



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR JUNE 5, 2006

Iran's Supreme Leader, Ayatollah Ali Khamenei said if the US made a wrong move towards Iran, energy flows in the region would be endangered. On Saturday, Iran's President Mahmoud Ahmadinejad said Iran would consider incentives but insisted that it would not give up its uranium enrichment. Meanwhile, EU's foreign policy chief, Javier Solana, is scheduled to present Iran with the proposals

Market Watch

Intercontinental Exchange said its futures volume increased 134% on the year, with average daily volume up 112.8%. It said exchange volume for ICE futures totaled 7.4 million contracts in May with average daily volume reaching 338,792 contracts.

Mexico's leftist Andres Manuel Lopez Obrador, tied in polls for first place in the July 2 presidential elections, would allow private investment in services that Pemex receives. However if elected, he would not try to open the door to private investment in oil production or refining. He said the challenge was to maintain Pemex's current production levels.

NYMEX Europe said it would close its London open outcry trading floor on June 9, in preparation for the start of electronic trading of its Brent crude oil and Northwest gas oil futures contracts. The contracts would be traded solely electronically starting Sunday, June 11 on the Chicago Mercantile Exchange's Globex platform.

of the international community for opening negotiations on Iran's nuclear program on Tuesday. The package expected to be delivered to Iran stems from an initiative put together by Britain, France and Germany and approved by a forum that included the US, China and Russia.

The EIA reported that the US retail average price of gasoline increased by 2.5 cents/gallon to \$2.892 in the week ending June 5th. It also reported that the retail price of diesel increased by 0.8 cents/gallon to \$2.89/gallon on the week.

Refinery News

Valero Energy Corp said its Corpus Christi, Texas refinery returned to planned rates over the weekend. The complex was working over the weekend to restore 70,000 bpd in output lost due to an electrical short at the refinery after severe thunder and lightning storms swept through the area last week. It also stated that its 51,000 bpd reformer unit at its Port Arthur, Texas refinery was still on track to resume operations next Friday. The unit was shut on May 28 for a catalyst change. Gasoline production is expected to be cut by 50,000 bpd until it returns.

BP Plc performed maintenance on a fluid catalytic cracking at its 460,000 bpd Texas City, Texas refinery over the weekend. The unit underwent maintenance on Saturday and Sunday. BP was preparing to restart the unit.

Total Petrochemicals USA shut a sulfur processing unit at its 233,000 bpd Port Arthur, Texas refinery on Saturday. According to a report filed with the Texas Commission on Environmental Quality, feed flow to the unit was reduced followed by the unit's shutdown after a leak was discovered in the unit's reactor early on June 3. The report did not include an estimate of the duration of the shutdown or of repairs.

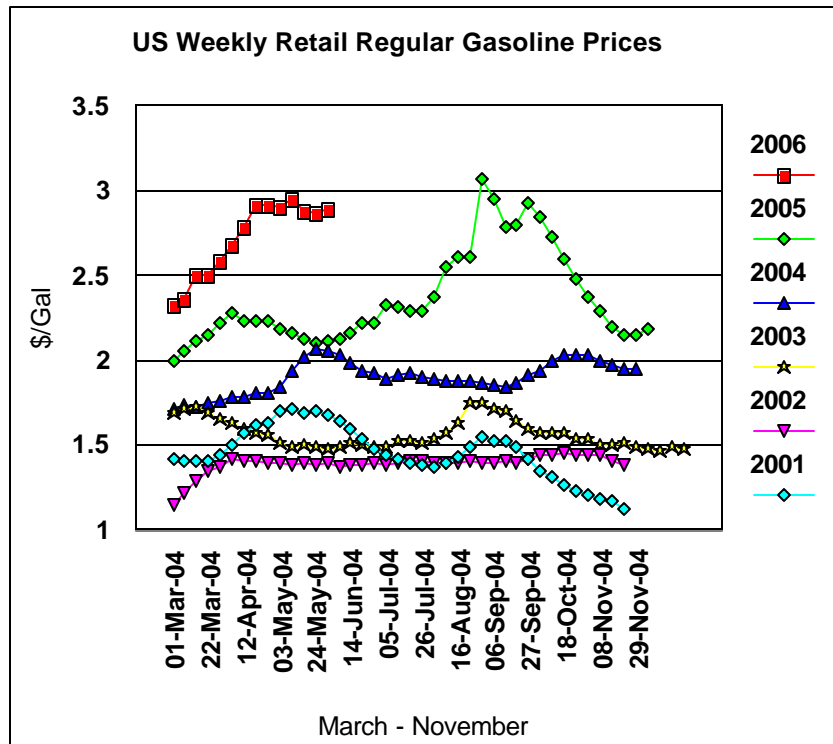
According to reports filed with the Texas Commission on Environmental Quality, two sulfur recovery units at Alon USA's refinery in Big Springs, Texas was shut for several hours Saturday morning following malfunctions.

ERG's 150,000 bpd Isab Nord refinery in Priolo, Sicily reached 80% of production capacity following a lengthy shutdown caused by a pipeline fire. The restart is expected to be followed by a scheduled mid-June restart of its ERG's 230,000 bpd Isab Sud refinery, which has been fully shut since May 1 for planned maintenance work. Its Isab Nord refinery is expected to reach 100% of capacity by the end of June, allowing exports to gradually resume.

Traders stated that Petroplus was carrying out maintenance for most of June at its 120,000 bpd North Tees oil refinery in the UK.

Mitsubishi Chemical Corp restarted its 603,000 ton per year naphtha cracker in eastern Japan as scheduled on Monday after regular maintenance.

According to an Iranian state television, an explosion at a gas pipeline was burning out of control. A source at the National Iranian Oil Co said the fire has had no impact on the export of oil from the province. The explosion was set off by a spark inside the pipeline.



Russia's Lukoil may build a fifth refinery in Russia as it believes that exports of refined products would remain more profitable than crude exports.

Gas oil exports from Black Sea ports increased to 1.32 million tons, up 120,000 tons from the previous month, as shipments from the Novorossiisk and Importpishcheprom terminals increased. In the Baltic region, exports fell to 1.72 million tons, down 151,000 tons from the previous month.

Production News

The US Coast Guard reported that vessel traffic in the Port of Corpus Christi continues to operate with

some restrictions amid clean up of oil and oily water spilled into the harbor on June 1. Inbound traffic was moving fairly normally. The inner harbor was partially reopened to normal traffic as of Saturday afternoon.

Separately, the US Coast Guard and Texas environmental agencies were cleaning up a small oil spill in Nassau Bay, Texas which feeds into Galveston Bay. Operations along the Houston Ship Channel, which runs through Galveston Bay north and east of Nassau Bay were unaffected by the containment and clean up of the spill.

The Mississippi Emergency Management Agency reported that two workers have been killed and two others injured in an oil field explosion and fire in Smith County, Mississippi.

The Minerals Management Service issued its final report on the 2005 hurricane production outages. It stated that 228,000 bpd of oil and 1.1 billion cubic feet of natural gas remained down due to Hurricanes Katrina and Rita. The affected production is equal to 15% of the Gulf's daily oil output and 11% of gas production.

The Wall Street Journal quoted Saudi Arabia's Oil Minister Ali al-Naimi as saying that the country cut its oil production to 9.1 million bpd in April due to a fall in refinery demand. He said that other OPEC members were having difficulties finding buyers for all their crude, at a time when world storage is near full and refineries have closed for maintenance. He denied that Saudi Arabia was cutting its production because of concern about a build up of inventories in the US and other importing countries.

Saudi Arabia has raised the official selling prices for all its crude oil to Europe in July, but cut prices to US buyers. Saudi Aramco set the official selling price of its Arab Extra Light bound to Europe at BWAVE minus \$2.05/barrel, up 75 cents on the month. Its Arab Light crude was set at BWAVE minus \$6.25, up 60 cents, its Arab Medium was set at BWAVE minus \$8.90, up 50 cents and its Arab Heavy was set at BWAVE minus \$11.85, up 45 cents. Meanwhile, its Arab Extra Light crude bound to the US was set at WTI minus \$2.70, down 30 cents, its Arab Light was set at WTI minus \$6.35, down 35 cents, its Arab Medium was set at WTI minus \$8.90, down 35 cents and its Arab Heavy was set at WTI minus \$12.15, down 35 cents. It also reported that its Arab Super Light bound to Asia was set at the Oman/Dubai average plus \$6.85, up 50 cents, its Arab Extra Light was set at the Oman/Dubai average plus \$3.20, up 20 cents, its Arab Light was set at the Oman/Dubai average plus 20 cents, unchanged on the month. Also, its Arab Medium bound to Asia was set at the Oman/Dubai average minus \$2.85, down 5 cents and its Arab Heavy was set at the Oman/Dubai average minus \$5.95, down 10 cents.

Iran's Oil Minister Kazem Vaziri-Hameneh said Iran would continue to price its oil sales in dollars but added that it could receive payment in other currency needed by the central bank. Venezuela's President has previously stated that Venezuela may price its oil in euros.

Nigeria's Bonny Light crude production is expected to fall by 106,000 bpd in July from June after Royal Dutch Shell cut output due to a pipeline leak. A volume equal to 11 cargoes of 950,000 barrels each of Bonny Light is scheduled to load in July. The pipeline leak has yet to be fixed.

OPEC President and Nigeria's Oil Minister Edmund Daukoru said Nigeria is expected to increase its oil production by 1.5 million bpd by next year, which would contribute to OPEC's spare capacity. He also stated that oil prices are high because of downstream bottlenecks and urged further refinery investment by consuming countries. He also called for the international community to cooperate to ease geopolitical tensions, a contributor to high oil prices. Separately, Nigeria's Oil Minister said he held positive discussions with Sudan over the country's possible membership to OPEC. Nigeria has been keen to include other African countries in OPEC, including Angola, which has OPEC observer

status. Meanwhile, Bolivian President Evo Morales, supported by Venezuela's President Hugo Chavez, said he would like Bolivia to join OPEC. Ecuador's Oil Minister said in recent days that some Arab countries had invited the country back into the organization.

Russia's Lukoil said it planned to more than double production to 4 million bpd of oil and gas by 2015. It increased output of oil and gas 5.5% in 2005 to 1.93 million bpd of oil equivalent. Crude oil production increased 3.7% last year to 90.1 million tons or 1.81 million bpd.

India raised petrol and diesel prices on Monday, bowing to pressure from oil companies whose profits have evaporated because domestic fuel prices have been frozen for about nine months. Its petrol price was increased by 4 rupees/liter while diesel was increased by two rupees/liter.

Indonesia's BPH MIGAS is expected to cut oil products volume under government subsidy to 39.8 million kiloliters or 250 million barrels in 2007 from 41.58 million kl in 2006. It stated that in 2007, gasoline under subsidy would be up to 17.5 million kl compared with 17.1 million kl in 2006 while kerosene falls to 9.5 million kl from 10 million kl and diesel oil would fall to 12.8 million kl from 14.5 million kl.

According to Colombia's National Hydrocarbons' Association, oil companies would likely invest as much as \$750 million oil exploration in 2006, up 50% on the year. It said oil companies would probably drill close to 50 exploration wells in Colombia in 2006, up from 35 last year. If Colombia fails to find new reserves, the country would become a net oil importer by 2012.

Market Commentary

The oil market gapped higher from 72.70 to 73.25 amid worries over Iranian oil supplies following comments made by Iran's Supreme Leader, Ayatollah Ali Khamenei. He stated that if the US made a wrong move towards Iran, energy flows in the region would be endangered. The market traded higher in follow through buying seen in overnight trading and quickly posted a high of 73.40. The crude market later gave up some of its gains and traded to 72.50, where it held support. The market bounced off its low and tested its high once again. However as it failed to breach its resistance, the market erased its gains and traded to a low of 72.10 ahead of the close. The July crude contract settled up 27 cents at 72.60. Volume in the crude market was light with 155,000 lots booked on the day. Meanwhile, the gasoline market also gapped higher from 221.00 to 222.00 and quickly rallied to a high of 223.00 amid the strength in the oil market. The market however erased its gains and backfilled its gap as it traded to a low of 216.00 ahead of the close. The gasoline market was pressured amid the news that refineries were restarting following last week's problems. The market

settled down 3.33 cents at 216.42.

Similar to the crude, the heating oil market retraced some of its earlier gains but still settled in positive territory, up 2.82 cents at

Technical Analysis		
	Levels	Explanation
CL	Resistance	74.35 Previous high
	Support	73.00, 73.40 Monday's high
	Support	72.10 Monday's low
HO	Resistance	71.15, 70.05 Previous low, Double bottom
	Support	210.70 Previous high
	Support	206.25 to 206.30 Remaining gap (May 15th)
HU	Resistance	203.25 Monday's low
	Support	199.70, 195.00 Previous lows
	Support	223.00 Monday's high
	Resistance	218.00, 221.00
	Support	216.00 Monday's low
		215.00, 212.11, 208.75, 206.25 Previous low, 38% and 50% (194.50 and 223.00), Previous low

204.27. The market gapped higher from 203.50 to 204.50 and traded to 205.70. The market however gave up its early gains and sold off to a low of 203.25. The market later bounced off its low and rallied to a high of 206.25 before it gave up some of its gains ahead of the close. Volumes in the product market were light with 33,000 lots booked in the gasoline market and 32,000 lots booked in the heating oil market.

The oil market will remain concerned over the Iranian situation as Iran continues to state that it would not give up its uranium enrichment. The EU is expected to present its proposal to Iran on Tuesday. The market will likely trade sideways as it awaits the release of the weekly petroleum stock reports on Wednesday. The market is seen finding support at 72.10 followed by 71.15 and 70.05. Meanwhile resistance is seen at 73.00 followed by 73.40 and 74.35.