



ENERGY RISK MANAGEMENT

Howard Rennell & Pat Shigueta
(212) 624-1132 (888) 885-6100

www.e-windham.com

ENERGY MARKET REPORT FOR JULY 26, 2005

Iran's Oil Minister Bijan Zanganeh said world oil markets have no need for an additional increase in OPEC crude on top of the 500,000 bpd increase that took effect from July 1. He did say though that he expected prices would remain higher than \$40 per barrel for the mid term period.

Refinery News

A fire broke out at Russia's 130,000 bpd Novo-Ufinsk oil refinery on Tuesday as a result of a gas pipeline explosion. An emergency services official said production was not affected.

Lukoil said it will shut its 55,000 bpd Odessa oil refinery for a 3

Market Watch

Undersecretary of State Anthony Wayne expressed concern over the willingness of China and India to make energy deals with countries that are pursuing policies that are harmful to world stability. He was alluding to the investments that China and India are making in Iran and Sudan. He said such investment provide countries such as Iran and Sudan with economic support that can undermine efforts to encourage policy changes that will reduce world instability and enhance energy security for all.

House of Representatives and Senate negotiators finished work on the energy legislation on Tuesday. The panel of lawmakers rejected a proposal to reduce US oil consumption by 1 million bpd and also rejected a plan to require utilities to generate more electricity from renewable energy sources like wind and solar power. The full House and Senate will vote on the compromise bill this week. The compromise on ethanol, which would increase production to 7.5 billion gallons/year by 2012 is larger than the 5 billion gallons approved by the US House of Representatives but smaller than the 8 billion gallons called for by the Senate. Also, while liability protection for the oil companies that use MTBE was not approved, the compromise does include language in the bill to permit new MTBE liability lawsuits to be reviewed by federal courts.

Valero Energy Corp reported a 34% increase in net profits as it continued to benefit from high refining margins and wider sour crude discounts. Valero, which is still awaiting approval for its planned \$6.9 billion takeover of Premcor Inc said that deal was still expected to close by the end of the third quarter. It said gasoline days of supply are at five year lows because refiners are maximizing their distillate production in light of the current prices.

Iran's Oil Minister Bijan Zanganeh said Iran's crude oil production capacity is depleting by up to 400,000 bpd each year, showing the need to overcome conservative objections to foreign investment. It is struggling to keep production static through oil projects developed by foreign firms. The Gulf fields of Soroush and Nowruz are expected to add about 190,000 bpd to Iran's total capacity. The Darkhovin field is producing 55,000 bpd and is expected to increase to 160,000 bpd by the end of 2006.

A director of the Department of Petroleum Resources in Nigeria said the country's 2005 licensing round for 75 oil blocks could be delayed due to an overwhelming response from local ventures seeking a share of the acreage.

year upgrade. A company official said it will halt oil shipments from Russia to Odessa from August 1. Lukoil said it would keep the throughput capacity at Odessa at 55,000 bpd but the plant would double high-octane gasoline production to 740,000 tons a year.

A platformer unit at Kuwait Petroleum's 80,000 bpd Europoort refinery in Rotterdam is shutting down for two weeks of repairs. The shutdown of the platformer will have minimal impact on other refinery operations.

Japan's Idemitsu Kosan said it will process 2.9 million kiloliters or 588,419 bpd of crude in August, up 12% on the year. It plans to keep its 140,000 bpd Hokkaido refinery near full capacity.

Taiwan's Chinese Petroleum Corp has shut its fluid catalytic cracking unit in Kaohsiung since July 18 for three to four weeks of unscheduled repairs.

PDVSA reported that its 77,000 b/d cat cracker at the 300,000 b/d Cardon refinery will be shut until the end of August for maintenance work. Operators had decided that it would move forward the planned maintenance on the unit following a problem last week that took the unit down.

Production News

BP chief executive John Browne said the start up of oil production at its Thunder Horse offshore platform in the US Gulf of Mexico is unlikely to occur at the end of 2005. A BP spokesman said the company would continue investigating what happened to the platform which was discovered to be tilting 20-30 degrees on July 11 after Hurricane Dennis hit the Gulf of Mexico.

Statoil ASA said it discovered defects at another lifeboat on the Veslefrikk platform and has cut the number of staff on the platform. Production from the Huldra gas and Veslefrikk oil fields in the North Sea was initially shut on July 23. It is currently unclear when the production at the site will resume.

OPEC's news agency reported that OPEC's basket of crudes increased by 26 cents/barrel to \$52.07/barrel on Monday.

India's domestic sales of oil products increased 0.6% in June compared with a year ago, reversing a decline in the previous two months. India's total domestic sales totaled 9.23 million tons in June. It was however down from May's 9.52 million ton level. In the first half of the year, domestic oil product sales fell 0.9% on the year to 56.3 million tons. Domestic naphtha sales fell 12% to 1.02 million tons in June as power plants and fertilizer makers switched to liquefied natural gas, encouraging refiners to double its naphtha exports to 398,400 tons. India's crude oil imports fell 13.5% to 7.63 million tons in June. Meanwhile, exports of refined products continued to show strong growth of 43% over June 2004. Diesel exports increased by 55% to 572,900 tons while petrol exports increased by 16% to 188,100 tons last month.

Azerbaijan's oil production will reach a high of 600,000 bpd next year due to rising production from a BP led group. An Azeri oil official said SOCAR would maintain its output at a level of about 180,000 bpd in the years to come, while the share of BP's group, known as Azeri-Chirag-Guneshli would continue to increase throughout the decade.

Iraq's average crude oil production for the week ending July 17th rose to 2.21 mbd, up 100,000 b/d from the previous week. Crude output remains below the oil ministry's 2005 target production level and below the post-war production high of 2.67 mbd.

Market Commentary

The NYMEX continued to follow its pattern of the past several days that of opening lower only to establish its low early in the day and then trending higher throughout the session. For the third consecutive day the crude oil market settled higher. While the heating oil market appeared to lead the market higher for the first half of the day supported by news of several refinery problems in Europe and in the U.S. this strength evaporated at the end of the day and as a result saw the heat cracks plummet



by over 50 cents per barrel, as the front month heating oil contracts settled lower on the day. The winter strip (Oct-April) heating oil price settled basically unchanged but continues to look like it bottomed out on Thursday for at least at the near term at \$1.6951. Final estimated volume was pegged at just 150,000 crude futures, with heating oil and gasoline trading 48,000 and 53,000 lots respectively.

Traders appear to be anxiously awaiting tomorrow's inventory reports. Current market expectations for tomorrow's inventory reports appear to be centered on a 2 million draw in crude stocks, with gasoline stocks off 1-1.5 million and heating oil stocks up 1.5 million.