



## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR JUNE 30, 2010**

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Russia's Foreign  
Minister Sergei  
Lavrov said the  
international  
community has left  
the door open for Iran  
to resume diplomatic  
talks on its nuclear  
program.

#### **Refinery News**

The US Coast Guard  
said Houston Ship  
Channel traffic was  
halted by ship pilots  
due to high seas at  
the Gulf of Mexico  
entrance caused by

Hurricane Alex. Fourteen ships were waiting to enter the waterway. Separately, the Louisiana Offshore Oil Port decided to shut down on Tuesday night due to rough seas. Customers were not expected to be affected by the shutdown because deliveries would continue from onshore storage. Vessel pilots also halted ship traffic at Lake Charles, Louisiana due to Hurricane Alex. However tanker traffic continued at Corpus Christi and Sabine Pass, Texas.

The first shipment of crude from Canada's oil sands through TransCanada Corp's Keystone pipeline arrived in the US on Wednesday, marking the start of a major expansion of oil sands imports into the US. It is delivering 435,000 bpd of Canadian oil sands crude to Illinois refineries. On Friday, the US State Department will finish hearing public comment on the last phases of the project, which would extend the pipeline to Gulf Coast refineries and expand the flow to 1.1 million bpd from 435,000 bpd by 2013.

#### **DOE Stocks**

**Crude** – down 2.007 million barrels  
**Distillate** – up 2.457 million barrels  
**Gasoline** – up 537,000 barrels  
**Refinery runs** – down 1%, at 88.4%

#### **Market Watch**

The US National Hurricane Center said Hurricane Alex continued to move across the southwest Gulf of Mexico and will make landfall in northeast Mexico Wednesday night. The NHC expects Hurricane Alex to strengthen into a weak Category 2 hurricane with winds of 96-100 mph just before striking the coast and dissipating as it moves inland on Thursday and Friday.

According to a firm that predicts catastrophes, Risk Management Solutions, disaster models suggest a 7% chance of an intense storm of Category 3 or higher hitting Gulf oil spill. While a direct hit is the worst case scenario, a storm passing within 100 miles of the oil spill has the potential to bring waves that break protective booms and allow the oil to be displaced into coastal salt marshes and beaches above the tide line.

According to a national employment report published by ADP, private sector jobs in the US increased by 13,000 in June compared with market expectations of an increase of 60,000. The estimate change in employment for May was revised to a gain of 57,000 from a previously reported increase of 55,000.

Shell Oil Co said a catalytic reformer unit at its 145,000 bpd Anacortes, Washington refinery was repaired and resumed operations. It said operations were normal following the restart of the unit, which was shut due to a fire on June 19<sup>th</sup>.

The US Environmental Protection Agency told Texas pollution regulators that flexible permits issued by the state since 1994 for refineries, chemical plants and power plants did not meet the standards set by the US Clean Air Act. The plants have continued operating under the permits as the EPA and the Texas Commission on Environmental Quality work to resolve the dispute which started in September. The EPA is disapproving the permit program after determining that it allows companies to avoid certain federal clean air requirements by lumping emissions from multiple units under a single cap rather than setting specific emission limits for individual pollution sources at their plants.

**June  
Calendar Averages**  
**CL- \$75.40**  
**HO – \$2.0491**  
**RB – \$2.0806**

Poet, the largest US ethanol producer, purchased an ethanol plant in Cloverdale, Indiana, that is expected to come on line by April 2011 with a production capacity of 90 million gallons a year. The plant would increase Poet’s annual ethanol production capacity to about 1.7 billion gallons.

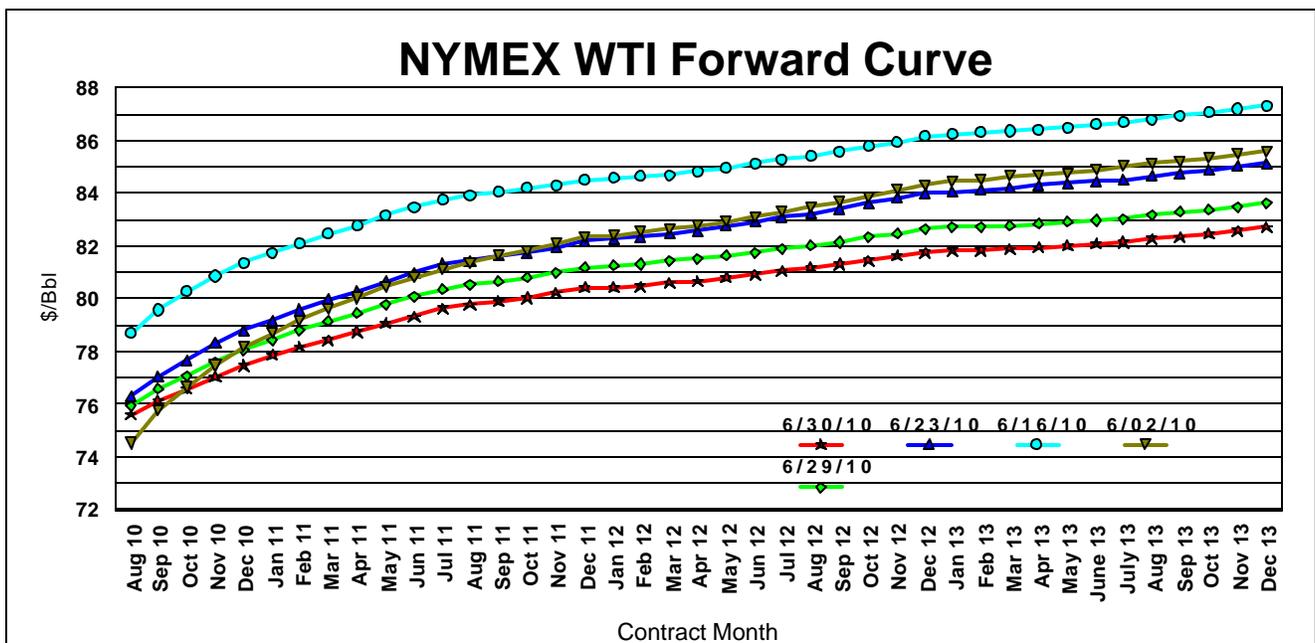
Suncor Energy Inc is restarting its 135,000 bpd Edmonton refinery after it was shut on Tuesday following a power outage. It said the shutdown had no impact on its ability to meet customer demand.

Royal Dutch Shell Plc said the last would-be buyer of the Montreal East refinery has withdrawn from talks. It said it is proceeding with plans to convert the 130,000 bpd refinery into a fuel terminal. It said the refinery will continue to produce refined products until September.

Total said its Lindsey refinery in Britain shut units affected by a fire and explosion on Tuesday. The fire started at its 200,000 bpd crude distillation unit on Tuesday afternoon.

A French court ordered Total to restart its Dunkirk refinery within 15 days or else pay a \$122,400 fine. The French CGT union said if Total did not abide by the court ruling, it would call for a strike at the group’s six French refineries. The CGT went to court in mid-March after Total announced it would permanently close the refinery, arguing that Total had violated the union’s right to legal information about the plant’s closure.

South Korea’s GS Caltex on Tuesday shut a 155,000 bpd No. 2 crude distillation unit for 10 days of maintenance.

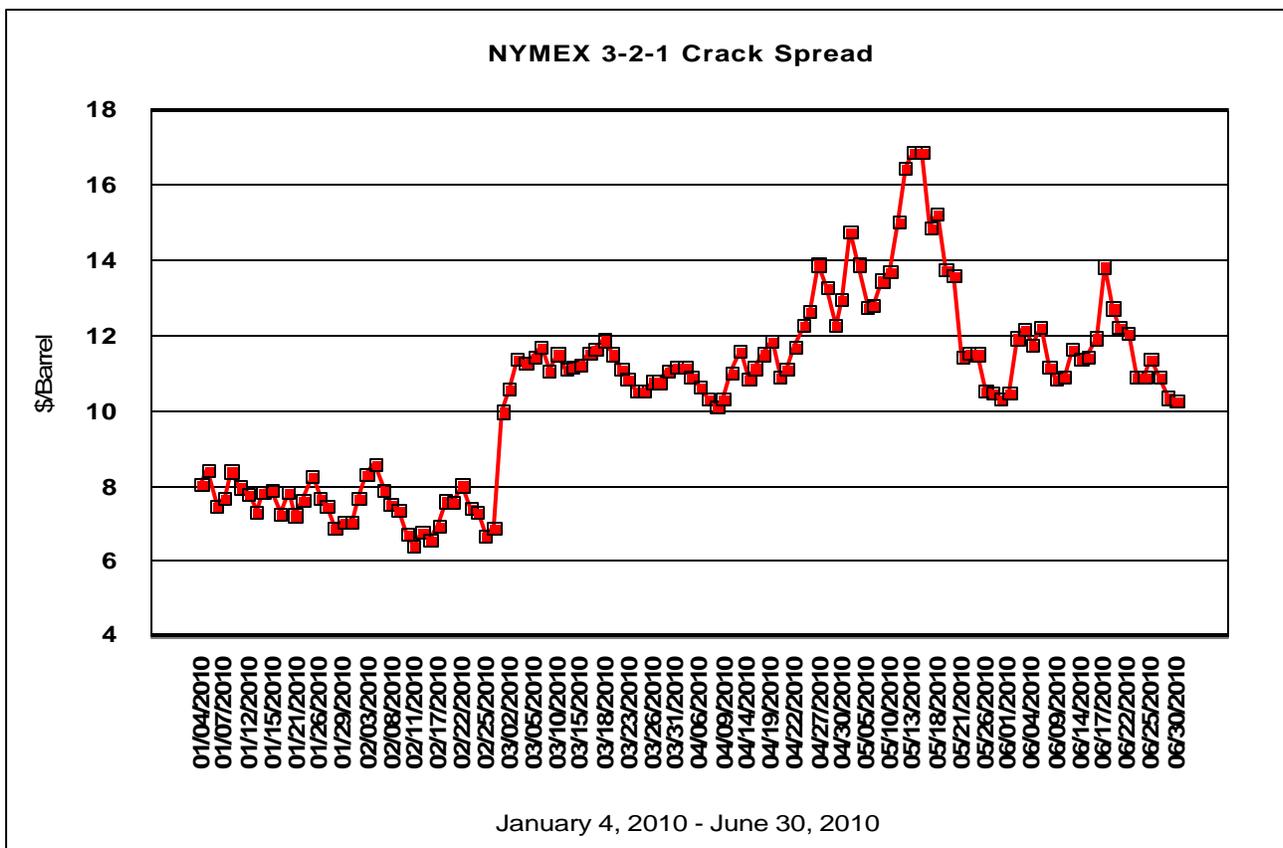


South Korea's refiners are expected to process 2.23 million bpd of crude in July, down 2% on the month due to heavy maintenance shutdowns. The volume equates to 79% of refiners' total capacity.

Japan's Showa Shell Sekiyu plans to refine a total of 8.1 million kiloliters or 554,000 bpd of crude in July-September, up 1% on the year. Its refining volume to meet domestic demand is expected to fall by 5% to 6.75 million kl while volumes for exports are expected to increase by 50% to 1.35 million kl.

The Petroleum Association of Japan reported that the country's crude throughput increased by 6.4% to 3.46 million kiloliters or 3.1 million bpd in the week ending June 26<sup>th</sup>. It reported that crude inventories fell by 1.44 million barrels on the week and by 10.03 million barrels on the year to 98.71 million barrels. Japan's gasoline stocks fell by 450,000 barrels on the week but increased by 290,000 barrels to 14.28 million barrels while its kerosene stocks fell by 590,000 barrels on the week and by 3.48 million barrels on the year to 10.52 million barrels and naphtha stocks fell by 930,000 barrels to 11.64 million barrels. The PAJ also reported that Japan's total oil product sales in the week ending June 26<sup>th</sup> increased by 13% on the week but fell by 7.5% on the year to 2.82 million bpd. Japan's gasoline sales fell by 3.5% on the week and by 8.2% on the year to 870,000 bpd while gas oil sales increased by 30.7% on the week and by 16% on the year to 710,000 bpd and kerosene sales increased by 43.4% on the week and by 72.2% on the year to 260,000 bpd. Japan's naphtha sales increased by 33% on the week but fell by 10.4% on the year to 390,000 bpd while jet fuel sales fell by 81.3% on the week and by 81.7% on the year to 25,000 bpd.

Japan's Ministry of Economy, Trade and Industry reported that Japan's oil product sales in May fell by 1.1% on the year to 14.13 million kiloliters or 2.9 million bpd. Japan's gasoline sales in May fell by 1.2% on the year to 4.66 million kl. It was the first decline in four months. It also reported that Japan's overall oil product output fell by 1.7% on the year to 14.99 million kiloliters in May. Japan's crude oil imports in May increased by 1.8% on the year to 17.04 million kl or 3.46 million bpd.



China's Sinopec Group plans to complete building a 20 million barrel crude reserve base in southwestern China's Beihai by September 2011. The size of storage, equivalent to four days of China's crude imports, will also be used for system operations for a planned 200,000 bpd refinery Sinopec plans to build in the area. China will increase its refined fuel storage space by nearly 50% to 490 million barrels by 2015 from 2009.

Saudi Aramco plans to award deals to build a 400,000 bpd oil refinery in Yanbu in the coming days. The refinery would account for 25% of Saudi Arabia's plans to add about 1.7 million bpd of refining capacity to the current 2.1 million bpd. It previously stated that it would proceed with the project even after ConocoPhillips withdrew in April.

Russia's Energy Ministry reported that Russia's gasoline exports in May increased by 4.2% on the month to 174,200 tons while its gasoil exports increased by 5.4% to 2.581 million tons and its fuel oil exports fell by 2% to 3.769 million tons.

### **Production News**

The US Bureau of Ocean Energy Management, Regulation and Enforcement said producers have shut in 26.3% of oil output and 14.4% of natural gas production in the Gulf of Mexico due to Hurricane Alex. It said 421,350 bpd of oil and 919 mmcf/d of natural gas production have been shut in.

ExxonMobil Corp said as of Tuesday afternoon it had shut in gross production of about 10,000 bpd of liquids and 146 million cubic feet/day of natural gas in the Gulf of Mexico ahead of Hurricane Alex. It evacuated personnel from the facilities expected to be in the path of the storm. Meanwhile, Anadarko Petroleum said four deepwater facilities in the western Gulf of Mexico have been shut in and personnel have been evacuated due to Hurricane Alex. It did not disclose the amount of production affected due to the storm. Separately, BP Plc said it is restarting three oil and gas platforms in the Gulf of Mexico that were shut due to Hurricane Alex.

Mexico's Transport Ministry reported that the oil export terminal of Dos Bocas and Cayo Arcas reopened on Wednesday after the ports were closed on Sunday ahead of Hurricane Alex.

Norway's Statoil ASA said production has resumed at its North Sea Troll oil and gas fields following a small gas leak on Tuesday. Production was halted at Troll A following the leak and output was reduced at Troll B and Troll C. It said production was ramping back to normal levels.

Canadian Natural Resources Ltd said it expects June production volumes at its Horizon oil sands project to increase sequentially. It expects June production at Horizon to range between 116,000 bpd and 118,000 bpd. It also stated that it expects stable production levels of about 110,000 bpd of Synthetic crude for the remainder of 2010.

Venezuela's PDVSA said that oil spills in the country's Lake Maracaibo were under control and that clean up operations would be completed within a month. PDVSA's Environmental Director Ramiro Ramirez said there had been leaks at five flow stations in the lake's Urdaneta field and blamed them on thieves vandalizing the installations to steal power cables and other equipment.

Saudi Aramco set its July contract price for propane at \$615/ton, down \$55 from the June level. It also lowered its July butane price by \$45 to \$625/ton in July.

OPEC's news agency reported that OPEC's basket of crudes fell to \$72.69/barrel on Tuesday from \$74.80/barrel on Monday.

### **Market Commentary**

Today's market activity discounted the larger than expected decrease in crude oil inventories as the focus was put on inventory builds in both gasoline and distillates. Crude oil fell 2.01 million while expectations were calling for a decrease of 1 million barrels. Gasoline, which increased 537,000 barrels, was expected to decline by 400,000. Distillates increased 2.46 million barrels, much higher than the expected 950,000. These numbers can be seen as bearish for the overall market despite the 2 million decrease in crude oil. With product stocks increasing at a time when demand is still sluggish there is no indication of an immediate need for crude oil. The surprising builds in product inventories caused 3-2-1-crack spread basis the spot month contract to fall to its lowest level since March 1. We would look for this spread to react on a day-to-day basis but given the current supply/demand situation, we do not expect it to sustain any strength it may gain. Crude oil settled lower on the day, making this the first quarterly sell-off since 2008. With the stock market taking a beating and the dollar strengthening, we would look for additional downside pressure on prices however, with the long weekend upon us, we wouldn't look for too many shorts to go home that way.

Crude oil Aug 10 301,017 -4,829 Sept 10 158,057 +2,292 Oct 10 58,859 -109 Totals 1,259,675 -1,166 Heating oil Aug 10 85,095 +3,467 Sept 10 44,175 -465 Oct 10 25,768 +1,153 Totals 307,421 -1,348 Gasoline Aug 10 78,428 +2,145 Sept 10 52,712 -1,096 Oct 10 24,489 +638 Totals 226,538 -9,959

Crude Oil		Heating Oil		Rbob	
Support	Resistance	Support	Resistance	Support	Resistance
	7722	19230	21200	18890	21925
7439	7938	18480	21510	18420	24880
7360	8113	18365	21780	18260	27085
7181	8369		21905	18120	27900
7002			23820		