



## ***ENERGY RISK MANAGEMENT***

Howard Rennell, Pat Shigueta &  
Zachariah Yurch

**(212) 624-1132 (888) 885-6100**

**www.e-windham.com**

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### **ENERGY MARKET REPORT FOR JUNE 12, 2006**

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Iran said it accepted some parts of the proposal but rejected other and said the key issue of uranium enrichment needed clarification. Iran's top nuclear negotiator, Ali Larijani, said his government would reject the package outright if western powers threatened the country with sanctions. Meanwhile, Iran's Foreign Ministry spokesman Hamid Reza Asefi insisted that Iran was not stalling over the package and would take as long as necessary to study it. An Iranian spokesman, Gholam Hossein Elham insisted on Iran's right to enrich uranium, expressing reluctance to suspend its nuclear program as a condition for negotiations. Separately, the UN's IAEA director Mohamed ElBaradei said the IAEA has not made much progress in resolving outstanding issues over Iran's

#### Market Watch

US Energy Secretary Sam Bodman said the US is not expecting a fall in the number of attacks on Iraq's oil infrastructure in the short term following the death of al-Qaeda's Iraq group leader Abu Musab al-Zarqawi. He said attacks from the insurgency were still occurring in Iraq. Separately, the US Energy Secretary also stated that current oil prices were too high. He said OPEC members and the US had a shared interest in lowering them.

While negotiations continue between western powers and Iran over its nuclear program, analysts worry that Iran could cut off its oil exports to the world or even try to interfere with shipments from neighboring Persian Gulf producers. Iran's exports satisfy only about 3% of the world's demand for oil. However with demand for crude increasing as the economies of China and India expand, Iran's oil is much needed. Shutting in its production would be a painful decision for Iran as the majority of the country's export revenue and nearly half of the government's budget comes from oil exports, according to the EIA. The chairman of Cambridge Energy Research Associates, Daniel Yergin said Iran's economy would be in shambles if they shut in the flow of oil. He suspects that if a confrontation developed, Iran may curtail its exports but not stop the flow completely. The US and other industrialized nations have stockpiled about 1.4 billion barrels of oil to cushion the blow from a crisis such as a confrontation with Iran. A report by the Joint Economic Committee said western countries could increase the pressure on Iran by shutting in gasoline supplies to the country.

Saudi Arabia booked a Very Large Crude Carrier on the spot market to the Red Sea in early July to carry oil destined for European buyers. Vela International Marine provisionally hired the Millennium to carry 280,000 tons loading on July 1.

BP PLC's chief executive Lord Browne said oil prices are likely to average about \$40/barrel in the medium term.

The American Trucking Associations' seasonally adjusted truck tonnage index increased for the first time in three months, increasing 2% in April. The increase in April followed falls of 2.9% in March and 3.6% in February. The seasonally adjusted index stood at 112.6, up from 110.4 reported in March. The non-seasonally adjusted index fell to 107.8 from 119.1 in March.

ICE announced that physical delivery against the expired June gas oil contract fell to 941 lots or 94,100 tons, down from 103,400 tons in May.

nuclear program. He said Iran was still resisting an investigation into its nuclear program. Diplomats said the IAEA board would debate Iran but pass no resolutions to avoid any diplomatic upset while Iran considered an answer to the proposal.

OPEC's Secretary General Mohammed Barkindo reiterated OPEC's concern that the volatile US dollar and rising inflation rates may restrain world oil demand growth. He also stated that OPEC was not overly concerned about members meeting the production quotas at the moment. His comments followed indications that some of Saudi Arabia's crude production may have gone into storage rather than exported. He said he was not aware if any member was missing their individual production quotas.

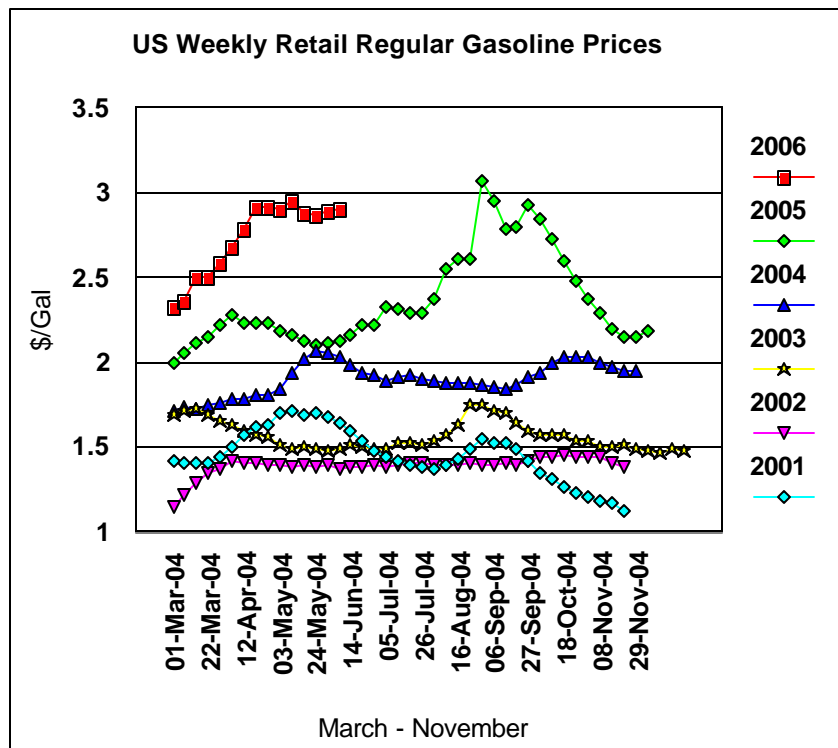
According to the Lundberg Survey, US gasoline prices were relatively flat over the past three weeks at \$2.9328/gallon. Its previous survey completed on May 19, showed the price at \$2.933/gallon.

The EIA reported that the US average retail price of gasoline increased by 1.4 cents/gallon to \$2.906/gallon in the week ending June 12<sup>th</sup>. It reported that the US average retail price of diesel increased by 2.8 cents/gallon to \$2.918/gallon on the week.

### Refinery News

Explorer Pipeline shut its mainline operations on Monday between Port Arthur, Texas and Hammond, Illinois due to a gasoline tank fire at its facility in Glenpool, Oklahoma. An apparent lightning strike ignited the storage tank. The mixed product main line going into Glenpool from the Gulf Coast and the northbound mainline would remain shut indefinitely. Explorer Pipeline operations via local delivery lines were expected to be normal.

According to a report filed with the Texas Commission on Environmental Quality, a wet gas compressor at Alon USA's refinery in Big Spring, Texas was shut for over an hour late Sunday following a lightning strike. The report did not state whether the incident impacted the refinery's throughput or production.



ExxonMobil Corp shut a hydrocracker unit at its 349,000 bpd refinery in Beaumont, Texas on Friday. The unit was shutdown after two hydrogen compressors tripped at the same time. The unit is expected to be down for 48 to 72 hours.

Valero Energy Corp's chief executive Bill Klesse said the company was no longer pursuing purchases of Lyondell-Citgo's refinery in Texas or Vitol's refinery in Newfoundland, Canada.

Colonial Pipeline said that jet fuel that tested off specification on Friday was now meeting all specification requirements. It

expects the material to meet all requirements as it makes its way to its final destination in Linden, NJ.

Italy's Saras said that plants at its Sarroch refinery in Sardinia with a total capacity of 310,000 bpd were operating at full capacity after it finished planned maintenance in May. The refinery increased hydrogen production capacity by 10% and increased throughput capacity at the continuous catalytic reformer by 5%.

Japanese refineries were operating normally following an earthquake in the western and southern areas of the country. Nippon Oil Corp, which has a combined refining capacity of 492,000 bpd, said no damage at its plants were reported. Idemitsu Kosan Co and Japan Energy Corp also stated that refining and shipping operations at their refineries in the area were not affected by the quake.

Japan's Fuji Oil restarted its 140,000 bpd crude distillation unit at its Sodegaura refinery in eastern Japan on Sunday as scheduled after a 10 day maintenance shutdown.

Japan's Cosmo Oil Co would restart the No. 2 crude distillation unit at its Chiba refinery on June 13 as scheduled. Cosmo Oil shut the 130,000 bpd crude distillation unit and related systems at its 240,000 bpd refinery after a fire broke out on April 16. The unit has been undergoing planned maintenance since May 11.

China's General Administration of Customs said the country's crude oil imports in May increased 19% on the year to 12.39 million tons or 2.92 million bpd. Shipments for the first five months of the year were up 18% on the year at 61.55 million tons or 2.98 million bpd. China's apparent demand for oil increase more than 10% in April, the fastest rate since 2004.

According to a Pertamina official, Indonesia's oil product import would fall by about 75,000 bpd to an average 375,000 bpd this year due to higher pump prices.

### **Production News**

Tropical Storm Alberto was expected to stay clear of US oil and gas rigs in the Gulf of Mexico. Meanwhile, Anadarko Petroleum Corp halted some drilling in the Gulf of Mexico due to the effects of Tropical Storm Alberto. It added that operations were likely to return to normal by Tuesday.

Shell Oil's President John Hofmeister said its Mars platform in the US Gulf of Mexico was on track to restore production to pre-Katrina levels by the end of June. The platform resumed partial oil and gas production last month.

Industry sources stated that Iraq resumed pumping oil through its northern oil pipeline to Turkey after sabotage led to a four month halt. It plans to export to world markets after enough crude is stored. Industry sources stated that at least two million barrels of crude had been stored at the export terminal in Ceyhan, so the extra barrels had lifted total volume to more than 2.6 million barrels.

The head of Nigeria's Department of Petroleum Resources, Tony Chukwueke, reiterated that Nigeria's oil production has been cut by up to 800,000 bpd due to militant attacks on oil industry personnel and facilities.

Saudi Arabia has maintained its July crude supplies steady to most of its customers. Trade sources stated that one refinery was receiving one less cargo in July than in June and believed other refiners were also receiving reduced volumes. Asian refiners, which have been receiving full contract volume for about a year, also said their July supplies were unchanged. European refining systems have said

they have been receiving about 70-75% of full contracts while industry sources in Europe said majors have been given about 75-80% of their contracted volumes.

Shell Canada Ltd said that completion of scheduled maintenance at its Athabasca Oil Sands Project would be delayed beyond its previously announced eight weeks as extra work is needed. The project is expected to restart in late June and resume full capacity by mid-July.

Norway's North Sea Gullfaks crude oil system is set to load 331,000 bpd in July, down from 342,000 bpd in June. Norway's North Sea Statfjord crude system is expected to load about 303,000 bpd in July, up from 228,000 bpd in June.

Kazakhstan's crude and gas condensate production fell by 0.7% on the year in January-May 2006 to 26.001 million tons. Kazakhstan's crude oil production increased by 3% to 23.788 million tons while gas condensate production fell by 28% to 2.212 million tons in the same period.

Norway's DNO, the first western oil company to begin exploration in post war Iraq, said it found at least 100 million barrels of oil in the Kurdish area of northern Iraq. The Kurdistan regional government called it a major discovery and said on its web site that it expected production from the Tawke field to start in early 2007, in line with earlier statement from DNO.

Malaysia's Petronas was pumping oil at 720,000 bpd and producing natural gas at 5.5 bcf/d.

Indonesia has approved the development plan for the Cepu oilfield, allowing work on its largest untapped discovery to start after years of delay. The approval would allow the project to move into the drilling phase. Peak production at the field is estimated at between 150,000 bpd and 170,000 bpd.

Ecuador's National Hydrocarbons Authority stated that crude production from fields seized by the government from Occidental Petroleum and currently operated by Petroecuador has fallen to below normal levels of 100,000 bpd. Production stood at 98,331 bpd. Petroecuador said the fall was due to routine well maintenance. Ecuador has declared a state of emergency at the oilfields. The decree for state of emergency, signed by President Alfredo Palacio, creates a ministerial commission to oversee management of the fields and allow Petroecuador to cut through bureaucratic red tape.

OPEC's news agency reported that OPEC's basket of crudes increased to \$64.85/barrel on Friday from \$63.84/barrel on Thursday.

The National Iranian Oil Co raised the official selling price of its Iranian Light crude bound for Europe to BWAVE minus \$5.90, up 55 cents on the month. Its Iran heavy was set at BWAVE minus \$7.75, up 45 cents and its Forozan crude was set at BWAVE minus \$7.65, up 45 cents on the month. Its Iranian Light crude bound for Asia was set at the Oman/Dubai average plus \$32 cents, unchanged on the month. Its Iran Heavy bound for Asia was set at the Oman/Dubai average minus \$3.09, down 7 cents and its Forozan crude was set at the Oman/Dubai average minus \$3.04, down 7 cents.

### **Market Commentary**

The oil market extended Friday's gains as traders remained concerned over Iran's nuclear stance as Iran's chief nuclear negotiator rejected any preconditions for opening negotiations over the fate of its nuclear program. The market quickly breached Friday's high of 71.80 and posted a high of 71.90 as the market was also lifted by the news of Nigeria's increased production shut in of 800,000 bpd and Tropical Storm Alberto, the first named tropical storm of the hurricane season. The market however found resistance at its high and retraced its gains. The market's gains were limited by the reports that Iraq restarted pumping on its northern pipeline following a four month halt as well as the forecasts that

the tropical storm, which gained strength, would miss the oil and gas production platforms of the Gulf of Mexico as it moves northeast toward Florida's Gulf Coast. The market traded to a low of 70.65 and held some support. However the market later sold off even further and backfilled its previous gap as it posted a low of 70.20 ahead of the close. It settled down \$1.27 at 70.36. Volume in the crude market was good with over 218,000 lots booked on the day. Meanwhile the gasoline market posted an inside trading day as it held good resistance at its previous high of 216.00. The market traded off its high and sold off to a low of 212.00 and remained range bound during the remainder of the session. The market tested its low ahead of the close once again amid the sell off in the crude market. Unlike the gasoline market, the heating oil market posted an outside trading day as it breached Friday's trading range. The market posted a high of 205.90 early in the session. However it erased its gains and extended its losses to 5.99 cents as it posted a low of 198.60 on the close. It settled down 5.46 cents at 199.13 amid the sell off in the crude market. Volume in the product markets were good with 32,000 lots booked in the gasoline market and 44,000 lots booked in the heating oil market.

The oil market will likely continue to trade lower after the market sold off sharply and settled near its low. However its losses will be limited amid the continuing concerns over Iran's nuclear stance. The market is seen finding support at 70.20 followed by 69.10 and 68.40. Meanwhile resistance is seen at 71.15

followed by 71.65 and 71.90. More distant resistance is seen at 72.65 and 73.40.

Technical Analysis		
	Levels	Explanation
CL 70.36, down \$1.27	<b>Resistance</b> 71.90, 72.65, 73.40 71.15, 71.65	Double top, Previous highs
	<b>Support</b> 70.20 69.10, 68.40	Friday's low Thursday's low, Previous low
HO 199.13, down 5.46 cents	<b>Resistance</b> 205.90, 206.25 to 206.30 200.00, 202.00	Monday's high, Remaining gap
	<b>Support</b> 198.60 195.50, 195.00, 192.50	Monday's low Previous lows
HU 212.43, down 2.85 cents	<b>Resistance</b> 218.75, 223.00 215.50, 216.00	Previous highs Double top
	<b>Support</b> 212.00 210.00, 204.50	Monday's low Previous lows