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ENERGY MARKET REPORT FOR JUNE 20, 2006

US President George W. Bush on Tuesday was heading to Vienna for an annual US-European Union summit, where he is expected to keep pressure on Iran over its nuclear program. He is expected to stress that the US and Europe must stand firm in pressing Iran to suspend its uranium enrichment program. His task at the summit is to secure European support for sanctions if Iran refused to suspend its uranium enrichment. In regards to North Korea, Secretary of State Condoleezza Rice, who is accompanying President Bush, said a North Korean missile test would be a provocative act that the US would take seriously.

Market Watch

Nigeria's military reported that unknown gunmen kidnapped two Filipino oil workers Tuesday in southern Nigeria. The two oil workers were seized near the southern oil center of Port Harcourt.

DuPont Co. and BP Plc said they were partnering to develop transportation biofuels that would help cut overall greenhouse gas emissions and reduce reliance on petroleum. The companies said they plan to launch their first product, a gasoline biocomponent called biobutanol next year in Britain. The companies are expected to work with British Sugar to convert its ethanol fermentation facility in Wisington, using sugar beet to produce 30,000 tons of biobutanol annually.

Italy's ENI said it shared Russian concern that Europe may face new shortages in gas supplies this winter if Ukraine failed to fill its underground gas storage facilities. Separately, Russia's Foreign Minister Sergei Lavrov ruled out the creation of a gas OPEC, an idea implicitly floated by Iran's President Mahmoud Ahmadinejad during a meeting with Russia's President Vladimir Putin last week.

The Commodity Futures Trading Commission is expected to hold a public hearing next Tuesday to discuss when foreign based board of trade or exchange offering electronic trading should be subject to CFTC regulations. The CFTC wants to promote regulatory clarity and determine when a foreign board of trade must register with the CFTC as a designated contract market or derivatives transaction execution facility. Currently, foreign boards of trade that want to offer electronic trading in the US ask CFTC staff for a letter saying that the agency would not launch an enforcement action. The CFTC said it may decide to have its staff continue issuing no-action letters or may adopt rules to codify the current no-action procedures.

Iran's Foreign Minister Manouchehr Mottaki reiterated that Iran was ready to begin talks over a package of incentives but without any preconditions. He said Iran wanted to obtain clarifications on the proposals. Iran has stated that enriching uranium is its country's unalienable right and that it is reviewing the package and would propose amendments to the deal.

Russian President Vladimir Putin's envoy to the Group of Eight nations said that Russia hoped the G-8 leaders would adopt a common stance on the Iranian nuclear crisis and energy security at next month's meeting. The G-8 summit is scheduled for July 15-17.

Saudi Arabia's Ambassador to the US, Turki al-Faisal said oil prices are too high even though there is sufficient supply in the market. He estimated that geopolitical concerns were adding \$20-\$30/barrel to the price of crude. He noted that a military confrontation between the US and Iran had the potential to double or even triple crude prices. He said that because all Middle East producers depend on the Strait of Hormuz to get their oil to market, military action in Iran would jeopardize the entire region's oil flow. Saudi Arabia's Ambassador to the US also stated that President George W. Bush reassured Saudi Arabia's King Abdullah that the US would continue to cooperate with Saudi Arabia on energy issues despite his previous pledge to wean the US off Middle East oil.

The EIA revised higher its estimate for world oil prices over the next two decades, predicting that there would be strong demand growth in developing countries while oil rich countries invest less in production capacity. It said robust economic growth would lead to a 71% increase in world energy consumption between 2003 and 2030. It forecast that total world energy demand would increase from 421 quadrillion British thermal units in 2003 to 722 quadrillion British thermal units in 2030. It sees adequate energy resources to meet demands but it estimated that oil share of the world market would fall from 38% in 2003 to 33% in 2030. World oil demand is projected to grow from 80 million bpd in 2003 to 118 million bpd in 2030. The additional 38 million barrels of oil needed to meet demand in 2030 compared to demand in 2003 would come mostly from non-OPEC countries. US oil demand is forecast to increase from 20.8 million bpd in 2006 to 27.6 million bpd in 2030.

Refinery News

According to a report filed with the Texas Commission on Environmental Quality, a ruptured heater tube caused emissions and a coker unit and coker heater were subsequently shut at Delek US Holdings' Tyler, Texas refinery on Monday morning. The report did not say whether the unit had been returned to service or whether the outage impacted crude throughput or production of light products.

Western Refining is on track to begin work at its 117,000 bpd El Paso, Texas refinery on June 21.

Shell Oil Co's Deer Park, Texas refinery was reducing the volume of a gasoline component, pyrolysis gas, in a storage tank ahead of repairs to its floating roof. The product in storage had leaked from a tank, resulting in the emission of gases that required area residents to remain indoors on Monday. While an investigation is underway to determine the cause of the leak, preliminary information suggests that excessive rainfall accumulated on top of the external floating roof, overwhelmed the roof drain, causing the external floating roof to tilt.

Murphy Oil Corp said its Meraux, Louisiana refinery was resuming operations at the pace the company expected. Crude oil throughput at the 125,000 bpd refinery has reached 100,000 bpd.

A 35,000 bpd gasoline making platformer at Saudi Arabia's Yanbu refinery is on scheduled to return to service in late June after it was shut in April.

Kuwait has agreed to build an oil refinery in Pakistan and officials from the two countries discussed details of the project in Islamabad. The proposed refinery would have the capacity to refine 100,000 bpd of oil.

An industry source stated that Iraq was aiming to sustain crude exports from its Kirkuk oilfield and hoped to issue a second sales tender at the end of next month. On Monday, Iraq issued its first tender to sell 6 million barrels of Kirkuk between June 27 and July 1. Total stocks in Ceyhan stood at 5.64 million barrels and pumping was continuing at 15,000 barrels per hour. The June tender would release about 200,000 bpd of Kirkuk crude, lifting overall exports to about 1.7 million bpd compared with 1.5 million bpd in May. Sources stated that there were signs that security along the northern pipeline could improve. A source in Shi'ite Prime Minister Nuri Al-Maliki government said Iraq was considering inviting members of insurgent groups to national reconciliation talks next month.

Industry officials stated that China would extend its 50,000 bpd cut in Saudi crude imports into July and August after some refiners struggled to cope with new higher sulfur supplies. China contracted to buy 500,000 bpd of Saudi crude in 2006, up 60,000 bpd from last year as it expands refineries to meet demand was forced to cut that volume by 10% in the second quarter after some refiners had to reduce operations after running the grades caused corrosion.

Separately, China's Foreign Ministry stated that China would cooperate with Saudi Arabia on developing China's strategic oil reserves as part of efforts to deepen energy ties between the two countries. These comments came after sources in China and the Gulf region said both countries were currently discussing a deal to import oil from Saudi Arabia to fill China's strategic reserves.

China is expected to export 140,000 tons of gasoline in July. Refiners have lowered gasoline exports as they look to meet increased domestic demand.

Japanese refiners are expected to cut imports of reformat gasoline in July while some are expected to skip them altogether. Traders said only one medium ranged cargo, which can carry 35,000 tons or 300,000 barrels of reformat gasoline, has been booked from Asia to Japan for July delivery. They stated that current low levels of stocks are expected to meet demand, which has been impacted by high prices and bad weather.

Thailand's Commerce Ministry reported that Thailand's crude oil imports in May fell by 28.47% on the year to 4.56 billion liters.

The head of Iran's parliament's energy commission, Kamal Daneshyar, said the government would decide by July 22 whether it would impose fuel rationing to cope with gasoline import budget restraints from September.

Glencore has expanded its fuel oil storage capacity in Asia by more than 10%. The increased storage comes in the form of a converted Very Large Crude Carrier with capacity of 230,000 tons. Since June 1, Glencore has purchased a total of 440,000 tons of fuel oil from the cash market at discounts of \$2-\$4/ton to Singapore spot 380-cst quotes.

Nippon Oil Corp and Japan Energy Corp have agreed to enter into a broad tie-up involving oil refining and distribution operations as well as oil field exploration.

Production News

Statoil AEA said its Rimfaks field should come on stream again in December after extensive installation work performed this summer. It said the Skinfaks and Rimfaks would be developed as a combined subsea facility and tie up to the Gullfaks C platform.

Venezuela's PDVSA has asked Brazil's Petrobras to remove its oil from a PDVSA owned oil storage facility in the Bahamas in order to make room for Venezuela's own crude. Petrobras has been using

tank capacity at PDVSA's BORCO terminal in the Bahamas to store some of its export crudes such as heavy Marlim crude that it sells to the US Gulf Coast market. The BORCO tank facilities have a crude storage capacity of 4 million barrels and storage capacity of 8 million barrels for products. Besides Petrobras, trading firms Westport and Vitol use the Borco oil terminal to store oil products. The two companies however have not received any notice for contract termination.

Pemex produced 3.33 million bpd of crude in May, down from 3.37 million bpd in April and from 3.44 million bpd last year. It exported an average of 1.83 million bpd of crude in May, unchanged on the month and down from 1.84 million bpd exported last year.

Ecuador's central bank reported that the country exported 12.58 million barrels in the first four months of the year, up 21% on the year. It exported 419,333 bpd in April, up 21% from 345,333 bpd reported last year. Its oil export revenues totaled \$687.56 million in April, up 73% from the \$397.83 million reported last year.

Traders reported that German consumer stocks of heating oil increased to 47% of capacity as of June 1 from 44% the previous month. The June 1 level was up from the same time last year when it stood at 45%.

OPEC's news agency reported that OPEC's basket of crudes fell by 38 cents/barrel to \$62.64/barrel on Monday.

Market Commentary

The oil market ended the session slightly lower as traders liquidated their positions ahead of the July contract's expiration and Wednesday's release of the weekly petroleum stock reports. The crude market opened up 32 cents at 69.30 in follow through strength seen in overnight trading. The market quickly posted a high of 69.85 before it retraced its early gains and settled in a sideways trading pattern. The oil market however breached its early low at 69.30 and sold off to a low of 68.55. It however bounced off that level after it failed to test its previous lows and traded back towards the 69.00 level ahead of its expiration at the close. The July crude contract settled down 4 cents at 68.94. The August crude contract settled down 21 cents at 69.34 after the market posted a range from 70.20 to 68.85. Volumes in the crude market were light with 161,000 lots booked on the day. Meanwhile, the product markets ended in positive territory, with the gasoline market settling up 1.42 cents at 200.56 and the heating oil market settling up 1.26 cents at 190.74. The gasoline market opened up 1.26 cents at 200.40 and rallied to a high of 203.40 despite the expectations of gasoline stocks builds in the weekly petroleum stock reports. The market later erased its gains and sold off to a low of 198.50 before settling in a sideways range ahead of the close. The light volume in the market added to the

volatility. The heating oil market also opened up 1.02 cents at 190.50 and quickly extended its gains to over 3.5

Technical Analysis		
	Levels	Explanation
CL 69.34, down 21 cents	Resistance 70.40, 70.65 to 70.90	Previous high, Remaining gap (June 13th)
	69.50, 70.20	Tuesday's high
	August	
	Support 69.10, 68.85	Tuesday's low
HO 190.74, up 1.26 cents	68.75, 68.60, 68.10	Previous lows
	Resistance 194.25, 196.00, 196.25 to 198.60	Previous highs, Remaining gap (June 13th)
	192.00, 193.00	Tuesday's high
	Support 189.80	Tuesday's low
HU 200.56, up 1.42 cents	188.70, 188.00, 187.75, 187.25	Previous lows
	Resistance 203.40, 205.00, 207.50	Tuesday's high, Previous highs
	201.00, 201.75	
	Support 198.50	Tuesday's low
	196.50, 194.80, 194.50	Previous lows

cents as it rallied to a high of 193.00. The market however erased its gains and sold off to a low of 189.80. The market later traded in a range from 190.00 to 192.00 ahead of the close despite the expectations that Wednesday's DOE report would show builds in distillate stocks. Volumes in the product markets were light with 25,000 lots booked in the gasoline market and 39,000 lots booked in the heating oil market.

The oil market on Wednesday will seek further direction from the weekly petroleum stock reports, which are expected to show builds in product stocks once again. The oil market is seen testing its support amid the continuing builds in stocks. The market is seen finding support at 69.10, 68.85 followed by 68.75, 68.60 and 68.10. Meanwhile resistance is seen at 69.50, 70.20 and its previous high of 70.40. More distant resistance is seen at its gap from 70.65 to 70.90.