



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR JANUARY 19, 2005

OPEC President Sheikh Ahmad Fahad al-Ahmad al-Sabah said OPEC is committed to supplying enough oil to the market to stabilize oil prices. He said the recent price spike was caused by high winter heating demand driven by the cold snap in the US.

An Iraqi oil official said a sabotage attack on Iraq's northern pipeline is expected to keep oil exports through Turkey at a standstill for another two-three weeks. The official said saboteurs blew off a section of the Iraq-Turkey pipeline on Monday after crews had finished repairing damage to the line in the same area from a previous attack. Iraqi oil officials were hoping to restart the line, which has been idle since a sabotage attack on December 18, following the end of a Muslim holiday next week. Separately, Iraq's SOMO expects 2005 exports to average more than 2 million bpd. However analysts doubt Iraq's exports will reach that level.

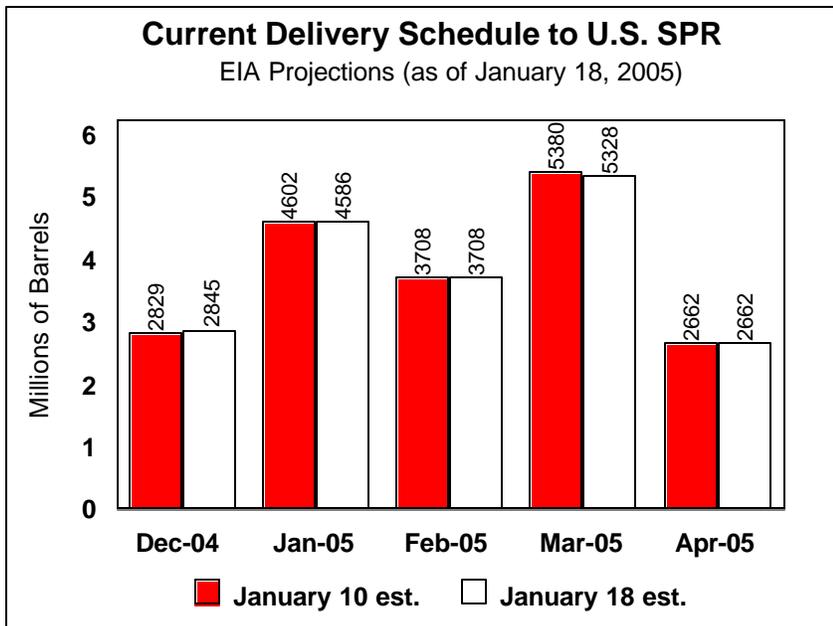
Market Watch

The DOE released a new SPR delivery schedule on January 18th showing revisions to its previous delivery schedule. The DOE increased its SPR delivery by 16,000 barrels to 2.845 million barrels in December while it cut the crude delivery in January by 16,000 barrels to 4.856 million barrels. It also cut its crude delivery in March by 52,000 barrels to 5.328 million barrels.

According to a UBS report, declining European refining margins may lead to increased exports of gasoline to the US. The decline in European margins may be attributed to the sharp increase in oil prices. The average margin for Europe stood at \$2.32, down from \$2.89 the previous week. US refining margins however increased by 21 cents to \$5.31/barrel, driven by the strength in distillate prices. UBS said production interruptions amid turnarounds and closures of the Houston Ship Channel may have also contributed to increased margins. The transatlantic gasoline arbitrage window is open, with gasoline spot prices in the US East Coast currently 10.3 cents lower than European prices. It is adequate to cover current transatlantic tanker rates of about 8 cents.

The owners of Russia's Yukos plan to sue the Russian government for damages. Leonid Nevzlin, who holds the controlling stake in Menatep, a holding company with a majority share of Yukos, said a large portion of Yukos' value had been lost after the forced sale of its unit, Yuganskneftegaz. He also stated that he feared there could be more trouble ahead for Yukos. He called for talks with the authorities, saying that Menatep was prepared to represent all shareholders in a special committee. He said he had full confidence in Yukos' management, headed by Stephen Theede, which is now based in the US and has filed for Chapter 11 bankruptcy protection in Houston.

Royal Dutch/Shell Group said it would introduce new measures to help increase its oil reserves as the company tries to rebuild its reputation following a reserves overbooking scandal last year. Shell plans to prioritize its top 20 projects for replacing reserves and to introduce single point accountability. Shell set a target of 100% reserves replacement over the next four years but is expected to report in February that it fell far short of its target in 2004.



Underinvestment and increasing insurgent attacks are taking a toll on Iraq's oil industry, evident in loading delays that forced the country this month to cut back export volumes covered by contracts signed in November. During 2003-2004, the Coalition Provisional Authority invested \$2 billion in the oil industry however most of it went to repairing infrastructure damaged during or after the invasion. Production problems in southern fields along with recent insurgent attacks have also started to cut more deeply into the country's oil production and exports.

Nigeria's Pengassan union threatened on Wednesday to call a strike from next week, saying that union members had been manhandled by police summoned by managers of Wasco Oil Service Co. The union has called on Wasco to recall two of its expatriate managers over the alleged incident last Friday. It has given the two expatriates a seven day ultimatum to leave the country or face industrial action.

According to the EIA, OPEC's net oil export revenues should reach about \$345 billion this year, up from \$338 billion in 2004. It said the growth in OPEC oil revenues since 2003 is due to large increases in oil prices and shipments to foreign markets. Saudi Arabia will account for the largest share of OPEC revenues this year at \$113.8 billion, down from \$115.1 billion in 2004. Meanwhile Iraq's oil export revenues are expected to increase to \$1.3 billion this year to \$21.3 billion.

OPEC's news agency reported that OPEC's basket of crudes increased by 16 cents/barrel to \$41.97/barrel on Tuesday from \$41.81/barrel on Monday.

US Energy Secretary nominee Sam Bodman said he would seek to balance environmental protections with the country's increasing need for energy in deciding which federal lands to open to oil and natural gas drilling. He said he supported the Bush Administration's call for Congress to open the Arctic National Wildlife Refuge to drilling.

Refinery News

An explosion and fire occurred at the Kern Oil & Refining Co refinery near Bakersfield, California. A fire department official said described the fire as a flare up that took place while the company was performing maintenance on a refinery unit.

Valero Energy Corp plans to restart a sulfur recovery unit at its 95,000 bpd Three Rivers, Texas refinery on January 24-25. There was no indication how long the unit had been down. Meanwhile Valero restarted a catcracker at its Houston, Texas refinery on Tuesday following a week of planned maintenance and an unplanned shutdown during the first restart attempt. It also said that an unplanned shutdown of units in Complex 1 of its 135,000 bpd Houston, Texas refinery would have no impact on production. The unplanned shutdown lasted for about an hour before the units were restarted.

ExxonMobil Corp restarted a wet gas compressor on its fluid catalytic cracking unit No. 2 at its 557,000 bpd refinery in Baytown, Texas on Wednesday. The compressor was shut for about 30 minutes before being restarted early on Wednesday.

PDVSA will shut a 64,000 bpd flexicoker unit at its Amuay refinery on January 24 for a 60 day maintenance period. It has taken steps to guarantee stable exports during the overhaul.

Japan's refiners were operating processing facilities in eastern Japan as normal following a strong offshore earthquake.

China's Sinopec Group will start up its revamped 100,000 bpd Dongxing refinery in southern China this March, processing more than twice as much crude as before. It plans to process 3.5 million tons of crude oil in 2005. It will mothball its older 40,000 bpd crude unit, which was designed to treat only light crudes.

Production News

Shell is scheduled to shut the Mars oil and gas platform in the Gulf of Mexico around March 17 for two weeks' work. It currently produces 150,000 bpd of oil and 160 mmcf/d of natural gas.

Statoil ASA said it has requested permission to restart its remaining 100,000 bpd production at its Snorre A field from the Norwegian Petroleum Safety Authority. Last week, Statoil received permission to restart 100,000 bpd at Vigdis and a subsea satellite unit at Snorre. Production at Vigdis and Snorre A's subsea unit is still starting slowly, given the length of time production was offline.

Russia's main Black Sea port of Novorossisk reopened on Wednesday following its closure which lasted over 48 hours. Meanwhile delays are still seen in the Bosphorus, with vessels facing inbound delays of 7 days and outbound delays of 6 days.

Yukos' trading arm, Petroval, will declare a force majeure on January and February contracts to deliver crude oil, citing an inability to obtain crude oil supplies from Yuganskneftegaz. Petroval, which marketed 20 million barrels a month for Yuganskneftegaz prior to the auction, no longer expects to receive those supplies and as a result will not be able to fulfill commitments under a few remaining long term contracts. However the declarations will not necessarily affect the volume of crude exported by Yuganskneftegaz.

Royal Dutch/Shell is set to reopen an additional 8,000 bpd of shut in production after resolving a community dispute in Nigeria and expects to return to normal operations soon. The restart of the Odeama flow station will bring the total of Shell's resume production to 113,100 bpd out of the 152,000 bpd shut in due to community disputes and vandalism. The company has not yet decided when to lift its 114,000 bpd force majeure.

Separately, the head of the Nigerian National Petroleum Corp, Funsho Kupolokun said Nigeria's crude oil reserves have increased to 35.5 billion barrels while the country's production capacity is now 3 million bpd. The Nigerian government plans to increase the country's crude reserves to 40 billion barrels and production capacity to 4 million bpd by 2010.

According to the Shetland Islands Council, Brent crude liftings from Sullom Voe fell to 83,016 tons in the week ending January 18, down from 377,388 tons in the previous week.

Deliveries of fuel oil and other products from Ukrainian refineries to major ports in the region have been delayed after the passage of larger oil tankers through the Bosphorus was suspended. Deliveries by rail to the Odessa, Sevastopol and Novorossiisk terminals are being halted for several days forcing refineries to slow crude throughput to limit a build up in their storage tanks as vessels are set to arrive later than scheduled. The railway ban and the lowered refinery output could cut deliveries to the three terminals by as much as 150,000 tons during the period. The halt to railway deliveries is being implemented after strong currents in the Bosphorus forced the cancellation on Tuesday of larger vessels from passing through the strait.

Gas oil and fuel oil exports out of the former Soviet Union are expected to fall in January as colder temperatures increase demand and weather problems delay vessel loadings. In December, gas oil exports increased by 13% to 825,000 bpd while fuel oil exports increased by 14% to 950,000 bpd.

Nigeria has set its February official selling price for Bonny Light and Qua Iboe crude oils at Dated plus 55 cents, up from the Dated flat level set for January-loading barrels.

Angola has scheduled 1.1 million bpd of crude oil exports in March, up from about 1 million bpd in February.

China's Unipac and Chinaoil are set to skip imports for a second month in February amid lower domestic demand. Importers still have several weeks to secure second half February cargos if demand increases. However they currently appear content to draw down inventories amassed last year and domestic production.

According to the Petroleum Association of Japan, Japan's kerosene stocks fell by 11.7% in the week ending January 15 to 3.651 million kiloliters or 22.96 million barrels due to cold weather. The decline came as the average operating rate of Japanese oil refineries was unchanged from the previous week's level of 92%. Kerosene demand in the second half of January was estimated at about 2.59 million kl if the weather remained cold. Kerosene production is estimated at 1.63 million kl. The Petroleum Association of Japan reported that refiners processed a combined 4.886 million kl of crude oil in the week ending January 15 from 4.881 million kl in the week ending January 8.

Colombia's Finance Ministry reported that the country's crude oil production will fall to 510,000 bpd in 2005 from 528,830 bpd last year due to natural decline of existing fields. It said falling production will force Ecopetrol to stop exporting its share of crude oil from BP's Cusiana-Cupiagua field and instead refine it within Colombia.

BHP Billiton Plc Ltd will load its first cargo of oil from its Angostura field in Trinidad and Tobago in mid-February. Under a production sharing agreement, the first shipment belongs to the government. Future shipments will rotate among the partners, which are BHP Billiton, Total and Talisman Energy. Initial production is expected to be around 60,000 bpd.

India is planning to increase its investments in Russia's energy sector. India's Oil and Natural Gas Corp already has a 20% stake in Russia's Sakhalin-1 project and has said in the past it is seeking a stake in Sakhalin-3 and is keen to get a stake in Yukos. India is seeking stakes in foreign oil projects to meet the energy needs of its economy which is expected to increase 7-8% a year for the next two decades.

Market Commentary

The NYMEX crude market opened 44 cents lower at 47.94 as the market continued to erase Tuesday's early gains. The February crude contract, which expires on Thursday, posted an intraday

high of 48.35 before the market erased its gains. The market later traded to its previous low of 47.70 and settled in a sideways trading range amid the lack of conviction as most traders were awaiting the release of the weekly petroleum stock reports later in the day. The market settled in a range from 47.70 to 48.15 before it sold off ahead of the close to an intraday low of 47.50. It settled down 83 cents at 47.55. Volume in the crude market was excellent with over 243,000 lots booked on the day. Unlike the crude market, the product markets seemed to be better supported with the heating oil market settling down just 12 points at 134.26 and the gasoline market settling up 13 points at 126.32. The heating oil market, which posted an inside trading day, opened down 38 points at 134.00 and quickly traded to its high of 136.00. However the market erased its gains and sold off to a low of 133.85 and settled in a range. The market traded sideways within a range from 133.85 to 135.10 for most of the day as trader awaited the stock reports. The heating oil managed to hold its support ahead of the close while the crude market traded to a new intraday low on the close. Similarly, the gasoline market also posted an inside trading day. The market rallied two cents from its opening to a high of 127.70 within the first hour of trading. However the market erased its gains and posted an intraday low of 125.30. It traded mostly sideways before it traded back towards the 127.00 level ahead of the close and settled in positive territory. Volumes in the product markets were good with 47,000 lots booked in the heating oil and 46,000 lots booked in the gasoline market.

Given the market's reaction to the weekly petroleum stock reports, the market will remain pressured on Thursday in light of the large builds reported in crude stocks. Technically, the crude market is also seen trending lower as its stochastics are ready to cross to the downside after it settled in negative territory. The crude market is seen finding support at 47.50 followed by its gap from 46.70 to 46.60 and 46.33, its

38% retracement level. Meanwhile resistance is seen at 48.35 followed by 49.50 and 50.78.

Technical Analysis		
	Levels	Explanation
CL 47.55, down 83 cents	Resistance 49.50, 50.78 48.35	Tuesday's high, Basis trendline Wednesday's high
	Support 47.50 46.70 to 46.60, 46.33	Wednesday's low Remaining gap (January 13th), 38% (41.20 and 49.50)
HO 134.26, down 12 points	Resistance 136.75, 141.46, 141.70 136.00, 139.50	62% retracement(156.70 and 116.80), Previous high Wednesday's high, Tuesday's high
	Support 133.85, 133.00, 132.80 131.00-130.80	Wednesday's low, Previous low Remaining gap (January 13th)
HU 126.32, up 13 points	Resistance 133.85 127.70, 130.30	Previous high Wednesday's low, Tuesday's high
	Support 125.30, 125.00, 124.70 122.80 to 122.20	Wednesday's low, Previous lows Remaining gap (January 13th)