



## ***ENERGY RISK MANAGEMENT***

Howard Rennell & Pat Shigueta  
**(212) 624-1132 (888) 885-6100**

**www.e-windham.com**

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### **ENERGY MARKET REPORT FOR MAY 5, 2005**

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White House spokesman Scott McClellan said the US wants to see lower crude oil prices to sustain economic growth. He however declined to state what the Bush administration believes should be the price of oil. President George W. Bush has been urging oil producing countries to expand production to help ease prices. Meanwhile, Nigeria's President Olusegun Obasanjo said his country cannot bring down prices alone but said price stability was desired after discussing the issue with President Bush on Thursday.

According to Oil Movements, crude shipments from OPEC in the four weeks ending May 21 are expected to

#### Market Watch

Federal Reserve Chairman Alan Greenspan said he believed business may resort to energy conservation if they believed oil prices would likely remain high.

Energy Security Analysis Inc said as US refiners focus on making ultra low sulfur diesel, the volume of distillate production will fall, prices will be volatile and regional shortages may occur. From June 2006, the US EPA will require most on road vehicles to burn diesel with no more than 15 parts per million sulfur content, down from 500 ppm currently. All on-road vehicles must meet the lower specifications by 2010. It said the price impact of the change will depend on the ability of pipelines to ship the ultra low sulfur diesel and for tank farms to store it.

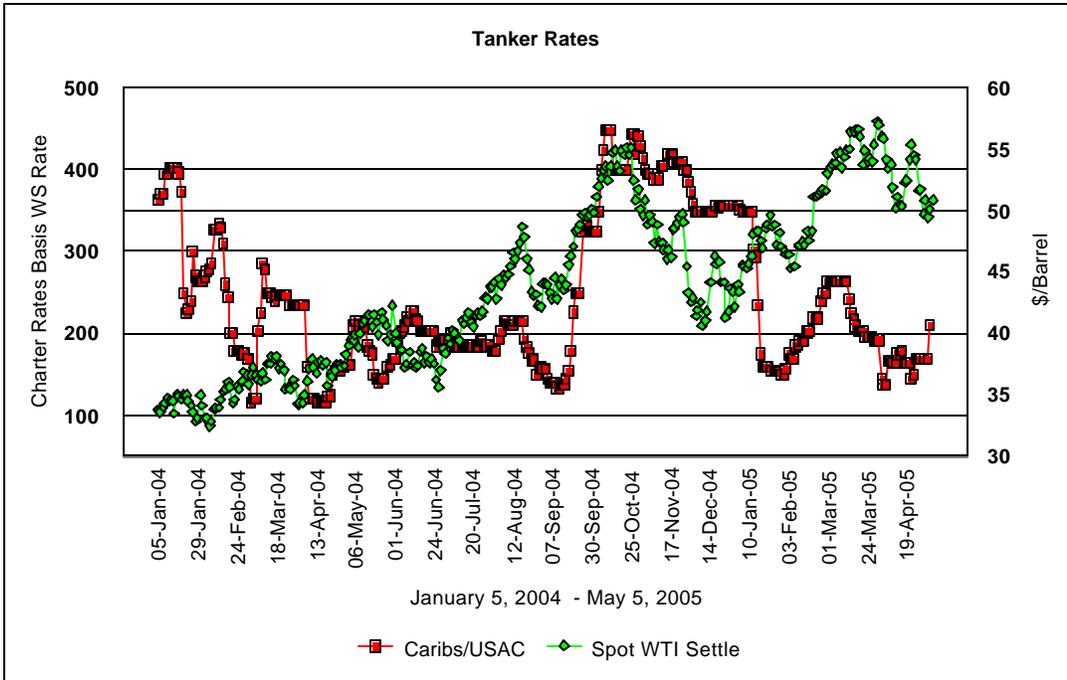
The NYMEX will proceed with a joint venture to open the Middle East's first energy and metals futures exchange in Dubai. While talks with Dubai's government have yet to produce a signed agreement after the NYMEX board approved the joint venture, the delays are due to minor logistical issues.

The International Energy Forum Secretariat aims to open a new world oil database to the public at the end of June. The database will include data on stocks, production and consumption. In its first stage, data will come from the world's top 30 in each of the categories of producers, consumers and stock holders. It will include 54 or 55 countries accounting for 90% of world production and consumption.

Energy Ministers meeting at the IEA forecast a large increase in fossil fuel consumption and carbon emissions by 2030. The IEA forecast that both consumption and emissions from fossil fuels are expected to increase by 60% by 2030. However the substantial growth in energy consumption will be limited to the most industrialized nations. It stated that its members needed to curb its increasing energy import dependence as world reserves narrow to fewer sources. It estimates that \$16 trillion in investment will be needed in the energy sector by 2030.

The Bank of Spain stated that uncertainty over the euro's exchange rate, the high oil price and some weak economic indicators cast doubt over the strength of euro zone growth in the coming months. It said the euro zone's GDP had continued to expand at a moderate rate in the first quarter of 2005. Euro zone GDP growth slowed to 0.2% quarter on quarter and 1.6% year on year in the fourth quarter of 2004.

Persian Gulf oil tanker rates to ship 2 million barrels of crude to refineries in Asia increased as charterers finished booking vessels for the end of May. VLCC rates from the Middle East to Japan are down about 75% from the record level seen in November.



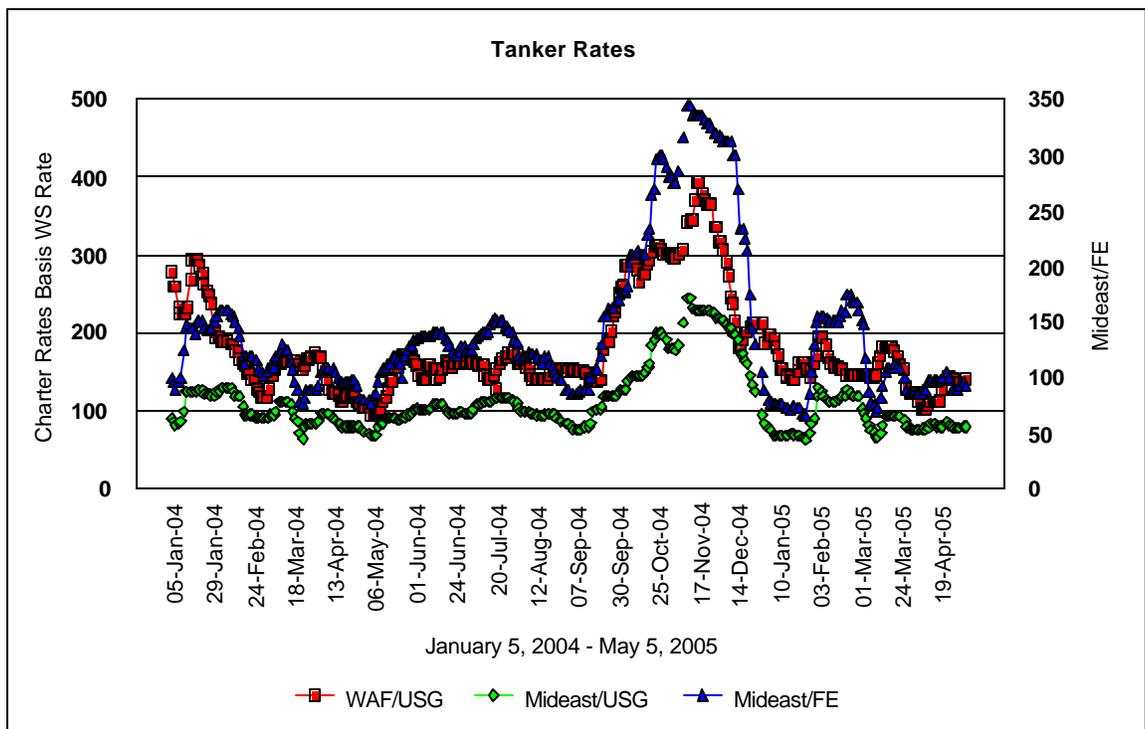
increase by 270,000 bpd to 23.97 million bpd. It reported that spot OPEC exports in the Gulf increased by 863,000 bpd to 8.526 million bpd for the first 10 days of May against the same loading period in April. It said high volumes of oil still in transit on the sea mean US imports will continue to rise, leading to likely further builds in

US oil inventories unless refinery runs increase.

Iraqi Prime Minister Ibrahim al-Jaafari has appointed Ibrahim Bahr al-Ulum to serve as Oil Minister in his newly sworn in cabinet. His cabinet was sworn in Monday with the oil and defense ministers left unfilled as the three main political factions in Iraq failed to agree on who would fill the key posts.

Citigroup raised its WTI and Brent price expectations for 2005 and 2006, citing rising demand from countries such as China and a lack of spare capacity among OPEC producers. It increased its WTI forecast for 2005 by 25% from \$40/barrel to \$50/barrel and its Brent outlook by 30% from \$37/barrel to \$48/barrel.

ConocoPhillips said oil prices are not sustainable above the \$50/barrel level and are also unlikely to fall back to \$20/barrel



seen several years ago. The head of ConocoPhillips also stated that it remained interested in operating in Iraq but that security was a barrier. He also added that the company would increase its heavy sour crude oil refining capacity in the US to 41% from 28%.

**Refinery News**

According to a filing with the Texas Commission for Environmental Quality, a lightning strike at Alon USA's 62,000 bpd refinery in Big Spring, Texas caused the sulfur recovery unit to trip off line for a few hours overnight. A diesel hydrotreater was also affected by the lightning strike, which caused the loss of control valves at the unit for a short time. It stated that the diesel hydrotreater is expected to undergo maintenance work on May 14-15.

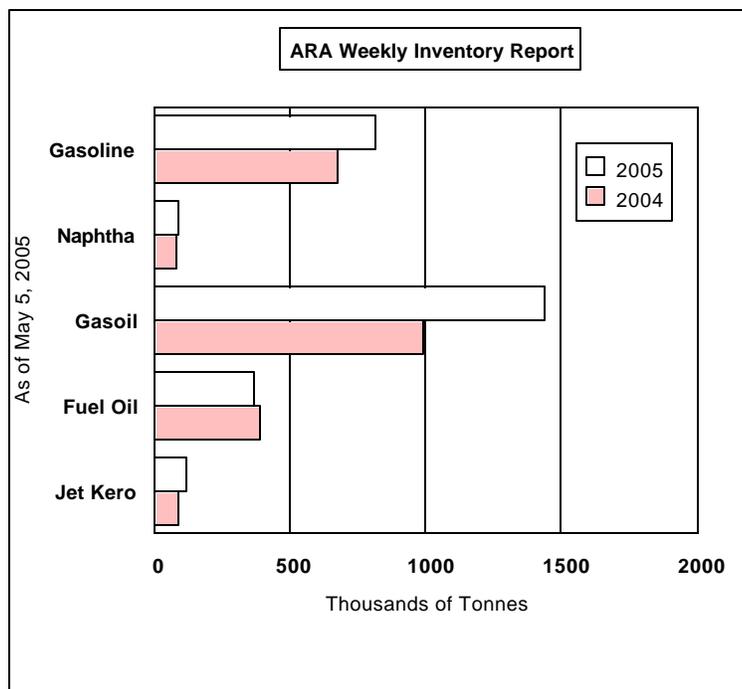
Venezuela's 450,000 bpd Amuay refinery will load 10 cargoes of gasoline this month, four more than originally planned to compensate for delays last month when the refinery was recovering from a power outage. The Amuay refinery fully restored operations April 28 when it brought a flexicoker unit and catalytic cracking unit back on line. A source said each shipment will hold 200,000 to 250,000 barrels of gasoline.

TNK-Ukraine said it will extend repair work at its 124,509 bpd Lysychansk oil refinery at least until the end of the month. The refinery was shutdown in April and was due to be restarted on May 11. The extended maintenance comes amid a dispute between Russian oil firms and Kiev over petrol prices and supply.

**Production News**

Venezuela's President Hugo Chavez said Venezuela's oil production will be able to reach its OPEC quota during the second half of the year. He admitted that production is currently 120,000 bpd below the quota. Earlier this week, he stated that production stood at 100,000 bpd below the desired level. OPEC assigned Venezuela a 3.165 million bpd quota in mid-March. He attributed the low production to a series of problems of poor maintenance as well as possible sabotage.

Gasoline stocks held in Amsterdam-Rotterdam-Antwerp storage tanks fell this week but remained well



above year ago level to keep supply comfortable ahead of the peak summer driving season. Gasoline stocks fell by 50,000 tons to 825,000 tons in the week ending May 5<sup>th</sup>. Gas oil stocks however increased by 50,000 tons to 1.45 million tons on the week while fuel oil stocks also increased by 50,000 tons to 375,000 tons. Naphtha stocks in the ARA storage tanks fell by 50,000 tons to 100,000 tons while jet fuel stocks were unchanged at 125,000 tons.

The Kazakh government is considering the construction of another port on the Caspian Sea to handle increased volumes of oil production from its offshore and onshore fields. It is already experiencing bottlenecks with the increase of oil transportation through the Caspian Pipeline Consortium's Tengiz-Novorossiisk

line and therefore wants to construct another port. Aktau, the sole Kazakh port on the Caspian Sea, shipped 3.23 million tons of oil in the first four months of the year.

Russia's Sibneft has paid \$31 million to acquire two oil deposits at state auctions, including one in West Siberia and one in East Siberia. It paid \$29.8 million for Zimnily deposit, which contains 8.66 million tons or 63.5 million barrels of crude while it paid \$1 million for the Srednetaimurinsky deposit, which contains 166.9 million tons of oil and 429.7 billion cubic meters of gas.

Azerbaijan has scheduled 4.2 million barrels of five cargoes of its Azeri Light crude for export from Supsa port for June, down 600,000 barrels from May.

Singapore's International Enterprise reported that the country's residual fuel stocks fell by 1.52 million barrels to 10.708 million barrels in the week ending May 4. Singapore's light distillate stocks built by 590,000 barrels to 9.677 million barrels while its middle distillate stocks fell by 647,000 barrels to 6.481 million barrels.

China is expected to cut its gasoline exports sharply in May after increased sales in the previous two months drew down domestic stocks and driving demand increased consumption. May exports from PetroChina, Sinopec Corp and West Pacific Petrochemical Corp totaled 420,000 tons, down 37% on the month.

India and China will discuss joint ventures as the two countries seek to stop competing against each other and prevent increases in oil prices. A delegation from China National Petroleum Corp is scheduled to meet officials of Oil & Natural Gas Corp to discuss possible joint ventures for oil exploration and production in West Asia.

Libyan National Oil Co has opened to international oil companies its second round of bidding for oil and gas blocks. The bidding will take place on October 2. In January, Libya's exploration and production sharing auction drew \$150 million in investment and bids from more than 60 companies.

Brazil's Petrobras said its domestic crude oil production in April exceeded 1.7 million bpd for the first time. It is up 16.6% above the level reported last year. Separately, workers at Petrobras rejected a profit-sharing proposal offered by the company and suggested a strike is possible. They did not state any timetable for a possible strike decision.

Ecuador's Central Bank reported that the country's oil product export revenue in February totaled \$27.34 million, up from \$12.56 million last year. It exported a total of 925,000 barrels in February 2005, up 22% on the year.

### **Market Commentary**

The crude market, which posted an inside trading day, staged a late day rally. The June crude contract opened up 32 cents at 50.45 as it continued to trade higher on Access in follow through from its strength on Wednesday. The market traded to an early high of 50.65 before it retrace some of its gains. The market later breached the 50.00 level and traded to a low of 49.50 after it failed to breach its earlier high. The market seemed ready to continue trading lower as it held good resistance at the 50.00 level. However the market surprisingly bounced off its low and extended its gains to over 80 cents as it posted a double top at 50.95 on the close. The market traded higher despite the lack of any supportive news. It settled up 70 cents at 50.83. Volume in the crude was good with 187,000 lots booked on the day. Meanwhile, the product markets ended mixed with the gasoline market settling up 1.28 cents at 147.92 and the heating oil market settling down 1.08 cents at 144.37. The gasoline market opened down 14 points at 146.50 and quickly breached some support at 146.00 as it tumbled

to a low of 144.80 within the first hour of trading. However the market bounced off that level and rallied to a high of 148.20, where it once again found selling pressure. The market retraced its gains and traded back towards its low only to bounce off that level amid the strength in the crude market. Similar to the crude, the gasoline market rallied to a high of 148.35 on the close. Even though the heating oil market ended well off its low, market remained in negative territory at the close. The market posted an inside trading day after it traded to its intraday high of 146.00 on the opening and failed to find the momentum to trade higher. It later sold off sharply to a low of 142.30 before the market bounced back ahead of the close. Volumes in the product markets were lighter today with 38,000 lots booked in the gasoline market and 36,000 lots booked in the heating oil market.

The crude market on Friday may continue its upward trend after the market ended sharply higher during today's session despite the lack of any supportive fundamentals. The market is seen finding resistance at its highs of 50.95, 51.05 followed by 51.60. More distant resistance is seen at 51.69 followed by 51.85.

Meanwhile support is seen at 50.00 followed by 49.50. More distant support is seen at 48.80, 48.70 to 48.50.

Technical Analysis		
	Levels	Explanation
<b>CL</b> Resistance 50.83, up 70 cents Support	51.05, 51.60, 51.69, 51.85 50.95  50.00, 49.50 48.80, 48.70 to 48.50	Previous highs, 38% (55.88 and 49.10), Previous high Double top  Thursday's low Wednesday's low, Previous lows
<b>HO</b> Resistance 144.37, down 1.08 cents Support	148.00, 148.65, 149.00 146.00, 147.50  142.30 142.10, 141.50, 141.00	Previous high, 50% (156.30 and 141.00), Previous high Thursday's high, Wednesday's high  Wednesday's low Previous lows
<b>HU</b> Resistance 147.92, 1.28 cents Support	149.90, 151.90 148.35  146.00, 145.00 142.20	Previous highs Thursday's high  Thursday's low Wednesday's low