



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR MAY 9, 2005

OPEC's President Sheikh Ahmad al-Fahad al-Sabah said OPEC does not intend to increase its production levels at its meeting next month since markets are oversupplied. He said OPEC will have to study market conditions before making any decision to increase its output when the producer group meets in mid-June. He said OPEC's production has reached 29.7 million bpd, which has created a surplus in the market of more than 1.2 million bpd. He added that OPEC's oil quota system is irrelevant and OPEC's ten members will continue to produce 29.7 million bpd through June. He also stated that he believed Saudi Arabia was

Market Watch

US Energy Secretary Sam Bodman will meet with Qatar's Oil Minister next week before meeting with Saudi Arabia's Oil Minister amid a push by the Bush Administration to lower oil prices. President George W. Bush on Friday said he hoped oil prices would continue falling.

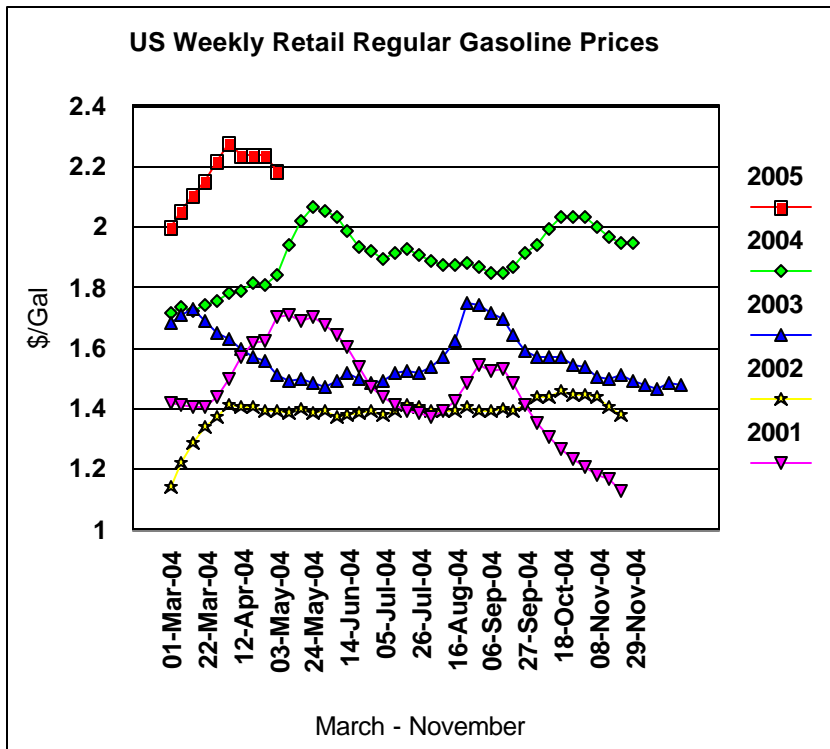
Goldman Sachs warned that US consumers were putting the brakes on driving in response to high gasoline prices. It said that data by the Federal Highway Administration and auto sales hint that consumer behavior may be changing. It said that with retail gasoline prices increasing to nearly \$2.25/gallon in recent weeks, there are concerns that high prices may be cutting demand or lowering trend demand growth. It said it still remains bullish on crude and refined products. It said the crude oil market will tighten ahead of the summer driving season, with a premium for light, sweet crude due to a lack of refineries capable of processing heavier grades of crude.

The NYMEX announced that it will start trading tanker freight futures on May 15. It will trade Middle East Gulf to Japan 250 k mt, W. Africa to USAC 130 k mt, North Sea to Continent 80 k mt, Ras Tanura to Yokohama 55 K mt, Ras Tanura to Yokohama 75 k mt, Rotterdam to USAC 37 k mt and Singapore to Japan 30 k mt.

Venezuela's President Hugo Chavez said that he has no plans to shake up management at PDVSA despite ongoing output problems, vandalism and alleged sabotage at the country's western oil fields. Last week, he admitted that production was about 100,000 bpd below target, leading to speculation that he could sack PDVSA President Rafael Ramirez, who is also the country's oil minister.

Singapore's High Court rejected China Aviation Oil Holding Co's attempt to claim state immunity in a lawsuit related to the \$550 million collapse last November of its listed unit. Fighting a suit filed by Satya Capital Ltd, state owned CAOHC had argued that it was outside of the jurisdiction of Singapore courts as it was a department of the Chinese government.

Japan and Russia failed to make any progress on ending their territorial dispute during talks late Monday. The dispute has held back Japanese investment in Russia's resource rich but undeveloped Far East.



producing nearly 10 million bpd. When asked about the persistently high oil prices despite OPEC's increased output, OPEC's President said the price spike was not due to any supply shortages. He stated that Kuwait's current production was about 2.7 million bpd.

Qatar's Oil Minister Abdullah bin Hamad al-Attiyah said the oil market is currently well supplied but added that OPEC will be hard pressed to meet consumers' needs in the fourth quarter if oil demand registers its typical seasonal gains. He said OPEC's main concern should be the fourth quarter, when the group theoretically could reach the limits of its ability to produce more oil. He also stated that if US crude oil inventories continue to increase during the weeks heading

up to OPEC's meeting in June, OPEC will not likely reduce its crude oil production if oil prices are still around \$50/barrel.

According to a source, Saudi Arabia has kept its June crude supply to US refiners and non-major European refiners unchanged on the month. US refiners will receive 25% under contract volumes while refiners in Europe will receive between 27 and 30% below their contract volumes in June.

An Iraqi oil official said repair work was still ongoing on Iraq's northern pipeline after it was sabotaged last week. The official said no flows to Turkey are expected for another week. Meanwhile a source at Iraq's SOMO said Iraq will not resume crude exports through its northern pipeline to Turkey until the security situation improves.

Iraq's newly appointed Oil Minister, Ibrahim Bahr al-Ulum said Iraq hopes to assume its former position as a major contributor to world oil supply by securing its oil installations and forging relationships with multinational oil firms to lift production and export capacity and working within OPEC to help stabilize world oil prices. He said his goal would be to secure oil and gas infrastructure from attack by insurgents and enlist the help of Iraqi security forces and ordinary civilians to help keep pipelines and other installations secure from attack and to use oil revenue to help rebuild the country.

Central bankers from the Group of 10 said high oil prices are depressing the pace of growth but not enough to derail the world economy from one of its best performance in decades.

The EIA reported that the US average retail price of gasoline fell by 4.9 cents/gallon to \$2.186/gallon in the week ending May 9th. It reported that retail diesel prices fell by 3.5 cents/gallon to \$2.227/gallon on the week.

According to the Lundberg survey, the average price of gasoline fell by 3 cents/gallon to \$2.24/gallon in the past two weeks.

OPEC's news agency reported that OPEC's basket of crudes increased by 29 cents/barrel to \$47.92/barrel on Friday, up from Thursday's \$47.63/barrel level. It also reported that the basket of crudes fell by \$2.05/barrel to average \$47.55/barrel in the week ending May 5.

Refinery News

A 55,000 bpd catcracker and a 13,000 bpd alkylation unit at PDVSA's 130,000 bpd El Palito refinery remain out of service after an attempted restart failed due to problems with the air compressor. Meanwhile, It confirmed that its La Isla refinery in Curacao has shipped gasoline and components to El Palito to meet local demand. It shipped 100,000 barrels of unleaded gasoline and 70,000 barrels of cat naphtha to El Palito.

A sulfur processing unit at Citgo Petroleum's 165,000 bpd refinery in Corpus Christi, Texas refinery restarted on Sunday after a 5 hour shutdown. The unit was shut on Saturday night after a severe thunderstorm passed over the refinery.

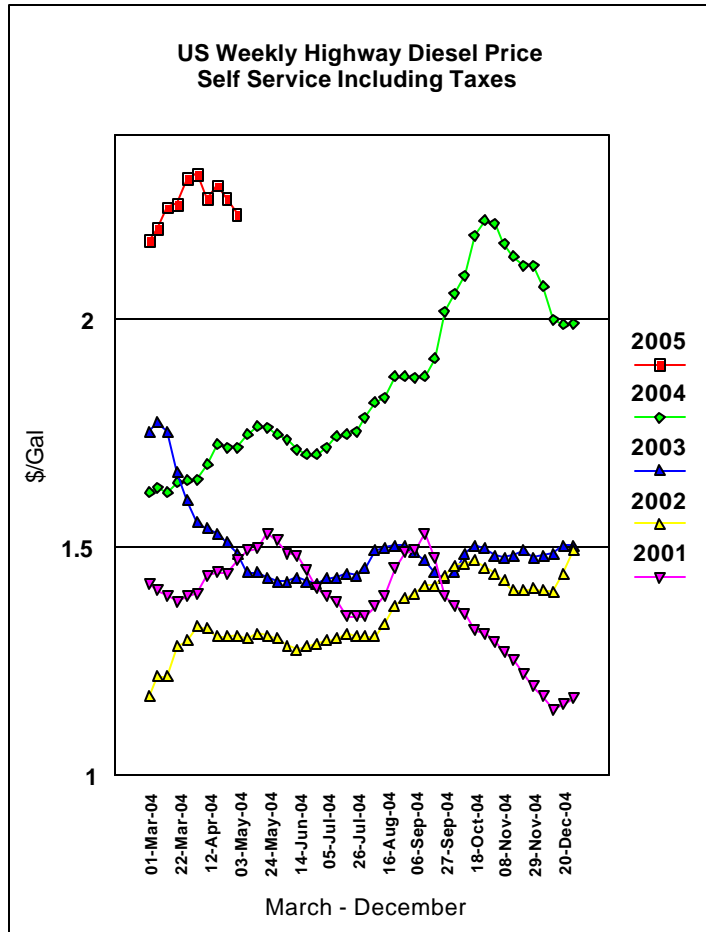
Turnaround maintenance is underway on two reformer units and a desulfurization unit at Sunoco's 330,000 bpd Philadelphia refinery. The units are expected to restart in the first week of June.

Alon USA has postponed repairs of a malfunctioning sulfur unit at its Big Spring, Texas refinery for about a week. Repairs are scheduled to start May 16 and last about five days.

Saudi Arabia will offer shares in its planned joint venture export refinery in Yanbu to the public. Saudi Aramco is discussing building a 400,000 bpd project with several potential international partners. The Yanbu plant is one of the three major Aramco projects to upgrade and expand Saudi Arabia's refining system. Aramco aims to increase oil production capacity from about 10.5 million bpd to 12.5 million bpd in the next few years to meet strong world demand for crude.

Production News

Sunoco Logistics Partners L.P. said it signed a definitive agreement with Mobil Pipe Line Co to purchase a crude oil pipeline system and storage facility in Texas for about \$100 million. Closing of the transaction is expected within the next 100 days. The pipeline system consists of a pipeline with an operating capacity of 125,000 bpd, originating at the Corsicana terminal and terminating at Wichita Falls. In addition, Sunoco said it will construct a new \$18 million pipeline connecting West Texas Gulf Pipe Line at Wortham to Corsicana.



Saudi Arabia's Oil Minister Ali al-Naimi said it had discovered a new oilfield in the east of the country which produced 6,000 bpd of Arab Light crude in tests last month. The well is expected to reach higher output levels under normal production.

Iran will have to import \$4.5 billion of gasoline in the 12 months to March 2006, a third more than in the previous year. It will have to import 24.5 million liters per day. Iran's total refining capacity stands at 40 million liters per day but consumption is estimated to exceed 64.5 million liters per day in the year to March 2006.

The Shetland Islands Council reported that Brent blend crude oil liftings from Sullom Voe fell to 175,650 tons in the week ending May 4, down from 233,902 tons in the previous week.

Venezuelan lawmakers will investigate international oil companies which have been accused of evading taxes and other charges. Lawmakers expect to find evidence of tax evasion, royalty debts, production over the limits set by the government and irreversible damage to some wells. A lawmaker said if evidence was found against the foreign companies, they will have to pay for the damages they have caused. Venezuela's Oil Minister Rafael Ramirez said last month that many of these companies have evaded taxes for an estimated total of \$2 billion.

Indonesia's chief economics minister Aburizal Bakrie said Indonesia has reimbursed 3.3 trillion rupiah or \$347 million to cash strapped Pertamina for oil products procurement in the January to May period. It has yet to issue a monthly import tender for June oil products as it faces delays in the delivery of some prompt supplies due to late payments.

China will increase its retail diesel prices by 4% from Tuesday, the first increase since last August to ease pressure on refiners hit by poor profit margins due to high world crude benchmarks. Benchmark retail diesel prices will increase by 150 yuan or \$18.12 to 3,980 yuan or \$480.90/ton.

Japan's Ministry of Economy, Trade and Industry will discuss with governors of Kagoshima and Okinawa prefectures possibly later this month whether to give Teikoku Oil Co rights to conduct experimental drilling in the East China Sea. It will begin talks with the two governors after the oil company submits a test drilling plan in waters close to two gas fields where China is currently exploring.

India's Essar Oil Ltd has signed contracts with Myanma Oil and Gas Enterprise for the exploration and production of oil and gas in the western region of Rakhine. Despite an announcement in March, banning foreign firms at new onshore blocks, it proceeded to sign production sharing pacts on Friday to explore and produce the fossil fuels at offshore Block A-2 and onshore Block L.

Market Commentary

The oil market opened slightly higher at 51.00 and immediately posted an early low of 50.90 before the market bounced off that level and traded to 51.60. The market held good support amid comments made by OPEC's President that OPEC will keep producing near its full capacity at 29.7 million bpd through June. The market traded sideways for most of the session as it failed to breach its support level on several attempts. However the market later breached the 50.90 level and sold off to a low of 50.65. The June crude contract, which failed to test its support at its previous low of 50.25, bounced off its low and rallied ahead of the close. The market breached its resistance at 51.60 and extended its gains to \$1.29 as it rallied to a high of 52.15 on the close. It settled up \$1.07 to 52.03. The market was supported amid comments made by Qatar's Oil Minister that OPEC may have limited capacity to meet increasing oil demand in the fourth quarter. Volume in the crude was good with 197,000 lots booked on the day, of which 130,000 lots traded via spreads. The product markets also ended the

session in positive territory with the gasoline market settling up 1.13 cents at 148.73 and the heating oil market settling up 91 points at 144.02. The gasoline market opened down 50 points at 147.10 and quickly traded to an early high of 148.40. The market which held some resistance at that level erased its gains as it sold off to a low of 145.70 amid the losses in the crude market. However the market bounced off its low and rallied to a high of 149.20 ahead of the close. The market seemed to have been supported amid the news that PDVSA's El Palito refinery failed to restart its 55,000 bpd catcracker and 13,000 bpd alkylation unit over the weekend. Meanwhile, the heating oil market posted an inside trading day after it failed to breach Friday's trading range. The market traded to a high of 143.90 early in the session before it sold off and posted a low of 141.60. However it too bounced off its low and retraced its losses as it posted an intraday high of 144.40 ahead of the close. Volumes in the product markets were good with 51,000 lots booked in the gasoline and 53,000 lots booked in the heating oil market.

The crude market on Tuesday may remain rangebound as it awaits the release of weekly petroleum stock reports on Wednesday. The market is seen finding initial resistance at its highs of 52.15 and 52.23 followed by 52.34 and 53.18, its 50% and 62% retracement levels, respectively. Support is however seen at 51.00 followed by 50.65, 50.25 and 49.50. More distant support is seen at 48.80 to 48.50.

Technical Analysis		
	Levels	Explanation
CL 52.03, up \$1.07	Resistance 52.34, 53.18 52.15, 52.23	50% and 62% retracement(55.88 and 48.80) Monday's high, Previous high
	Support 51.00, 50.65 50.25, 49.50, 48.80 to 48.50	Monday's low Previous lows
HO 144.02, up 91 points	Resistance 148.00, 148.65, 149.00 144.40, 146.00, 147.50	Previous high, 50%(156.30 and 141.00), Previous high Monday's high, Double top, Previous high
	Support 143.00, 142.50, 141.60 141.20, 141.00, 140.80-140.50	Monday's low Previous lows
HU 148.73, up 1.13 cents	Resistance 151.90, 153.50 149.20, 151.40	Previous highs Monday's high, Friday's high
	Support 147.00, 145.70 144.80, 142.20	Monday's low Previous lows