



## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR JUNE 7, 2010**

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Saudi Arabia's Oil Minister Ali al Naimi said Saudi Arabia still prefers a crude oil price ranging between \$70 and \$80/barrel. He said he believes a price between \$70 and \$80/barrel is fair. Saudi Arabia has pegged \$75 as the level that is high enough to encourage investment but low enough to stimulate growth. He said Saudi Arabia's oil production stood at about 8.05 million bpd on par with the country's production quota under OPEC's output allocation system. He said OPEC would likely increase calls for improved compliance with existing output targets if prices

#### Market Watch

ConocoPhillips has moved a Very Large Crude Carrier of North Sea Forties crude to the US Gulf of Mexico. The VLCC Front Crown left Hound Point, Scotland on Sunday after loading Forties crude and is expected to arrive in the US Gulf on June 20<sup>th</sup>. A total of 8 million barrels of Forties crude has been shipped by VLCCs from the North Sea to the US Gulf so far this year.

ExxonMobil Corp warned against quick reactive changes to deepwater drilling laws that damage long term investment decisions and urged governments to take time to assess the reasons for the Gulf of Mexico oil spill. ExxonMobil senior executives also underscored the importance of production from deepwater drilling in meeting global energy demand. Deepwater drilling would contribute 10 million bpd of oil equivalent.

Meanwhile, ExxonMobil Corp is testing the commercial viability of algae biofuel as an alternative energy source to supplement oil and natural gas. It said although oil, coal and natural gas are expected to represent about 80% of the global energy supply mix through 2030, nuclear and renewable energy such as wind, solar, geothermal and biofuels will play a significant role. Global energy demand is expected increase by almost 35% by 2030 from 2005 levels. Sunlight and carbon dioxide used to grow algae could mitigate the effect of greenhouse gases while algae has the potential to produce large volumes of oils that can be processed in existing refineries to make fuels compatible with existing transportation technology and infrastructure.

Separately, ExxonMobil is holding detailed discussions with China's national oil companies on partnerships for a number of resources including unconventional.

BP Plc said global oil refining capacities need to be rationalized to bring utilization back to historical levels in the face of lagging demand. It said there is surplus refining capacity relative to demand.

The EIA plans to begin releasing data on ethanol inventories, production and imports, starting with Wednesday's report. It will also make changes to existing categories, including "gasoline blendstocks" and "other oils" to increase accuracy.

Germany's government plans to cut energy tax breaks by 1 billion euros in 2011 to help consolidate the budget. It also plans to cut energy tax breaks by 1.5 billion euros per year between 2012 and 2014.

Germany's Economy Ministry reported that German industrial orders increased more than expected in April. Demand for intermediate and capital goods increased orders up 2.8% on the month. Domestic orders increased by 2.9%.

<b>June</b>
<b>Calendar Averages</b>
<b>CL – \$72.60</b>
<b>HO – \$1.9922</b>
<b>RB – \$2.0160</b>

fell to the \$50-\$60/barrel range.

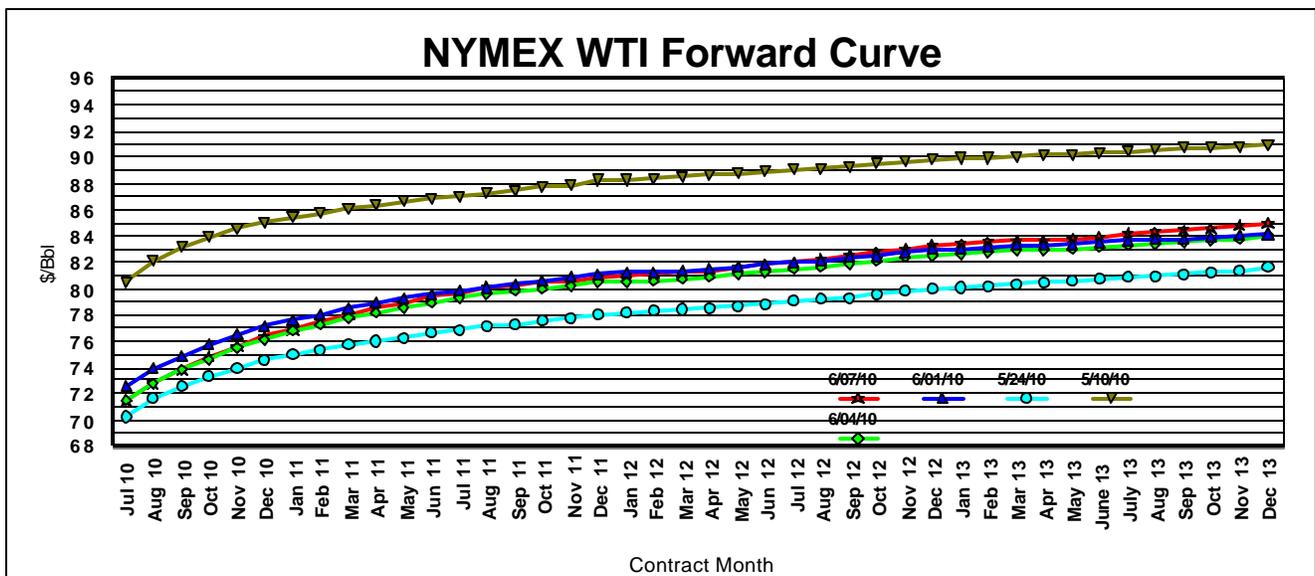
The chairman of Libya’s National Oil Co, Shokri Ghanem said OPEC will likely keep its production quota unchanged when it meets in October. He said OPEC cannot take any action so far. He added that volatility in the oil market is driven by several factors including the value of the US dollar, geopolitics and even the price of other commodities.

Angola’s Oil Minister Jose Botelho de Vasconcelos said oil prices remain volatile but should stabilize within the \$70 and \$80/barrel range this year. He said oil stocks remain high and added that OPEC members should continue to monitor oil prices in case they reached worrisome levels. In regards to Angola’s oil production, he said the country was producing 1.75 million bpd.

Iraq’s Oil Minister Hussain al-Shahristani said current crude prices were fair and not too high to hinder global economic recovery. He said fairer crude oil prices could be reached if OPEC members better abided by production quotas. He also said that the right time to discuss Iraq’s OPEC production quota will be three years from now when the country’s output reached 4 million bpd, adding it is currently producing 2.5 million bpd and will add 200,000-250,000 bpd next year. He said Iraq plans to increase its production capacity to 12 million bpd by 2017. Iraq plans to add 150,000 bpd of production capacity by the end of the year and up to 250,000 bpd of capacity by next year. He also said he does not plan to stay in his current position in the country’s new government. Separately, on Sunday, Iraq’s Oil Ministry said it was able to extinguish a fire that started in an oil products depot in Baghdad. The fire started in one of the pipelines linked to the depot early Sunday morning.

US Secretary of State Hillary Clinton said she expects Iran will “pull some stunt in the next couple of days” ahead of a UN vote on imposing sanctions on Iran over its nuclear program. She said Iran in the past has taken steps to avoid being held accountable. Separately, a State Department spokesman said the US plans to submit a resolution on Iran’s nuclear program to the UN Security Council this week.

BP Plc plans to increase the collection of oil at the site of the ruptured oil well in the Gulf of Mexico to about 20,000 bpd. US Coast Guard Admiral Thad Allen said BP will send another craft to increase the amount of oil that can be recovered. On Sunday, BP captured 11,100 barrels of oil with its containment cap. He said that even after the well is capped, the US will be dealing with a spill for another four to six weeks.



The EIA reported that the US average retail price of diesel fell by 3.4 cents/gallon to \$2.95/gallon in the week ending June 7<sup>th</sup>. Prices have fallen 4.8% or 14.8 cents/gallon in the past three weeks. It also reported that the US average retail price of gasoline fell by 0.3 cents/gallon to \$2.725/gallon on the week.

### **Refinery News**

Credit Suisse reported that US refinery margins were mixed as higher crude prices outpaced product price gains in most regions. Margins in the Rockies region fell the most, falling by \$1.89/barrel to \$21.93/barrel. Refining margins in the Midwest increased by 46 cents to \$11.51/barrel while margins in the Gulf Coast fell by 41 cents to \$10.35/barrel. In the Northeast, margins increased by 23 cents to \$7.36/barrel following several weeks of declines.

Colonial Pipeline said it is freezing shipments of gasoline on the main gasoline line for cycle 32 north of a notice sent to shippers. According to a notice, the demand for space to ship gasoline for cycle 32 is approaching levels that would exceed the pipeline's ability to deliver on a five day cycle.

Citgo Petroleum Corp's 163,000 bpd refinery in Corpus Christi, Texas reported that operations at its fluid catalytic cracking unit were stable following brief flaring activity Monday morning.

BP restarted a fluid catalytic cracking unit at its 265,000 bpd refinery in Carson, California over the weekend. The unit has been shut since late May for unplanned maintenance. Los Angeles wholesale gasoline fell by 10 cents on Monday as demand fell.

Delek US Holdings said it shutdown the Shell Claus Offgas Treating unit at its 60,000 bpd Tyler, Texas refinery causing excess emissions of sulfur dioxide.

ExxonMobil Corp's 572,000 bpd refinery in Baytown, Texas experienced a compressor problem at a deasphalting unit on Saturday. The incident did not impact supplies.

Hess Corp's 70,000 bpd refinery in Port Reading, NJ exceeded emissions of permitted levels of carbon monoxide on Friday. There was no impact on production due to the incident.

ConocoPhillips' 146,000 bpd refinery in Borger, Texas reported that maintenance activity involving several units lasting seven weeks was scheduled to start over this past weekend. It is expected to perform maintenance on a fluid catalytic cracking unit, a gas oil hydro-desulfurization system and emissions control units, including a sulfur recovery unit and a shell claus off-gas treating unit. Separately, ConocoPhillips' 120,200 bpd refinery in Rodeo, California reported that the shutdown of an unidentified unit on Monday resulted in flaring activity.

Valero Energy Corp expects to restart its 235,000 bpd Aruba refinery in about 90 days after completing a turnaround. It said it will start the turnaround soon with the aim of restarting the refinery once the turnaround is complete. It shut the plant last July due to poor refining margins.

### **Production News**

Royal Dutch Shell Plc said it completed 12 weeks of maintenance work at its 155,000 bpd Athabasca Oil Sands Project in northern Alberta and added that both its oil sands mine and upgrader resumed operations.

Officials from Iraq's North Oil Co said Iraq's crude oil exports to the port of Ceyhan in Turkey were halted on Sunday due to a rupture in the pipeline. It was not clear if the halt was the result of sabotage.

Oman resumed crude exports from the Mina Fahal terminal late on Sunday after it halted its oil and gas production due to Cyclone Phet. Oman exports about 730,000 bpd of crude and condensate from the port.

An official at Iran Offshore Oil Co said Iran hopes to pump 25,000 bpd by the year's end at the offshore Hengan oilfield which it shares with Oman. The estimates for production by the end of the Iranian year in March 2011 increased to 25,000 bpd from 16,000 bpd because ten new wells have been drilled. A seabed pipeline to transfer some of Hengan's oil to Iran's Bandar Abbas port would be ready by September.

India's Oil Secretary S. Sundareshan said a panel of federal ministers in India did not take any decision on raising fuel prices and instead decided to meet again in 10 days to discuss the issue.

Qatar Petroleum has cut its crude oil official selling prices retroactively for May term supply. The price of Qatar Land crude was cut by \$6.85 to \$77.05/barrel in May while the price of Qatar Marine was cut by \$6.97 to \$75.63/barrel.

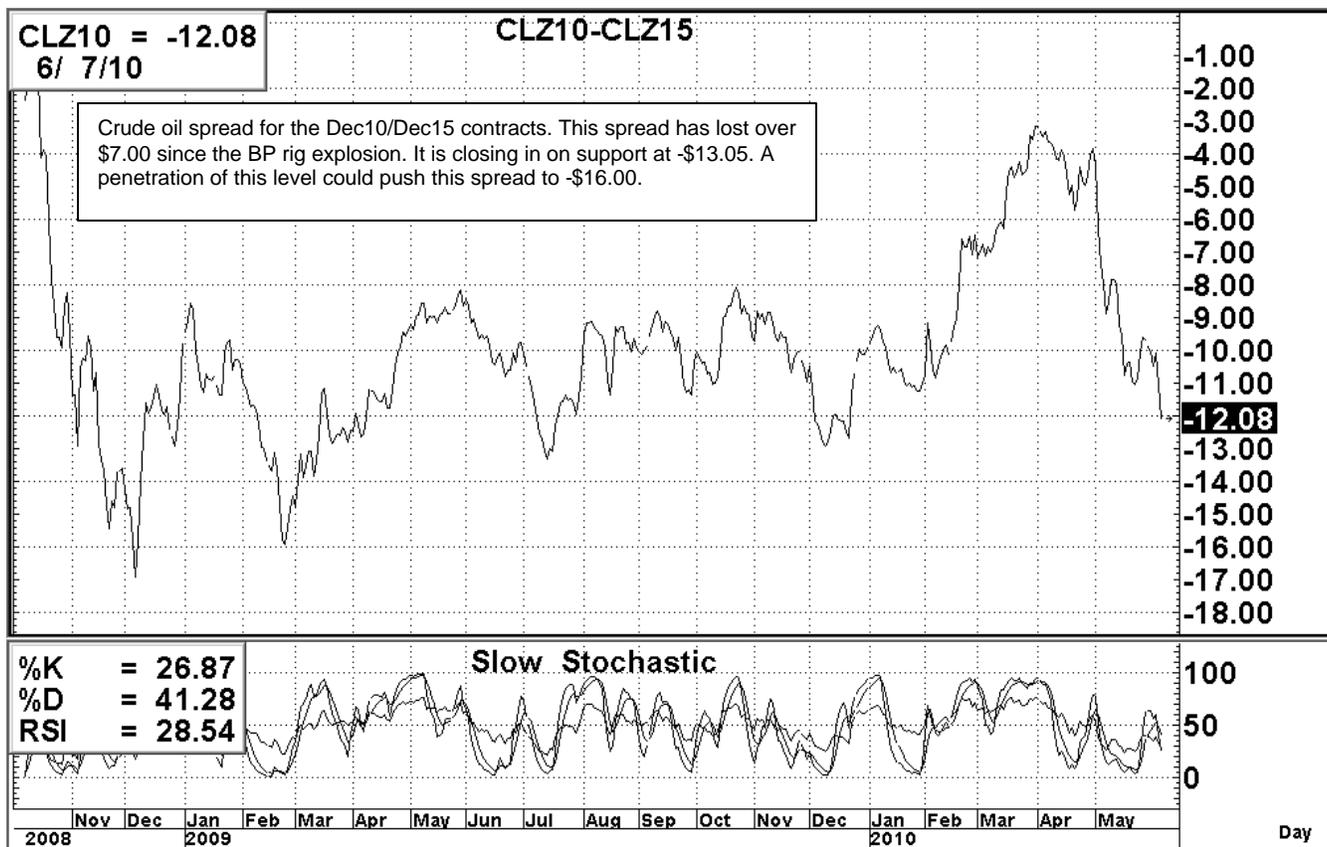
OPEC's news agency reported that OPEC's basket of crudes fell by 77 cents to \$72.09/barrel on Friday from \$72.86/barrel on Thursday. It also reported that the OPEC basket of crudes increased by \$2.84/barrel to \$71.79/barrel last week from \$68.95/barrel the previous week.

### **Market Commentary**

Crude oil traded above and below unchanged as the dollar strengthened and the euro tumbled amidst heightened concerns that the debt crisis in Europe would hinder demand. Government imposed bans on offshore drilling in the Gulf could lead to reductions in U.S. production. This has helped to prop up the back end of the forward curve as thoughts of supply shortages going forward permeate the marketplace. There have been reports that the U.S. could lose as much as 500,000 barrels per day, should production continue to be halted. The July10/December 15 crude oil spread has lost over \$7.00 as those betting or hedging against such shortages sell the July10 contract and buy the December 15 contract. This spread prior to the BP explosion was trading at -\$5.26 and is currently valued at -\$12.08. Support can be found between -\$12.95 and -\$13.05. Should this support area become violated, the next support level is at -\$16.00. From a technical standpoint, flat price crude oil should continue to come under pressure. We would look for a test at the recent low of \$67.15 as we await the release of Wednesday's inventory numbers.

Crude oil July 10 343,960 +555 Aug 10 135,265 -8,117 Sept 10 104,730 -1,821 Totals 1,350,312 -2,545 Heating oil July 10 77,948 +339 Aug 10 50,348 282 Sept 10 32,905 -24 Totals 307,937 +1,594 Gasoline July 10 86,499 -1,351 Aug 10 44,721 +125 Sept 10 38,688 -555 Totals 246,988

<b>Crude Support</b>	<b>Crude Resistance</b>
69.50, 68.63, 67.15, 65.55, 64.20, 63.38, 62.70, 61.61, 60.95	74.75, 75.72, 76.75, 78.81, 79.15, 79.75, 80.07, 81.65
<b>Heat Support</b>	<b>Heat resistance</b>
1.9200, 1.8570, 1.8280, 1.7670, 1.7565	2.1760, 2.1920, 2.3575, 2.4200, 2.4940,
<b>Gasoline support</b>	<b>Gasoline resistance</b>
1.9465, 1.8880, 1.8650, 1.6010	2.0975, 2.1700, 2.2345, 2.3240, 2.4270, 2.4850, 2.5040, 2.5115, 2.7080



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