



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR MAY 24, 2005

An Iraqi oil official stated that a shortage of Kirkuk crude production has led to the suspension of Iraq's northern oil exports to the Turkish port of Ceyhan. The official said there has been no pumping from Kirkuk to Ceyhan since Saturday and the pipeline will not be able to pump until Thursday. Iraqi officials said Iraq's northern oil production has been averaging 500,000 bpd of which 380,000 bpd is being pumped to nearby refineries for domestic use. Meanwhile Iraq's southern oil production has fallen to 1.66 million bpd from 1.85 million bpd due to the failure of the gas separation stations at the southern oil field. Oil exports from the south have been averaging 1.4-1.5 million bpd. The

Market Watch

The Wall Street Journal reported that a decline in gasoline, diesel and jet fuel prices is likely limited for at least several years due to tight refining capacity. The growing demand for oil in China, India and other countries is aggravating the shortfall in refining and threatening to keep prices elevated for years. World oil demand is expected to grow by about 2 million bpd this year from 82.5 million bpd last year while the world's capacity to refine and process crude is expected to grow by less than half that amount. As a result, the move by OPEC to increase production is not likely to translate into major price cuts for consumers anytime soon. A slowdown in the economy could reduce demand for gasoline and other refined products. However the economy continues to grow. Industry analysts are forecasting a second peak in crude prices later this year to more than \$60/barrel due to tightening refining capacity. Contributing to the pressure is the tightening emissions standards for diesel and gasoline.

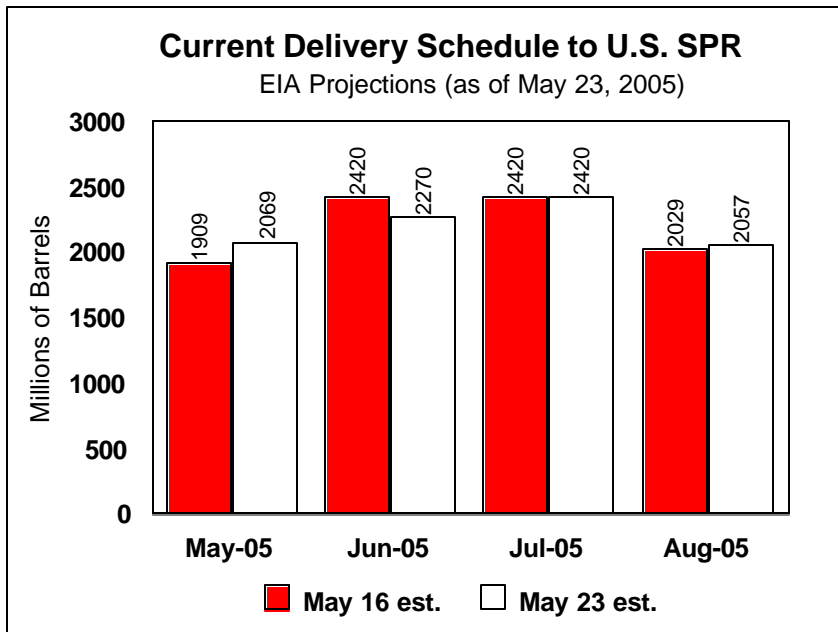
The Organization for Economic Cooperation and Development said the world economy is likely to slow in 2005 due to high oil prices and exchange rate shifts. It said its 30 members will record a combined economic growth rate of 2.6% in 2005, down from its 2.9% estimate. It also lowered its 2006 growth estimate for member countries to 2.8% from over 3%. It said Asia's outlook is bright, with Japan heading for an economic recovery. However the euro zone is pressured by a stronger euro and high oil prices. It expects the euro zone to grow 1.2% in 2005 and 2% in 2006, below previous estimates of 1.9% and 2.5%, respectively. The OECD also stated that Mexico's economic growth is seen slowing to 4% in 2005 with export revenues eroded by competition from China, although cash from oil sales will help increase domestic demand.

A shipping company, Kristen Navigation, said a very large crude carrier and a ship carrying vehicles have collided off the UAE port of Fujairah. The VLCC was carrying crude from the Iranian export terminal of Kharg Island to India on behalf of Reliance Industries Ltd.

Russia's Yukos said it is restructuring to reflect its smaller size, disbanding its Moscow managing company and creating two units to oversee upstream and downstream operations.

ConocoPhillips expects to receive approval later this year from the US government to develop a liquefied natural gas terminal in the Gulf of Mexico. The Compass Port regasification terminal slated for construction off the Alabama coast is one of two terminals the company hopes to build in the Gulf and is currently awaiting approval by the US Coast Guard.

BP PLC is now demanding that media running its ads notify the company in advance when news stories are slated to mention BP or its industry. It has adopted a zero tolerance policy towards negative editorial coverage which will require news organizations to notify BP ahead of any news text or visuals they plan to publish that directly mention the company.



technical problem is not expected to impact exports however if the problem persists, exports will fall.

The Center for Global Energy Studies warned that inventories must be allowed to build up over the second and third quarters so peak winter demand can be met. It said OPEC's upcoming meeting and the weeks leading to the meeting will show whether OPEC is serious about allowing stocks to build or whether OPEC is targeting as high a price as it can get away with without provoking a response from consumers. It stated that the recent downward price correction was not the start of a price collapse

because capacity remained tight. It noted that sustained OPEC production of about 30 million bpd would keep Dated Brent around \$47-\$49/barrel for the rest of the year. However if OPEC cut its production to about 29.5 million bpd for the second half, prices would rally back above \$51/barrel in the third quarter and above \$55/barrel by the end of the year.

Saudi Arabia plans to increase its production capacity by 14% to 12.5 million bpd by 2009 and build new refineries to meet rising demand. Saudi Arabia's Oil Minister Ali al-Naimi said the country is currently producing 9.5 million bpd and maintaining a spare capacity of 1.5 million bpd.

Separately, Saudi Arabia's Oil Minister Ali al-Naimi warned that problems in obtaining US visas and unpredictable procedures at US customs was hurting public opinion of the US in the Middle East.

Qatar's Energy Minister Abdullah bin Hamad al-Attiyah once again expressed his concern over the world's growing inventories of oil. He stated that he would raise the issue at next month's meeting.

Algeria's Energy and Mines Minister Chakib Khelil said oil prices are reasonable and will have no impact on economies of consuming nations while demand is expected to be strong in the third and fourth quarter. He said demand will be strong in the next two quarters, particularly gasoline in the US. Separately, Algeria's Energy and Mines Minister said Algeria has delayed by a year plans to increase its output capacity to 1.5 million bpd. It is currently producing 1.4 million bpd.

OPEC's news agency reported that OPEC's basket of crudes increased by 23 cents/barrel to \$45.50/barrel on Monday, up from Friday's \$45.27/barrel.

An ExxonMobil executive said European gasoline exports are increasing as refineries increase their production. Traders are shipping their excess supplies to Asia as well as the US market. Europe's gasoline demand fell by 400,000 bpd between 1999 and the first quarter of the year, while diesel demand increased by 800,000 bpd in the same period, leaving the region's refiners struggling to make diesel but overflowing with gasoline. ExxonMobil's director of refining for Europe, Tom Moeller, estimated European gasoline exports to the US at about 500,000 bpd during the summer 2004 but declined to give a forecast for 2005.

The US Senate Energy Committee's proposed energy bill calls for permanently reauthorizing the SPR. Language in the proposed legislation also instructs the Energy Secretary to acquire enough crude oil to fill the emergency stockpile to the 1 billion capacity outlined in its original statute without incurring excess cost or appreciably affecting the price of gasoline or heating oil.

According to the latest SPR delivery schedule, the EIA increased the SPR delivery in May by 160,000 barrels to 2.069 million barrels while it cut its SPR delivery in June by 150,000 barrels from its previous estimate to 2.27 million barrels. The delivery schedule for July remained unchanged at 2.42 million barrels while its delivery in August was increased by 28,000 barrels to 2.057 million barrels.

In a statement published on an Internet site, the militant group al-Qaeda in Iraq said its leader Abu Musab al-Zarqawi is injured and called on Muslims to pray for his recovery. The statement did not say how or when he was injured. He reportedly met with his lieutenants in Syria last month and ordered an increase in attacks to follow the installation of the newly elected Iraqi government.

Refinery News

ExxonMobil shut two furnaces associated with fluid catalytic cracking unit 2 at its Baytown, Texas refinery due to high pressure in a wet gas scrubber unit. According to a filing with the Texas Commission for Environmental Quality, the furnace shutdowns led to increased emissions from one of the refinery's fluid catalytic cracking units.

Valero Energy's plans to restart units at its Corpus Christi, Texas refinery following its turnaround is on schedule for the end of the week. Several units at the West Plant, including a residual hydrotreater and a hydrogen plant, are scheduled to begin a five day process of restarting on May 26. The units were shut on May 6.

Total said its five refineries affected by the workers' strike last week have been restarted. However it added that not all were fully operational. It said some refining units will take some time to reach full capacity. The five refineries accounted for over 90% of the 1.092 million bpd that Total refines at its French refineries.

Venezuela's PDVSA will build two refinery units for processing heavy crude within four years. It will invest about \$2.5 billion to develop the two plants in order to increase the volume of heavy crude processed by 2009. One of the units will be built at the coastal Puerto La Cruz refinery while the other unit will be built at the El Palito refinery.

Production News

Abu Dhabi National Oil Co will increase its supplies in July, adding up to 85,000 bpd to world markets. It notified its Asian customers that it would supply them with full term volumes for July and has also offered them extra barrels. Incremental volumes across Asia could total 2 million barrels, with Japan getting the majority of 1.5 million barrels. The return from maintenance on its oilfields will add about 20,000 bpd to the market. Its crude oil exports are set to increase over the next few months as it prepares to increase output capacity at its Murban oilfield by 200,000 bpd to 1.5 million bpd by early 2006.

ExxonMobil Corp's Kizomba B project in Block 15, offshore Angola, is expected to begin production in July. It will have an initial flow of 200,000 bpd, before ramping up to 250,000 bpd.

BP PLC is in talks for an oil and gas exploration and production deal in Libya. On May 3, BP's rival Royal Dutch/Shell Group finalized a similar deal with Libya, which awarded the company five blocks covering about 20,000 sq km in the Sirt Basin as well as the upgrade of a liquefied natural gas plant.

The Baku-Ceyhan pipeline scheduled to be inaugurated on Wednesday could help bring stability to the troubled region. The project is the first direct pipeline link between the Caspian and the Mediterranean, providing a much needed alternative to Mideast energy sources and Russian transit routes. The pipeline will pump over 1 million bpd of Azeri and possibly Kazakh crude later this decade to the port of Ceyhan, bypassing Russia and the Black Sea Bosphorus straits. Kazakhstan's President Nursultan Nazarbayev announced that his country is ready to join the Baku-Tbilisi-Ceyhan oil pipeline project. He hopes to link Kazakhstan's main port on the Caspian Sea, Aktau, with Baku to gain access to the pipeline for its oil exports. He noted the importance of the oil pipeline for Kazakhstan as an alternative route for oil exports. He also stated that in December, Kazakhstan plans to complete construction of an oil pipeline with an annual throughput capacity of 25 million tons to China. Kazakhstan's oil shipments across the Caspian Sea will increase to 38 million metric tons or 760,000 bpd in 2016, up from 8 million tons now. Separately, Chevron Corp and its partners are studying alternative ways to export Kazakh oil as Russia delays a planned pipeline expansion to the Black Sea. The BP-led Azerbaijan International Operating Co will invest \$12 billion to develop the Azeri-Chirag-Gunashli fields. The partners plan to use the pipeline to the port of Ceyhan to transport the crude.

Russia's TNK-BP plans to transport 700,000 tons of oil via Ukraine's Odessa-Brody pipeline in May, up 80% on the month.

Russia's Rosneft's proved oil reserves quadrupled to 9.3 billion barrels after it bought the Yukos unit, Yuganskneftegaz. It had proved reserves of just 328 million tons or 2.4 billion barrels before it acquired Yugansk after the government auctioned off the unit to recover back tax debt from Yukos.

Ukraine's Fuel and Energy Ministry reported that oil and gas condensate production of Ukrainian companies fell by 0.9% on the year to 1.375 million tons in January-April. Of the total, oil and gas condensate production Naftogaz Ukrainy fell by 0.2% on the year to 1.287 million tons in January-April. In April, Ukrainian companies produced 347,000 tons of oil and gas condensate, up 0.4% on the year.

Industry sources stated that China's decision to reduce retail gasoline prices by 150 yuan/ton starting Tuesday is likely to satisfy both consumers and refiners who had feared a larger cut as world oil prices declined. Wholesale prices have also eased by 150 yuan or \$18.12 and now stand at about 3,900 yuan/ton while retail prices are at about 4,475 yuan.

Taiwan is expected to cut its gasoline, jet fuel and gasoil exports in July from June due to refinery maintenance. Formosa Petrochemical Corp is planning exports of 30,000 tons of gasoline and 30,000-60,000 tons of jet fuel in July. It is down from its exports of 60,000 tons in each gasoline and jet fuel in June. Chinese Petroleum Corp is also cutting back exports in July.

India's domestic sales of refined products fell by 5.5% on the year in April to 8.62 million tons due to a high base and a strike by traders. Diesel sales fell by 5.2% to 3.32 million tons while naphtha sales fell by 15.7% on the year to 836,000 tons.

Market Commentary

The energy complex settled in positive territory after the markets rallied to their highs ahead of the close. The oil market opened slightly higher at 49.20 and posted an early high of 49.50 before the market erased its gains and posted an intraday low of 48.92. The market, which failed to breach its low, bounced back into positive territory as the market tested its resistance at its high. The market traded higher, as buy stops were triggered above the 49.50 level amid the strength in the product markets. The oil market later held good support at 49.50 and rallied to a high of 49.94 ahead of the close. It settled up 51 cents at 49.67. Volume in the crude was lighter with 178,000 lots booked on the

day. Meanwhile, the gasoline market settled up 2.82 cents at 142.67 following reports earlier in the session of a refinery problem at ExxonMobil's Baytown, Texas refinery. The gasoline market posted an intraday low of 140.10 on the opening and never looked back as it rallied to 141.80 early in the session in light of the refinery news. It later traded mostly sideways before further buying pushed the market to an intraday high of 143.00 ahead of the close. Talk of the refinery problem also pushed the gasoline cash market higher. Similar to the crude market, the heating oil posted a range from 138.30 to its low of 136.70 early in the session before it bounced back into positive territory. The market retraced its earlier losses and extended its gains to over 2.5 cents as it posted an intraday high of 139.20 ahead of the close. It settled up 2.06 cents at 138.71. Volumes in the product markets were good with 51,000 lots booked in the gasoline and 36,000 lots booked in the heating oil market.

The oil market on Wednesday will seek direction from the DOE and API reports. The weekly petroleum stock reports are expected to show builds of about 1 million barrels in crude stocks, small builds of less than 500,000 barrels in distillate stocks and draws of less than 500,000 barrels in gasoline stocks. The market, which seems to have found its near term bottom as it held good support at its trendline, is seen testing its lows once again if the reports continue to show builds in stocks. The market is seen finding initial support at 49.50 followed by its low of 48.92. More distant support is seen at 48.50,

48.05 and 47.40. Meanwhile, resistance is seen at 49.94 followed by 50.42, 50.98-51.00 and 51.15.

Technical Analysis		
	Levels	Explanation
CL 49.67, up 51 cents	Resistance 50.42, 50.98, 51.00, 51.15 49.94	38% (54.25 and 48.20), Previous highs, 50% retracement Tuesday's high
	Support 49.50, 48.92 48.50, 48.05, 47.40	Tuesday's low Previous lows, Basis trendline support
HO 138.71, up 2.06 cents	Resistance 141.65 & 143.60 139.20, 140.00, 141.20	Retracements of the down move from 14990-13340 Tuesday's high, Previous high
	Support 138.00, 136.70 134.35, 133.40	Tuesday's low Previous lows
HU 142.67, up 2.82 cents	Resistance 145.60, 145.70 to 146.30 143.00, 144.50, 145.40	50% (153.50 and 137.70), Remaining gap (May 12th) Tuesday's high, Previous highs
	Support 142.00, 140.10 138.15, 137.70	Tuesday's low Previous lows