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## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR MAY 5, 2006**

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Russia's Foreign  
Minister Sergei  
Lavrov said  
Russia has yet to  
decide on whether  
Iran should be  
considered a  
threat, saying it  
would be guided  
by the UN's IAEA  
on the issue. He  
was responding to  
remarks made by  
his Iranian  
counterpart,  
Manouchehr  
Mottaki, that  
Russia and China  
had officially  
stated their  
opposition to  
sanctions and  
military action  
against Iran. The  
UN's five  
permanent  
members have  
been holding talks  
on a resolution  
demanding Iran to  
halt its nuclear  
program. Britain,  
France and  
Germany, which  
are sponsoring  
the resolution,  
want it adopted by

#### Market Watch

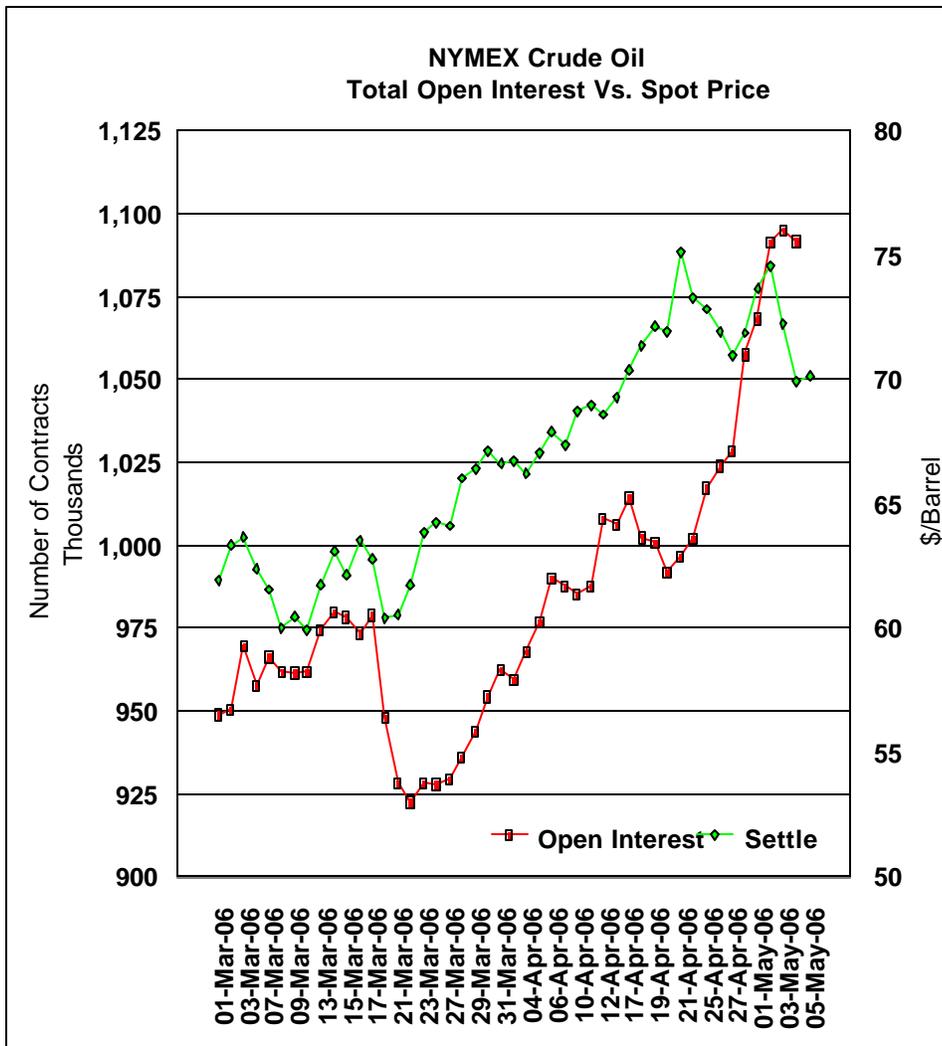
Iran's Oil Ministry took a step towards establishing an oil trading market denominated in euros, rather than the US dollar by granting a license for the bourse. Iranian legislators earlier this year urged the government to set up the market to reduce the influence of the US over the country's economy. If the market succeeds, observers said euro denominated oil sales could eventually convince central bankers to convert some US dollar reserves into euros, offering potential for a fall in the dollar's value.

US Vice President Dick Cheney traveled to Kazakhstan on Friday for talks with President Nursultan Nazarbayev, seeking to maximize access to the oil and gas reserves in the country. The US is working on securing the flow of oil from North Caspian oil fields by tanker to a pipeline terminus in Azerbaijan. The route would bypass Russia and Iran. Energy aside, a senior administration official said the vice president would encourage Nazarbayev to make further democratic reforms in the country.

Separately, the Russian Press said a speech by US Vice President Dick Cheney critical of the Kremlin, marked the start of a new Cold War that could drive Russia away from its western allies. The Kremlin said the speech, which accused Russia of limiting human rights and using its energy riches to blackmail the world, was completely incomprehensible.

Industry officials said Brazil's 2006-2007 ethanol exports should remain level or slightly lower than the 2 billion liters shipped abroad a year ago, even as average export prices increased 55-70% on high local and international demand. Several companies have ethanol dehydration plants in the Caribbean, which allows them to ship ethanol duty free to the US via the Caribbean Basin initiative. Brazil currently exports about 15% of its ethanol production and by 2010, the country is expected to export between 20-25% of its ethanol output.

According to an industry report, oil companies cut their investments in Venezuela leading up to contract changes, under which PDVSA would hold at least a 60% stake in joint ventures. During March, none of the companies operating 32 oil fields under a contract review carried out drilling activities. Accumulated output at the 32 fields was 465,202 bpd in March, stable from February's level. Oil majors such as Shell, Chevron Corp and Petrobras agreed to higher taxes and majority state control to maintain a presence in Venezuela. However Italy's ENI and France's Total each had an oilfield seized by PDVSA in April for failing to reach an agreement over the value of the fields. Other companies voluntarily returned an additional five fields, saying they would not be profitable under the new business model.



Monday and were due to meet again on Friday to push the case forward. Meanwhile, Iran's President Mahmoud Ahmadinejad pledged Iran would continue to enrich uranium because it wanted to produce enough fuel to power its own atomic power stations. He also stated that Iran's adversaries should begin respecting the people of Iran.

**Refinery News**

ERG SpA said it plans to partially restart its 150,000 bpd Isab Nord refinery in Sicily in about 20 days. The refinery is expected to operate at about 80% of its capacity. It also plans to repair the damaged pipeline in an additional 30 days to make the refinery fully operational. Meanwhile, its 240,000 bpd Isab Sub refinery is under a scheduled maintenance shutdown,

which started on May 1 for 40-50 days.

A small 10,000 barrel batch of spot LA gasoline was reportedly traded at 60 cents over front month NYMEX gasoline, up 10 cents/gallon to \$2.61. Brokers and traders however assessed the normal 25,000 bpd increment market closer to 55 cents over the NYMEX.

**Production News**

OPEC's oil production increased by 140,000 bpd in April to 29.76 million bpd, the highest level this year as Iraq and Nigeria increased exports. The ten OPEC members, excluding Iraq, produced at a steady level of 27.81 million bpd.

Nigeria has scheduled to export 2.08 million bpd of crude in May, up 210,000 bpd on the month. An increase in production from ExxonMobil's new offshore Erha oilfield to four cargoes from one in April would increase the country's total output in May. Nigeria's three domestic refineries continued to run at about 220,000 bpd, implying Nigerian output in May at 2.3 million bpd.

Iraq plans to open its oil reserves to foreign investors. However the deals would probably have to wait for an investment law. Some officials have stated that Iraq is ready to sign multi billion dollar deals with major oil companies before an oil investment law is passed by the government while some

officials have stated that deals must be signed under an open international tender. Also law and order would have to return to Iraq before it could open its oilfields to foreign investment. Iraqi experts said it would take at least 18 months after deals are signed to begin producing oil.

Royal Dutch Shell Plc is likely to win oil exploration rights to the Nursultan block in the south of the Kazakh sector of the Caspian Sea after winning political backing. A source at Kazakhstan's state oil and gas company KazMunaiGas said the country planned to sign a production sharing agreement on Nursultan by the end of May but did not state whether Shell was in the deal. The Nursultan block has an estimated reserve of 349 million tons of hydrocarbons.

Georgia's Black Sea port of Batumi oil shipments increased to 1.059 million tons in April from 648,000 tons in April of last year. Its shipments are however down from 1.205 million tons reported in March.

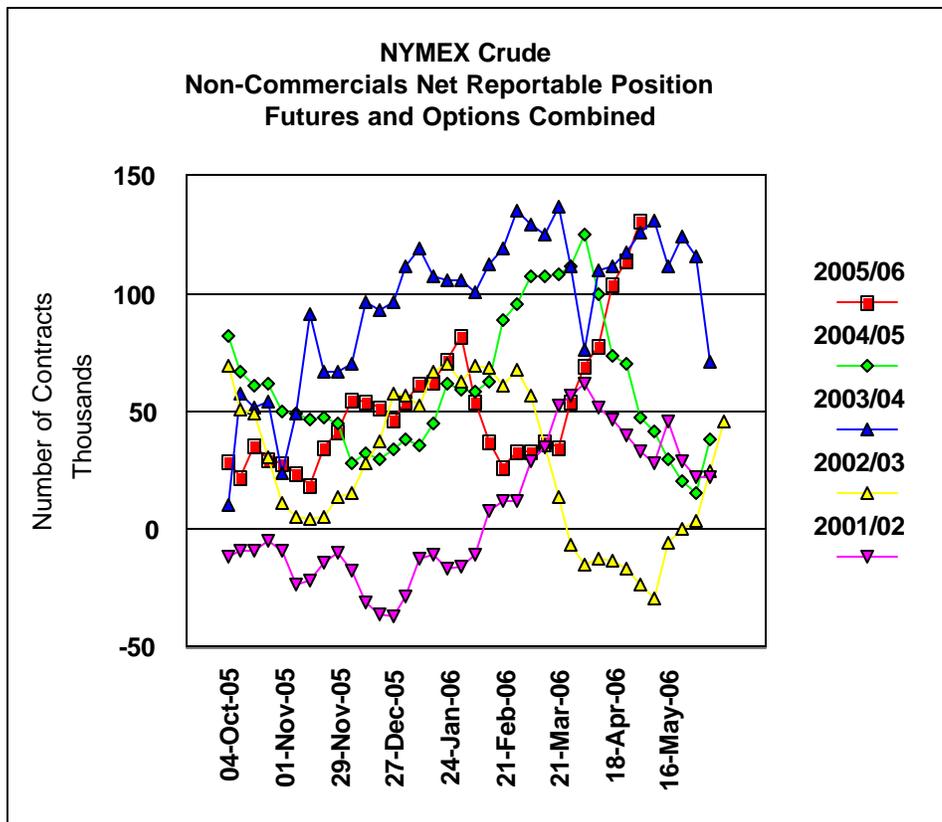
Indonesia's Energy Minister Purnomo Yusgiantoro said PT Elnusa would sign a business agreement with an Iranian oil company to build a 300,000 bpd refinery next week. Separately, Pertamina President Ari Soemarno said the firm would hold discussions with Kuwait Petroleum Corp and a private firm to resuscitate long stalled plans to build a new refinery. Indonesia needs new refineries to meet its growing domestic product demand and is in talks with several foreign firms to build refineries.

Chad's Oil Minister Mahamat Nasser Hassane said the country's oil production could more than double in five years to 400,000 bpd as new fields come on stream. The country's current production stood at 160,000-170,000 bpd.

OPEC's news agency reported that OPEC's basket of crudes fell \$1.67/barrel to \$66.41/barrel on Thursday.

**Market Commentary**

The crude market posted an inside trading day and settled in positive territory as traders covered their positions ahead of the weekend. The crude market opened slightly higher at 70.00 and traded mostly sideways within a range from 70.20 to 69.70 before some short covering pushed the market to a high of 70.55 by mid-day. The market later settled in a range and remained supported amid a late rally in the gasoline market. The crude market settled up 25 cents at 70.19. Volume in the crude market was excellent with over 226,000 lots booked on



the day. Open interest in the crude fell by a total of 3,478 lots as the market sold off on Thursday. This compares with its previous large builds. Meanwhile, the gasoline market, also posted an inside trading day following Thursday's sharp sell off. The market opened slightly higher at 199.50 and quickly posted a low of 199.00. The market however bounced off that level and traded to 202.50, where it held some resistance. However the market later breached that level and rallied to a high of 204.50 ahead of the close. It settled up 4.60 cents at 204.06. The heating oil market, which also posted an inside trading day, settled up 1.84 cents at 195.61. The market posted a low of 193.50 but quickly bounced off that level and rallied to a high of 196.00. The market later settled in a sideways trading pattern ahead of the close. Volumes in the product markets were good with 40,000 lots booked in the gasoline market and 57,000 lots in the heating oil market.

The Commitment of Traders report showed that non-commercials in the crude market increased their net long positions by 20,071 contracts to a record 94,094 contracts in the week ending May 2<sup>nd</sup> as the market rallied back toward s the 75.00 level. This was while open interest in the crude market increased by more than 74,000 lots. The combined futures and options report also showed that non-commercials in the crude market increased by 16,313 contracts to 130,735 contracts on the week. The report showed that non-commercials in the heating oil market cut their net long positions by 1,973 contracts to 13,263 contracts while non-commercials in the gasoline market cut their net long positions by 474

contracts to 23,405 contracts on the week.

The oil market on Monday will be driven by headlines over weekend following today's

Technical Analysis		
	Levels	Explanation
<b>CL</b> 70.19, up 25 cents	<b>Resistance</b> 71.82 to 72.20 70.55	Remaining gap (May 4th) Friday's high
	<b>Support</b> 69.70, 69.30 69.15 to 68.84, 67.90	Friday's low, Thursday's low Remaining gap (April 10th), Previous low
	<b>Resistance</b> 199.25 to 200.00 196.00	Remaining gap (May 4th) Friday's high
<b>HO</b> 195.61, up 1.84 cents	<b>Support</b> 193.50, 191.70 190.80, 188.50, 187.30	Friday's low, Thursday's low Previous low, 50% retracement(166.50 and 210.50), Previous low
	<b>Resistance</b> 207.50 204.50	Thursday's high Friday's high
<b>HU</b> 204.06, up 4.60 cents	<b>Support</b> 199.00, 197.60 197.41, 193.30, 190.00, 189.50	Friday's low, Thursday's low 38% retracement(156.00 and 223.00), Previous lows, 50% retracement

inside trading day. Barring any bullish news, the market may test its lows once again. The market is seen finding some support at its low of 69.70 followed by 69.30 and its gap from 69.15 to 68.84. More distant support is seen at 67.90. Meanwhile resistance is seen at 70.55 followed by its gap from 71.82 to 72.20.