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ENERGY MARKET REPORT FOR JUNE 7, 2005

OPEC's President Sheikh Ahmad Fahad al-Sabah believes OPEC will increase its production ceiling at its June 15 meeting to counter the current rise in prices. He said he will propose an increase in its ceiling of 500,000 bpd if prices remain high. He also stated that OPEC will continue with its current production of more than 30 million bpd.

Meanwhile, Indonesia's Oil Minister Purnomo Yusgiantoro also said Indonesia would like to see OPEC increase its official output ceiling when it meets on June 15 in hopes of lowering oil prices. He however declined to say how much he would like to see the ceiling

Market Watch

An analyst stated that the influence of speculative traders has put a fear premium on commodity prices in spite of weak fundamentals.

The EU executive commission will open probes into the energy and financial services sectors next week to check whether they are fully competitive.

Royal Dutch/Shell Group believes it and other western oil companies are unlikely to gain significant access to OPEC countries' oil reserves over the next 20 years. A Shell report outlined three possible scenarios in replacing the oil it pumps with new finds. It said that even if OPEC countries open their markets, they are expected to reserve their best oil fields for their own national oil companies. Under another scenario, called the "low trust globalization" scenario, Shell and other oil companies would have even smaller prospects of replenishing their depleting reserves from OPEC resources while under the "flags" scenario, international oil companies would have little chance of accessing OPEC resources.

The Group of Eight will consider tax breaks for large oil companies to stimulate refining capacity and reduce the risk of shortages. The plan follows IMF warnings on the lack of spare refining capacity and is expected to form part of the agenda for the Group of Eight meeting next month. However a source warned that tax breaks would likely encounter political opposition.

China's CNOOC said it was still considering a bid for Unocal, challenging Chevron's deal to buy Unocal for \$16 billion.

The NYMEX plans to sign an agreement with the Dubai government to launch the Middle East's first metals and futures exchange in Dubai. The Dubai Mercantile Exchange will offer electronic trading. It will initially offer sour crude and gold contracts.

China's booming economy and surging power demand will cause liquefied natural gas import capacity to total 20 million tons by 2010. A consortium of buyers from China is due to import the country's first LNG shipments next year from Australia's North West Shelf. By 2010, China's gas consumption will increase to 3.9 trillion cubic feet from 1.2 tcf in 2003, outstripping production growth, which is projected to increase to 2.6 tcf from 1.1 tcf.

World ocean freight prices for minerals traded at 21 month lows as China's steel mills deferred fresh iron ore imports. The Baltic Exchange's Capesize Index of world trade routes for minerals such as iron ore and coal fell to 3,306 points, their lowest since September 2003. Industry officials and regional traders said Chinese steel mills, fearing a crash in domestic and international steel prices, were delaying new shipments of iron ore to later in the year. China curbed steel production because of large drains on national resources like power generation and raw materials such as coking and coal.

increased by. Separately, Algeria's Oil Minister Chakib Khelil said there was no point in raising supply limits when refiners could not handle extra crude while Iran's OPEC governor stated that Iran would prefer OPEC to cut its supply to closely match the ceiling.

US Energy Secretary Samuel Bodman said Saudi Arabia has been extremely responsive to US energy needs but suggested little immediate relief from high oil prices. He said Saudi Arabia has helped by committing to sizeable investments and by seeking to expand its production to meet rising demand for oil. He said high energy prices stem from tight supply-demand fundamentals in the market, dismissing the suggestion that climbing prices could be the result of market manipulation.

OPEC's news agency reported that OPEC's basket of crudes increased to \$51.18/barrel on Monday from Friday's \$50.72/barrel.

In the Short Term Energy Outlook, the EIA said several factors are contributing to the expectation of continued high oil prices. The WTI crude price for the third quarter of 2005 is expected to average \$53/barrel, up about \$1 from its previous estimate. The average monthly US oil prices are estimated to remain above \$50/barrel for the rest of 2005 and 2006. World petroleum demand growth is expected to remain strong during 2005 and 2006, despite high oil prices. World oil demand is projected to grow at an annual average of 2.1 million bpd in 2005 and 2006, representing a 2.5% annual average growth rate. World petroleum demand in 2005 is estimated at 84.7 million bpd, down from 84.8 million bpd in its previous report while demand in 2006 is estimated at 86.7 million bpd, down from its previous estimate of 86.9 million bpd. It reported that Chinese demand growth, which averaged 1 million bpd in 2004, is projected to be slower at an annual average of 600,000 bpd in 2005, slightly lower than its previous estimate of 650,000 bpd. China's oil demand is expected to grow to 7.2 million bpd this year, up 700,000 bpd. It also stated that expected growth in non-OPEC supplies is not expected to accommodate worldwide demand growth. Non-OPEC supply is expected to grow at an annual average of 800,000 bpd during 2005 and 2006. It also stated that oil prices are expected to remain strong amid the fall in spare capacity while downstream sectors are also expected to remain tight. In regards to US petroleum demand, the US is expected to see demand growth average 300,000 bpd per year in 2005 and 2006 to 20.8 million bpd and 21.1 million bpd, respectively. It is down from its previous estimates of 20.9 million bpd in 2005 and 21.3 million bpd in 2006. US gasoline demand in 2005 is estimated at 9.2 million bpd, down slightly from its previous estimate of 9.21 million bpd while demand in 2006 is estimated at 9.35 million bpd, down from 9.39 million bpd reported in its previous report. Distillate demand is estimated at 4.14 million bpd in 2005, up from its previous estimate of 4.13 million bpd while demand in 2006 is estimated at 4.21 million bpd, down from its previous estimate of 4.23 million bpd. In regards to gasoline prices, it projected that gasoline prices in April-September will average \$2.17/gallon, unchanged from its previous forecast but still 26 cents higher on the year. The retail price of diesel this summer is estimated at \$2.22/gallon, up 13 cents from its May forecast. In regards to OPEC, it estimated that its production stood at 30 million bpd, with the ten OPEC members producing 28.1 million bpd in May. It reported that it revised OPEC's production level in April by 80,000 bpd to 30 million bpd. Iraq produced 1.9 million bpd in May, unchanged on the month. OPEC's spare capacity in May as unchanged at 900,000 bpd to 1.4 million bpd.

Refinery News

Hovensa said the 100,000 bpd crude unit at its 495,000 bpd St. Croix refinery resumed operation on Monday. It returned slightly earlier than the midweek return previously expected following an unplanned shutdown due to a problem with a heater.

Valero Energy Corp said fluid catalytic cracker maintenance rumored to be unplanned at its St. Charles refinery in Norco, Louisiana was planned and will not have any material impact on production.

According to a report filed with the Texas Commission on Environmental Quality, operational problems at ConocoPhillips' Borger, Texas refinery resulted in depressuring of the crude stills on Tuesday morning. The refinery recently had a steam upset that caused a boiler that controls a fluid catalytic cracking unit to shut on Friday. The report did not say whether the incidents had impacted the refinery's production.

ExxonMobil reported overpressuring in a delayed coking unit at its Baytown, Texas refinery on Monday. A wet gas compressor in the delayed coking unit had its suction pressure set high, resulting in the compressor surging to a flare. A report to the Texas Commission on Environmental Quality did not specify whether Monday's overpressuring in the delayed coking unit impacted production.

PDVSA plans to shut a 15,000 bpd fluid catalytic cracking unit at its Puerto La Cruz refinery in September for planned work.

Holly Corp plans to add 10,000 bpd in crude oil processing capacity at its Navajo Refining LP 75,000 bpd New Mexico refinery by the fall of 2007. The refinery is also studying an increase in the capacity of the fluid catalytic cracking unit from 25,000 bpd to 27,000 bpd this year.

The United Steelworkers union representing refinery workers launched an investigation into the deadly explosion at BP's Texas City refinery. The union criticized BP's interim report for unfairly blaming low ranking workers.

China's refineries are expected to ramp up refinery runs in June and then further in July following the maintenance season in May. Sinopec's 270,000 bpd Maoming refinery is operating at 97.8% in early June, up from 84.4% in May.

SK Corp plans to keep its July processing rates steady from June at levels of above 800,000 bpd.

Indonesia's Pertamina delayed the startup of its new 80,000 bpd fluid catalytic cracking unit at Balongan indefinitely due to technical problems. The unit was originally scheduled to start up in the middle of last year but has been delayed several times. The last test runs were in May. As a result of the delay, Pertamina will continue to import about 10-12 gasoline cargoes of 200,000 barrels each every month.

Production News

Preliminary West African crude cargo tracking for July shows many Asian buyers have so far bought less West African oil than in previous months. Chinese buyers have so far bought only 13 cargoes or 398,000 bpd, down from 17 or 538,000 bpd in June and 16 or 490,000 bpd in May. The cargoes to Asia so far total 26 or 800,000 bpd, down from 35 or 1.11 million bpd in June and 49 cargoes or 1.5 million bpd in May.

Iraq's Oil Minister Ibrahim Bahr al-Uloum is expected to finalize an agreement on a planned Iraqi-Iranian crude pipeline during a visit to Iran in late June, early July. The aim of the 150,000 bpd pipeline is to carry crude oil from Iraq's southern oil fields to Iran's Abadan refinery.

Azerbaijan's President Ilham Aliyev said the construction of an oil pipeline linking Azerbaijan to Turkey's port of Ceyhan has helped increase Azerbaijan's independence and has strengthened its role in the region. The pipeline aims to increase access by the west to the Caspian fields, estimated to hold the world's third largest reserves.

Azerbaijan's Socar will cut its gasoline exports to Iran across the Caspian Sea from June as it increases its crude exports to the Black Sea and cuts runs at its refineries. Gasoline exports to Iran are expected to fall to 20,000-25,000 tons in June and to 8,000-13,000 tons from July from a record 40,000 tons in May. The pipeline to Turkey will load the first cargo in the fourth quarter of 2005 and BP started filling crude into it last month, which allowed Socar to resume exports via Novorossiisk.

An official with Azerbaijan International Operating Co said its oil production in January-May increased by 49.14% on the year to 3.925 million tons. Of the total oil production, the company produced 2.924 million tons at the Chirag field and 1.001 million tons at the Azeri field.

Russia's Sibneft said it had proved oil and gas reserves of 4.827 billion barrels on January 1, 2005, up 1% on the year. Its proved oil reserves increased to 4.656 billion barrels from 4.623 billion barrels last year. It replaced 113% of its production in 2004.

Russia's Lukoil is considering purchasing a 20% share of the Turkish retail market to increase the efficiency of its Black Sea downstream and bypass the crowded Turkish straits. Lukoil's vice president Nikolai Chernyi said the company is in talks with several Turkish firms about purchasing a large refined products import terminal on the Turkish Black Sea coast.

Russia's Tyumenneftegaz increased its oil output by 6% on the year to 1.12 million tons in January-May. It produced a total of 244,847 tons in May, up from 183,130 tons in May 2004.

Oil India Ltd reported that its crude output increased by 6.6% on year to 3.2 million metric tons in the financial year ending March 31, 2005.

Plans by Brazil's Petrobras to more than double its oil production in Ecuador are meeting with increasing opposition by indigenous and environmental groups, which fear permanent environmental damage. Petrobras produced about 20,000 bpd of crude from its Block 18 in Ecuador in April and expects to start its Block 31, increasing output by another 30,000 bpd. Petrobras said it complies with all environmental legislation fully. The environmental challenges in Ecuador come at a time when Petrobras is facing problems in other South American countries. Bolivia increased its combined royalty and non-deductible tax rate on oil and gas production to 50% from 38%. In Venezuela, Petrobras has been forced to transfer existing operating contracts into joint venture operations with Venezuela's PDVSA.

China Petroleum and Chemical Corp established a new company to expand its natural gas and LNG business. The new entity, China Petroleum and Chemical Corp Gas Corp will be responsible for overall planning and coordinating, resource allocation, pipeline development, project management, marketing and sales for Sinopec's natural gas and LNG businesses.

Market Commentary

The oil market settled in negative territory for the second consecutive session after the market failed to find much upside momentum early in the session. It continued to trade within Thursday's trading range from 53.50 to 55.40. Early in the session, the market seemed ready to post an inside trading day as it posted a high of 54.75 and later erased its gains and traded back to its double bottom of 53.90. However the market later breached that level and sold off to a low of 53.58. In a yo-yo pattern, the market bounced off its low after it failed to test a previous low of 53.50 and traded back towards 54.50, only to trade back down towards its low ahead of the close. The market seemed to have been pressured late in the session following reports that a crude unit at Hovensa's St. Croix refinery was restarted following an unplanned shutdown. The crude market settled down 73 cents at 53.76. Volume was good with over 239,000 lots booked on the day. Meanwhile, the heating oil market settled

down 1.57 cents at 160.08 following five consecutive days of gains amid expected builds in Wednesday's inventory reports. The July heating oil contract posted an inside trading day as traders were reluctant to take a position ahead of the stats. The market traded to a high of 162.70 early in the session before it retraced its gains and sold off to a low of 159.00 in afternoon trading. The market later bounced off its low and traded back to 162.00 only to find further selling ahead of the close which pushed it back towards its low. The gasoline market also settled in negative territory, down 1.38 cents at 151.57. The gasoline market quickly breached Monday's low of 151.70 as it sold off to a low of 150.25. However the market bounced off that level and rallied to a high of 153.70 before it sold off ahead of the close. Volumes in the product markets were good with 55,000 lots booked in the heating oil and 48,000 lots booked in the gasoline market.

The oil complex will seek further direction from the weekly petroleum stock reports, which are expected to show small draws in crude stocks of less than 100,000 barrels, builds in distillate stocks and gasoline stocks of about 1 million barrels each. If the reports once again show larger builds in stocks, the markets are seen trading lower. Technically, the crude market may have found its near term top as its stochastics look ready to cross down. The market is seen finding resistance at 54.40, followed by 54.75 and 55.00. More distant resistance is seen at 55.40-55.45 and 55.80. Meanwhile support is seen at

53.58 followed by 52.50, 52.25-52.05 and 51.72.

Technical Analysis		
	Levels	Explanation
CL 53.76, down 73 cents	Resistance 55.40-55.45, 55.80, 57.20 54.40, 54.75, 55.00	Previous highs Tuesday's high
	Support 53.58, 52.50 52.25-52.05, 51.72	Tuesday's low, 38% (48.05 and 55.40) Opening gap (June 1st), 50% retracement
HO 160.08, down 1.57 cents	Resistance 165.10, 165.43 162.70, 163.00	Previous high, Basis resistance line Tuesday's low, Monday's high
	Support 159.00, 158.00 155.40, 153.00, 152.34	Tuesday's low, Monday's low Previous lows, 38% retracement (135.10 and 163.00)
HU 151.57, down 1.38 cents	Resistance 156.00-156.20, 156.40 153.70	Previous highs Tuesday's high
	Support 150.25 149.44, 147.35, 147.05, 145.26	Tuesday's low 38% (138.50 and 156.20), 50%, Previous low, 62%