



## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR MAY 25, 2006**

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The Bush administration rejected the idea of holding direct talks with Iran as long as it continued to pursue a nuclear program. However the administration is facing increasing calls from allies, policy experts and President Bush's fellow Republicans to consider the first direct talks with Iran since 1979. Diplomats from the US, Britain, France, Russia, China and Germany meet on Wednesday and attempted to hammer out package of threats and incentives. US officials said progress was made at the meeting but they failed to agree on a final package. US Undersecretary of State Nicholas Burns said the US was pleased with the progress made on the talks

#### Market Watch

According to a report by BNP Paribas, below normal inventories and reduced fuel production may worsen the effect hurricanes have on gasoline prices this summer. It said the switch to ethanol as the primary additive in gasoline would reduce overall production of the fuel by about 5%.

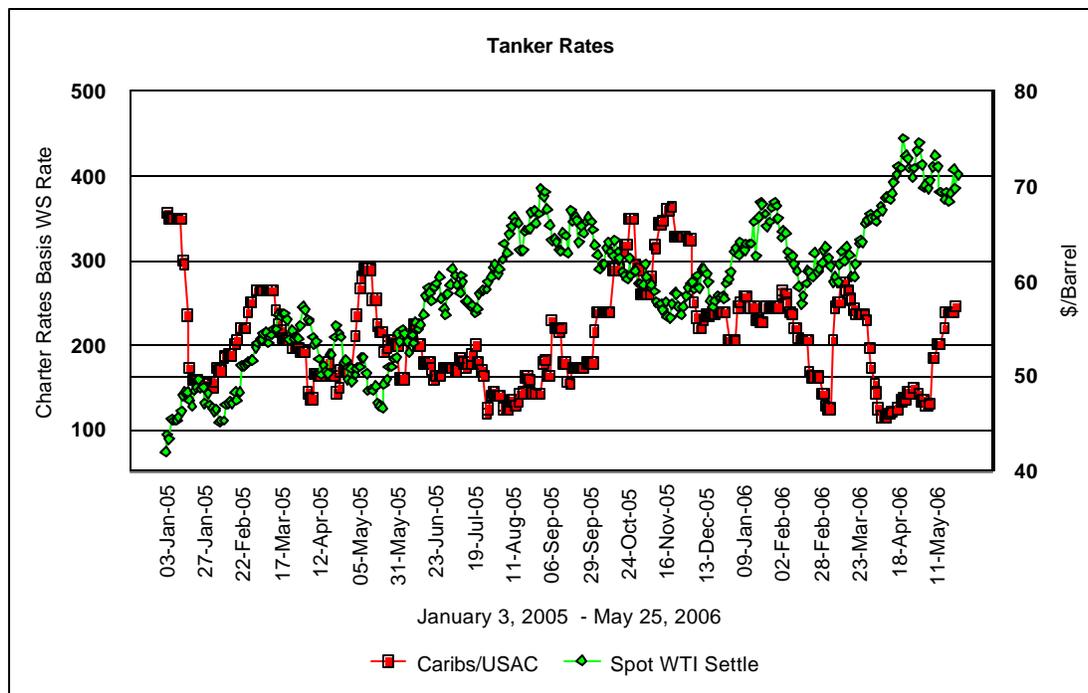
Iran has provisionally booked two Ultra Large Crude Carriers to store oil for a minimum period of 90 days. The provisional bookings amount to about 4.4 million barrels of additional crude oil storage. The National Iranian Tanker Co has since the end of April been using seven Very Large Crude Carriers, with a total of 14 million barrels of capacity for crude storage.

Russia's President Vladimir Putin was hosting a meeting with EU leaders to discuss a new long term partnership. The summit is meant to set the terms for an all-round partnership between Russia and the EU for the next decade, centered on mutual benefits from Russia's role as the main source of Europe's energy demand. The EU has been pressing Russia to open up access to gas pipeline to European companies, while Moscow wants Gazprom to have expansion access in Europe's downstream distribution market.

Russia's President Vladimir Putin told the government to lower the threshold for energy and minerals deposits to be considered strategic. The Natural Resource Ministry, which would include the measure in a new Law on Subsoil Use, was proposing to halve the threshold for oilfields to 50 million tons or 366,000 barrels and to 500 billion cubic meters for gas. Under the draft subsoil law, any field that is considered strategic could be controlled only by a company with more than 50% Russian ownership. Meanwhile, Russia's Resources Ministry said it may make sense for Russia to regain control of the Sakhalin-1 and Sakhalin-2 energy projects from Royal Dutch Shell and ExxonMobil to increase their efficiency.

Japan said it was still seeking to develop Iran's Azadegan oil field to help secure a stable oil supply after a report that Iran may terminate the deal when the contract expires in September. Chief Cabinet Secretary Shinzo Abe said Japan wanted to proceed with the project. However he stated that Iran had to dispel the fears of the international community about the nuclear problem. The Japanese government has a 36% stake in INPEX Corp, which plans to develop the southern part of Azadegan, estimated to hold 26 billion barrels of oil. INPEX said that implementing the project has been delayed because Iran has not finished removing land mines from the areas to be developed.

The Commerce Department reported that the US' GDP for the first quarter was revised up to 5.3%, the fastest growth in more than two years. The first quarter growth in GDP was more than triple the 1.7% annual rate recorded in last year's fourth quarter.



between the UN Security Council members. Meanwhile, the chief of Russia's Security Council is expected to visit Iran over the weekend for talks with officials following an invitation from Iran's nuclear negotiator Ali Larijani.

Kuwait's Oil Minister Sheikh Ahmad al-Sabah is not expected to attend the OPEC meeting on June 1 in Caracas. The Minister's decision was tied to the recent dissolution of parliament and call for new elections currently scheduled for June 29.

According to Oil Movements, OPEC is expected to increase its oil shipments by 500,000 bpd to 24.7 million bpd in the week ending June 10. It said the extra barrels were heading east to Asian refiners. The shipments are scheduled to arrive in the third quarter, when refiners would be coming out of seasonal maintenance.

### **Refinery News**

Pasadena Refining Co had a brief interruption of feed to its fluid catalytic cracking unit at its 100,000 bpd Pasadena, Texas refinery on Wednesday.

Murphy Oil Corp is expected to introduce crude oil into units at its 125,000 bpd Meraux, Louisiana refinery this week which, along with continued restart operations at conversion units, should result in the production of refined products in June.

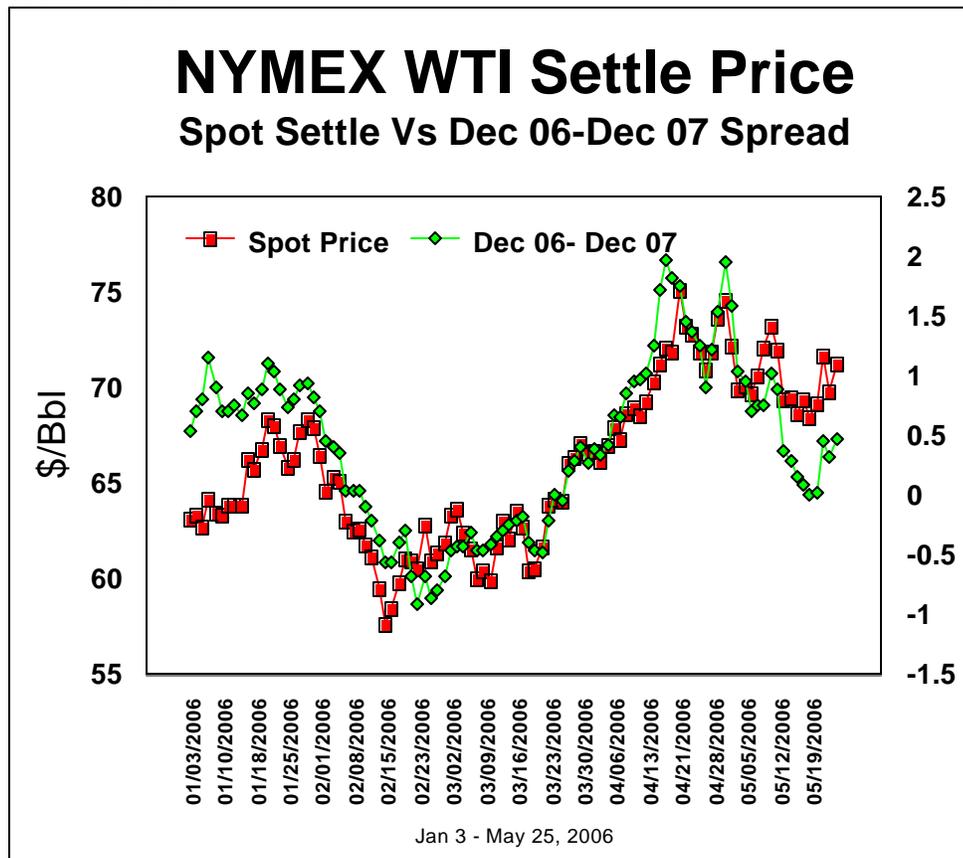
Flint Hills Resources is expected to shut an alkylation unit at the West Plant of its Corpus Christi, Texas refinery on Friday. The unit would undergo repairs following a tube leak in a deisobutanizer tower.

The oil shipments from ERG's 380,000 bpd Priolo refinery complex in Sicily were still halted on Thursday. ERG indicated that the 150,000 bpd Isab Nord refinery at Priolo would remain shut until mid-June as magistrates have yet to complete their investigation following a pipeline fire. The 230,000 bpd Isab Sud refinery also remained fully shut for 45-50 days of planned maintenance work that began on May 1.

A tub boat pilots' union ended a 12 day strike in Norway on Thursday. Port operators Norsk Hydro and Statoil said no crude loadings were affected at the Sture and Mongstad terminals.

India is likely to decide on increasing domestic retail pump rates of diesel and petrol by Monday. The government has not raised fuel prices since September despite increasing world oil prices.

A Chinese energy official said China would not import crude oil to fill its strategic petroleum reserve at current high prices. The world oil market has been watching for potential extra demand from China that could come when and if Beijing starts to fill up millions of barrels of tanks completed on the eastern coast.



Japan's Ministry of Finance said the country's crude imports in April increased by 19.8% on the year to 23.401 million kiloliters or 4.91 million bpd as refiners filled storage tanks after the winter. Japan's commercial stocks remained below year earlier levels from October 2005 to the end of March.

**Production News**

The Petroleum and Natural Gas Senior Staff Association of Nigeria said it would meet on Friday and make a decision whether to go on strike. Union workers said they would decide on strike notice that was

given to the management of Mobil Producing Nigeria Unlimited. Workers were demanding an increase in their pay.

An Iraqi oil official said Iraq aimed to increase its oil contract sales to 1.6 million bpd for the second half of the year from 1.57 million in the first half of the year. The official said that Iraq also aimed to finish negotiations before mid-June.

The Aberdeen Petroleum Report stated that UK March oil output increased by 1.6% on the month to 1.657 million bpd. Meanwhile, UK Department of Trade and Ministry reported that UK offshore production totaled 1.61 million bpd in 2005, down 190,000 bpd from 1.8 million bpd in 2004. Total Norwegian, UK and Danish oil production fell by 8.8% or 440,000 bpd in 2005 to 4.55 million bpd.

Singapore's International Enterprise stated that the country's residual fuel stocks increased by 1.129 million barrels to 11.941 million barrels in the week ending May 24. It also reported that light distillate inventories increased by 231,000 barrels to 7.834 million barrels while middle distillate stocks fell by 202,000 barrels to 5.952 million barrels.

Russia's Gazprom said it expected its annual oil production to reach 1.61 million bpd by 2020.

Crude oil from Kazakhstan started flowing into China Thursday through a new pipeline linking the two countries. The pipeline is designed to transmit 20 million tons of crude annually.

Ecuador's Central Bank reported that the country's average oil production stood at 527,452 bpd in March from last year's level of 527,968 bpd. Petroecuador said it averaged 182,452 bpd in March while private oil companies' oil production stood at 345,000 bpd.

**Market Commentary**

The oil complex retraced its previous losses in a mostly technical recovery, amid the lack of any major news. The crude market opened up 44 cents at 70.30 and traded to 70.60. The market erased some of its early gains as it posted a low of 69.90. However the oil market bounced off that level and traded back to its previous high before some further buying ahead of the close pushed the market to a high of 71.38. The market rallied just after 1pm as some traders started covering their positions ahead of Friday's early close and the long weekend. The July crude contract, which posted an inside trading day, settled up \$1.46 at 71.32. Volume in the crude market was light with only 138,000 lots booked on the day. The product markets also settled sharply higher, with the gasoline market settling up 8.54 cents at 210.44 and the heating oil market settling up 5.4 cents at 199.42. The gasoline market posted a low of 204.90 early in the session but quickly bounced off that level and never looked back. The market extended its gains to over 9 cents as it posted a high of 211.00 ahead of the close. The market was supported amid reports of a refinery problem at Pasadena Refining's catalytic cracking unit at its 100,000 bpd Texas refinery. Similarly, the heating oil market also posted a low of 194.50 early in the session. However it bounced off that level and rallied to its high of 199.70 ahead of the close amid the strength in the rest of the complex. Volumes in the product markets lighter today with 39,000 lots booked in

the gasoline market and 42,000 lots booked in the heating oil market.

The oil market during Friday's shortened trading session is

Technical Analysis		
	Levels	Explanation
CL Resistance 71.32, up \$1.46 Support	71.65, 72.15 to 72.95 71.40	Wednesday's high, Remaining gap (May 15th) Thursday's high
	70.75, 70.50 69.90, 69.80	Thursday's low, Previous low
HO Resistance 199.42, up 5.4 cents Support	202.50 to 204.25 199.70	Remaining gap(May 15th) Thursday's high
	198.00, 195.70 194.50, 193.60	Thursday's low, Previous low
HU Resistance 210.44, up 8.54 cents Support	214.00 to 216.75 211.00	Remaining gap (May 15th) Thursday's high
	207.00, 203.75 202.50, 201.50	Thursday's low, Previous low

seen remaining supported as traders continue to cover their positions ahead of the long weekend. The market is seen finding support at 70.75 and 70.50 followed by its lows of 69.90 and 69.80. Meanwhile, resistance is seen at its high of 71.40 followed by 71.65 and its gap from 72.15 to 72.95.