



## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR MAY 30, 2007**

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The Minerals Management Service reported that oil platforms in the Gulf of Mexico were better prepared for hurricanes than they were in 2005. It said the US government and industry has significantly improved the protection of oil and gas production in the Gulf from disruptions during the hurricane season.

Separately, President of the API, Red Cavaney,

said many more US refineries have backup power generation to avoid significant disruption to fuel delivery and distribution. Pipeline operators also installed backup electric power generation. He also stated that while energy companies had taken steps to limit supply disruptions, he could rule out major gasoline supply problems or price spikes when a big storm hit.

Meanwhile, the DOE said it was prepared to release emergency oil supply if a hurricane hit the US Gulf.

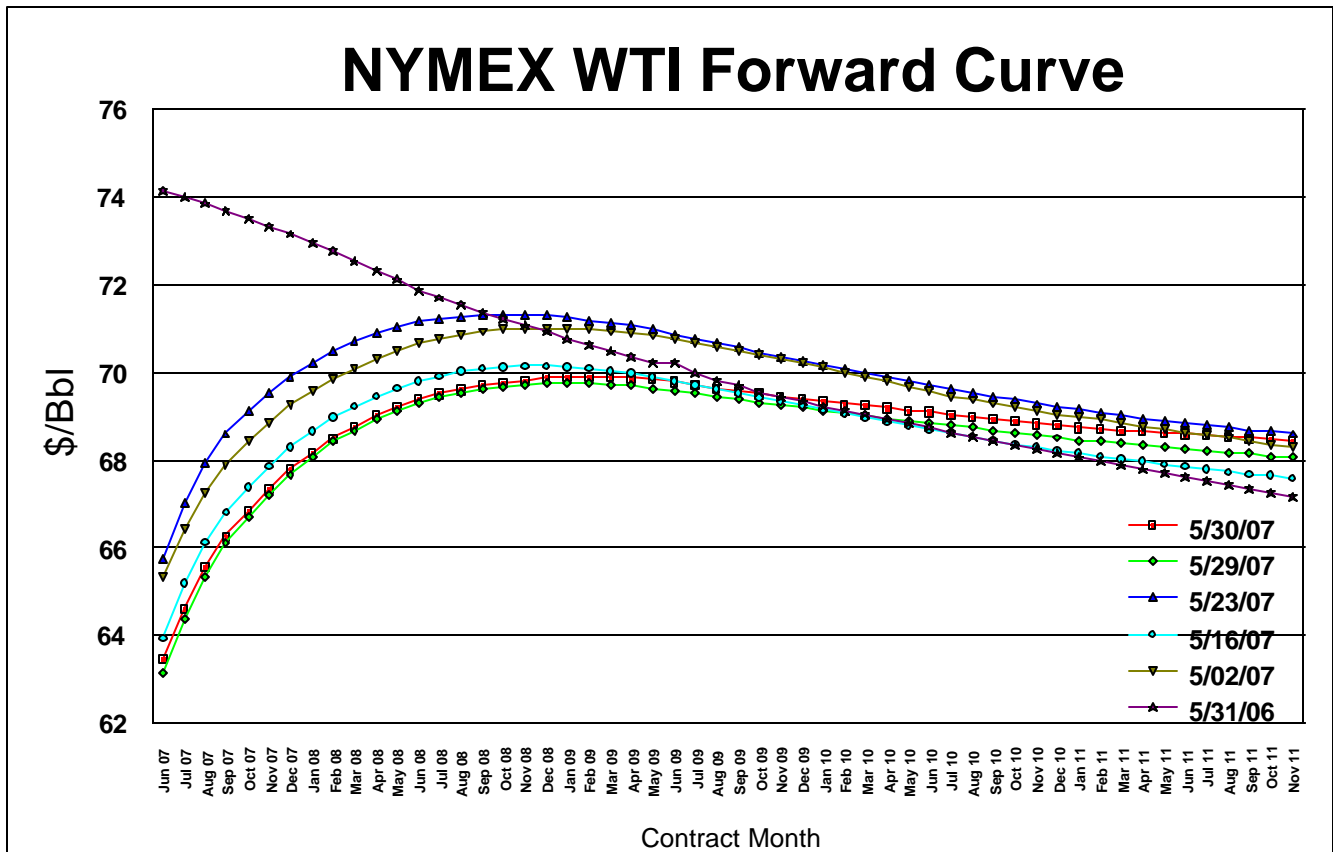
Ship industry sources stated that oil companies would store up to 12 million barrels of oil on tankers in the US Gulf, partly due to concerns over Nigerian supply. They said up to six Very Large Crude Carriers have been booked for floating storage of between 30 and 60 days each. They stated that provisional bookings could total 10 VLCCs, equivalent to some 20 million barrels.

#### Market Watch

European Union officials said they had succeeded in getting detailed information on future energy supplies from OPEC. However OPEC's head of research, Hassan Qabazard said that in order to invest in the oil industry, OPEC member countries need to make sure that capacity would not stay idle. No guarantees were offered to OPEC that the oil and gas its members produce would have a market. The EU said that under all reputable scenarios, the world would continue to rely on oil as its dominant source of energy but gave no further assurances.

ConocoPhillips chief executive James Mulva said he hoped to see gasoline prices in the US moderate and fall over the next several months. However he stressed the need for greater US energy conservation, good summer and autumn weather and adequate supplies to meet US summer demand.

In an internet video, an American member of al-Qaeda warned that US President George W. Bush should withdraw all his troops from Muslim land or face attacks worse than September 11. It issued a list of demands and warned that they were not up for negotiation. He called on the US to cease support for Israel and the 56 apostate regimes of the Muslim world and to free all Muslims from its prisons.



The API said gasoline imports into the US increased to between 1.3 million bpd and 1.5 million bpd and added that refinery utilization rates are expected to continue to increase.

Iran's nuclear negotiator Ali Larijani rejected the possibility of Iran suspending its uranium enrichment program. He is scheduled to hold talks with the European Union's foreign policy chief Javier Solana. The talks are meant to explore whether there is room to resume negotiations over Iran's disputed nuclear program. Separately, Iran's President Mahmoud Ahmadinejad said Iran was so powerful that no country would dare launch a military strike against it. He said possible adversaries were aware of Iran's defense capabilities and said that Iranian national unity was also a key factor as to why no other country would attack Iran. Meanwhile, Iran's Foreign Minister Manouchehr Mottaki said Iranian officials were reviewing Monday's talks in Baghdad with US officials. The talks, which focused on Iraq, were the first formal and scheduled meeting between Iranian and US officials since Washington broke diplomatic relations with Iran after the 1979 Islamic Revolution and the seizure of the US Embassy.

The Group of Eight foreign ministers threatened on Wednesday to support further appropriate measures if Iran failed to comply with UN resolutions demanding that it suspend nuclear enrichment.

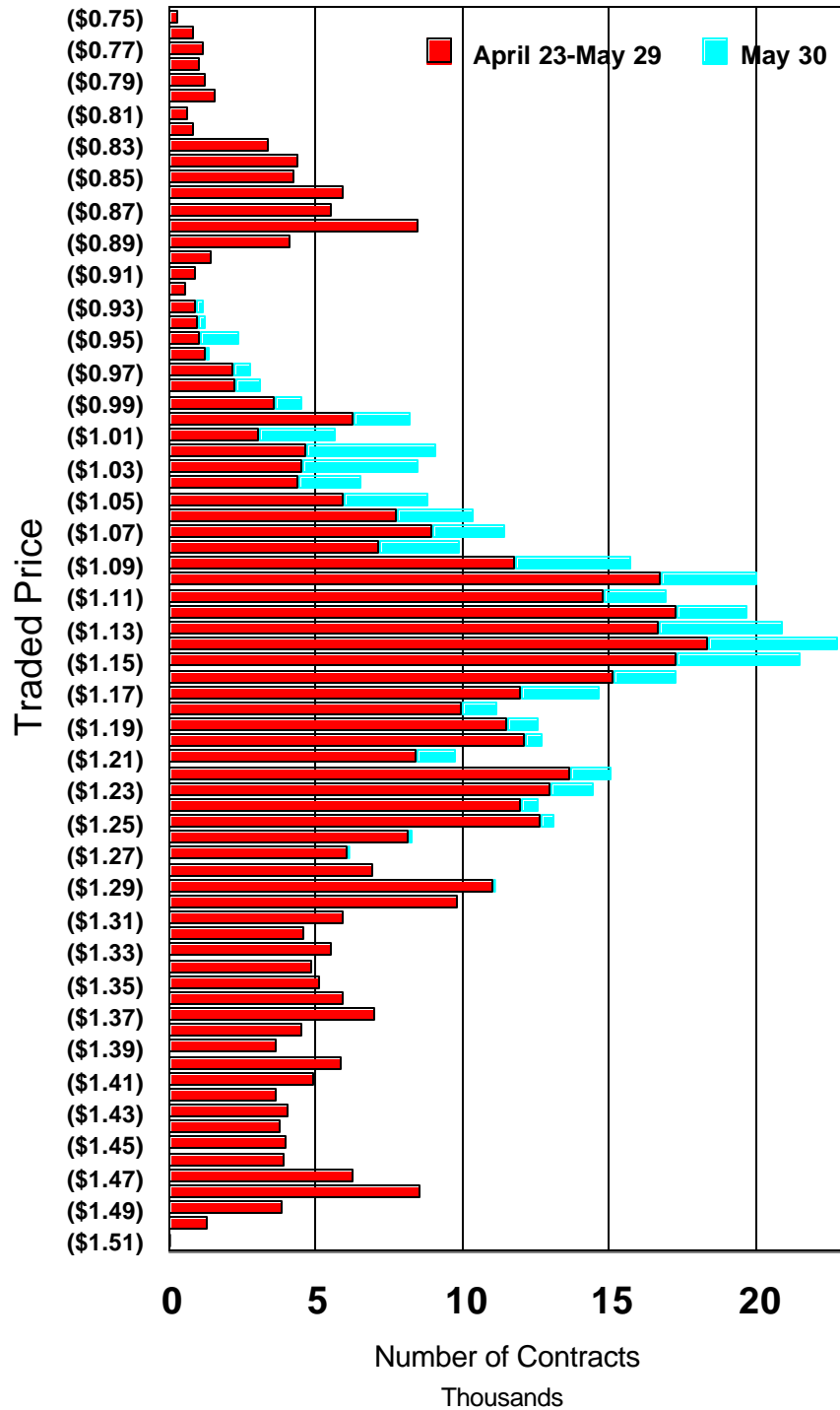
Nigerian authorities said four American hostages taken from Nigeria's Niger Delta region were released on Wednesday after three weeks in captivity.

Tension has been rising on the Turkish-Iraqi border amid speculation that Turkey may launch an incursion to attack Kurdish rebels. Turkey was continuing its military build up while Prime Minister Recep Tayyip Erdogan has refused to rule out any action. Turkey has blamed rebels of the PKK group for a recent suicide attack and a landmine attack on troops. The US has warned that sending troops into Iraq would only complicate the situation.

## NYMEX WTI: July August Spread

Price Vs Volume for April 23 - May 30, 2007

Trade Weighted Avg: 5/30 -1.095 5/29 -1.30 5/25 -1.38 5/24 -1.42 5/23 -1.18



### Refinery News

Colonial Pipeline said its main gasoline line remained down on Wednesday after it was shut on Tuesday as a precaution following an integrity check. It said contingency plans were in effect to ensure there were no shortages which include shipping from tank farm storage and moving gasoline on other lines.

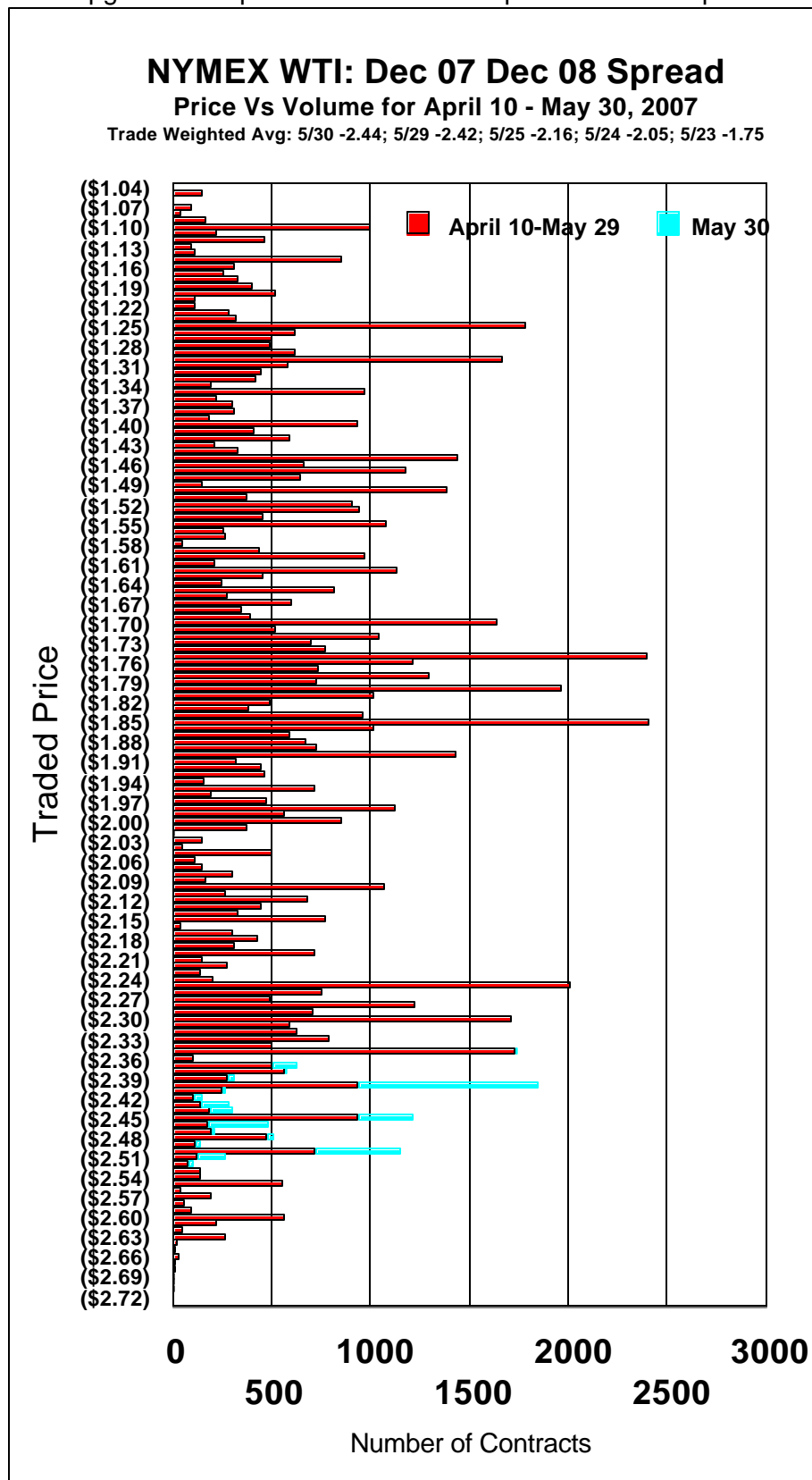
BP Plc said it planned to begin restarting a 115,000 bpd fluid catalytic cracking unit at its 460,000 bpd Texas City, Texas refinery on Wednesday. The unit was shut on May 19-20 to install pollution control equipment.

Gary-Williams Energy and the local fire department denied that there was a tank fire at the Wynnewood, Oklahoma refinery despite talk of a fire caused by a lightning strike. Oklahoma television station KOTV inadvertently posted an old story about a tank fire on its web site.

ConocoPhillips restarted the 24,000 bpd fluid catalytic cracking unit at its 194,000 bpd Ponca City, Oklahoma refinery. The unit was shut for about nine days for unplanned maintenance.

Suncor Energy Inc confirmed plans to shutdown one of two upgraders at its oil sands operations to tie in new facilities related to a planned expansion. The work is expected to last about 50 days. During the period, the

other upgrader is expected to continue to operate at normal production capacity of about 125,000 bpd.



Kuwait National Petroleum Co's Shuaiba refinery was fully operational despite unscheduled maintenance at a heavy oil unit. The heavy oil unit is expected to be shut for up to four weeks to carry out unscheduled maintenance work. However sources stated that it cut processing rates at the refinery by 20% due to mechanical faults at two units.

China officially launched operation of the first phase of the country's second strategic petroleum reserve terminal on the Aoshan Island on May 23. The terminal received its first batch of 238,000 metric tons of crude supplies. In the first phase of its national crude oil stockpiling effort, China was building two other strategic oil terminals. When complete, the four terminals would have a total storage capacity of 16.2 million cubic meters or 102 million barrels.

#### **Production News**

Royal Dutch Shell Plc said it started restoring 150,000 bpd of lost production from its Bonny Light field in Nigeria. Protests by youths had partially shut production from the field on Tuesday. Protesters demanding contracts from Shell shut the Bomu Manifold, prompting the partial shutdown of the Trans-Niger pipeline.

Venezuela's PDVSA said the country's oil industry was not affected by protests held since Friday. On Wednesday,

employees at several large companies, including the recently nationalized power firm Electricidad de Caracas, left their posts for 15 minutes to show solidarity with RCTV, a television station the Hugo Chavez administration has forced off the air.

The Shetland Island Council reported that Brent crude oil liftings from Sullom Voe increased by 229,906 tons in the week ending May 29, up from 136,673 tons the previous week.

Russian gas oil exports out of the Black Sea port of Tuapse in June was set at about 210,000 tons, down from 242,000 tons for May. Meanwhile Russian gas oil exports from the Black Sea port of Novorossiisk in June was set at about 510,000 tons, down from 460,000 tons in May.

Total SA said it expected production at Angola's ultra-deep water Rosa oilfield to start in mid-June. It said it should be able to reach a plateau of 150,000 bpd within three to six months after the start.

According to Singapore's International Enterprise, the country's residual fuel stocks fell by 185,000 barrels to 14.542 million barrels in the week ending May 29. It reported that light distillate stocks fell by 357,000 barrels to 8.092 million barrels while middle distillate stocks fell by 371,000 barrels to 7.752 million barrels on the week.

Sinopec Corp has found an oilfield in northwest China with up to 1.5 billion barrels of oil. Sinopec's northwest unit has decided to drill 90-120 wells in the block to increase production capacity to 11-14.6 million barrels/year.

The Petroleum Association of Japan reported that Japanese refineries operated at their lowest rate of 66.8% in three years last week due to maintenance shutdowns. The average refinery runs fell by 1.5% on the week. It reported that crude stocks built by 4.04 million barrels to 106.88 million barrels in the week ending May 26 while gasoline inventories fell by 100,000 barrels to 13.53 million barrels. It also reported that kerosene stocks built by 310,000 barrels to 14.46 million barrels while naphtha stocks fell by 1.41 million barrels to 11.43 million barrels on the week. Japan's crude throughput fell to 3.225 million bpd.

Saudi Aramco raised the prices of liquefied petroleum gas for loading in June by as much as 6.4%. It increased its propane prices to \$592/ton from \$560/ton in May and increased butane prices to \$612/ton from \$575/ton in May.

OPEC's news agency reported that OPEC's basket of crudes fell by 67 cents/barrel to \$65.37/barrel on Tuesday.

**Market Commentary**

Reacting to heightened concerns over possible storms brewing in the Gulf, crude traded higher throughout the NYMEX session. Prices are still within the congestion trading range of 62.35 and 69.03. Buying and selling at the list support and resistance numbers has worked out over the last couple of days, and barring any major news, we would continue to do so. Support is set at 62.85,

62.54,  
**62.35**,  
 61.75,  
 61.55,  
**61.23**, and  
 60.40  
 Resistance  
 is set at

Technical levels		
	Levels	Explanation
CL	<b>Resistance</b>	64.00, 64.34, 64.78, 65.24
	63.49, up 34 cents	63.85
	<b>Support</b>	62.85
		Wednesday's low
		Previous lows
HO	<b>Resistance</b>	194.21
	187.55, up 65 points	189.08
	<b>Support</b>	186.24
		Wednesday's high(July)
		Wednesday's low(July)
		Previous lows
RB	<b>Resistance</b>	223.12, 226.99, 229.55, 231.90
	227.25, down 2.54 cents	221.04
		Previous high
		Wednesday's high(July)

63.85, 64.00, 64.34, 64.78, and **65.24**. While the crude market ended in positive territory as traders squared their books ahead of Thursday's release of the weekly petroleum stock reports, the gasoline market settled in negative territory. The RBOB market, which posted a low of 224.21 early in the session, bounced off its low and briefly rallied to a high of 230.45. The market was supported amid an erroneous report of a fire at Gary-Williams Energy's Wynnewood, Oklahoma refinery. However the RBOB market quickly gave up most of its gains as the company announced the story was wrong. The market later settled in sideways trading pattern ahead of the close as traders positioned themselves ahead of the inventory reports. Meanwhile, the heating oil market settled up 65 points after it posted an inside trading day. The product markets on Thursday will be driven by the weekly inventory reports and by liquidation ahead of the June contracts' expiration at the close. The DOE reports will likely keep the markets pressured amid the expectations that gasoline stocks have continued to build and runs have increased as well. The RBOB market is seen finding support at 216.61 followed by 212.78, 212.40, 211.75 and 211.70. Meanwhile resistance is seen at 221.04 followed by 223.12, 226.99, 229.55 and 231.90.