



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR AUGUST 12, 2005

Refinery News

Due to a major power outage caused by the failure of a substation, Premcor Inc.'s 180,000-bpd Memphis refinery was shut down overnight, according to a county health official. It could take as many as five days to restart. According to a trader, it could take three days to restart the refinery's catalytic cracker. All of the units went down around midnight.

Market Watch

According to shipbrokers, Saudi Arabia has hired two more very large crude carriers to the United States in August, bringing spot oil exports for the month up to 15.5 million barrels. The 570,000 tons of oil will reach the U.S. Gulf in October. A second, similarly sized cargo was booked to disembark on September 1 on a yet to be named Tankers International ship. According to trading sources earlier this week, Saudi Arabia will keep oil supplies to the U.S. refineries steady in September. Every month, the kingdom ships roughly 16 million barrels to the United States.

Harvest Natural Resources paid Venezuela's Seniat tax authority \$744,000 as part of \$85 million back tax demand.

ConocoPhillips said its 139,000 bpd Los Angeles refinery was running normal operations on Friday contrary to market rumors that hydrotreating units were shut for planned overhauls. Separately, it stated that it was still in the process of returning its 306,000 bpd Wood River refinery in Illinois back to full capacity.

Shell said its 418,000 bpd Pernis refinery was still approaching full production. It said all of the refinery's main process units were in operation.

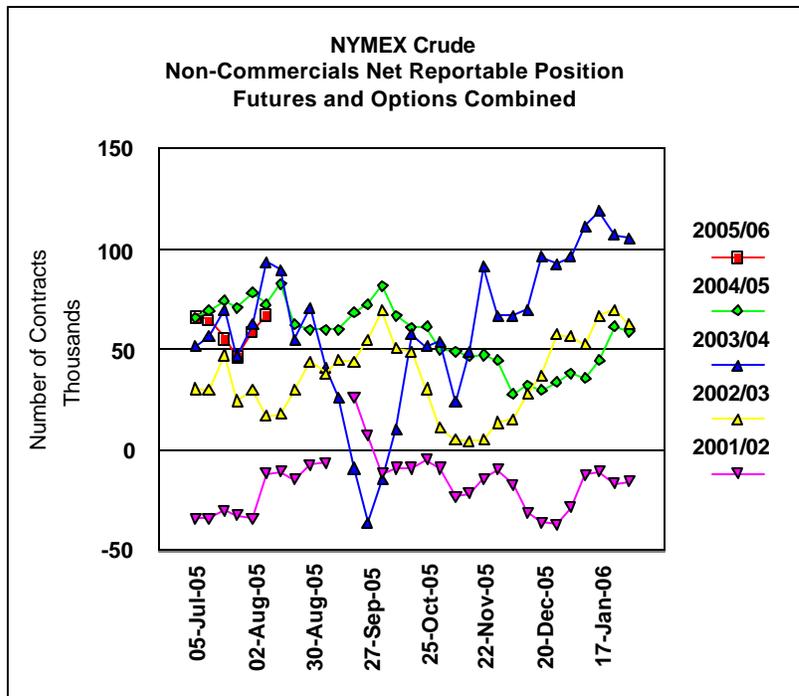
After a maintenance shutdown, Pertamina, an Indonesian state oil company, restarted its 120,000 barrel-per-day refinery in Dumai on Friday, according to the company's processing director Suroso Atmormartoyo.

Production News

Colonial said strong demand has caused Colonial Pipeline to freeze nominations for the 21st, 22nd and 23rd cycles on Line 27 from Mitchell, Virginia to Norfolk, Virginia.

Baker Hughes reported that the number of rigs searching for oil and natural gas in the US fell by 7 to 1,429 in the week ending August 12. The number of rigs searching for oil in the US fell by 2 to 197 while the number of rigs searching for natural gas fell by 5 to 1,230.

An analyst reported that gas oil stocks in independent Amsterdam-Rotterdam-Antwerp storage fell by 50,000 tons to 2.1 million tons on the week. However it is still up 500,000 tons on the year. Gasoline inventories however increased to 650,000 tons from 625,000 tons last week while naphtha stocks fell by 50,000 tons to 75,000 tons on the week. Jet fuel stocks built by 25,000 tons to 475,000 tons while fuel oil stocks fell by 50,000 tons to 475,000 tons on the week.



The industry group MWV reported that the total net sales of oil products in Germany fell to 9.365 million metric tons, decreasing 3.3 percent on the year. The high outright prices of heating oil, which in itself fell 3.8 percent, are to blame for the slack in demand in what is usually northwest Europe's largest market.

Vice president of the Azeri state oil firm SOCAR Khoshbakht Yusifzade reported that the BP- operated Azeri-Chirag-Guneshli Caspian oilfield in the Caspian Sea has reserves of 940 million tons or 6.89 billion barrels, up from the previous estimate of 740 million. He did not specify when the latest revision of the reserves took place.

Kazakh crude oil and gas condensate output rose 7 percent from last year, having reached 35.66 million tons or 1.28 million bpd in the January- July period, the State Statistics Agency reported on Friday. Its crude oil exports rose 12.1 percent from last year's January- July period, having hit 28.13 million tons or 1.0 million bpd, according to the State Statistics Agency.

On Friday, OPEC placed the value of reference basket of 11 crude oils at \$58.98 a barrel Thursday, up \$0.98 from Wednesday.

According to one of its sellers, Indonesia's Pertamina bought 5.2 million barrels of crude oil in its tender for October arrival. On Friday, traders said that each parcel of Asia- Pacific crude was likely to be 600,000 barrels, and the Libyan Sarir crude cargo would be 1 million barrels, although sizes have not yet been confirmed.

Separately, Indonesia's Minister of Finance Jusuf Anwar said Indonesia's foreign exchange reserves have been seriously eroded due to increasing world oil prices. It foreign exchange reserves have been eroded from a level of about \$36 billion to \$32 billion. He said Indonesia needs to increase fuel prices to slow the drain on the country's foreign exchange reserves to pay for oil imports.

South Korea's exports of high sulfur fuel oil are likely to fall by more than 25% next month from August volumes as refineries cut crude runs due to poor margins. The country's five oil refineries are expected to export a total of 155,000 tons of high sulfur fuel oil in September compared with 216,000 tons exports this month.

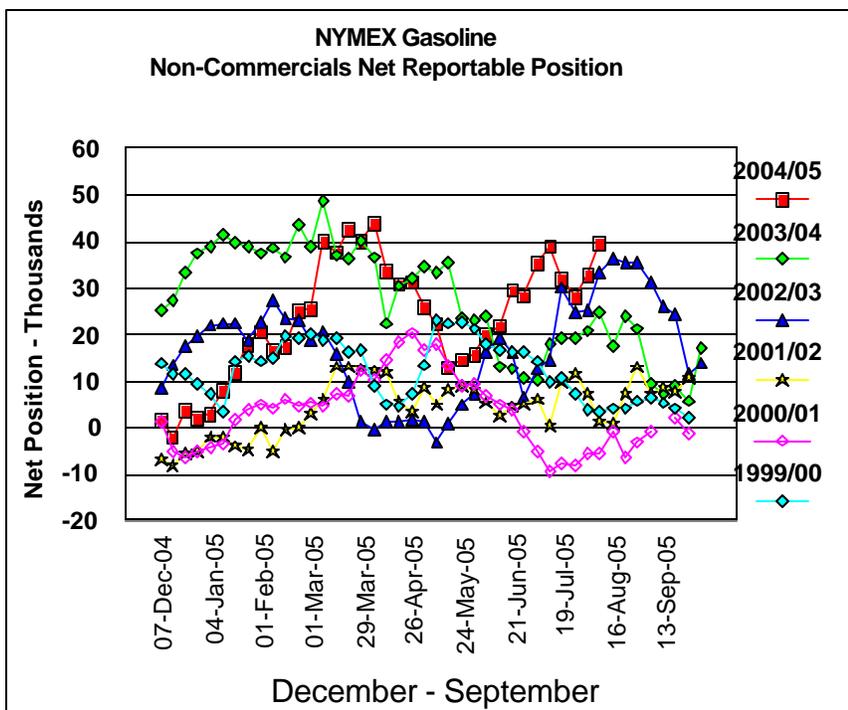
India's Petroleum Ministry has proposed a INR3.25/liter increase in gasoline prices and INR4/liter increase in diesel prices, in line with higher world oil prices. The ministry has urged the Cabinet to increase domestic fuel prices in light of the surge in world oil prices, adding that the marketing companies will suffer if the prices are not increased.

Formosa Petrochemical Corp. in Taiwan plans to increase its diesel export in September to 270,000 tons, from its 225,000-ton August export, traders reported on Friday. According to one trader, the CDU turnaround will end next month, allowing for the increase in exports.

The president of the Azeri state oil company Socar, Natic Aliyev, ensured that the Azeri oil exports through the Turkish port of Ceyhan, the terminal port of the BTC pipeline, will definitely start by December 15, with the possibility of beginning a month earlier. The pipeline, which was officially launched on May 25, has an expected annual throughput capacity of 50 million tons of oil. The current annual production in the area is around 6.5 million tons of oil.

Venezuela plans to develop a block if its Orinoco tar belt with Petrobras Brazil. This plan is a step in the campaign to improve regional economic integration, said President Hugo Chavez. According to Chavez, the field alone has 50 billion barrels in reserves. In its attempt to ramp up Orinoco heavy oil production in the coming years, Venezuela is looking to state-run companies in the region for help. The two companies will begin technical studies on the project soon, according to Chavez, who is to meet with Inacio Lula da Silva, his Brazilian counterpart, on Friday. Venezuela claims that Orinoco plans to add the 235 billion barrels of oil reserves to its 78 billion barrels of conventional oil reserves to surpass Saudi Arabia as the world's largest nation in reserves.

Brazil's Petrobras said its average daily domestic crude production fell to 1.747 million barrels from a daily average of 1.755 million barrels in June.



Market Commentary

The energy complex saw another surge in prices, pushing the markets to new records. The oil market opened at an intraday low of 66.00 and never looked back as it remained supported. The market surged to a new record high of 67.10 as the gasoline market also surged to a stunning new high. The crude market later erased some of its gains and settled in a sideways trading pattern from 67.10 to 66.50. It settled up \$1.06 at 66.86. For the week, the September crude contract has gained over \$4. Volume in the crude was excellent

with over 281,000 lots booked on the day. Open interest in the crude built by another 25,316 contracts on fresh buying. The September contract falling by 19,855 lots while the October, November and December contracts built by 18,546 lots, 5,785 lots and 10,662 lots, respectively. The gasoline market once again was well supported by the news of another refinery problem. Early in the session, Premcor reported that its 180,000-bpd Memphis refinery was shut down following a power outage overnight. The gasoline market gapped higher from 1.9525 to 1.9580 in follow through strength seen in overnight trading. The market surged above the 2.00 following the news of the latest refinery shutdown. The market found fresh buying during today's momentum driven session as well. It retraced some of its gains but once again found further buying which pushed it to a new record high of 2.0145 late in the session. It settled up 5.50 cents at 2.0048. Meanwhile, the heating oil market also posted a new high of 1.9330 as it followed the rest of the complex higher after it opened at its intraday low of 1.8990. Volumes in the products were good with over 56,000 lots booked in the gasoline and over 46,000 lots booked in the heating oil.

The Commitment of Traders report showed that non-commercials in the crude market built by 8,918 contracts in the week ending August 9th to 34,988 contracts. The combined futures and option report also showed that non-commercials in the crude market increased their net long position by 8,338 contracts to 67,662 contracts on the week. The non-commercials in the gasoline built their net long positions by 7,095 contracts to 40,069 contracts while non-commercials in the heating oil built their net longs by 2,573 contracts to 14,064 contracts. Given the markets' surge in the past few trading session, non-commercials have continued to add to their net longs amid the fresh buying.

Even though we believe the markets are overdone to the upside, there seems to be no stopping them. The market will continue to remain supported in light of the continuing refinery problems that have prompted large surges in prices. The crude market is seen finding initial resistance at its high of 67.10 followed by 67.25. More distant resistance is seen at the 70.00 level. However support is seen at 66.50 followed by 66.00 and its previous low of 64.60.

Technical Analysis		
	Levels	Explanation
CL 66.86, up \$1.06	Resistance 67.25	Basis trendline
	Resistance 67.10	Friday's high
	Support 66.50	Friday's low, Previous low
	Support 66.00, 64.60	
HO 1.9055, up 70 points	Resistance 1.9615	Basis trendline
	Resistance 1.9330	Friday's high
	Support 1.8990	Friday's low
	Support 1.8330	Thursday's low
HU 2.0048, up 5.50 cents	Resistance 2.0675	Basis trendline
	Resistance 2.0145	Thursday's high
	Support 1.9840	Opening gap
	Support 1.9580 to 1.9525	