



## ***ENERGY RISK MANAGEMENT***

Howard Rennell, Pat Shigueta &  
Zachariah Yurch

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

**[www.e-windham.com](http://www.e-windham.com)**

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### **ENERGY MARKET REPORT FOR AUGUST 1, 2006**

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Iran rejected the latest UN resolution, saying it would only make negotiations more difficult concerning incentives offered in June for a suspension of its uranium enrichment. The resolution, passed on Monday, would require Iran to suspend its uranium enrichment by August 31 or face economic and diplomatic sanctions. Iran's President Mahmoud Ahmadinejad rejected the UN Security Council resolution. He instead stated that Iran would pursue its nuclear program and added that Iran would not give into threats from the UN. Meanwhile, China welcomed the UN resolution and promised to try to help restart talks. China's Foreign Ministry called for calm and restraint to pave the way to early resumption of talks.

#### **Market Watch**

Lebanon was working to secure fuel imports as part of UN humanitarian aid convoys and from Syria to avert shortages. Syria has agreed to supply Lebanon with petrol from its strategic reserves to compensate for the shortages. However it is not clear how much Syria would supply or how it would be transported across the border. The distribution of petrol has been capped at 1.2 million liters/day in order to make it last as long as possible.

Japan said that its project to develop Iran's Azadegan oil field would not deter the country from demanding that Iran give up its nuclear activities. A government official stated that the two issues were separate and would not affect each other.

Credit Suisse increased its oil price forecast for the second half of 2006 to \$70/barrel and also increased its estimate for 2007-2009 by 18% to \$65/barrel.

Israel's Deputy Prime Minister Shimon Peres is expected to meet US Secretary of State, Condoleezza Rice, at the State Department late Tuesday and separately, national security adviser Stephen Hadley. President George W. Bush has been pressing for a UN resolution linking a ceasefire between Israel and Hezbollah with a broader plan for peace in the Middle East, despite increasing international pressure for an immediate ceasefire. Earlier, Israeli airstrikes hit Shi'ite villages in Lebanon on Tuesday and also struck Hezbollah strongholds deep inside the country and other civilian areas along the Mediterranean coast. Israel's Cabinet late Monday also approved a major expansion of its ground offensive. Israel's Defense Minister Amir Peretz said Israel would target every vehicle carrying weapons from Syria into Lebanon. A Lebanese government official said security and stability could only be achieved by an Israeli withdrawal from occupied Lebanon territory. Iran's Foreign Minister Manouchehr Mottaki condemned the UN Security Council for failing to stop the Israel-Hezbollah conflict. He said the UN Security Council has proven its uselessness and ineffectiveness. He also accused the US of complicity. Meanwhile Syria's President Bashar al-Assad called on his army to increase its readiness to cope with regional challenges. Syria has previously warned of a firm and immediate retaliation for any possible Israeli attack on its territory. Syria's President said the country was determined to support Lebanon and would not back down under international pressure.

The chairman of Iran's parliament's Energy Commission stated that OPEC was acting contrary to its founding charter by trying to lower the price of crude through increased supply.

### **Refinery News**

An emissions event at ConocoPhillips' 229,000 bpd refinery in Sweeny, Texas on Monday initiated a filing with the Texas Commission on Environmental Quality.

Valero Energy Corp expects work at two of its Gulf Coast refineries to end on August 8. A coker at the company's Texas City refinery, which has been down due to a problem with a wet gas compressor and a fluid catalytic cracking unit at Valero's St. Charles, Louisiana refinery are expected to resume operations on August 8. Separately, it stated that it would shut a 40,000 bpd fluid catalytic cracking unit at its Lima, Ohio refinery for 30-35 days of work starting in September. A 33,000 bpd coking unit at its Aruba refinery would also be shut for 46 days of maintenance while its 110,000 bpd crude unit and 58,000 bpd hydrotreater would also be shut for 28 days and 35 days, respectively. It is also expected to shutdown a 65,000 bpd fluid catalytic cracking unit at its 80,000 bpd Houston, Texas refinery for 28 days in October. Valero stated that completion of an expansion project at its Port Arthur, Texas refinery has been postponed until November. The project would add 75,000 bpd of heavy crude processing capacity to its 250,000 bpd refinery.

Operations at PDVSA's Hovensa refinery in St. Croix were normal as company officials watch for further developments of Tropical Storm Chris.

Shell's Pernis refinery suffered a fire on July 29 as a result of a naphtha leak. A refinery source said the fire was put out quickly and did not impact production at the 412,000 bpd Pernis refinery.

Industry sources stated that Iraq's northern oil export pipeline was sabotaged on Monday, delaying the restart of exports. However an Iraqi Oil Ministry official said only that more time was needed to complete maintenance work on the pipeline. Meanwhile, auditors with the Special Inspector General for Iraq Reconstruction said Iraq's oil construction progress has remained hampered by the security situation, corruption and poor project implementation. It stated that corruption threatened Iraq's capacity to fund new capital investments and its ability to sustain and increase production. It stated that a project to build an oil pipeline in northern Iraq from Kirkuk to Baiji has fallen more than two years behind schedule. The pipeline is intended to replace an old pipeline that has been leaking for years. They concluded that even when the project is complete, there is no way of knowing whether it would actually be an improvement because reconstruction officials have not been monitoring its progress.

Shipping sources stated that Iraq's oil exports increased for the third consecutive month in July to the highest level since October 2004. Its exports in July increased to 1.7 million bpd, up from 1.62 million bpd.

Japan's Showa Shell Sekiyu said it shut a 61,000 bpd residual fluid catalytic cracker at its Yokkaichi plant for two weeks due to technical problems.

Sinopec Maoming Refining & Chemical Co completed building a 1.2 million ton high quality gasoline reformer unit. The reformer is scheduled to be operational in August. The company's upgrading plan also included a 2.6 million ton diesel production facility, which was completed on Friday and is expected to be operational soon.

The Caspian Pipeline Consortium said its oil shipments increased by 12.8% or 79,000 bpd to 696,000 bpd in July from 617,000 bpd in June.

Russian refined products exports fell in June following lower refining runs in May. Russia exported 2.864 million tons of fuel oil in June, down 8.4% from May while gasoline exports fell by 4.9% to 587,000 tons and gas oil exports fell by 1.7% to 2.874 million tons. Russian refineries processed 4.23 million bpd in June, up from 4.15 million bpd in May.

Russia would most likely reroute volumes of crude oil it had planned to ship to Lithuania in August toward Ukraine's Black Sea ports after an oil leak on Russia's Druzhba pipeline over the weekend. On Tuesday, an official at Lithuania's Mazeikiu Nafta said oil was still not flowing and said he did not know when supplies could resume.

Lithuania's Mazeikiu Nafta said it planned to close its Baltic Sea Butinge oil terminal for 65 days of maintenance starting September 15. Butinge has been exporting between four and six 100,000 ton cargoes of Russian Urals crude a month.

**Production News**

A source reported that Agip restored full production at its Ogboinbiri flow station after militants invaded the facility last Tuesday. The company has stated that it lost a total of 170,000 barrels of crude production due to the shutin.

Royal Dutch Shell is making progress towards reopening its Nigerian offshore EA oilfield. It said it hoped to reopen the field before elections scheduled for April 2007. Militants attacked the 115,000 bpd EA platform in January, forcing its closure for repairs for several weeks and it was shutdown again on February 18 as a precaution during a wave of attacks on the oil industry.

The first oil production from East Azeri, part of the Azeri-Chirag-Guneshli group of fields, is expected towards the end of the year, months ahead of schedule. At its peak, East Azeri is expected to produce 260,000 bpd of oil. The Azeri-Chirag-Guneshli is set to become the main source of crude for the Baku-Tbilisi-Ceyhan pipeline, which would pump more than 1 million bpd from Azerbaijan to the Turkish Mediterranean coast once it reaches plateau output in 2009.

OPEC's news agency reported that OPEC's basket of crudes fell to \$68.42/barrel on Monday from \$68.97/barrel reported on Friday.

**Market Commentary**

The oil market remained supported and gapped higher from 74.50 to 74.65 in light of the continuing conflict in the Middle East. Israel decided to expand its ground offensive against Hezbollah by sending troops

further into Lebanon. The market was also supported by the news that Iran rejected a UN Security Council resolution giving the country until August 31 to

Technical Analysis			
		Levels	Explanation
CL	<b>Resistance</b>	75.55, 76.13, 76.91, 78.15	Previous high, 50% and 62% retracement (79.45 and 72.80), Previous high Tuesday's high
	74.91, up 51 cents	75.45	
	<b>Support</b>	74.75, 74.45	
HO	<b>Resistance</b>	209.20, 211.37, 215.25	50% and 62% retracement(218.40 and 200.00), Previous high Tuesday's high
	208.04, up 4.28 cents	209.00	
	<b>Support</b>	207.00, 205.00 to 204.80 200.50, 200.30-200.10, 197.70	
HU	<b>Resistance</b>	229.50, 230.00, 230.50, 233.75	Previous high, Double top, Previous highs Tuesday's high
	227.62, up 6.44 cents	228.50 Sep	
	<b>Support</b>	226.00, 224.00 to 223.40 218.25, 218.00, 216.00- 212.00	

suspend its uranium enrichment. The market backfilled its gap as it posted a low of 74.45. However the market bounced off its low and continued to trend higher. The market extended its gains to over \$1 as it posted a high of 75.45. The market later erased some of its gains and settled in a sideways trading pattern ahead of the close. It settled up 51 cents at 74.91. Volume in the crude market was light with 175,000 lots booked on the day. The product markets ended the session sharply higher, with the gasoline market settling up 6.44 cents at 227.62 and the heating oil market settling up 4.28 cents at 208.04. The gasoline market gapped higher from 223.40 to 224.50 in follow through strength in overnight trading. The market partially backfilled its gap as it posted a low of 224.00. However it bounced off that level and never looked back as it rallied to a high of 228.50 amid reports of maintenance at several refineries scheduled for the next month or two. The market later settled in a sideways trading pattern ahead of the close as it held support at 226.00. The heating oil market also gapped higher from 204.80 to 205.00, its intraday low. The market rallied to a high of 209.00 and traded mostly sideways ahead of the close. Volumes in the product markets were light with 28,000 lots booked in the gasoline market and 37,000 lots booked in the heating oil market.

The oil market is expected to remain supported ahead of the release of the weekly petroleum stock reports. The reports will likely continue to support the market amid the expectations of a draw in crude stocks of 1 million barrels, a draw in gasoline stocks of 1.7 million barrels and a build in distillate stocks of about 1 million barrels. The market is seen finding support at 74.75, 74.45 followed by its previous lows of 72.95, 72.80 and 72.55-72.50. Meanwhile resistance is seen at 75.45 followed by 75.55, 76.13 and 76.91. More distant resistance is seen at 78.15.