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## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR MAY 31, 2005**

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Iraq's northern oil exports to Ceyhan were still halted on Tuesday after the flow stopped on Friday. Crude exports through the northern pipeline have been intermittent since May 11 when the flow restarted. There are 2.6 million barrels of crude oil in storage at the Turkish terminal of Ceyhan. Separately, Turkey's Tupras purchased 2 million barrels of Iraq's Kirkuk crude for June delivery from Iraq's SOMO. The crude has already been exported through Iraq's northern pipeline to the Turkish terminal of Ceyhan. Meanwhile, an Iraqi oil official stated that Iraq's southern crude oil exports averaged 1.4 million bpd in May, down from 1.46 million

#### **Market Watch**

The US EPA has pushed back the date that retail outlets must begin selling low sulfur diesel by six weeks from September 1 to October 15, 2006. Refiners will have to cut the amount of sulfur in their diesel fuel by 97% to 15 parts per million from the current 500 ppm. It said the delay will help ease the transition to the new cleaner fuel. It said the later date will allow more time for terminals and service stations to comply with the federal standard.

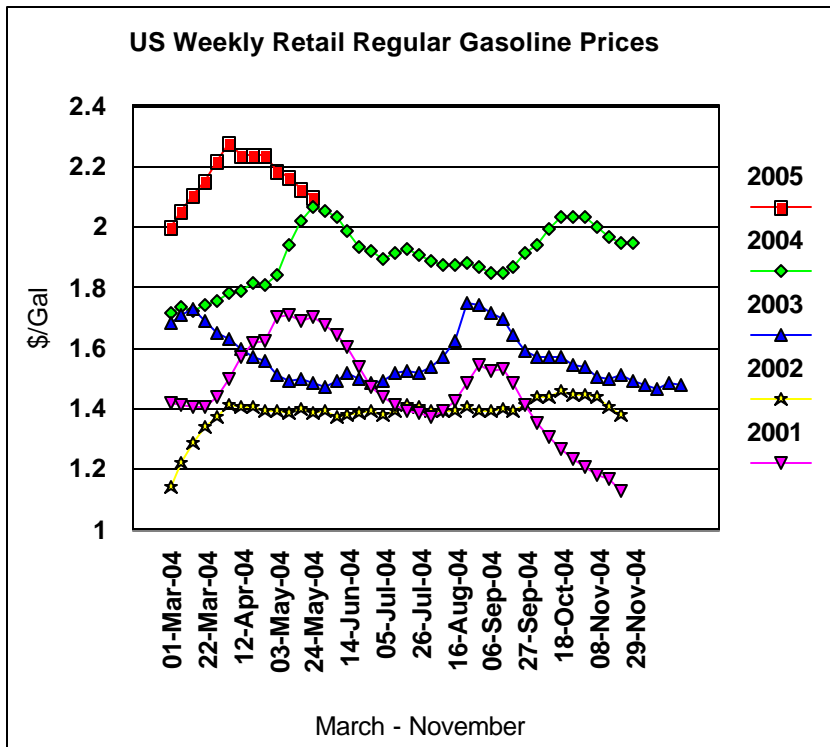
Saudi Defense Minister Prince Sultan said Saudi Arabia's King Fahd's health is improving. He said King Fahd will be released from the hospital in the next few days.

Simmons & Co said Saudi Arabia may have reached its peak production and added that the country's output may begin to decline. The chairman of Simmons & Co, Matthew Simmons said about 90% of Saudi Arabia's oil production come from seven fields, including three fields that have pumped for over 50 years. It said an unsustainable pace of water injection may lead some fields to rapidly decline with few replacement sources in sight. His claims run contrary to projections made by Saudi Arabia's Oil Minister Ali al-Naimi who said last month that Saudi Arabia would spend \$50 billion in the next five years to develop the country's energy infrastructure and increase oil production capacity by 14% to 12.5 million bpd. Saudi Arabia has stated that the country has enough reserves to last 50 years at 15 million bpd and concerns that oil supplies and reserves are running short are misplaced.

According to the Conference Board, US consumer confidence index increased to 102.2 in May from 97.5 in April. Meanwhile, the National Association of Purchasing Management - Chicago business barometer fell to 54.1 from 65.6 in April.

American Trucking Associations' advanced seasonally adjusted Truck Tonnage Index fell by 0.9% in April, marking the third consecutive monthly reduction. In March, the tonnage index fell a revised 0.2%. On a seasonally adjusted basis, the tonnage index fell to 114.3, down 0.3% on the year. It said the tonnage volumes fell slightly due to a deceleration in overall economic growth. The lower tonnage volume has slowed year to date tonnage growth to 3.7% from last year's 5.7%.

Poland's Finance Ministry reported that it will increase the excise tax on heating oil, levy a tax on heating gas and slightly lower the excise on diesel fuel to limit tax evasion and increase budget revenues starting June 15. The excise tax on heating oil will increase to 1,028 zlotys per 1,000 liters from the current 233 zlotys while the excise tax on diesel currently at 1,099 zlotys will be lowered to the same level.



bpd last month. Its southern crude oil production stood at 1.75 million bpd in May. The official said May loadings were affected by intermittent technical problems at Iraq's southern oil fields, especially failures at gas separation stations and water injection systems. Power cuts have also affected exports during May. Iraq's SOMO exported a total of 43.5 million barrels in May. It deferred about 12 million barrels to June from its May program. SOMO could also defer some of its June sales to July to meet volume deferrals from previous months.

Algeria's Energy Minister Chakib Khelil said OPEC is likely to keep official production quotas unchanged at its June meeting. He said oil prices at the end of the year

are expected to remain high. He said demand is strong due to economic growth. Separately, Venezuela's Energy Minister Rafael Ramirez said OPEC should keep its crude production levels stable or cut its production at its June 15<sup>th</sup> meeting. Iran's OPEC governor on Monday stated that OPEC should maintain current production quotas to protect its income.

A senior OPEC source said Saudi Arabia will continue to produce 9.5 million bpd of crude oil in June, in line with demand from its customers.

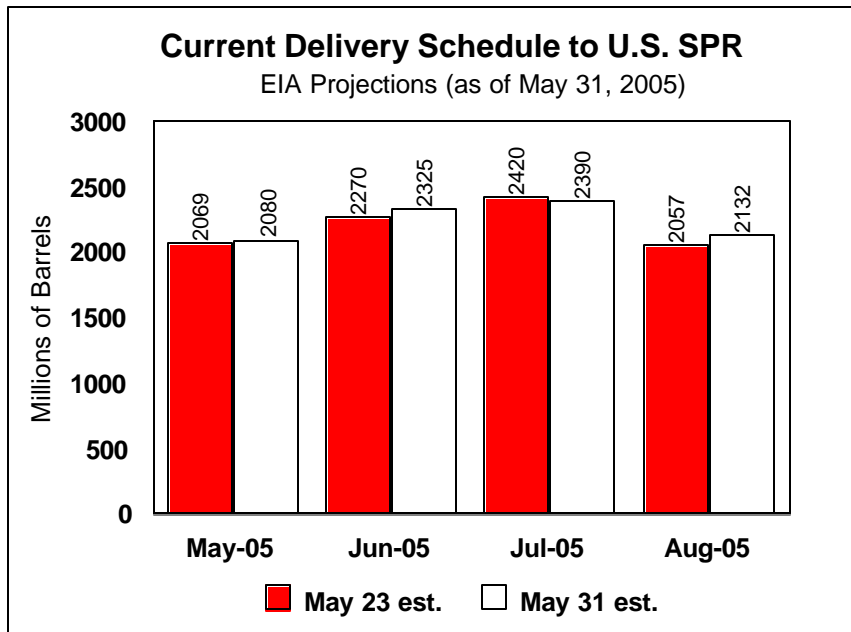
IEA officials stated that it is projecting a return to normal output in the Gulf of Mexico despite forecasts for a heavy storm season in the US this year. Some oil output remains suspended in the Gulf of Mexico following last September's damaged offshore platforms and pipelines due to Hurricane Ivan. For 2005, the IEA is assuming a more normalized hurricane system while some weather forecasters are projecting another heavy hurricane season this year. It is projecting a loss of about 100,000 bpd due to outages and disruptions in September and October, falling to about 40,000 bpd in November.

OPEC's news agency reported that the OPEC's basket of crudes increased by 17 cents/barrel to \$47.62/barrel on Monday from \$47.45/barrel on Friday.

The EIA reported that the average retail price of gasoline fell for the seventh consecutive week to \$2.097/gallon, down 2.8 cents on the week. It also reported that the average retail price of diesel increased by 0.4 cents/gallon to \$2.16/gallon in the week ending May 30<sup>th</sup>.

The EIA indicated in its latest SPR delivery schedule that SPR crude delivery in May was revised upwards by 11,000 barrels to 2.08 million barrels while crude delivery in June was also revised upwards by 55,000 barrels to 2.325 million barrels. It reported that the crude delivery to the SPR in July was cut by 30,000 barrels to 2.39 million barrels while crude delivery in August was increased by 75,000 barrels to 2.132 million barrels.

The EU's Energy Commissioner Andris Piebalgs said with oil and natural gas prices continuing to rise, the EU will be required to cut energy demand, increase renewable sources and create competitive markets. The European Commission will outline energy efficiency measures for transport and households, press national governments to promote renewables and crack down on nations that fail to enact electricity and gas market opening laws. The EU is scheduled to release a report in June highlighting what action may be needed to ease EU energy demand.



**Refinery News**

According to filing with the Texas Natural Resource Conservation Commission, Shell's Deer Park's catalytic modules on the selective catalytic reduction at its catalytic cracking unit requires maintenance. It said a potential for catalytic cracking unit feed diversion could cause a shutdown of the wet gas compressor. The unit is expected to undergo maintenance from May 31 to June 30.

Deer Park Refining LP's 340,000 bpd refinery is operating at normal rates despite the shutdown of two reformers. A catalytic reformer and platformer No. 2 unit were shut on Monday after a rupture of a Teppco propane pipeline crossing the refinery grounds. The outage of the two reformers is expected to be temporary. It will halt operations on the units until the pipeline is repaired and returns to service. The incident had no impact on premium gasoline values in the Gulf coast cash market on Tuesday. Also, output on a catalytic cracking unit, which is having its catalyst replaced, has not been affected by the work.

Alon USA's fluid catalytic cracking unit at its 61,000 bpd Big Spring, Texas refinery was running normally on Tuesday after runs were cut for 30 hours due to equipment failure. The wet gas compressor in the fluid catalytic cracker was shut on May 29 due to the failure of the controller. It cut runs from 23,000 bpd to 14,000 bpd. Meanwhile it plans to shut a crude unit on June 6 for repairs. It does not plan to cut crude runs or production during work on its crude unit. It may also shut a propane recovery unit at the refinery while it performs planned maintenance on the low sulfur gasoline unit in early June.

ExxonMobil Corp's 557,000 bpd refinery at Baytown, Texas was running normally on Tuesday after a loss of power on Monday.

Total Petrochemicals USA shut an isomerization unit at its 183,000 bpd refinery in Port Arthur, Texas on May 27 after a leak was found in a heater.

PetroChina's Lanzhou refinery plans to increase its June crude runs by 3% from May to 700,000 tons or 170,000 bpd. It processed 680,000 tons or 160,000 bpd in May compared with its planned 720,000 tons due to a lack of crude supply.

China's Dalian Petrochemical Corp plans to keep its June crude processing at the full rate of 860,000 tons or 209,000 bpd ahead of regular maintenance in July. It is scheduled to perform maintenance on its 5 million tons/year or 100,000 bpd crude distillation unit from late July to early August.

China's Guangzhou Petrochemical Corp will cut its crude processing rate in June by 31% from May to 97,000 bpd due to planned maintenance. The refinery has shut a 50,000 bpd crude unit for one month of turnaround.

Belarus' 239,000 bpd Naftan refinery has delayed its planned maintenance work on a crude distillation unit until mid-July. Crude throughput this year is expected to fall to about 9 million tons or 179,600 bpd this year compared with about 9.5 million tons last year due to the maintenance work.

### **Production News**

Venezuela's Oil Minister Rafael Ramirez said Venezuela will hold meetings with its partners in the Sincor heavy crude oil project to explain a recent decision to increase the royalty tax on about half of the project's oil production. He claimed the project is in violation of the original contract, which had an output ceiling of 114,000 bpd. He also accused Sincor of exploring for oil in an area larger than what was approved under the original contract. He said Sincor owes the government about \$1 billion in royalties. Representatives from Statoil and Total said the project has been authorized to pump up to 200,000 bpd, adding that they are surprised by the claims of contract violations.

According to preliminary data from Russia's Energy Ministry, Russia's crude oil production in May increased 50,000 bpd on the month to about 9.35 million bpd. Its preliminary data showed that Russia's production fluctuated in a range between 9.28 million bpd on May 19 and 9.41 million bpd on May 30. Analysts have stated that the cut in production was further confirmation that the government's breakup of Yukos and high taxation had cut Russia's ability to respond to increasing global demand and record prices.

An official with Checheneftgaz said oil production in Chechnya totaled 962,000 tons in January-May.

Russia's Natural Resources Minister Yuri Trutnev said ExxonMobil and Chevron are well placed to win an upcoming auction for 49% of Russia's Sakhalin-3 oilfield. He said the companies' existing position on the Pacific Coast gave them an advantage in bidding for a stake in the oilfield. In 2003, together with Rosneft, the companies won a license to operate Sakhalin-3 under a production sharing agreement. However the government revoked the license and said it would retender the rights under a normal tax regime.

China's Sinopec Group has agreed to buy a 40% interest in Canada's Northern Lights oil sands project from a Canadian company for C\$105 million or \$83 million. The Northern Lights project is an integrated oil sands mining, bitumen extraction and upgrading project in northeastern Alberta with design capacity of more than 100,000 bpd of synthetic crude oil.

China is expected to halt its diesel exports and cut its gasoline shipments in June, suggesting an increase in domestic demand. Crude oil supplies also appear set to remain strong as domestic refiners emerge from light spring maintenance to run at full capacity. This spring, China became a net importer of diesel for the first time in more than a year, with exports more than doubling to 27,000 bpd while imports fell to 10,000 bpd. To feed higher refinery operations, China is keeping up strong imports of low sulfur crude oil increasing June purchases to 507,000 bpd, up 3.5% from May. Its gasoline exports are expected to fall to 280,000 tons or 82,000 bpd in June, from 160,000 bpd in the first four months of the year.

Japan's Ministry of Economy, Trade and Industry reported that the country's crude oil imports in April fell by 0.3% on the year to 18.3 million kl or 3.84 million bpd. This follows a 2.7% on year increase in the country's crude oil imports in March. It also reported that the country's gasoline sales increased by 2.6% on the year to 4.96 million kl. Its gasoline production fell by 3.3% on the year to 4.61 million kl. Its total oil product production fell by 1.2% on the year to 17.48 million kl while its sales increased by 3.7% to 18.66 million kl.

India's Oil Ministry reported that the country's oil companies processed 9.6 million tons or 2.33 million bpd of crude oil in April, down 7.9% on the year due to lower domestic demand and refinery shutdowns. The country's crude oil production was unchanged at 2.8 million tons or 681,000 bpd. Crude oil imports fell 2.9% while domestic demand fell by 5.5% in April. Indian refiners used 91.7% of their capacity in April compared with 99.6% last year.

Saudi Aramco has cut its official price for liquefied petroleum gas products by \$27/ton on the month. It cut its June propane price to \$393/ton from \$420/ton in May while its price for butane was cut to \$396/ton from \$423/ton in May.

Indonesia's Finance Ministry revised up its average oil price forecast for 2005 on Tuesday to \$40-\$45/barrel from its previous forecast of \$35/barrel. The higher forecast was expected to prompt the ministry to allocate as much as 90 trillion rupiah or \$9.49 billion for oil subsidies in a revised 2005 state budget against 40 trillion previously forecast.

### **Market Commentary**

The oil market opened down 64 cents at 51.21 in follow through selling seen in overnight trading following the Memorial Day weekend as it eased off Friday's late gains. The market seemed to have been pressured amid reports stated that Saudi Arabia's King Fahd's health is improving. Also, OPEC ministers continued to state that their production quotas would likely remain unchanged at its June 15<sup>th</sup> meeting. The crude market sold off to a low of 50.90, where it found good support. The market bounced off that level and never looked back. It breached its previous high of 52.00 and rallied to a high of 52.05 ahead of the close. It settled up 12 cents at 51.97. Volume in the crude was light with 160,000 lots booked on the day. Meanwhile, the product markets ended mixed with the expiring June heating oil contract settling up 61 points at 145.19 and the June gasoline contract settling down 59 points at 146.94. The June heating oil contract gapped lower from 144.00 to 142.50 and posted a low of 141.50. However the market quickly backfilled its gap within the first hour of trading as it traded above the 145.00 level. It posted a double top at 145.60 ahead of its expiration. The July heating oil contract,

which settled up 31 points at 144.95, breached its previous high of 145.70 and posted a high of 146.00 ahead of the close. The June gasoline

| <b>Technical Analysis</b>        |  |  |
|----------------------------------|--|--|
|                                  | <b>Levels</b>  | <b>Explanation</b>   |
| <b>CL</b> 51.97, up 12 cents     | <b>Resistance</b><br>52.63, 53.25, 54.25<br>52.05                  | 50% retracement (57.20 and 48.05), Previous highs<br>Tuesday's high          |
|                                  | <b>Support</b><br>51.50, 50.90, 50.65<br>49.65, 48.92, 48.05       | Tuesday's low, Thursday's low<br>Previous lows                               |
| <b>HO</b> 144.95, up 31 points   | <b>Resistance</b><br>146.30, 150.60<br>146.00                      | Previous highs<br>Tuesday's high   |
|                                  | <b>Support</b><br>July<br>144.50, 141.80<br>139.05, 137.50, 135.10 | Tuesday's low<br>Previous lows   |
| <b>HU</b> 146.70, down 70 points | <b>Resistance</b><br>149.27, 151.25, 152.85<br>147.35, 147.80      | 38% (168.00 and 137.70), Previous high, 50%<br>Tuesday's high, Previous high |
|                                  | <b>Support</b><br>July<br>146.00, 144.10<br>143.90, 141.80, 140.40 | Tuesday's low<br>Previous lows   |

contract opened down more than 2.2 cents at 145.30 and posted a low of 144.30. However the market bounced off that level and rallied to a high of 147.50 amid reports of refinery problems. Deer Park Refining reported that the refinery is operating at normal rates despite the shutdown of two reformer units on Monday. The July gasoline contract settled down 70 points at 146.70 after it rallied to a high of 147.35 ahead of the close. Volumes in the product markets were light with 38,000 lots booked in the heating oil and 44,000 lots booked in the gasoline market.

The oil market on Wednesday may trade higher early in the session following today's close near its high. However we are still of the opinion that the market should not be at these levels. The market may retrace its gains and find initial support at 51.50. More distant support is seen at its low of 50.90 followed by 50.65. Meanwhile more distant support is seen below the 50.00 level at 49.65, 48.92 and 48.05. Resistance is however seen at its high of 52.05 followed by 52.63, 53.25 and 54.25.