



## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR MAY 4, 2006**

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Iran's Foreign  
Minister Manouchehr Mottaki said the country could continue its cooperation with the IAEA. He however stated that Iran has the right to have civilian nuclear technologies. Iran's state radio announced that Iran was producing fuel rods for nuclear reactors. It said the rods were already in use in a 5 Mw reactor. On Wednesday, during a meeting between US President George W. Bush and Germany's Chancellor Angela Merkel, the two leaders presented a united front in the effort to keep Iran from obtaining nuclear weapons. They said they were

#### Market Watch

US Energy Secretary Samuel Bodman said the Bush administration was considering lifting import tariffs on ethanol in a bid to ease any supply crunch of gasoline ahead of the peak summer demand season. However he conceded that the power to lift the tariffs lies with Congress. The US' tariff on ethanol imports stood at 54 cents/gallon.

The EPA removed the requirement that oil refiners add 2% oxygen content to reformulated gasoline as of May 5. The move finalizes the oil industry's voluntary phase out of MTBE. Its decision would provide US refiners with more flexibility while maintaining the significant clean air benefits of the reformulated gasoline program and reduces production burdens.

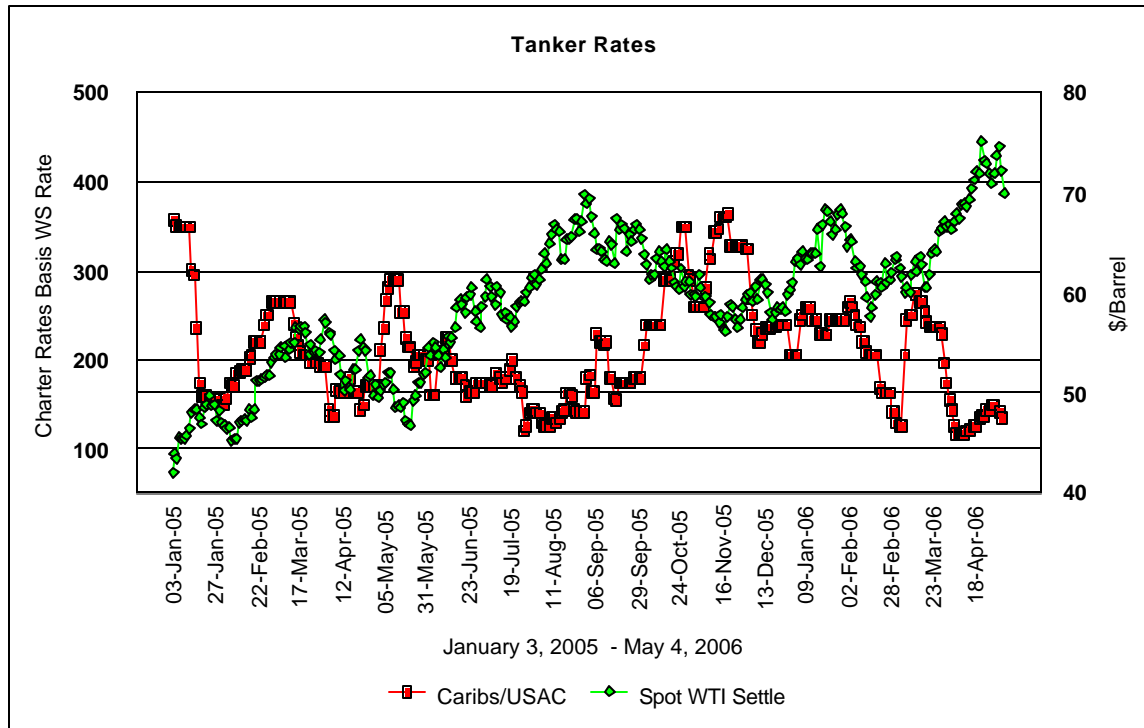
Royal Dutch Shell Plc chief executive Jeroen van der Veer said oil prices have rallied to record highs partly because of speculation. He said there was more than \$100 billion of speculative money in the oil market. He added that supply is adequate to meet demand and inventories are comfortable.

US Vice President Dick Cheney accused Russia on Thursday of backsliding on democracy and urged it to stop using energy supplies as blackmail. He called on Russia to return to democratic reform. Russia drew international criticism earlier in the year when it briefly cut its gas supplies to Ukraine in a pricing dispute that disrupted supply to Europe. Moscow has also warned Europe that its state gas monopoly, Gazprom, could divert its supplies to Asia if it is barred from the European retail gas market. Vice President Cheney said opponents of reform in Russia were seeking to reverse the gains of the last decade by restricting democratic rights and warned President Vladimir Putin that some of Russia's actions could hurt relations with other countries.

The NYMEX announced today that its board of directors unanimously approved to offer both cash-settled and physically delivered NYMEX Division energy futures contracts for trading on the CME Globex, electronic trading platform. At the time of the initial phase of the launch, scheduled for the second quarter of this year, NYMEX will offer cash settled energy futures contracts for all listed months. The second phase of the launch some six months later will offer physically delivered contracts. It was unclear if the NYMEX would trade both contracts side by side, physically delivered and financially settled contracts or would the financially settled contracts be phased out. The NYMEX said it would adopt CME Globex electronic trading hours.

committed to finding a diplomatic solution to the standoff.

OPEC's Secretary General Mohammed Barkindo said the world oil markets are well supplied both in crude and oil products. He also stated that OPEC was doing everything possible to moderate and stabilize prices. He added that high world oil prices would fall after the US resolved problems related to new gasoline specifications. OPEC's Secretary General stated that OPEC expected world oil demand to grow by 1.4 million bpd in 2006 and added that OPEC's production capacity should reach 38 million bpd by 2010. Separately, he stated that investors in refining capacity expansion are



proceeding too slowly with their plans. He said the downstream sector would need \$311 billion between 2005 and 2015 to maintain and expand operations.

The head of the IEA, Guy Caruso said increases in world oil production

capacity is not expected to exceed world demand growth for petroleum until sometime between 2008 and 2010. Current world surplus oil production capacity is about 1 million to 1.5 million bpd. He stated that world surplus production capacity could grow to 3 million to 5 million bpd by 2010, substantially increasing the surplus capacity cushion.

According to Oil Movements, OPEC's crude oil exports are expected to increase by 350,000 bpd to 24.91 million bpd in the four weeks ending May 20. It said westbound shipments are expected to continue their upward trend. Meanwhile, eastbound shipments are seen lagging behind those heading west as refiners prepare for their maintenance season.

### Refinery News

Crude oil discharge and oil product loadings at ERG's Augusta terminal in Sicily were still suspended on Thursday along with the 400,000 bpd refinery capacity at Priolo. ERG provided no new information following its statement that its 160,000 bpd Isab Nord refinery was shut on Sunday due to a pipeline fire while the 240,000 bpd Isab Sud refinery has been shut since May 1 for a planned maintenance shutdown that is scheduled to last between 45 and 50 days. The refiner has already been unable to supply a high sulfur gas oil cargo that it sold to BP, although ERG has yet to declare force majeure on supplies of oil products. ERG's unplanned shutdown has combined with rising gas oil demand to tighten regional availability of the fuel.

Giant Industries Inc's Yorktown, Virginia refinery is operating at full capacity after returning an upgraded fluid catalytic cracking unit to service in mid-April after a turnaround.

Algeria's Skikda refinery is scheduled to shutdown for 15-20 days of maintenance in May. An official with Sonatrach could not state when the 335,000 bpd refinery would shutdown in May.

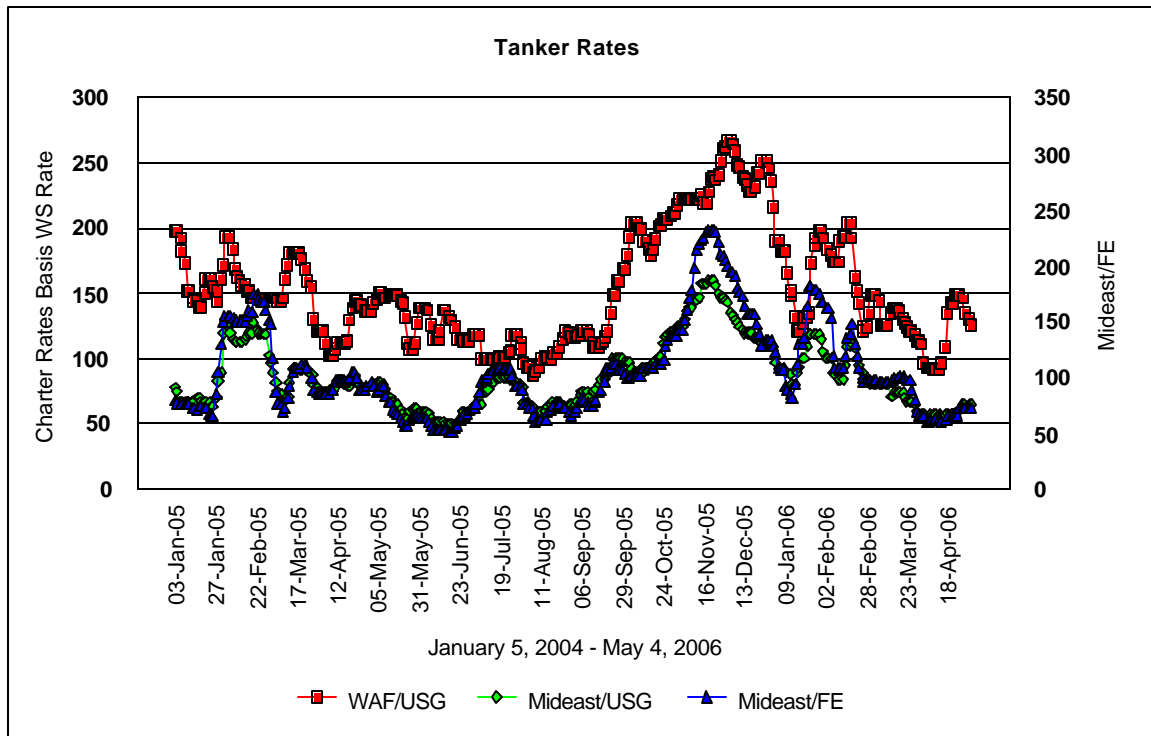
According to traders, Mexico is likely to compete with US domestic buyers for US gasoline supplies later this year due to a planned sulfur cut for premium gasoline used in Mexico. The US which buys about 1 million bpd of gasoline, exports about 200,000 bpd to Mexico via the Gulf Coast. Mexico is tentatively scheduled to introduce cleaner burning premium gasoline with an average sulfur content of 30 ppm to the local market in October. Mexico's premium gasoline has an average sulfur content of 250 ppm. Mexico has ruled out the possibility of purchasing Venezuelan gasoline due to the different specifications and the questionable stability of supply.

**Production News**

Shell Petroleum Development Co of Nigeria said it is not close to resuming operations despite reports to the contrary. The managing director of Nigerian National Petroleum Corp had previously stated that Shell would resume operations soon.

Separately, Royal Dutch Shell Plc said it is expected to produce between 3.5 million and 3.6 million bpd of oil equivalent in 2006 despite the continuing problems in Nigeria and fears of hurricanes in the Gulf of Mexico. It is also expected to produce between 3.5 million and 3.8 million boe/d in 2007. It produced an average of 3.5 million boe/d in 2005. It however stated that rising costs may delay a project in the Gulf of Mexico, hindering the company's efforts to increase falling oil and gas reserves. It said it may decide to postpone some deepwater projects by one to three years because of rising costs.

Some militants from the Movement for the Emancipation of the Niger Delta have dissociated themselves from recent attacks on facilities belonging to Mobil Producing Nigeria Unlimited. Youths in Ebono attacked Mobil's Qua Iboe terminal on Tuesday forcing it to temporarily halt operations there.



Nigeria's Pengassan oil union suspended a planned strike against ExxonMobil after a deal was signed with management over unpaid housing allowances. ExxonMobil agreed to pay 50% of the arrears by the end of May at the latest and to inject the balance into the workers' housing scheme. Negotiations on other unresolved issues are expected to continue at subsequent meetings.

The Russian government is considering merging crude oil pipeline monopoly Transneft and refined products pipeline monopoly Transnefteproduct. Russia's Vedomosti business daily cited government sources as saying the move was part of a broader strategy by the Kremlin to increase control over the strategic energy sector.

Russia's Black Sea port of Novorossiisk reopened following a five day shutdown due to strong winds and sea swells. The CPC oil export terminal has also resume normal operations.

Singapore's International Enterprise said the country's middle distillate stocks fell by 818,000 barrels to 4.977 million barrels in the week ending May 3. It reported that light distillate stocks fell by 457,000 barrels to 7.758 million barrels while residual fuel stocks increased by 240,000 barrels to 12.327 million barrels.

OPEC's news agency reported that OPEC's basket of crudes fell to \$68.08/barrel on Wednesday from \$68.40/barrel on Tuesday.

### Market Commentary

The oil market extended Wednesday's losses as the market's concerns over gasoline supplies eased in light of the builds reported in gasoline stocks. The crude market gapped lower on the opening from 72.20 to 71.30, which it partially backfilled as it posted a high of 71.82 early in the session. However the market once again continued to sell off amid the losses seen in the gasoline market. The crude market extended its losses to over \$2.90 as it posted a low of 69.30 late in the session. The market later retraced some of its losses ahead of the close and settled down \$2.34 at 69.94. Volume in the crude market was excellent with over 275,000 lots booked on the day. Open interest in the crude market surprisingly continued to build, despite the market's sell off on Wednesday. Open interest built by 3,588 lots, with draws of 3,028 lots in the June contract and builds of 7,246 lots and 4,321 lots in the July and August contracts, respectively. The gasoline market, which continued to sell off amid the gasoline stock builds, gapped lower from 207.50 to 205.00 on the opening. The market backfilled the gap as it posted a high of 207.50 before it once again sold off. The market retraced almost 38% of its move from a low of 156.00 to 223.00 and extended its losses to over 10.9 cents as it traded to a low of 197.60

late in the session. The market settled down 9.11 cents at 199.46. The heating oil market also sold off amid the losses

| Technical Analysis  |                                |  |
|---|--------------------------------|--|
|   | Levels                         | Explanation  |
| <b>CL</b><br>Resistance<br>69.94, down \$2.34<br>Support      | 71.82 to 72.20                 | Remaining gap (May 4th)  |
|   | 70.15, 70.85                   |  |
| <b>HO</b><br>Resistance<br>193.77, down 6.55 cents<br>Support | 69.30                          | Thursday's low   |
|   | 69.15 to 68.84, 67.90          | Remaining gap (April 10th), Previous low                           |
| <b>HO</b><br>Resistance<br>193.77, down 6.55 cents<br>Support | 199.25 to 200.00               | Remaining gap (May 4th)  |
|   | 194.25, 196.50                 |  |
| <b>HU</b><br>Resistance<br>199.46, down 9.11 cents<br>Support | 191.70                         | Thursday's low   |
|   | 190.80, 188.50, 187.30         | Previous low, 50% retracement(166.50 and 210.50), Previous low     |
| <b>HU</b><br>Resistance<br>199.46, down 9.11 cents<br>Support | 207.50                         | Thursday's high  |
|   | 202.00, 205.00                 |  |
|   | 197.60                         | Thursday's low   |
|   | 197.41, 193.30, 190.00, 189.50 | 38% retracement(156.00 and 223.00), Previous lows, 50% retracement |

in the gasoline market. It gapped lower from 200.00 to 197.75 and partially backfilled it as the market traded to a high of 199.25. However the market continued its sell off and posted a low of 191.70 ahead of the close. It settled down 6.55 cents at 193.77. Volumes in the product markets were good with 44,000 lots booked in the gasoline market and 66,000 lots booked in the heating oil market.

The oil market on Friday will likely retrace some of its sharp losses ahead of the weekend. The market will be reluctant to be short over the weekend amid the geopolitical risks. The market is seen finding support at 69.30 followed by a gap from 69.15 to 68.84 and 67.90. Meanwhile resistance is seen at 70.15, 70.85 and its gap from 71.82 to 72.20.