



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR AUGUST 3, 2005

Iran's Deputy
International
Affairs Minister
M.H. Nejad
Hossinian said he
expects world
crude prices to
reach \$70/barrel
by the end of the
year due to higher
world oil demand.
He said Iran is
currently
producing 4-4.2
million bpd of oil
and added that
Iran does not
have any spare
production capacity.

Market Watch

Saudi Arabia's Foreign Minister Saud al-Faisal said he expects US-Saudi relations will continue to improve and promised a total war on terrorism. His comments came after hundreds of tribal chiefs, Islamic clerics, princes and commoners pledged loyalty to Saudi Arabia's new king.

The NYMEX confirmed that it has received proposals from two investor groups interested in purchasing a minority stake and also said it is looking into going public on its own. It is evaluating proposals from each of the investor groups. It expects a decision by the board on what strategic move to make by the end of August.

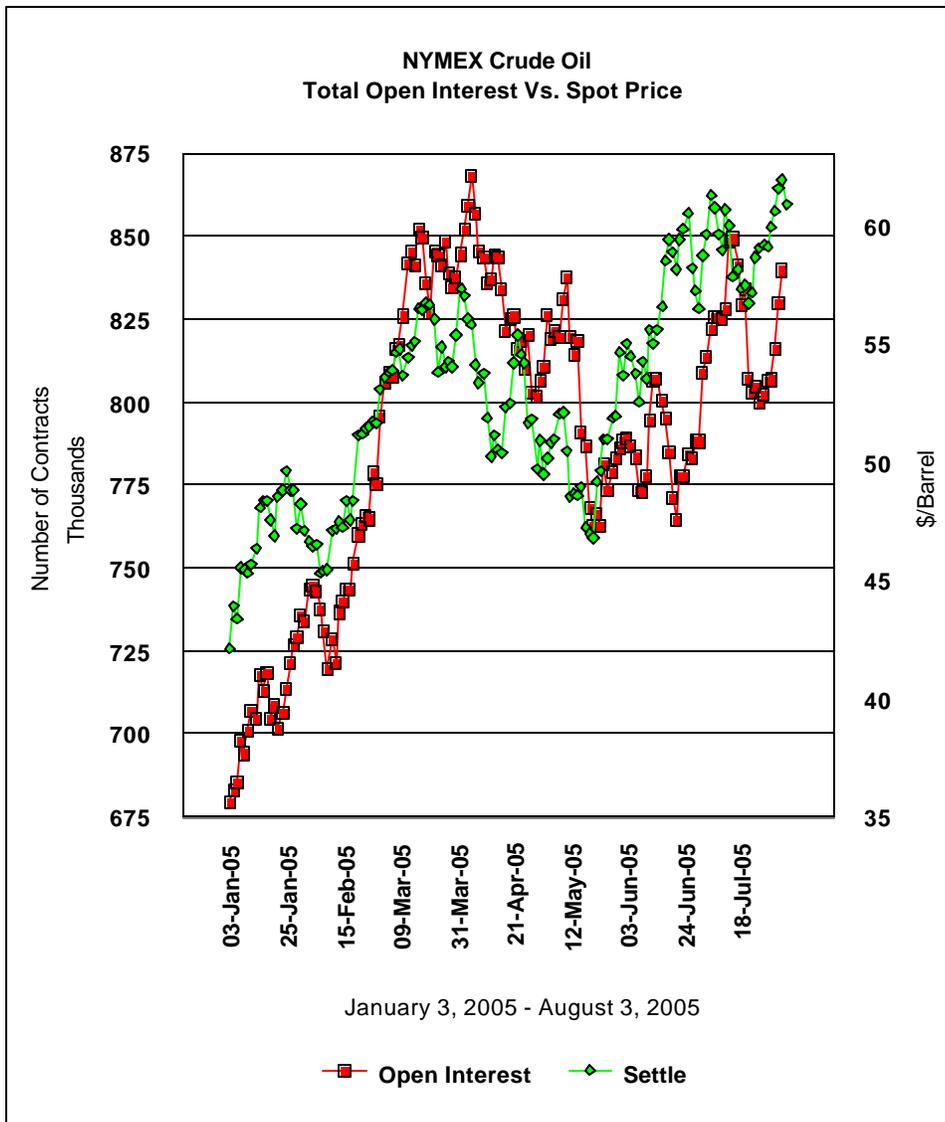
Sunoco Inc. said its Sunoco Logistics unit completed the acquisition of a crude oil pipeline system and related storage facilities located in Texas from Exxon Mobil for \$100 million on Monday.

The EIA said US retail gasoline prices are likely to reach last month's record during August as strong demand and refinery outages continue to support prices. As of Monday, the average retail price of gasoline in the US was \$2.348/gallon, less than 4 cents from the July 11 record of \$2.328/gallon. Separately, the EIA said US heating oil inventories are on track to be at comfortable levels at the start of the heating season but consumers should still expect to pay more for the fuel than last winter. Distillate fuel stocks totaled 127.3 million barrels at the end of last week, near the upper end of the average range for this time of the year.

The DOE reported that US propane inventories totaled 62.603 million barrels in the week ending July 29th, up 3.6 million barrels on the week. It reported that propane inventories in the East Coast built by 434,000 barrels to 4.196 million barrels while inventories in the Midwest increased by 1.179 million barrels to 20.909 million barrels and inventories in the Gulf Coast increased by 2.356 million barrels to 36.088 million barrels.

Refinery News

According to a filing with the Texas Commission on Environmental Quality, a 62,000 bpd fluid catalytic cracking unit restarted on Wednesday at BP's Texas City, Texas refinery following a brief outage



overnight. The 460,000 bpd refinery also had an outage at another 36,000 bpd fluid catalytic cracking unit this week which was also expected to resume operations on Wednesday.

PDVSA's 320,000 bpd La Isla refinery in Curacao shut down a reformer unit on Wednesday. Traders stated that PDVSA canceled several cargoes of mixed high octane of Caribbean and South American specification gasoline after the 18,000 bpd unit was shutdown. PDVSA however stated that no cargoes were canceled. Separately, a source at PDVSA said a storage tank at the Cardon refinery in western Venezuela caught fire on Wednesday. The source said the storage tank was inactive and caught fire during maintenance work. It is currently repairing a 77,000 bpd catalytic cracking unit.

Norway's Statoil plans to begin six weeks of maintenance work on its 110,000 bpd Kalundborg refinery in Denmark on September 2. The maintenance will mainly affect output of light products such as gasoline and jet fuel.

European gasoline prices have been supported as refineries in the ARA region struggle to return after a July power outage and as traders stock up ahead of autumn maintenance shutdowns. A power outage last month hit a major refinery in the ARA refining hub, which supplies oil products to inland continental Europe. Shell said its 418,000 bpd Pernis refinery in Rotterdam is expected to return to normal in early August after it was shut in mid-July. A gasoline making platformer at the 80,000 bpd Kuwait Petroleum Europoort refinery is expected to remain shut for another week following a technical problem.

China's Yanshan oil refinery will maintain a 3% production cut in August to 141,000 bpd, unchanged on the month. It has trimmed run rates since July due to expensive crude imports.

Kuwait's fourth oil refinery, scheduled to come on stream in 2010 will have a capacity of 615,000 bpd. It will increase the country's refining capacity to 1.5 million bpd.

Production News

Iraq's Oil Minister Ibrahim Bahr al-Uloum said Iraq plans to increase its production to 2.5 million bpd by the end of the year and 3 million bpd by 2006. He said exports should reach 1.7-1.8 million bpd by the end of 2005. He said Iraq's plans to increase its oil production and exports will be helped by improving water injection facilities in its southern fields. Engineers have completed 65-70% of the repairs needed for a water injection system in the Rumeila oil fields, helping remove one of the main hurdles in increasing output.

According to a Dow Jones survey, OPEC's oil production increased by 380,000 bpd in July to 30.44 million bpd. It said the largest increase came from Iraq, which increased its production by 120,000 bpd to 1.95 million bpd in July. Dow Jones reported that production from OPEC's ten members increased by 260,000 bpd on the month to 28.49 million bpd. It said Iranian production increased by 100,000 bpd to 4.1 million bpd while Saudi Arabia, UAE and Nigeria increased their production by 50,000 bpd.

Marathon Oil Corp will partially shut production from its Brae gas and oil field in the UK's North Sea for up to 48 hours of scheduled maintenance in mid-September.

BP will shut down the Unity platform on its North Sea Forties pipeline for planned maintenance for 36 hours on Saturday. Production from all oil and gas fields that feed into the pipeline at Unity or between the platform and the mainland will be affected. On Monday, Nexen said it would halt production from its 40,000 bpd Scott field complex, which uses the Forties system, during the maintenance.

The Shetland Island Council reported that Brent blend crude oil liftings from Sullom Voe fell to 210,436 tons in the week ending August 2, down from 358,477 tons the previous week.

Saudi Aramco cut the prices it will charge US buyers of its crude loaded in September between 35 and 70 cents/barrel below August contract levels. It cut its Arab Extra Light crude price by 35 cents/barrel to WTI minus \$2.55, while its Arab Light was cut by 45 cents/barrel to WTI minus \$5.60, its Arab Medium was cut by 45 cents to WTI minus \$8.20 and its Arab Heavy was cut by 70 cents to WTI minus \$11.15. Meanwhile it increased its official selling price of its crude bound to northwest Europe. It increased the price of its Arab Heavy crude by \$1.65/barrel.

Pemex said it expects to produce slightly more oil next year, even though output at its largest field is declining. The head of exploration and production at Pemex, Carlos Morales, said projects other than the company's Cantarell field should increase production by 85,000 bpd in 2006. Production at the Cantarell field is expected to fall by 70,000 bpd. Pemex pumped about 3.4 million bpd of crude oil during the April-June period.

Peak oil production from Russia's Sakhalin-2 project will be delayed until 2008 at the earliest. A spokeswoman for Shell said the delay to startup its liquefied natural gas production would also mean delays to plans to quadruple its oil production. Plans to allow an existing platform to produce during the winter months have now been pushed back from 2006 to 2007, while the planned startup of a second platform has been pushed back from the first quarter of 2007 to 2008. The estimated reserves for the Sakhalin-2 project are over 500 billion cubic meters of natural gas and over 1 billion barrels of crude oil.

Russia's Industry and Energy Ministry reported that crude oil processing by Russian refineries totaled 18.191 million tons in July, up from 16.123 million tons in July 2004. In July, oil supplies to refineries totaled 18.577 million tons.

China's Ministry of Commerce reported that China expects crude oil imports to reach about 130 million tons this year. The forecast indicates a 28% easing in oil imports growth this year compared with 2004.

Azerbaijan's Socar stated that Azerbaijan's oil product exports amounted to 1.321 million tons in January-July, up 6.8% on the year. Meanwhile, Socar's oil production fell 0.02% on the year in January-July to 5.23 million tons.

India's Oil Minister Mani Shankar Aiyar said the loss of crude production after a fire destroyed a platform in the Bombay High field was now estimated at 123,000 bpd. He said 60-70% of the output would be restored by the end of August.

Officials stated that the seasonal fall in India's oil demand during the third quarter is likely to be sharper this year as floods paralyzed large parts of western India. The flooding has crippled movement of vehicles that consume petrol and diesel and disrupted operations at factories and power plants that use fuel oil and naphtha. It also forced airlines to cancel more than 1,000 flights, hitting jet fuel sales. Indian Oil Corp said sales may have fallen about 20% during the last 8-9 days.

The Petroleum Association of Japan reported that Japanese gasoline inventories fell by 1.1% in the week ending July 30th to 2.1 million kiloliters or 13.32 million barrels. However gasoline production increased by 2.2% to 1.2 million kl as the average operating rate of Japanese oil refineries increased to 84.5% from 82.3% over the same period. It also reported that Japan's commercial crude oil stocks increased by 3.7% on the week to 18.88 million kl or 118.75 million barrels.

The head of Petroecuador Carlos Pareja has recommended canceling US' Occidental Petroleum production agreement due to alleged breaches of contract. The attorney general called in August 2004 to cancel Occidental's production agreement for its transfer of 40% of ownership in Block 15 to Canada's EnCana allegedly without properly notifying the government.

OPEC's news agency reported that OPEC's basket of crude increased by 1 cent to \$55.13/barrel on Tuesday.

**Market
Commentary**

The oil market gapped higher from 61.95 to 62.30 as the market remained supported by the recent refinery

Technical Analysis		
	Levels	Explanation
CL 60.86, down \$1.03	Resistance 62.50, 62.80 61.75	Wednesday's high, Previous high
	Support 60.70 60.21, 60.10, 59.50	Wednesday's low 38% (56.50 and 62.50), Previous lows
HO 168.89, down 3.62 cents	Resistance 173.50, 173.75 171.00	Wednesday's high, Previous high
	Support 168.60 168.11, 166.80, 166.45	Wednesday's low 38% (159.40 and 173.50), Previous low, 50%
HU 177.09, down 1.07 cents	Resistance 182.00 179.70	Wednesday's high
	Support 176.80 174.20 to 173.00, 171.00	Wednesday's low Backfills opening gap, Previous low

glitches. The market quickly rallied to its intraday high of 62.50. It however partially backfilled its gap as it traded to a low of 62.20 and settled in a range ahead of the release of the DOE and API reports. However the market sold off sharply amid the unexpected build reported by the DOE in crude stocks. Even though the API showed a draw of over 4.8 million barrels in crude stocks, the market shrugged it off as the majority of the draw was reported in Padd 5. The crude market sold off to a low of 61.25. The market bounced off its low but failed to remain in positive territory as it once again sold off. It posted a low of 60.70 ahead of the close and settled down \$1.03 at 60.86. Volume in the crude was good with over 199,000 lots booked on the day. Meanwhile, the gasoline market which traded in positive territory for most of the session later sold off and settled down 1.07 cents at 177.09. It was supported early in the session by the continuing reports of refinery glitches and the release of the DOE report which showed a draw of 4 million barrels in gasoline stocks. It traded to a high of 182.00 early in the session before it erased its gains and sold off sharply ahead of the close. The market backfilled its opening gap from 180.00 to 178.45 as it traded to a low of 176.80 on the close. Similar to the crude market, the heating oil market traded off its early high of 173.50 following the release of the DOE and API reports which showed draws in distillate stocks of 1.5 million barrels and 1.7 million barrels, respectively. The market erased its gains and sold off to a low of 168.60 ahead of the close. It settled down 3.62 cents at 168.89. Volumes in the products were good with 50,000 traded in each the gasoline market and heating oil market.

Barring any further refinery glitches, the oil market is seen trading lower after it ended the session near its low. Technically, stochastics also look ready to cross back down. The market seems to have posted a near term top as it posted a bearish engulfing pattern. The market is seen finding support at its low of 60.70 followed by 60.21, 60.10 and 59.50. However resistance is seen at 61.75, 62.50 and 62.80.