



## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR MAY 26, 2005**

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An Iraqi oil official said Iraq's northern exports to the port of Ceyhan resumed early Thursday, increasing Kirkuk crude oil inventories in the terminal to 2.35 million barrels. It managed to pump 174,000 barrels early Thursday. The flow of crude through the pipeline was halted on Saturday due to a shortage of oil production in Iraq's northern fields. In regards to its production in southern Iraq, its production fell by a further 100,000 bpd to 1.65 million bpd due to outages at two southern gas-oil separation plants. Last week, Iraq's southern oil production stood at 1.85 million bpd.

A senior OPEC delegate said Saudi Arabia is pumping 9.5 million bpd of

#### **Market Watch**

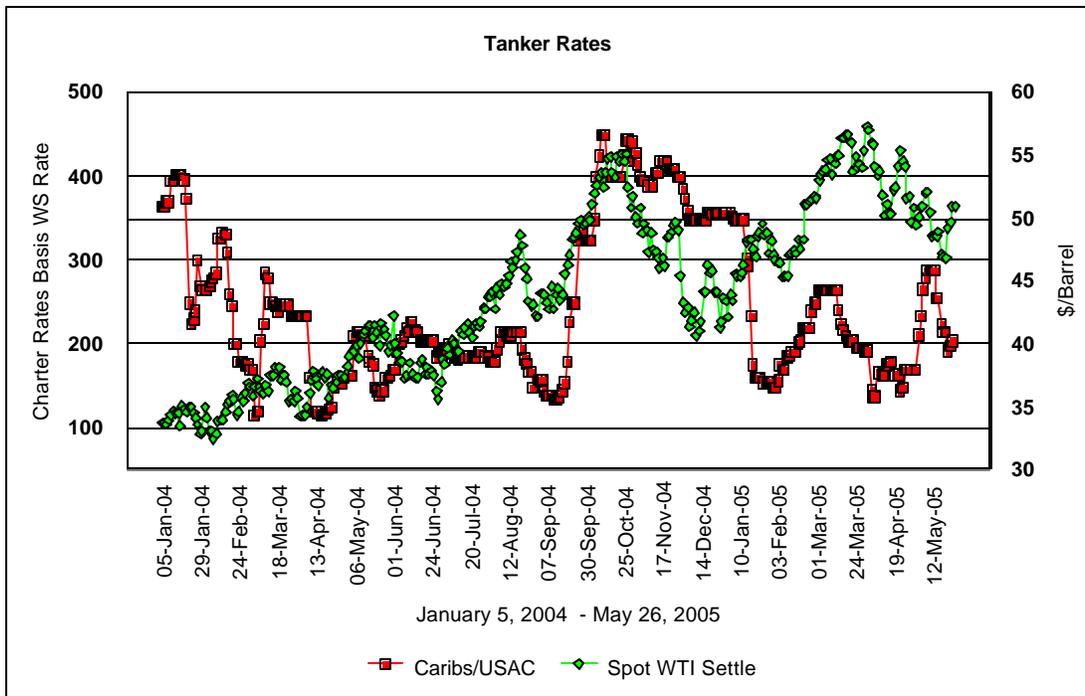
Venezuela's President Hugo Chavez stated that Venezuela is ready to discuss its differences with the US. His remarks seemed to soften from his recent warning that relations were at risk. He wanted he would review ties with the US if it failed to extradite a Cuban exile wanted by Venezuela for the 1976 bombing of a Cuban airliner. He said he held a cordial meeting with a delegation of US congressional lawmakers. He said he wanted normal, respectful relations with the US. However he blamed the US for the deterioration of ties. He also stated that he would not impose socialism on his country by force, as had occurred in the former Soviet Union, but would seek to introduce it through national debate.

Total said it was surprised by comments made by Venezuela's Energy Minister Rafael Ramirez, who stated that Venezuela planned to impose a 30% royalty on production from Sincor that goes beyond output levels agreed with foreign partners. Venezuela has stated that Sincor's operators are not paying sufficient royalties and wants to increase them.

Iraq's Defense Minister said he received information that the leader of al-Qaeda in Iraq, Abu Musab al-Zarqawi, has been wounded. An internet statement this week claimed that al-Zarqawi had been injured in recent fighting. Separately, Iraqi police stated that insurgents killed a senior official in Iraq's Ministry of Industry and Minerals in an ambush on Thursday.

Russia's Economy Ministry reported that Morgan Stanley has valued Rosneft at \$20-\$28 billion. However the government, which commissioned the valuation, may request amendments. The government wants Rosneft to raise loans via a special vehicle, Rosneftegaz, later this year so that the state can buy 10.7% in Gazprom. The state also wants Rosneft to float its shares at a later stage to pay back loans.

The Commerce Department reported that US GDP in the first quarter increased at a 3.5% rate, as the trade deficit fell and consumer spending was stronger than initially estimated. The second estimate of GDP follows an advance estimate of 3.1% reported on April 28 and growth of 3.8% in the final three months of 2004. First quarter growth exceeded the 10 year average of 3.3%. The report reinforced suggestions that the US Fed can keep increasing interest rates to control inflation and not derail the expansion. The report may also help quell concern that the US economy is losing momentum due to higher energy prices.



crude oil in May. The delegate however stated that its future production depended on how much refiners demand.

Venezuela's President Hugo Chavez said that Venezuela sees the current level of \$40/barrel for Venezuelan crude as a fair price. He

added that other OPEC members agree world oil prices should remain around current levels. Venezuela's government has previously stated that it would support a proposal to cut OPEC's oil production at its meeting on June 15.

According to Oil Movements, OPEC's tanker bookings for the four weeks ending June 11 increased by 500,000 bpd to 24.42 million bpd. However it stated that seaborne crude exports fell by 60,000 bpd from a May 21 peak of 24.48 million bpd, reflecting the end of a supply surge. It said arrivals of long haul tankers to North American ports will taper off by early June. He said spot charter shipments from the Gulf were slowing and were lower in the first 10 days of June.

### Refinery News

According to a filing with the Texas Commission on Environmental Quality, ExxonMobil plans to perform maintenance on elements associated with a fluid catalytic cracking unit at its Baytown, Texas refinery. The work on an electrostatic precipitator stack outlet cell for FCC unit 1 follows the shutdown of two furnaces that service FCC unit 2 at the refinery. On Wednesday, ExxonMobil said the furnace shutdown had no effect on FCC operations.

Valero Energy Corp completed maintenance in Complex 1 of its Corpus Christi, Texas refinery. The units, including a residual hydrotreater and a hydrogen plant, will return to normal as soon as possible after they were shut on May 6. Valero said maintenance would cut production of gasoline and diesel by about 7,000 bpd each during the turnaround.

BP Plc plans to restart a fluid catalytic cracking unit at its 460,000 bpd Texas City, Texas refinery on Friday. The unit was shut on May 19 to make repairs to a pipeline and a vessel.

Sources stated that a 25,000 bpd hydrocracker at Flying J Inc Big West 69,000 bpd refinery in Bakersfield, Calif was taken out of service late Wednesday due to a problem with the electrical paneling system. They stated that the problem is expected to be resolved by the weekend.

Total said its five refineries in France affected by the workers' strike last week resumed normal operations. A Total spokesman however declined to say whether the strike had delayed the maintenance program of the 328,000 bpd Gonfreville refinery, which was shut on April 26 and due to restart from partial shutdown in mid-May.

The Federal Trade Commission announced that it was ending a year long antitrust investigation that found no evidence Shell Oil was involved in a price-gouging scheme in California. It concluded that Shell Oil was not trying to tighten gasoline supplies and increase prices in California when it decided to close a Bakersfield-area refinery.

Neste Oil is scheduled to shut a crude distillation and naphtha hydrotreater at its 200,000 bpd refinery in Porvoo from May 29 until June 5 for maintenance. It said its production of gasoline and diesel is expected to fall about 20-30% during the shutdown. It however said it would not impact product deliveries.

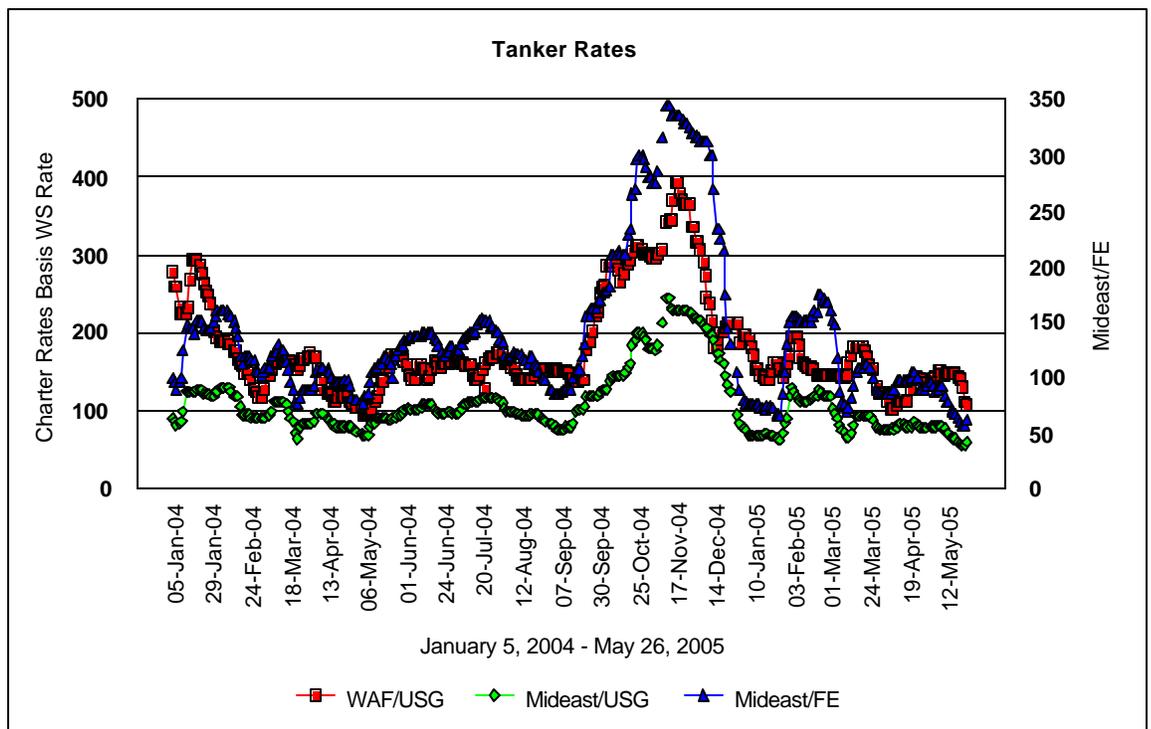
Algeria's Sonatrach will shut its 335,000 bpd Skikda refinery on June 4 for a partial turnaround that will last about 15 days. Sonatrach is confident that exports of oil products from Skikda will not be affected by the shutdown because sufficient stocks have been built up.

The Moscow refinery may fully restart oil processing in 1-2 weeks after a power outage halted it on Tuesday. An industry source however stated that the delay is unlikely to affect products supplies from Russia. The refinery is still waiting for local utility Mosenergo to resume power supplies, due later on Thursday.

ExxonMobil is proceeding with a \$3 billion project to build a petrochemicals plant in Venezuela despite an ongoing tax dispute with PDVSA. Exxon and Pequiven will each hold a 50% stake in the venture. The project should start up in 2008 to 2010.

Cepsa said it will invest 600 million euros or \$754.1 million in a 71,000 bpd diesel making hydrocracker unit at its Huelva refinery. The 3.5 million tons a year unit was due to come onstream in 2007.

Nippon Oil Corp said it will process 4.7 million kl of crude oil in June, up 42% on the year. It stated that in June, it plans to import 40,000 kl of combined



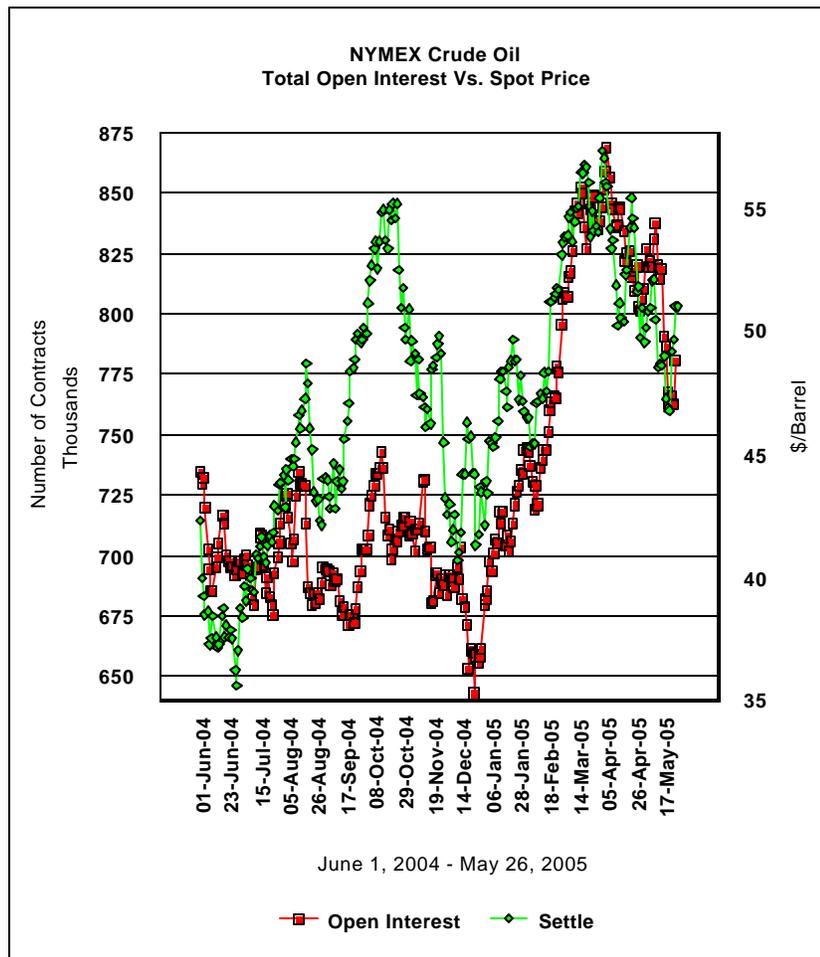
refined products and gasoline components compared with its total imports of 230,000 kl in May.

Idemitsu Kosan Co said it will process 2.22 million kl or 465,460 bpd of crude in June, up 3% on the year. It will raise the operating rate of a 220,000 bpd crude distillation unit at its Chiba refinery to full capacity after it restarts the unit on May 29. The unit was shut on May 2 to conduct inspections. In early June, Idemitsu plans to shut all units at its 140,000 bpd refinery in Hokkaido to conduct regular maintenance, which will last until the end of July.

**Production News**

Kinder Morgan Partners LP restarted two refined products pipelines running from Colton, California to Las Vegas, Nevada. It shut two pipelines as a precautionary measure to inspect a section of the pipelines. The pipeline carries gasoline, diesel and jet fuel out of the Los Angeles basin through Colton into Las Vegas.

Kazakhstan's Prime Minister Danial Akhmetov said it could contribute up to 30 million tons annually or 625,000 bpd to the Baku-Tbilisi-Ceyhan pipeline. However he gave no indication of when the first Kazakh oil may flow via BTC. Even though, Kazakhstan is a close political and economic ally of Russia, it is seeking additional export routes for its oil production. He said in addition to the BTC pipeline, other alternative routes were also under consideration. He said a pipeline running from Kazakhstan to western China would be completed later this year. Kazakhstan's Prime Minister also added that by 2015 the country's oil and gas condensate output is expected to increase to 140 million tons from about 60 million tons in 2004.



The Danish Energy Authority reported that Denmark has cut its forecasts for oil production from its North Sea fields from 2005 to 2007 by 1.3%. The authority expects production this year to fall to 138.4 million barrels from last year's level of 142.2 million barrels. In 2006, production is expected to fall to 123.3 million barrels while in 2007, production is seen at 112.6 million barrels.

Russia's Lukoil Holdings is increasing its production, with plans to export much of the new oil to the US. The company's President Vagit Alekperov said with proven crude oil reserves of more than 20 billion barrels, it is on track to increase its crude oil production to 2.8 million bpd by 2114 from its current production of 1.8 million bpd. Its 3 billion barrel Timan-Pechora project is part of Lukoil's strategy to expand its reach in partnership with ConocoPhillips. Separately, Lukoil's President Vagit Alekperov said

ConocoPhillips is increasing its stake in Lukoil Holdings as part of an agreement to acquire 20% of the Russian company.

China's General Administration of Customs said China exported 1.2 million tons or 293,000 bpd of crude oil in April. Its crude oil exports increased sharply from the 168,967 tons China exported last year. Meanwhile, its imports totaled 12.3 million tons in April, up 22.5% from a year ago. Its fuel oil imports fell by 42.4% on the year to 2.1 million tons in April. Its diesel imports in April fell by 90% to 18,095 tons from a year earlier. It also reported that China's gasoline exports increased by 8.4% to 605,391 tons.

Separately, China's apparent oil demand growth slowed to 2.3% in April as lower domestic power and fuel prices cut imports and refiners ran down product inventories. Overall demand appeared to increase in April compared with March, in line with higher second quarter seasonal consumption due to higher use in farming and transportation. However the pace of the annual growth slowed from the estimated 7.3% increase in March.

South Korea's Korea Energy Economics Institute said that despite an increase in world oil prices, it is keeping its forecast for this year's growth in the country's oil product demand unchanged at 2%. Oil product demand is expected to grow to 768.604 million barrels or 2.106 million bpd this year. It said gasoline and jet fuel will be the main drivers behind this year's growth in oil products. It is forecasting a 6.3% increase in gasoline demand to 165,000 bpd.

The Indian government may withdraw import duty concessions offered to exporters of refined oil products. Under the scheme, companies are given incentives to export by giving them import duty relief for raw material.

Ecuador's Central Bank reported that the country's oil product export revenues between January and March increased to \$109.19 million from \$55.58 million reported in the same period of 2004. It exported 3.58 million barrels in the first three months of 2005, up 36% from the 2.63 million barrels reported last year.

### **Market Commentary**

Early in the session, the oil market continued to retrace some of Wednesday's gains as it sold off to a low of 50.65. However the market, quickly bounced off its low retraced its early losses. The market breached Wednesday's high of 51.60 and completely backfilled its gap as it posted an intraday high of 51.70 in afternoon trading. The market was well supported by the strength in the heating oil market. The crude market however failed to find further upside momentum and erased some of its gains ahead of the close as it traded back towards the 51.00 level. It settled up just 3 cents at 51.01, posting a mostly neutral trading session. Volume was light with 197,000 lots booked on the day. Open interest in the crude built by 18,677 contracts to 781,740 amid the market's rally on Wednesday. The largest builds in open interest in the crude market was reported in the August and September contracts, which saw builds of 6,582 lots and 6,555 lots, respectively. Meanwhile, the heating oil market, which lent much support to the complex, settled up 1.99 cents at 144.83. The market initially extended its losses early in the session as it traded to a low of 141.80. However the market bounced off its low and erased all of its losses. It extended its gains to over 3 cents as it posted an intraday high of 145.85 before it retraced some of its sharp gains ahead of the close. Unlike the crude and heating oil markets, the gasoline market ended the session in negative territory, down 39 points at 144.78. The gasoline market posted an inside trading day as it failed to find the momentum to break either way. It posted an intraday low of 143.50 early in the session before it rallied to a high of 146.50. The market traded mostly in a range before some profit taking ahead of the close pushed it into negative territory.

Volumes in the product markets were good with 56,000 lots booked in the heating oil market and 53,000 lots booked in the gasoline market.

The oil market, which posted a mostly neutral trading session, will likely trade higher on Friday as traders position themselves ahead of the long weekend. However following the long weekend, we are still of the opinion that the market may still have some further downside given the recent builds seen in inventories. Technically, the market is seen testing its high once again on Friday, with further resistance seen at 51.88, its 62% retracement level and a previous high of 53.25. Support is however seen at 50.65 followed by 50.00 and 49.65. More distant support is seen at 48.92 and 48.05.

*Please note the NYMEX will close early on Friday, May 27<sup>th</sup> at 1pm EDT and will remain closed through Monday, May 30<sup>th</sup> for the Memorial Day holiday. NYMEX Access trading will be closed on Sunday but will reopen on Monday at 7 pm EDT.*

<b>Technical Analysis</b>		
	<b>Levels</b>	<b>Explanation</b>
<b>CL</b> 51.01, up 3 cents	<b>Resistance</b> 51.88, 53.25 51.70	62% (54.25 and 48.05), Previous high Thursday's high
	<b>Support</b> 50.65 49.65, 48.92, 48.05	Thursday's low Wednesday's low, Previous lows
<b>HO</b> 144.83, up 1.99 cents	<b>Resistance</b> 149.90 145.85	Previous high Thursday's high
	<b>Support</b> 144.00, 141.80 141.05, 138.25, 136.70	Thursday's low Previous lows
<b>HU</b> 144.78, down 39 points	<b>Resistance</b> 147.46, 151.25 146.50, 146.95	62% (153.50 and 137.70), Previous high Thursday's high, Wednesday's high
	<b>Support</b> 143.50, 141.50 140.10, 138.15, 137.70	Thursday's low, Wednesday's low Previous lows