



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR MAY 25, 2005

An OPEC source stated that Saudi Arabia and Kuwait are increasing their production by more than 200,000 bpd in May, lifting production by OPEC members to 30.2 million bpd. Overall output from OPEC may increase to 30.5 million bpd in July as it seeks to accelerate its stockbuilding to meet higher winter demand. He said Saudi Arabia is pumping 9.65 million bpd, up about 150,000 bpd from April while production from Kuwait is running at 2.65 million bpd in May compared with 2.58 million bpd in April. Meanwhile, an oil official said Kuwait is still producing close to its maximum capacity of 2.7 million bpd. It pumped 2.7 million

Market Watch

The DOE and API will delay the release of their weekly petroleum stock reports by one day next week to Thursday, June 2 due to Memorial Day holiday.

According to ExxonMobil Corp estimates, much of the growth in OPEC's oil production over the next 25 years is expected to come from Iran, Iraq and Saudi Arabia. It predicted that Iran and Iraq are likely to show dramatic increases in output if OPEC's production is to satisfy energy demand in 2030. Crude oil production in Iraq is expected to more than double or nearly triply by 2030. It said other countries, such as Indonesia are likely to contribute a much smaller part of production growth within OPEC over the long term. Overall, ExxonMobil estimates that the call on OPEC crude will increase to about 30 million bpd after five years. He said that by 2030, OPEC will have to produce 50 million bpd to satisfy demand.

According to Venezuela's Central Bank, Venezuela's oil production remained largely stable during the first quarter despite a rally in oil prices and increasing production by other producers. Venezuela's oil economy grew 1% in the first quarter compared to the year ago period. Meanwhile, private oil operations grew 4.1% due to increased output at heavy crude upgrading projects.

The NYMEX is seeking to open its oil futures exchange in Dubai this year but does not have a specific timetable.

The CIA's National Intelligence Council said a coup in Nigeria could cause the country to collapse and bring down much of West Africa with it. It said a junior officer coup could destabilize the country to the extent that open warfare breaks out in many places in a sustained manner. It added that if Nigeria were to become a failed state, it could drag down a large part of the West African region.

Separately, Christian churches in central Nigeria are accusing politicians of provoking much of the violence that has killed up to 3,000 people in the last four years. The archbishops claim religious differences have been stirred up to win votes. The claims coincide with the publication of a report by the campaign group Human Rights Watch which also accuses the state governments involved of doing too little to prevent the violence or to prosecute those involved.

Saudi officials denied rumors on Wednesday that King Fahd had died. An Interior Ministry official said the king was still alive and had not been taken to the hospital.

The Chicago Board of Trade is staying optimistic about the chances for success of its new ethanol contract with grain and petroleum industry usage expected to increase over time. Open interest in the contract as of May 24 was only 119 contracts. Traders have blamed lack of participation from oil refiners with holding back the CBOT contract.

bpd for the first two weeks of May, however its production has fallen to 2.64-2.65 million bpd due to operational issues. Its output will likely rise back up to the maximum level of 2.7 million bpd next week.

Iran's Oil Minister Bijan Zanganeh said OPEC should discuss the possibility of cutting production when it meets on June 15. He also stated that \$40/barrel was a feasible price for crude, without elaborating. Meanwhile Indonesia's Oil Minister Purnomo Yusgiantoro said OPEC should maintain its current output when it meets next month. He said Indonesia will propose that OPEC maintain its current output ceiling.

Meanwhile, Qatar's Oil Minister Abdullah bin Hamad al-Attiyah said he wants reassurance from other OPEC members over the pace of oil inventory build ups, particularly in the US, when they meet in June.

Algeria's Energy Minister Chakib Khelil said oil prices could increase further in coming months as rising demand will strain world supplies. He said the risk of further price gains would deter OPEC from cutting its production at its meeting on June 15.

OPEC's news agency reported that OPEC's basket of crudes increased to \$45.70/barrel on Tuesday, up from Monday's \$45.50/barrel.

Euroilstock reported that European refinery output in April fell by 0.3% on the month and by 2.9% on the year to 13.033 million bpd. It said that gasoline output increased by 0.4% on the month but fell by 5.7% on the year to 3.332 million bpd. Distillate production fell by 0.6% on the month and by 1.2% on the year to 5.963 million bpd. Refinery utilization fell to 91.61% from 92.2% on the month.

The Senate Energy Committee voted to require US ethanol production to reach at least 8 billion gallons a year by 2012. The ethanol mandate was attached to a broad energy bill. The bill, when completed, is expected to go before the full Senate for a vote in a few weeks. The House of Representatives recently passed its own version of an energy bill which included a production requirement for 5 billion gallons per year.

The DOE reported that US inventories of propane totaled 39.892 million barrels in the week ending May 20th, up 2.12 million barrels. It reported that inventories in the East Coast increased by 745,000 barrels to 3.267 million barrels. Inventories in the Midwest increased by 477,000 barrels to 13.293 million barrels while inventories in the Gulf Coast built by 726,000 barrels to 22.581 million barrels on the week.

Refinery News

According to a report filed with the Texas Commission on Environmental Quality, Lyondell-Citgo shutdown a coker unit at its 260,000 bpd refinery in Houston, Texas on an emergency basis on Tuesday amid an extensive maintenance turnaround. It reported that feed was taken out of the unit after the shutdown. It could not be determined whether the coker was undergoing maintenance or operating during the maintenance work.

ExxonMobil said operations on its fluid catalytic cracking unit were not affected by the shutdown of two furnaces on Monday at its Baytown, Texas refinery.

Huntsman Corp began to shut down a MTBE facility at its refinery in Port Neches, Texas after a leak developed in a tower feed line on May 24.

Shell Oil will shut a catalytic cracking unit at its Deer Park refinery. According to a filing with the Texas Natural Resource Conservation Commission, a potential for catalytic cracking unit feed diversion could cause the shutdown of the wet gas compressor.

Alon USA may shut a propane recovery unit at its refinery in Big Spring, Texas while it performs planned maintenance on the low sulfur gasoline unit in June.

Total said its five refineries in France affected by last week's strike have yet to fully restart. A Total spokeswoman said some units are starting slowly. She declined to say when the units would reach normal operations.

BP has backed off its earlier report that workers were primarily the cause of the explosion at its Texas City refinery that killed 15 people. It said that while worker error was a critical factor in the explosion it was not the deeper cause. The company said it had not yet identified the cause.

Koch will shut its Rotterdam refinery in June to expand its processing capacity by 20% to 80,000 bpd.

A 27,000 bpd heavy fuel oil cracker unit at Kuwait's Shuaiba refinery has been shut down for routine maintenance. The unit was closed on May 18 for 40 days of maintenance.

Russia's utility Mosenergo said it would fully restore power to the Moscow oil refinery on Wednesday evening after a power cut forced it to halt operations earlier in the day.

Production News

The presidents of Azerbaijan, Kazakhstan, Georgia and Turkey inaugurated the first section of the Baku-Tbilisi-Ceyhan pipeline. The pipeline is seen as a significant move towards reducing the West's dependence on Middle Eastern oil. Pipeline officials said it would take up to a month and a half to fill the Azerbaijani section of the pipeline. The Georgian part will be ready after that and then the Turkish section of the pipeline, which Turkish authorities have said should be filled by August 15. It will take about 10 million barrels of crude to fill the entire pipeline. Norway's Statoil said the first oil is due to take more than six months to reach Ceyhan. The pipeline will be able to transport 1 million bpd of oil and will play an important role in Azerbaijan's economic development.

Venezuela's Energy Minister Rafael Ramirez said Venezuela will charge a 30% royalty on production from its Sincor heavy oil project that goes beyond output agreed in the original contract with foreign partners. The currently royalty is 16.6% for heavy crude projects in the country's Orinoco belt. Sincor's original contract allowed the upgrading project to produce 114,000 bpd but it is currently producing 210,000 bpd.

Indonesia's Energy and Mines Minister Purnomo Yusgiantoro said the country's oil trade balance is expected to remain in deficit on high imports of crude and petroleum products. Indonesia's exports of crude was valued at \$2.32 billion in the first quarter this year while imports were valued at \$3.69 billion. Its average exports stood at 417,000 bpd in the first quarter while its imports averaged 373,000 bpd. It produced 953,000 bpd of crude in April compared with 951,800 bpd in March.

Russia's Lukoil failed to find oil or gas reserves at a project in the Azeri Caspian Sea sector and may soon abandon it. Lukoil stated that it hoped to discover at least 90 million tons of oil or 660 million barrels on Yalama. It has so far drilled the first well on the block. Under the initial deal, Lukoil must drill two wells.

Lukoil's President Vagit Alekperov said it expects to increase its oil and gas production by more than 7% over the next decade to 2.8-2.9 million bpd.

Lukoil plans to export only 2 million tons of oil to China this year compared with its original plan to export 3 million tons. He said the Russian government's decision to increase crude oil export duties as of June 1 to \$136.20/ton from \$102.60/ton also had an impact on the decision.

Oil transportation via Russia's East Siberian Railway increased 62.5% on the year to 58,000 tons in January-April.

Japan's Finance Ministry reported that the country's crude oil imports fell 12.1% on the year in April to 19.532 million kl or 4.1 million bpd as refiners ran down inventories hoping for lower prices and anticipated weaker seasonal demand in the second quarter.

China's National Development and Reform Commission said China will consume 170 million tons of oil products in 2005, up 8% on the year. However growth will be lower than last year's level of 19%.

Traders stated that China's increasing oil demand and its relative refining limitations is set to discourage state run importers from reducing their purchases of Iraqi Basra Light despite growing concerns about its deteriorating quality and scheduling problems. Asian term customers of Iraq' SOMO have yet to hear from the company on extending their 2005 contracts into July-December.

Industry sources stated that China is holding off diesel imports as domestic prices remain low. PetroChina has resold 90,000 tons of diesel under its term contracts on the Asian spot market for June, avoiding imports for the sixth consecutive month. Sinopec has no plans to import diesel next month and will meet rising domestic demand by skipping exports.

India's April crude oil imports fell by 2.9% on the year to 7.78 million tons amid a fall in domestic demand. Imports by state run firms fell by 8.4% to 5.23 million tons while imports by Reliance industries increased by 10.7% to 2.55 million tons. Exports of refined products fell by 4.3% to 1.23 million tons while imports of oil products increased by 53% to 667,600 tons. Domestic product sales fell by 5.5% in May. Diesel exports fell by 24.2% to 523,400 tons while naphtha exports increased by 113% to 329,200 tons.

Petroecuador said it lost 87,089 barrels of production due to protests in Ecuador's Amazon region. It said the economic costs stemming from the protests totaled more than \$3 million, though exports have not been affected.

Market Commentary

The oil complex ended the session sharply higher once again despite the mostly bearish weekly petroleum stocks reports. The crude market opened slightly higher at 49.70 and quickly posted its intraday low of 49.65. The market however bounced off that level and never looked back. The market, which posted a range from 49.65 to 49.85 early in the session, quickly rallied and breached the 50.00 level in light of the DOE showing draws in crude stocks of 1.6 million barrels. The market shrugged off the fact that total petroleum stocks continued to build, by 4 million barrels in the latest week. The July crude contract rallied to 51.40, where it held some resistance. However the market later found further buying, which pushed it to a high of 51.60. The oil market later erased some of its gains and traded below the 51.00 level and settled up \$1.31 at 50.98. Volume in the crude was good with 276,000 lots booked on the day. The product markets settled sharply higher, with the gasoline market settling up 2.5 cents at 145.17 and the heating oil market settling up 4.13 cents at 142.84. The gasoline market, which was holding support at 142.00, posted an intraday low of 141.50 following the release of the

DOE and API reports. It however bounced back off its low and rallied more than 4 cents as it traded to a high of 146.95 in afternoon trading. It retraced almost 62% of its move from a high of 153.50 to a low of 137.70 before the market erased some of its gains ahead of the close. Similarly, the heating oil market posted a low of 138.25 and never looked back as it traded to a high of 144.45 late in the session. However the market later erased some of its gains ahead of the close amid the reports showing builds in distillate stocks. Volumes were good with 57,000 lots booked in the gasoline and 63,000 lots booked in the heating oil market.

The oil market will likely continue to retrace its gains on Thursday following today's weekly petroleum stock reports. The market, which failed to completely backfill its gap at 51.70, is seen remaining pressured amid the builds reported in petroleum stocks. Technically, the market is seen finding resistance at 51.60 followed by 51.70, where it would backfill its gap and 51.88. More distant resistance is

seen at 53.25. Meanwhile, support is seen at 50.50 followed by its low of 49.65, 48.92 and 48.05.

Technical Analysis		
	Levels	Explanation
CL 50.98, up \$1.31	Resistance 51.70, 51.88, 53.25	Backfills gap, 62% (54.25 and 48.05), Previous high Wednesday's high
	Support 51.60	
HO 142.84, up 4.13 cents	Resistance 50.50	Wednesday's low, Previous lows
	Support 49.65, 48.92, 48.05	
HU 145.17, up 2.5 cents	Resistance 145.00, 149.90	Previous highs Wednesday's high
	Support 144.45	
HO 142.84, up 4.13 cents	Resistance 138.25, 136.70	Wednesday's low, Previous low Previous lows
	Support 134.35, 133.40	
HU 145.17, up 2.5 cents	Resistance 147.46, 151.25	62% (153.50 and 137.70), Previous high Wednesday's high
	Support 146.95	
HU 145.17, up 2.5 cents	Resistance 144.00, 141.50, 140.10	Wednesday's low, Previous low Previous lows
	Support 138.15, 137.70	