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Windham Group



ENERGY RISK MANAGEMENT

Howard Rennell, Pat Shigueta,
& Karen Palladino
(212) 624-1132 (888) 885-6100

www.e-windham.com

ENERGY MARKET REPORT FOR MAY 18, 2011

Iran's President Mahmoud Ahmadinejad will attend the next OPEC meeting, according to a top Iranian official. Over the weekend, Iran's President said he would be in charge of the oil ministry for the time being after sacking the incumbent as part of a proposed merger of ministries. With Iran currently holding

the helm of OPEC as part of a rotating position, Iran's President would normally preside the gathering if he attends it. However, an OPEC delegate said he was not aware of the group receiving any notification the Iranian President would attend the meeting.

Market Watch

The US Senate blocked a move by Republicans to speed domestic offshore oil and natural gas drilling on Wednesday. Republicans only got 42 of the 60 votes needed to consider a bill, known as the Offshore Production and Safety Act, that would have directed the Interior Department to conduct previously scheduled offshore lease sales in the Gulf of Mexico, Virginia and Alaska. The bill would have also extended lease terms by one year in the Gulf which the Obama administration suspended last year following the BP oil spill.

A Robeco fund manager said US crude oil futures are likely to move lower to about \$95/barrel. However he stated that tight supply and increasing demand should prove supportive until extra capacity comes on stream. He believes lower oil prices present opportunities for bargain hunters as over the medium term he sees a demand/supply squeeze with emerging markets increasing their oil consumption.

Exclusive Analysis think tank said Russia would significantly ease its tax take in oil in the next three years as the current tax regime makes development of many fields unattractive. It expects Russia to cut its government tax take in oil by over 5% from 85% in the next three years.

Separately, an official at Libya's rebel Transitional National Council said that they want to attend the OPEC meeting. It wants to send its finance minister to the next OPEC meeting. However an OPEC delegate said deciding if Libya's rebels can attend the meeting is a very complicated legal issue.

Later a spokesman for the Libyan government said it intends to send a representative to the OPEC meeting on June 8th.

DOE Stocks

Crude – down 15,000 barrels
Distillate – down 1.157 million barrels
Gasoline – up 119,000 barrels
Refinery runs – up 1.5%, at 83.2%

Refinery News

Delek US Holdings Inc said its refinery cut its throughput to 60,000 bpd since May 8th after a crude pipeline operator halted shipments due to recent flooding along the Mississippi River. The refinery's throughput is expected to total 50,000-

65,000 bpd until the pipeline resumes normal operation. Operations at its Tyler, Texas refinery have not been affected by the current flooding.

PBF Energy continued preparing to restart operations at its 182,000 bpd Delaware City, Delaware refinery. The refinery remains on schedule to resume production within the second quarter of this year.

**May
Calendar Averages**
CL – \$102.19
HO – \$2.9739
RB – \$3.1470

Magellan Midstream Partners said it would immediately resume dock operations at its Marrero terminal, following a suspension of activity due to increasing Mississippi water levels. It said its terminal in Gibson, Louisiana remains out of service at this time.

Venezuela's Paraguana refinery complex, which was hit by a power outage late last week, is not expected to return to normal operations until Friday or Saturday. A power outage on May 12th forced a complete shutdown of the 305,000 bpd Cardon refinery while operations at the 640,000 bpd Amuay refinery were partially affected.

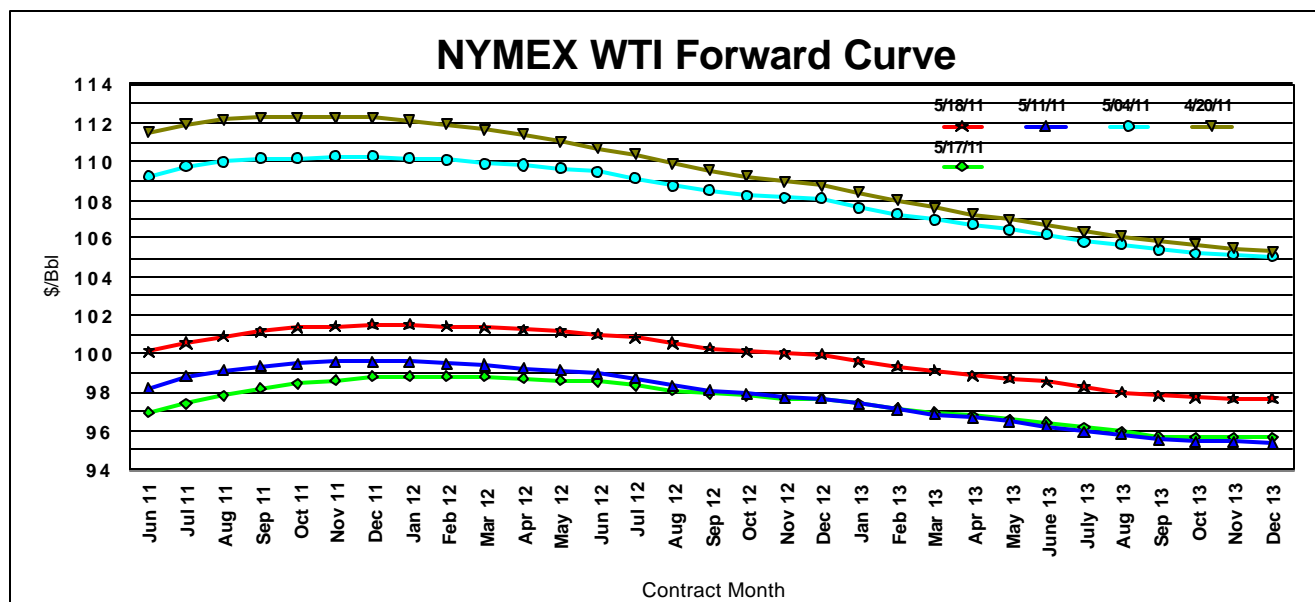
Spain's Repsol said its 220,000 bpd Bilbao refinery shut three of its units for planned maintenance at the beginning of this week. The turnaround, which affects a crude distillation unit, gasoil desulfurization unit and visbreaker unit, will not impact the refinery's production.

Indonesia's Pertamina may shut a 27,500 bpd hydrocracker at its 120,000 bpd Dumai refinery for two weeks in the fourth quarter.

The Petroleum Association of Japan reported that the crude oil inventories in the week ending May 14th fell by 5.35% on the week but increased by 10.81% on the year to 16.79 million kiloliters. Japan's gasoline stocks fell by 0.77% on the week and by 9.92% on the year to 2.29 million kl while gas oil stocks fell by 0.45% on the week and by 1.83% on the year to 2.02 million kl and kerosene stocks increased by 1.22% on the week and by 39.4% on the year to 2.26 million kl. Japan's naphtha stocks increased by 8.31% on the week and by 20.49% on the year to 2.14 million kl and jet fuel stocks increased by 4.72% on the week and by 19.59% on the year to 1 million kl. Japan's refinery utilization rate fell to 75.1% from 78.6% the previous week. Crude throughput fell by 154,714 kl to 3.346 million kl on the week.

Production News

Oil production in Alberta has been cut by more than 100,000 bpd due to the wildfires. Cenovus Energy Inc said that oil production at its Pelican Lake heavy oil field in northern Alberta was cut to 8,000 bpd as it waits for Plains All American Pipeline's Rainbow pipeline to resume operation. The



storage tanks at the Pelican Lake operation, which normally produces 22,000 bpd, were expected to fill by early Thursday. Royal Dutch Shell's 21,000 bpd Peace River operations were also shut in. Syncrude Canada Ltd said it is evacuating nonessential workers from one of its mining sites because of smoke from two nearby wildfires. It said there was no risk to its facilities from the fires however air quality due to the smoke prompted the evacuation.

The EIA reported that US ethanol production increased by 4.4% to 900,000 bpd in the week ending May 13th. It is up 38,000 bpd from the prior week. It reported that ethanol stocks fell by 27,000 barrels to 20.41 million barrels.

Italy's Eni expects the Kashagan oilfield in Kazakhstan to produce its first oil by the end of 2012 or early 2013. Kazakhstan plans to increase its crude output by more than 20% to 100 million tons by 2015. The Kashagan oilfield will contribute much of the additional volume.

PetroChina will produce 400 million tons of oil equivalent by 2015, half of it overseas.

BP Plc said it is still discussing the joint exploration of the Russian Arctic with Rosneft. The two firms' \$16 billion share swap and exploration deal expired at midnight Monday. Rosneft said it received new proposals for cooperation in the Arctic and that the company is seeking to carry out all license obligations for the Arctic project.

Kazakhstan's KazMunaiGas said it was looking for partners to jointly explore two Caspian Sea blocks for oil and gas.

Russia has scheduled 3.74 million tons of ESPO blend crude from the Pacific port of Kozmino in July-September this year, up from 3.72 million tons scheduled for April-June. Kozmino exports for the second quarter are expected to exceed the preliminary schedule and amount to 3.9 million tons as small companies redirected volumes from the Black Sea port of Novorossiisk to the Pacific port.

The National Iranian Oil Co increased the official selling price of its Iranian Light crude bound for Northwest Europe in June by 30 cents to BWAVE minus \$4.15/barrel. It increased the price of its Iranian Heavy crude by 5 cents to BWAVE minus \$5.50/barrel and the price of its Forozan Blend by 5 cents to BWAVE minus \$5.45/barrel. The price of its Iranian Light crude bound for the Mediterranean was unchanged at BWAVE minus \$5.80 while the price of its Iranian Heavy crude was cut by 10 cents to BWAVE minus \$9.85/barrel and the price of its Forozan Blend crude was cut by 10 cents to BWAVE minus \$9.80/barrel. The price of its Iranian Light crude bound for Asia was increased by 50 cents to the Oman-Dubai average plus \$2.43/barrel while the price of its Iranian Heavy crude was increased by 15 cents to the Oman-Dubai average minus 73 cents/barrel and the price of its Forozan Blend was increased by 15 cents to the Oman-Dubai average minus 64 cents/barrel.

India's chief economic adviser to the government said India's government will have to increase retail prices of diesel in the medium term to respond to changing global crude oil prices.

Market Commentary

Initial gains in crude oil were extended after an unexpected decline in U.S. inventory levels. Gasoline also rose as demand gained for the first time in three weeks and stock levels increased less than expected. The DOE report indicated that refiners had increased runs to 83.2 percent of capacity, the highest level since April 1. The decline in gasoline inventories incited a demand recovery-buying spree, signaling that the downside may have been a little too extreme. Market participants will continue to monitor the demand factor as the U.S. summer driving season nears. With prices at the pump still averaging over \$4 a gallon for gasoline, it is expected that consumers will curtail their driving. Crude oil appears to be forming a period of consolidation, which typically brings about

sideways trading. A new trading range between \$94.63 and \$104.60 may be trying to establish itself. The major trend remains to the upside. A break below \$83.85 will signal that a reversal is underway and expectations are that crude oil could return to the \$64.23 support level.

Crude oil: June 11 102,731 -62,350 July 11 386,598 +14,092 Aug 11 91,254 +313 Totals 1,582,868 -46,978 Heating oil: June 11 61,351 -7,766 July 11 76,384 +2,783 Aug 11 32,774 -605 Totals 310,771 -3,649 Rbob: June11 51,163 -4,589 July 76,092 +5,647 Aug 11 28,028 +1,772 Totals 277,617 +787

Crude Oil		Heating Oil		Rbob	
Support	Resistance	Support	Resistance	Support	Resistance
9284	10300		31325		
8700	10845	27695	32777		33369
8625	11120	26680	33370	26965	35915
8500	11483	27375	33510	26300	36310
8385	11563	23685		25683	
	11703	22960		25145	
	12126			24240	
	14933			23631	
				23414	

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