



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR AUGUST 29, 2005

US Energy Secretary Samuel Bodman said President George W. Bush could decide to sell some oil from the SPR to offset the impact of Hurricane Katrina on US Gulf oil installations. He said the Bush administration would gather more information on hurricane damage on US Gulf oil and gas facilities over the next few days before making decisions on

how to use the 700 million barrel SPR to meet any supply shortages. Meanwhile, House Energy and Commerce Committee chairman Joe Barton said the Bush administration should consider tapping the US SPR to alleviate shortages from Hurricane Katrina.

The IEA said the US has enough oil stocks in its SPR to tackle any supply disruptions that could occur as Hurricane Katrina made landfall early Monday. The head of the IEA, Claude Mandil said the recent upward spike in oil prices beyond \$70/barrel due to Hurricane Katrina is unwarranted given current inventory and oil supply levels. He said the IEA remains optimistic about the world oil supply demand balance because it expects oil demand to wane.

OPEC's President Sheikh Ahmad al-Fahad al-Sabah said he will propose that OPEC increase its output by 500,000 bpd when it meets on September 19. He said he would also propose a 500,000 bpd increase in the group's official output ceiling at the September meeting. Separately, a Gulf oil source said OPEC stands ready to pump more oil to offset any crude shortages. Meanwhile, Saudi Arabia's Oil Minister Ali al-Naimi said it is ready to increase its oil production to 11 million bpd to fill any supply shortages caused by Hurricane Katrina. He said Saudi Arabia was in contact with its customers, especially in the US, to assist in any supply shortfall. He however said that world oil markets are currently well balanced and that supplies are adequate.

Market Watch

The NYMEX announced margin rate changes for its September and October Unleaded Gasoline and NY Harbor Gasoline Calendar Swap contracts as of the close of business on August 29. The margins were increased from \$6,750 to \$8,100.

Ecuador plans to finalize an agreement to borrow crude oil from Venezuela this week. Ecuador was forced to declare a force majeure on its oil exports on August 18 after protests left the country with considerable production losses.

Germany's Economy Minister Wolfgang Clement said Germany should deepen its ties with Russia to help it counter the economic impact of record high oil prices. He said the energy price situation has become critical and everything should be done to tackle speculation on the oil markets which was helping to drive oil prices higher.

Venezuela's Oil Minister Rafael Ramirez said OPEC does not have the ability to increase production in the short term and added that it made no sense in proposing a production increase and an increase in the output ceiling.

According to Petrologistics, OPEC's output increased by 100,000 bpd in August to 30.5 million bpd. Preliminary data showed that Saudi Arabia's output increased to 9.6 million bpd in August, up from 9.55 million bpd in July.

The EIA reported that US retail gasoline prices fell 0.2 cents/gallon to \$2.61/gallon in the week ending August 29th. It also reported that the US average retail price of diesel increased by 0.2 cents/gallon to \$2.59/gallon on the week.

Refinery News

Eight refineries in Louisiana and Mississippi with a combined daily refining capacity of 1.774 million barrels of crude was shut due to Hurricane Katrina. Chevron Corp shut down its 325,000 bpd Pascagoula, Mississippi refinery on Saturday ahead of Hurricane Katrina. Chevron said it is limiting gasoline and diesel supplies at its terminals in the eastern US until further notice. Meanwhile, ConocoPhillips shut its 247,000 bpd Belle Chase refinery, Marathon Ashland Petroleum shut its 245,000 bpd Garyville refinery, Chalmette Refining shut its 190,000 bpd Chalmette refinery while Murphy Oil shut its 120,000 bpd Meraux refinery and Valero shut its 185,000 bpd Norco refinery. Also, Motiva Enterprise's 235,000 bpd Convent, Louisiana refinery suffered no damage from Hurricane Katrina that should affect a restart.

Valero Energy Corp said its 85,000 bpd Krotz Springs, Louisiana refinery was operating at 70% due to some pipeline shutdowns as a result of Hurricane Katrina. It also shut its 180,000 bpd St. Charles refinery as a precaution against the storm. It later stated that the refinery will remain shut for 1-2 weeks. It reported that its catalytic cracking unit has 3 feet of water.

ExxonMobil Corp's 494,000 bpd Baton Rouge refinery, which was operating at reduced rates due to limitations of feedstock supply stated that it was resuming normal operations on Monday afternoon.

Citgo's refinery in Lake Charles, Louisiana is running normally, with operations at the 320,000 bpd facility unaffected by Hurricane Katrina. However it said it needs 500,000 barrels of crude oil from the US SPR to keep its refinery operational. Citgo said the request was made to ensure the refinery operates normally because it is having difficulty obtaining enough crude oil to run through its refinery.

Suncor Energy's 23,400 bpd naphtha pre-treating unit at its Sarnia, Ontario refinery has been brought back online.

Nippon Oil Corp said a 37,000 bpd vacuum distillation unit at its 340,000 bpd Negishi refinery was shut since August 25 due to a fire. It said no restart date has been scheduled. Separately, Nippon Oil said it will process 4.7 million kiloliters of crude oil in September, up 9% on the year.

China's Dalian refinery plans to resume normal operations starting September 1 following a maintenance outage that lasted longer than expected. The refinery plans to process about 780,000 tons or 190,000 bpd of crude in September compared with 210,000 bpd in July.

Production News

Hurricane Katrina shut in 1.375 million bpd of crude oil and 8.299 bcf/d of natural gas production in the Gulf of Mexico, according to the US Minerals Management Service. It said that 91.69% of the normal 1.5 million bpd of crude production and 82.9% of the normal 10 bcf/d of natural gas production was

shut in. Meanwhile, Shell reported that it shut in 420,000 bpd of its production in the Gulf. Anadarko also reported that it shut in 20,000 boe/d while Apache shut in 64,000 bpd, ExxonMobil shut in 44,000 bpd, Marathon shut in 18,500 bpd, Total shut in 16,500 bpd and Kerr McGee shut in 50,000 boe/d. BP reported that it shut in a significant amount of crude production but did not disclose the exact amount. Nexen Inc shut down all its US Gulf of Mexico oil and gas production. It had been producing about 50,000 boe/d.

Midwestern oil refiners could face a supply crunch after the Louisiana Offshore Oil Port halted its operations. Many Midwestern refiners rely heavily on shipments from the LOOP, which was shut due to Hurricane Katrina. LOOP spokesman said the first priority will be to resume operations at pipelines that serve Midwestern refiners, which have become even more important to supply due to the extensive outages in the Gulf coast. He said some of the refineries in the Midwest will be able to compensate with extra crude from Canada but said that supply alone will probably not be enough to cover the entire region. A full assessment of the infrastructure is not seen possible until Tuesday.

The Colonial Pipeline shut its main gasoline and distillate fuel lines from Houston, Texas to Greensboro, North Carolina due to power outages on the Gulf coast caused by Hurricane Katrina. A company spokesman said the line will resume operations once power is restored.

Meanwhile, Royal Dutch/Shell shut its crude oil Capline pipeline on Sunday ahead of Hurricane Katrina. The system can move up to 1.2 million bpd of crude oil from St. James, Louisiana to Patoka, Illinois in five days.

Explorer Pipeline Co's operations were not affected by Hurricane Katrina and its oil products pipeline system running from Lake Charles, Louisiana into Texas and then north to the Midwest was running at full rates. An official said Hurricane Katrina's impact on Gulf coast refineries could lead to the pipeline's operations being affected if refineries in the area have their output seriously affected.

Shell said two of its oil drilling rigs under contract are adrift in the Gulf of Mexico following Hurricane Katrina. Separately, authorities closed a major bridge over the Mobile River after it was struck by a drifting oil platform.

Meanwhile, BP's Thunder Horse platform seems to be in stable condition after Hurricane Katrina moved through the Gulf of Mexico. Despite evacuating its employees, the company said it was able to monitor the facility electronically.

According to the Mississippi Petroleum Marketers and Convenience Stores Association, Mississippi's gasoline terminals were at low levels during the past week and power outages may delay their return to service in the wake of Hurricane Katrina.

According to figures from the Alaskan Tax Division, oil output from the Alaska North Slope fell below an average of 900,000 bpd in June and July and is expected to fall in August as well. Most of the decline in recent months is due to repair work on the Trans Alaska Pipeline System. The line was shut on June 19-20 and July 23-24 for planned maintenance.

Russia's Finance Ministry reported that Russian crude oil export duty will increase by 25% in October to a record \$179/ton following a rise in world oil prices. The duty on refined products will be set at \$133/ton for light products compared with the current level of \$106.60/ton.

Chinese refiners will cut gasoline and diesel exports in September despite restricted domestic prices amid government pressure to keep more supplies in the country to meet domestic demand. China's

refiners will cut September loading exports of gasoline by 70% to 130,000 tons while its diesel exports fell to below 100,000 tons. China's Finance Ministry said China will suspend its export tax rebates on gasoline from September 1 to December 31 in a bid to keep supplies in China. It will also halt a similar rebate on naphtha. The suspension of the 11% tax rebate is expected to help ease the shortage in oil products.

South Korea stated that two Nigerian deepwater oil exploration blocks controlled by Korea National Oil Corp hold as much as 2 billion barrels of reserves.

A senior Indian Petroleum Ministry official said India's demand for petroleum products is not expected to fall in the near term due to the federal government's policy of passing on the minimum impact of high world oil prices to customers. The government subsidizes gasoline, diesel, liquefied petroleum gas and kerosene to keep inflation in check. State run companies are currently selling gasoline at INR7.42/liter below the market price while diesel is underpriced by INR5.86/liter.

OPEC's news agency reported that OPEC's basket of crudes increased slightly to \$59.76/barrel on Friday, up from \$59.75/barrel on Thursday. It also reported that the OPEC basket price increased by 23 cents/barrel to \$58.49/barrel in the week ending August 25.

Market Commentary

The NYMEX energy complex posted strong gains in the wake of Hurricane Katrina but ended well off its record overnight highs. The markets were cautious as traders awaited the damage assessments after Hurricane Katrina wreaked havoc in the Gulf of Mexico. The crude market, which posted an overnight high of 70.80, gapped higher as it opened up \$2.67 at 68.80 amid reports that several refineries were shutdown in Louisiana and Mississippi while production in the Gulf of Mexico was shut in. The market immediately posted an intraday high of 69.10 before it started to backfill its opening gap as it failed to test its overnight highs. The market's gains were limited amid reports that the Bush administration would possibly decide to sell oil from the SPR to offset the impact of Hurricane Katrina on oil installations in the Gulf. The market erased its gains and sold off to a low of 66.30. The market however retraced some of its losses and settled up \$1.07 at 67.20. Volume in the crude was excellent with over 201,000 lots booked on the day. Meanwhile, the gasoline market posted a 16.3 cent trading range during today's session. It gapped sharply higher as it opened up 22.31 cents at 215.00 after it traded to an overnight high of 216.06 amid the refinery shut ins. The market immediately rallied to a high of 216.00 but erased its gains and partially backfilled its opening gap as it sold off to a low of 199.70. However the market retraced about 6 cents of its losses and settled up 13.37 cents at 206.06. The heating oil market settled up 7.22 cents at 190.88 after the market posted a high of 201.37 during today's session. Volumes in the product markets were good with 50,000 lots booked in the gasoline and 46,000 lots in the heating oil market.

The oil market on Tuesday will likely remain supported amid the reports that Valero's St. Charles

Technical Analysis		
	Levels	Explanation
CL 67.20, up \$1.07	Resistance 69.10, 70.80 68.00	Monday's high, Overnight high
	Support 66.30 65.90, 65.30, 64.65	Monday's low Previous lows
HO 190.88, up 7.22 cents	Resistance 197.50, 201.37 191.30, 192.50, 195.00	Monday's high, Overnight high
	Support 186.50 183.50	Monday's low Previous low
HU 206.06, up 13.37 cents	Resistance 216.00, 216.06 207.00, 208.00, 212.50	Monday's high, Overnight high
	Support 199.70 to 198.30 192.00	Backfills gap Previous low

refinery will remain down for 1-2 weeks while Chevron is seen limiting its gasoline and diesel supplies at its terminals in the eastern US. The market will also be driven by the damage assessments, which will likely begin on Tuesday. Technically, the market is seen finding support at its low of 66.30 followed by its previous low of 65.90. Meanwhile resistance is seen at 68.00 followed by its highs of 69.10 and 70.80.