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Windham Group



ENERGY RISK MANAGEMENT

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

www.e-windham.com

ENERGY MARKET REPORT FOR SEPTEMBER 14, 2005

The US Energy Department announced that it sold 11 million barrels of crude oil from the SPR as part of the IEA's effort to mitigate supply disruptions in the wake of Hurricane Katrina. The volume of oil sold, however fell short of the 30 million barrels that were offered. It said 10.8 million barrels of the crude oil sold was sweet crude while the remaining 200,000 barrels was sour crude. The winning bidders included BP Plc, Royal Dutch Shell Plc, Vitol, Astra and Marathon Oil Corp. Exxon Mobil Corp, Chevron Corp and Valero Energy Corp did not participate in the bidding. A US government official later said the US will not ask the IEA for an additional release of inventories because the market has adequate supplies.

Market Watch

The EPA said it has extended its diesel sulfur waiver for the US East and Gulf Coast and the state of Tennessee through October 5 to help ease fuel supply tightness in the wake of Hurricane Katrina. The waiver allows on-road use of off-road diesel fuel with a sulfur content higher than the nationwide highway diesel standard of 500 parts per million beyond the previous deadline of September 15. It also waived the summertime Reid vapor pressure requirements for gasoline in Texas until October 1 and for gasoline in Phoenix until September 31. It also extended the waiver for California until October 3.

Former Saudi Oil Minister Zaki Yamani said oil prices are unlikely to fall until the second half of 2006 unless the world economy slows down sharply.

Barclays Capital stated that while some oil market participants may widely consider that OPEC has lost control of prices, the group's upcoming meeting is still important. An analyst said OPEC may make a decision that adds more potential downward pressure on crude oil.

Nippon Oil Corp said four Japanese refiners will export 25,000 kl or 157,000 barrels of gasoline to the US as part of the world bid to ease a supply crunch after Hurricane Katrina. The gasoline will be shipped from Nippon Oil's 145,000 bpd Sendai plant in northern Japan this week or next and reach its destination in the first half of October. This brings Japan's planned gasoline exports to the US under the world scheme to 307,000 barrels so far after Showa Shell Sekiyu said it would ship 150,000 barrels later in September. ExxonMobil's Japanese unit has also said it would export about 140,000 barrels of alkylate to the US and 630,000 barrels of gas oil to Europe in September or October.

OPEC President Sheikh Ahmad al-Fahd al-Sabah reiterated on Wednesday that he will propose the cartel raise its output by 500,000 bpd when it meets next week.

A shipping source stated that crude oil exports from Iraq's northern oil fields via its pipeline to the Turkish terminal of Ceyhan remained on hold on Wednesday.

The EIA stated that US commercial inventories of crude oil should be able to avoid falling to dangerously low levels despite two weeks of steep drawdowns. Crude stocks have fallen by about 13 million barrels in the past two weeks, leaving inventories at 308.4 million barrels on September 9. In regards to gasoline stocks, it said timing may also partly explain an unexpected build of about 2 million barrels in gasoline stocks. An analyst said not enough supply has moved out of primary stocks and into secondary stocks. He said last week, demand for gasoline was hurt by a combination of high prices and spot shortages seen around the country. As the distribution system returns to full service, the market will likely see a draw out of primary and into secondary stocks and consequently a rebound in demand.

The API reported that US oil demand fell by 1.1% in August to 20.789 million bpd. It showed that gasoline demand fell by 0.4% in August to 9.287 million bpd while jet fuel demand also fell by 4.7% to 1.649 million bpd. On the supply side, the API report showed US production of crude oil fell by 1.6% to 5.246 million bpd. Crude imports fell by 2.4% to 10.206 million bpd.

Refinery News

Murphy Oil Corp's 120,000 bpd Meraux, Louisiana refinery has pumped out much of the water that flooded its process equipment following Hurricane Katrina. The Meraux refinery is the most severely damaged and flooded of three Louisiana refineries that remain shut. Last week an official at the Louisiana Department of Environmental Quality said the recovery and restart of the plant could take as long as six months.

Exxon Mobil Corp said it is still assessing damage at its 190,000 bpd refinery in Chalmette, Louisiana. An electrical substation at the plant was destroyed in the hurricane. It has no timetable for resuming operations. Separately, Exxon Mobil said it came close to a forced shutdown at its Baton Rouge refinery as Hurricane Katrina made landfall two weeks ago. If the refinery would have been forced to shutdown about 500,000 barrels of refining capacity would have been lost each day.

Valero Energy Corp's Wilmington, California refinery has not moved beyond the initial stages of restart following Monday's shutdown. The plant's third party provider of hydrogen, which is necessary to the refining process was not able to provide the gas in the early hours of Wednesday as expected. There are no estimates on when the refinery will resume full production. Meanwhile, Shell's 98,500 bpd refinery continues to restart units and expects to resume normal operations by the weekend. Also ConocoPhillips is still in the process of restarting its Wilmington, California refinery.

Saudi Arabia and Shell are planning to more than double the capacity of their joint venture refinery in Texas to 600,000 bpd. The \$3.2 billion expansion would make Motiva Enterprises' Port Arthur plant, with a current capacity of 235,000 bpd, the largest refining complex in the US.

Virgin Atlantic Airways' Richard Branson said he is planning to build a refinery after Virgin Airlines was forced to raise fuel surcharges for the second time in four months. He did not say where he wants to put his refinery but some analysts said he should not look to the US since getting a permit could take years of navigating local, state and federal regulations.

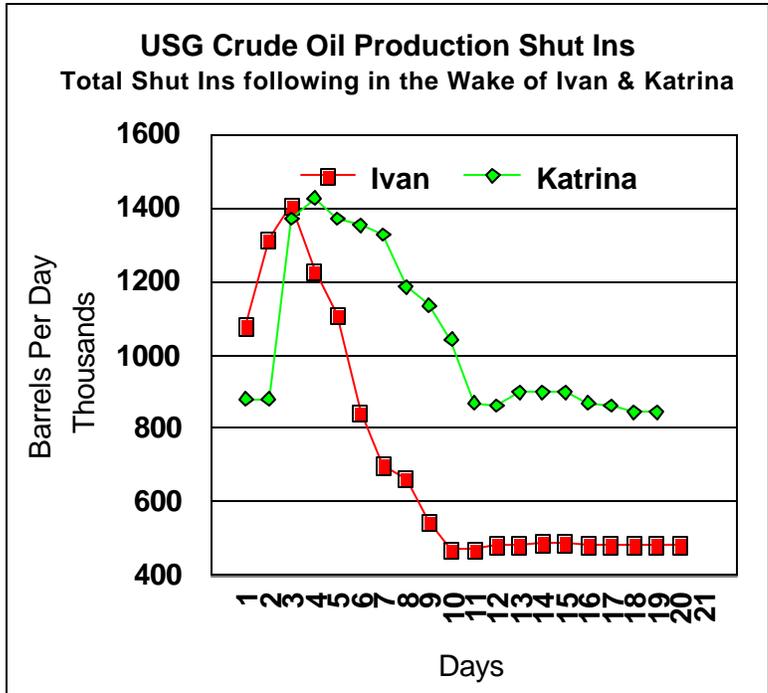
China's National Bureau of Statistics reported that crude throughput at China's refineries increased by 5.6% on the year in August to 24.23 million tons or 5.7 million bpd. It reported that crude imports fell to 2.06 million bpd. It also reported that gasoline production increased by 2.2% on the year to 4.543

million tons while kerosene production increased by 25.7% to 982,500 tons. Diesel production also increased by 8.1% to 9.519 million tons.

Production News

The MMS reported that US Gulf of Mexico oil production shut in due to Hurricane Katrina was relatively unchanged. It said shut in oil production stood at 843,725 bpd or 56% of total Gulf production. Since August 26, 20.53 million barrels of oil has been shut in.

Gulf of Mexico oil producers are struggling to find their way around damage to pipelines and an onshore storage facility. The oil producers are ready to start pumping oil but cannot get their crude ashore. The producers particularly impacted are producers of Heavy Louisiana Sweet crude that has been bottled up by damage to the Empire Terminal on the Mississippi River. The terminal was flooded and suffered an oil spill and a power outage. In addition, Royal Dutch Shell has reported damage to 20 inch pipeline at Nairn, Louisiana, where three branches of the 240,000 bpd Delta pipeline system.



An OPEC delegate said Saudi Arabia will keep oil production steady at 9.5 million bpd in September. He said the September rates reflected the needs of Saudi oil customers.

Germany's MWV said the country's oil product sales in August totaled 7.65 million tons, up 7.4% on the year. It reported that gasoline stocks fell by 6.3% to 2 million tons while diesel fuel stocks increased by 0.6% to 2.51 million tons and heating oil stocks increased by 34.1% to 2.62 million tons.

OPEC's news agency reported that OPEC's basket of crudes fell further to \$55.82/barrel on Tuesday, down from \$56.73/barrel on Monday.

Russia's Transneftproduct will resume gas oil flow to the Latvian export terminal of Ventspils on Thursday after several days of interruption.

India is likely to stop importing low sulfur diesel by the end of next month as local refineries will be able to meet new fuel standards. Indian refiners have been importing large volumes of low sulfur petrol and diesel since January as they are unable to upgrade refineries in time to meet new fuel specifications.

Japan's Petroleum Association of Japan reported that gasoline inventories held steady last week as refiners struggled to comply with a government request for oil exports. Gasoline inventories increased 0.5% on the week to 2 million kl or 12.58 million barrels. It also reported that kerosene stocks increased by 6.9% to 3.9 million kl or 24.53 million barrels. It also reported that the country's commercial crude oil stocks totaled 18.09 million kl or 113.78 million barrels. Gasoline production fell by 9.3% to 1.1 million kl.

Japan's Kyushu Oil Co said its exports of jet fuel to the US surged to 100,000 kl in the first six months of the fiscal year starting in April compared with its total average annual export volume of 40,000-70,000 kl over the few years.

Market Commentary

The NYMEX energy complex settled sharply higher as the reports which showed unexpected builds in gasoline stocks failed to keep the markets pressured. The oil market opened up 64 cents at 63.75 and sold off to a low of 63.20 following the release of the DOE and API, which showed the builds in gasoline stocks. The market however bounced off its low and rallied above the 64.00 level to 64.80 amid the draws reported in crude stocks. It traded in a sideways trading pattern before the market rallied to a high of 65.20 ahead of the close. The oil market settled up \$1.98 at 65.09. Volume in the crude was excellent with over 245,000 lots booked on the day. The gasoline market, which posted an intraday high of 194.50 early in the session, quickly came off amid the builds seen in gasoline stocks. The market sold off to a low of 186.00. The market which failed to test its previous low, bounced off its low and erased its losses as it traded back towards its high ahead of the close. It settled up 4.57 cents at 193.73. Meanwhile, the heating oil market gapped higher from 185.00 to 185.50 on the opening in follow through strength seen in overnight trading. The market sold off to a low of 183.50 but quickly retraced its losses amid the draws reported in distillate stocks. It traded to 190.50 and found further buying ahead of the close, which pushed it to a high of 192.95. It settled up 8.47 cents at 192.49. Volumes in the product markets were good with 62,000 lots booked in the gasoline and 52,000 lots booked in the heating oil market.

The oil market has found some support following its recent sell off. It technically looks like it has found its near term bottom as stochastics are ready to cross back to the upside. The market is seen finding support at

64.80, 64.00 followed by its low of 63.20. Meanwhile, resistance is seen at its high of 65.20 followed by 65.72, 66.50 and 66.70.

Technical Analysis		
	Levels	Explanation
CL 65.09, up \$1.98	Resistance 65.72, 66.50, 66.70	Previous highs, 50% retracement (70.85 and 62.55) Wednesday's high
	Support 63.20	
HO 192.49, up 8.47 cents	Resistance 195.66, 196.00, 200.50	38% (221 and 180), Previous high, 50% retracement Wednesday's high
	Support 192.95	
HU 193.73, up 4.57 cents	Resistance 190.50, 187.50	Wednesday's low
	Support 183.50	
	Resistance 204.00	Previous high Wednesday's high
	Support 194.50	
	Resistance 186.00, 185.50	Wednesday's low, Tuesday's low Double bottom
	Support 184.00	