



ENERGY RISK MANAGEMENT

Howard Rennell, Pat Shigueta &
Zachariah Yurch

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

www.e-windham.com

ENERGY MARKET REPORT FOR JUNE 23, 2006

Iran's Oil Minister Kazem Vaziri-Hamaneh said it was ready to use its oil exports as a weapon to defend itself and added that using the oil weapon would be

advantageous to Iran in times of threats. However he stated that using such a weapon in the normal situation in the country and oil markets would mean confronting the world. He said international sanctions on 2.5 million bpd of Iranian crude exports would be impractical and would send oil prices over \$100/barrel, up from about \$70/barrel. Separately, Iran's Oil Minister said the country could ration gasoline at less than 5 liters/day starting in September. However he stated that Iran would keep prices heavily subsidized to ward off inflation. Iran lacks refinery capacity and imports more than 40% of the 70 million liters or 440,000 barrels of gasoline it consumes each day. The government is due to issue its final decision on gasoline rationing this week.

Market Watch

Saudi Arabia has booked a ninth Very Large Crude Carrier to the US and Europe in July, increasing shipments for the month to 18.5 million barrels. It booked the Sanko Unity, which is expected to load from Ras Tanura to the US Gulf on July 7.

Qatar's Oil Minister Abdullah al-Attiyah said OPEC's decision of whether to alter its current production policy at its next meeting in September would depend on what oil prices are doing at the time. He said OPEC should not change its crude production policy while prices are above \$50/barrel. OPEC is scheduled to meet in Vienna on September 11.

The DOE reported that the US average retail price of gasoline fell by 0.2 cents/gallon to \$2.869/gallon in the week ending June 26. It also reported that the US average retail price of diesel fell by 4.8 cents/gallon to \$2.867/gallon on the week.

The EIA reported in its Petroleum Supply Monthly that US oil demand averaged 20.182 million bpd in April, slightly higher from 20.179 million bpd reported last year. It reported that gasoline demand increased by 13,000 bpd on the year to 9.14 million bpd while distillate demand fell by 37,000 bpd on the year to 4.069 million bpd. The EIA also reported that US crude oil imports averaged 9.832 million bpd in April, down 4.7% on the year. Canada remained the top supplier of US crude imports in April, with 1.71 million bpd imported from Canada. Mexico was the second largest supplier of crude to the US, with 1.601 million bpd while Saudi Arabia supplied 1.582 million bpd of US crude imports. Venezuela supplied 1.171 million bpd.

Refinery News

The US Coast Guard reported that 30 vessels remained trapped by the closure of the Calcasieu Ship Channel following an oil spill last week. It said some relief may come later on Monday if an outbound shipping lane is reopened. The clean up of the 15,000-18,000 barrel oil spill is expected to last until about mid-week. The Calcasieu Ship Channel is expected to remain shut two to four more days. Meanwhile, the Intracoastal Waterway was opened Saturday to barge and tug traffic.

Separately, Calcasieu Refining Co was operating its refinery at about 22,000 bpd due to the closure of the Calcasieu Ship Channel. It said the refinery shut its new coker, rated at 60,000 bpd and was running its older 25,000 bpd coker at 22,000 bpd in order to keep the refinery running until the ship channel reopens.

ConocoPhillips' 250,000 bpd refinery in Lake Charles, Louisiana has been operating at minimal rates after the Calcasieu Ship Channel was closed last week. ConocoPhillips's spokeswoman would not elaborate on how much crude run rates had been reduced at the refinery.

Lyondell-Citgo's 268,000 bpd refinery in Houston released gases, including methane and ethane, from its fluid catalytic cracking unit early Sunday. The cause of the release was being investigated.

ExxonMobil said its refinery in Torrance, California flared briefly in the early morning after a compressor malfunction.

A unit furnace for a catalytic gasoline hydrotreating unit at Deer Park Refining LP's refinery in Deer Park, Texas was down for 12 hours on Sunday after it tripped.

Shell Oil Co's Deer Park Chemical Plant temporarily reduced the processing rate of an ethylene and propylene producing unit after a malfunction.

According to a report filed with the Texas Commission on Environmental Quality, a pollution control unit at ExxonMobil Corp's Baytown, Texas refinery suffered two upsets Saturday that caused two emissions of acid gas.

Delek US Holdings reported emissions and a smoke condition at its 60,000 bpd Tyler, Texas refinery following a brief, storm related, shutdown of three process units on Saturday. A storm caused a power failure that shut the No. 2 fluid catalytic cracking unit on two occasions for a total of 25 minutes and resulted in the temporary shutdown of the sulfur recovery and amine units.

Suncor Energy has completed a \$445 million upgrade to its 90,000 bpd Commerce City, Colorado refinery, which would allow the facility to meet new specifications for producing ultra-low sulfur diesel. The upgrade would also improve the refinery's environmental performance and allow it to take a broader crude slate.

ConocoPhillips said it hoped to acquire refining assets in Iraq as security in the country becomes more stable. Even though ConocoPhillips' chief executive James Mulva could not forecast when Iraq would be stable enough for ConocoPhillips to establish a greater presence there, he was optimistic that it would be soon.

China's oil demand growth increased to 13.5% in May to 6.5 million bpd as refiners increased their output and cut exports ahead of a domestic price increase to meet peak summer demand. However some analysts warned that the second half of the year could see a slowdown as China moved to cool down its economy and consumers feel the impact of higher prices. China's crude imports increased by 20.5% in May to 12.39 million tons or 2.92 million bpd. Crude imports for the first five months of the

year were up 17.9% at 2.98 million bpd. China's light diesel imports in May totaled 15,492 tons, 38.8% less than in the same month of 2005 while fuel oil imports increased 53.2% to 2.48 million tons. Meanwhile China's gasoline exports fell by 60.6% at 264,579 tons while exports of light diesel fell by 40.2% to 79,123 tons.

Indonesia's Pertamina estimated subsidized fuel demand would fall to about 39 million kiloliters or 245 million barrels in 2006, down 34% on the year. The country consumed 59.3 million kl or 373 million barrels of subsidized oil products last year.

India's Oil and Natural Gas Corp Ltd said it planned to bring up to two cargoes of Sakhalin crude to India in the last quarter of 2006.

The ExxonMobil said its Sakhalin-1 project is on schedule to start oil exports in August, denying a report that it had been delayed. Sources stated the first export cargo was due to arrive at a refinery operated by Japan's TonenGeneral Sekiyu KK in mid-August.

Production News

Iraq's Oil Minister Hussain al-Shahristani said Iraq's oil production reached 2.5 million bpd and that Iraq hoped to rival top oil exporter Saudi Arabia within a decade. He said Iraq's oil production is expected to reach 2.6 million bpd to 2.7 million bpd by the end of the year, increasing to about 4 million bpd by 2010 and 6 million bpd by 2012.

The head of Iraq's State Oil Marketing Organization, Falah Alamri said ExxonMobil and Turkey's Tupras won Iraq's Kirkuk tender, taking 2 million barrels each. He said the 2 million barrels sold to ExxonMobil was priced at WTI minus \$8.15 while the 2 million sold to Tupras was priced at dated Brent minus \$6.55, loading between June 27 and July 1. Iraq also issued another tender for 6 million barrels for loading in the period ending July 7. Separately, an Iraqi oil official said that there was about 7.3 million barrels of Kirkuk crude stored at Ceyhan, including the 4 million barrels sold to ExxonMobil and Turpas. Meanwhile, Iraq's crude oil exports from its southern oil fields over the past 26 days of June increased 2.6% to 1.54 million bpd compared with 1.5 million bpd in May. An official said crude oil production from the south increased in June to about 1.85 million bpd from 1.75 million bpd in May.

Norway's Statoil ASA said discoveries and new prospects near Norne would mean that the field would likely continue producing longer than previously expected. The field is likely to continue producing until 2020.

The Oasis Group operating in Libya expects to increase its crude oil production capacity by 200,000 bpd over the next few years. Currently, the Waha concession, being developed by Oasis, produces 350,000-375,000 bpd.

Petroecuador said it would tender 2 million barrels of Napo crude oil extracted from oil fields once owned by Occidental Petroleum next month. Petroecuador's administrative board decided to auction five shipments of 400,000 barrels and would take offers until Thursday. However Energy Minister Ivan Rodriguez said the auction would move ahead only if the Andean country was not able to reach a deal with Venezuela to swap oil extracted from Occidental fields for petroleum based products.

Russia's Lukoil has expanded its Baltic Sea outlet of Vysotsk to full capacity of 12.5 million tons a year, which would allow for increased exports of diesel and fuel oil.

Nigerian kidnappers freed two Filipino oil workers on Sunday, five days after seizing them in the southern Niger Delta.

Algeria's Sonatrach set the official selling price for its Saharan Blend crude in July at Dated BFO plus 20 cents, unchanged from June.

OPEC's news agency reported that OPEC's basket of crudes increased by 4 cents/barrel to \$64.40/barrel on Friday.

Market Commentary

The oil market opened down 37 cents at 70.50 and quickly sold off to a low of 70.40 despite the report that China's implied oil demand increased 13.5% on the year in May. Meanwhile, Iraq's Oil Minister said the country's oil production recovered to 2.5 million bpd and would rival Saudi Arabia within a decade. However the crude market bounced off its low and never looked back amid the strength in the gasoline market. The markets were supported as the Calcasieu Ship Channel remained shut to traffic since last week while clean up of an oil spill continued. The crude market extended its gains to over a \$1 as it rallied to a high of 71.90. The market traded in a range from 71.60 to 71.90 and settled up 93 cents at 71.80. Volume was better today but still light, with 167,000 lots booked on the day. The gasoline market, which lent much support to the complex, settled up 5.12 cents at 217.88. The gasoline market opened at its low of 212.30 and quickly bounced off that level. The market held good support at 212.50 and rallied over 6 cents as it traded to a high of 218.90 in afternoon trading. The market was well supported by the continued closure of the Calcasieu Ship Channel that was causing refineries in the Lake Charles, Louisiana refinery to operate at reduced rates while reports of other refineries problems also helped support the market ahead of the close. Meanwhile, the heating oil market settled up 1.63 cents at 197.89. The market opened relatively unchanged and posted a low of 194.40. However the market bounced off its low and rallied to a high of 200.00 amid the gains in the gasoline market before it retraced more than 38% of its earlier gains ahead of the close. Volumes in the heating oil market were better today with 43,000 lots booked in the gasoline market and 50,000 lots booked in the heating oil market.

Technically, the oil market on Tuesday will remain supported after the market ended near its high. The market will also remain supported by the strength in the gasoline market in light of the refinery problems. The crude market is seen finding support at 71.45, 71.00 followed by its low of 70.40 and 70.05. Meanwhile resistance is seen at 71.90 followed by 72.55 and 72.80.

Technical Analysis		
	Levels	Explanation
CL 71.80, up 93 cents	Resistance 72.55, 72.80 71.90	Previous high, 50% retracement(76.85 and 68.75) Monday's high
	Support 71.45, 71.00 70.40, 70.05	Monday's low, Previous low
HO 197.89, up 1.63 cents	Resistance 200.40, 203.16, 205.90 200.00	50% and 62% retracement (212.10 and 188.70), Previous high Monday's high
	Support 197.50, 196.00 194.40, 193.10	Monday's low, Previous low
HU 217.88, up 5.12 cents	Resistance 223.00 218.90	Previous high Monday's high
	Support 216.25, 214.25 212.30, 211.00	Monday's low, Previous low