build a new 5 million barrel crude terminal in Hardisty, Alberta. The new terminal would provide services on a long term contract fee for service basis.

Production News

According to ExxonMobil, operations at its Qua Iboe terminal returned to normal after production was curtailed briefly on Tuesday due to a community protest. The protest prompted ExxonMobil to evacuate foreign workers as a precaution.

Iraq's Oil Minister Hashem al-Hashemi said Iraq's oil exports reached an average of 1.619 million bpd in April. Iraq's oil revenues reached \$3 billion in April. He also stated that he expected crude oil exports from its northern fields to Turkey, which have been halted by sabotage, to resume within weeks. He said Iraq plans to increase its crude exports to 2 million by the end of the year.

The Shetland Island Council stated that Brent liftings from Sullom Voe increased to 392,286 tons in the week ending May 3 from 346,760 tons during the previous week.

Former Soviet Union gas oil exports from Black Sea and Baltic ports increased to 2.62 million tons in April, up from 2.41 million tons in March.

PetroCanada resumed production at the Terra Nova field after the Canada-Newfoundland and Labrador Offshore Petroleum Board gave its approval for resuming production at Terra Nova late Monday. Terra Nova is expected to reach full capacity later this week or early next week. The field, which has a production capacity of about 125,000 bpd, was producing about 65,000 bpd just before the field was shut on April 21 following the discovery of a leak.

Russia's main Black Sea port of Novorossiisk has been closed since April 29 due to strong winds and sea swells.

Germany's MWV reported that total oil product sales in Germany increased by 5% on the year in March to 7.01 million tons. Its heating oil sales increased by 24% on the year to 2.3 million tons while its gasoline sales fell by 9% on the year to 1.83 million tons.

Mitsubishi won a tender to lift 1 million barrels of Azeri Light crude from the Black Sea port of Supsa on May 27-28.

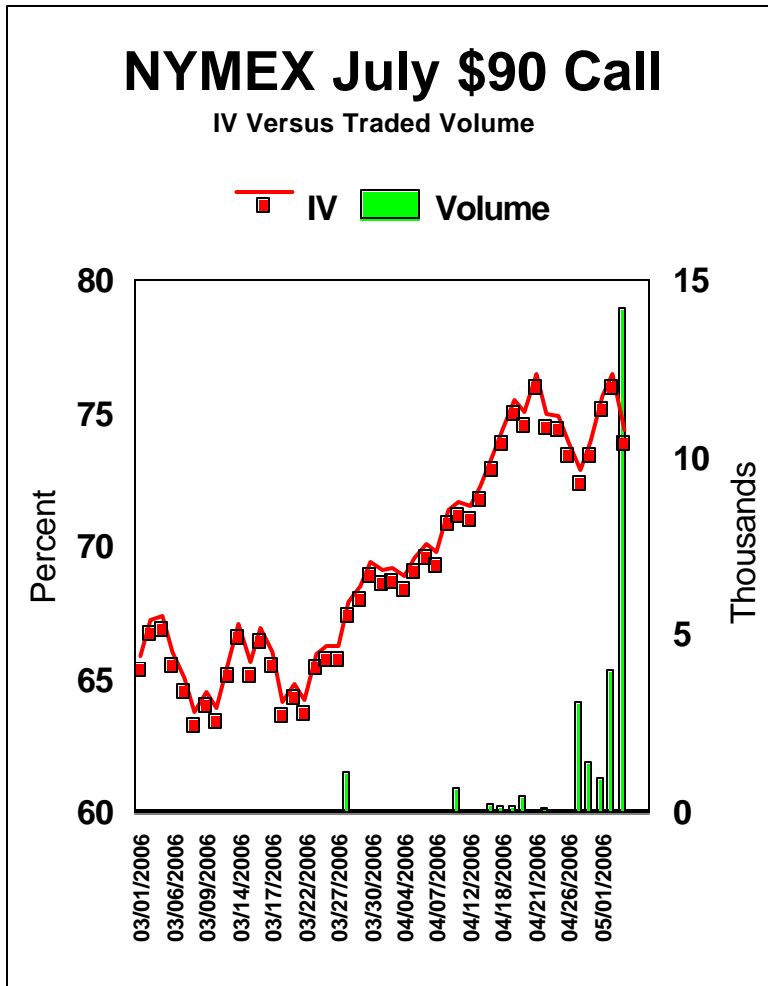
Indonesia's Pertamina has halted its kerosene imports from May as it has sufficient supplies for the domestic market. Pertamina's oil product imports are estimated to total 7.9 million barrels in June, up from 7.4 million barrels in May. Its kerosene stocks stood at 1.08 million kiloliters or 6.8 million barrels.

Saudi Arabia cut the June official selling price of its Arab Light crude bound for Europe. It cut the price of Arab Light loading from Sidi Kerir to BWAVE minus \$6.60/barrel, down from BWAVE minus \$5.80/barrel in May. It also cut its Arab Light crude loading from Ras Tanura to BWAVE minus \$6.85/barrel from minus \$6.45/barrel in April. Meanwhile, its prices for its Arab Light crude bound for the US increased to WTI minus \$6.00/barrel, up \$1.25/barrel on the month. It also increased its Arab

Medium crude by \$1.00/barrel to WTI minus \$8.55 while Arab Heavy crude was increased by 75 cents/barrel to WTI minus \$11.80/barrel.

Technical Analysis		
	Levels	Explanation
CL Resistance 72.28, down \$2.33 Support	74.55, 74.90 73.25, 74.00	Wednesday's high, Previous high
	72.20 72.10, 71.00, 70.75	Wednesday's low Previous lows
HO Resistance 200.32, down 7.56 cents Support	207.60, 208.75 202.00, 204.50	Wednesday's high, Previous high
	200.00 199.00, 196.20	Wednesday's low Double bottom, Previous low
HU Resistance 208.57, down 8.94 cents Support	218.00, 218.50 210.50, 215.00	Wednesday's high, Previous high
	207.50 206.00, 205.00, 203.00, 202.60	Wednesday's low Previous lows

Qatar has increased its April retroactive selling price for Qatar Land crude to \$66.98/barrel, up \$6.63 from March. The April Qatar Marine crude official selling price was increased by \$6.31 to \$64.41, or a 12 cent discount to the Oman official selling price compared with an 8 cent discount for March.



OPEC's news agency reported that OPEC's basket of crudes increased to \$68.40/barrel on Tuesday from \$66.22/barrel on Monday.

Market Commentary

The oil complex tumbled following the release of the weekly petroleum stock reports which showed unexpected builds in crude and gasoline stocks. It was the first gasoline stock build since mid-February. The crude market posted a high of 74.55 and traded within a 30 cent trading range before it quickly sold off following the release of the DOE report, which showed a build of 1.7 million barrels in crude stocks. The market traded to a low of 72.90 and held some support there before further selling pushed the market lower. The crude market extended its losses to over \$2.40 as it traded to a low of 72.20 ahead of the close. It settled down \$2.33 at 72.28. Volume in the crude market was excellent with over 267,000 lots booked on the day. Open interest in the crude market continued to increase by 23,197 lots amid the rally in the market, with a build of about 13,690 lots in the first four contracts. The gasoline market sold off

sharply in light of the unexpected build in gasoline stocks. It traded to a high of 218.00 on the opening and quickly sold off the release of the stock reports. The market traded to 210.50 and held some support before it breached that level and sold off to a low of 207.50. The market extended its losses to more than 10 cents ahead of the close. It settled down 8.94 cents at 208.57. Meanwhile, the heating oil market also settled down 7.56 cents at 200.32 in follow through selling seen in the crude and gasoline markets. It traded to its high of 207.60 on the opening and sold off more than 7.8 cents as it posted a low of 200.00 ahead of the close. Volume in the product markets were good with 44,000 lots booked in the gasoline market and 52,000 lots booked in the heating oil market.

While futures prices were on the defensive for much of the session, buying interest was keen in the options market for calls. The July \$90 call was by far the most active strike on NYMEX today with over 14,220 contracts traded between 22 and 25 cents, but was still settled lower on the day by just 3 cents.

The oil market may remain pressured, barring any bullish developments overnight, following the release of the weekly petroleum stock reports. The market seemed to have shrugged off any of the reports regarding the talks between the members of the Security Council regarding Iran's nuclear program following the release of the DOE and API. Stochastics have also crossed down following today's sharp sell off and still have some further downside. The market is seen finding some support at 72.20 followed by 72.10. More distant support is seen at 71.00 and 70.75. Meanwhile resistance is seen at 73.25, 74.00, 74.55 and 74.90.