



ENERGY RISK MANAGEMENT

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

www.e-windham.com

ENERGY MARKET REPORT FOR DECEMBER 14, 2004

OPEC's pledge to cut its overproduction may be in doubt given that Kuwait Petroleum Corp has failed to reduce its January term supplies to Asia. It has informed refiners across the region that their loadings next month will remain at full contractual volumes, unchanged for the fourth consecutive month. Kuwait is obliged to reduce its total exports by about 120,000 bpd starting in January. A cut from Abu Dhabi National Oil Co, under the UAE's obligations to cut exports by 120,000 bpd is not anticipated either. Separately, Qatari Energy Minister Abdullah bin Hamad al-Attiyah said his country had informed customers of a 40,000 bpd supply cut from January 1. He also stated that OPEC may cut its 27 million bpd production quota at an extraordinary meeting on January 30.

Iraq's southern oil exports have been restored following a power outage

Market Watch

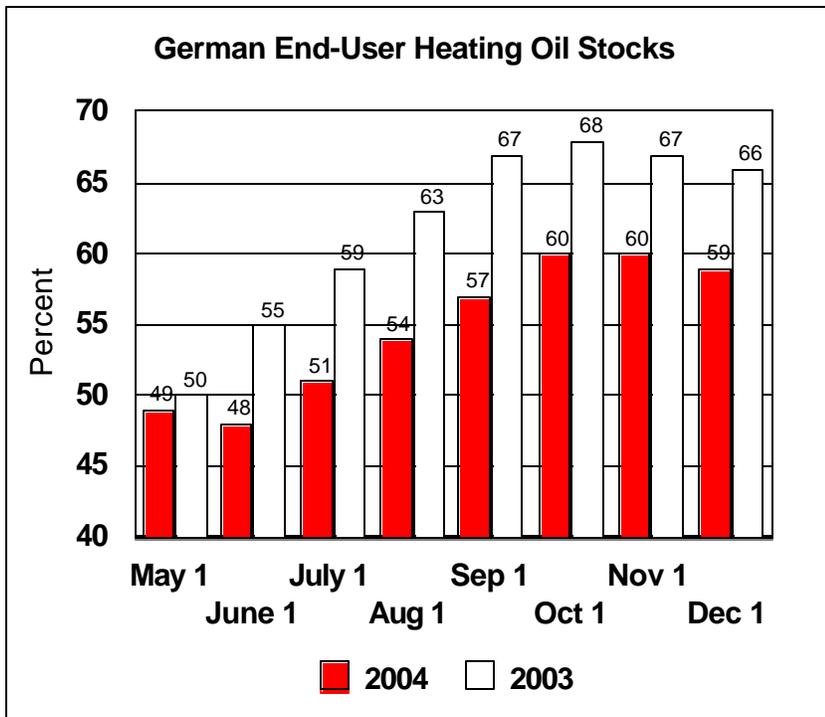
Cold weather in the Northeast US, which has pushed natural gas prices to their highest level in almost a year, could trigger more demand for heating oil supplies. While cash prices for heating oil in the New York Harbor was strong this week, the gains lagged the gains in natural gas prices, raising the possibility that some utilities or industrial firms would use heating oil to meet unexpected surges in demand. However traders agreed that the length of the cold snap would determine whether utilities would actually switch to heating oil.

Private forecaster AccuWeather predicted that following the warm start to December, the eastern US can expect temperatures to average well below normal for the remainder of December. It said there will be short-lived warm-ups but the cold spells will be longer than the warmer ones this month.

Iraq's foreign minister, Hoshiyar Zebari said he expects pro-Saddam Hussein Baathist Islamic extremists to boycott next month's elections. He has called on the UN to do more to guarantee the credibility of the elections. Meanwhile, UN Secretary General Kofi Annan is expected to meet with outgoing Secretary of State Colin Powell and National Security Adviser, Condoleezza Rice ahead of the election.

ChevronTexaco Corp plans to increase its capital spending by 18% next year, spurred by investment in regions like West Africa and the deep waters of the Gulf of Mexico. The company forecast a \$10 billion capital and exploratory spending program for 2005, up \$1.5 billion from the year earlier. It said that for planning purposes it was using oil prices ranging from \$20-\$30/barrel for its ongoing oil price band assumption.

Open interest has increased on the NYMEX's Dublin Brent open outcry contract and changes to its settlement procedure this week could further improve liquidity. Open interest increased to over 10,000 lots, up from just over 2,600 lots when the contract started trading on November 1. Traders said a switch to settling the price on a similar basis to that for the IPE should make it easier to move between the two exchanges and increase liquidity. The NYMEX stated last week it would change the basis for the final settlement for the Brent futures contract to an index of cash market data collected by Argus, ICIS-LOR and Reuters starting with the expiry of the January futures contract on Thursday. This replaces the Platts index currently used.



caused by a militant attack on an electricity plant. A shipping agent said oil loading at the main southern terminal of Basra has been running at 55,000 barrels per hour after power was restored midday Monday. Meanwhile in the north, shipper said the export pipeline to Ceyhan was still closed following sabotage during the weekend. An oil official also stated that unknown assailants set off a fire near its oil pipeline in northern Iraq, raising concerns that the heat could damage the line. Firefighters were attempting to extinguish the fire, which erupted late Monday. Iraq's Oil Ministry said it would form security teams to guard pipelines and that a large number of Iraqi National Guardsmen had already been deployed to northern, central

and southern Iraq to guard the infrastructure.

A community leader in Nigeria said only the intervention of Nigeria's President Olusegun Obasanjo can end a protest that has shut in 120,000 bpd of the country's crude oil production. The government of the Rivers state has pledged to build a hospital, provide water and electricity to the Kula community but local chief Anab Sara-Igbe said this would not end the siege. Meanwhile, a Shell spokesman said the company was still waiting for feedback from the government, adding that its two flowstations remained closed.

OPEC's news agency reported that OPEC's basket of crudes increased by \$0.07/barrel on Monday to \$33.99/barrel compared with \$33.92/barrel on Friday.

Refinery News

BP Plc and Valero Energy Group are both experiencing continuing problems with coking units at their respective 260,000 bpd and 160,000 bpd refineries in the Los Angeles area.

Valero stated that a 28 day planned maintenance turnaround at its Corpus Christi, Texas refinery will start on January 6. The units affected by the work include a sulfur unit, an MTBE unit and the refinery's heavy oil cracker.

According to a USB report, US refinery margins fell to their lowest level in almost two years. Average US refining margins fell \$1.25 to \$2.97/barrel in the week ending December 11. It is about half the profit margin from the week ending November 27, when US margins averaged \$6.21/barrel. European refinery margins fell 50 cents to \$6.85/barrel while margins in Asia fell by \$3.59/barrel to \$10.89/barrel.

A 107,000 bpd catcracker at the Amuay section of PDVSA's Paraguana refining complex was shut on Tuesday morning due to a malfunction. The impact on gasoline production is between 70,000 bpd and 80,000 bpd. There was no estimate on when it will be repaired. It said current crude runs of 580,000 bpd will fall if the unit does not resume operations within 24 hours.

Production News

Statoil is aiming to restart its 75,000 bpd North Sea Vigdis field December 19-20 and its 130,000 bpd Snorre field December 27-28. Statoil said it was aiming to complete work repairing the leak at the end of this week and begin the necessary start up approval process with the Petroleum Safety Board. However a source stated that the start up dates were still uncertain as the Safety Board needs to approve the start up.

The January loading program for North Sea Statfjord crude has scheduled the loading of 13.68 million barrels. Norway's North Sea Gullfaks crude system plans to load about 359,000 bpd in January, up from 276,000 bpd in December.

According to a trading source, German heating oil user stocks fell to 59% capacity on December 1 from 60% on November 1 and from 66% last year. German heating oil stocks are at the lowest December level. The five year average stood at 65%.

Germany's MWV reported that total sales of oil products in Germany increased 6.9% year on year in November to 9.962 million metric tons. It said heating oil sales increased by about 30% to 2.43 million tons while sales of gasoline fell by 0.8% on the year to 2.04 million tons.

Saudi Aramco plans to restart three mothballed oil fields, the Abu Hadriyah, Khursaniyah and Fadhili fields. A company spokesman said startup dates depend on demand for Saudi crude. The three fields are part of a plan to increase Saudi Arabia's production capacity by 1.5 million bpd to 12.5 million bpd. No timetable has been set for the restart of the additional wells. The Abu Hadriyah field has reserves of 1.8-2 billion barrels while the Khursaniyah field has reserves of 4 billion barrels and the Fadhili field has reserves of 1-1.4 billion barrels.

Russia's Industry and Energy Ministry reported that the country's crude oil production in the first quarter of 2005 is expected to increase by 6.9% to an average of 9.64 million bpd. Russia's crude production averaged 9.39 million bpd in November, up 6.9% on the year.

Traders stated that shipping programs left Yukos' normal volumes unassigned as the firm would be unable to guarantee shipments after its main unit is sold on December 19. Yukos normally ships about six cargoes of crude each month to major ports via Russia's Transneft trunk pipeline system. However officials are not sure who will supply that oil after Yukos' Yuganskneftegaz unit is sold. The uncertainty also means Yukos may soon be forced to cancel major supply contracts worth millions of barrels. Despite Yukos' demise, officials plan to increase exports through the two main ports, Primorsk and Novorossiisk in January.

Azerbaijan's President Ilham Aliyev said the country does not expect problems in financing construction of the Baku-Ceyhan pipeline despite a \$400 million increase in estimated cost. The 1 million bpd pipeline was estimated to cost \$3.6 billion however SOCAR said last month construction delays had increased the cost to \$4 billion. He said the cost overruns should not pose financing problems for the pipeline, which is due to start pumping crude oil in the first half of 2005.

Indian state firms' domestic sales of refined oil products fell by 6% to 7.53 million tons in November compared to the previous month due to higher retail prices. Year on year sales fell 5.1% during the month as retailers held lower stocks. Diesel sales fell by 11.9% to 2.9 million tons while petrol sales fell by 3.7% to 620,000 tons from the same month a year ago. Demand for liquefied petroleum gas increased by 10.3% to 840,000 tons while jet fuel sales increased by 15.7% to 250,000 tons.

China's crude oil production increased by 3% to 159.58 million tons in the first 11 months of the year, with November's production up 4.5% on the year at 14.52 million tons. Its diesel output in November increased by 17.5% to 8.56 million tons. The volume of crude processed in November increased by 11.8% on the year to 23.54 million tons while crude processed in the January-November period increased by 13.9% to 248.61 million tons.

Ecuador expects to receive \$1.849 billion in revenues from oil exports this year, 51% higher than the \$1.227 billion estimated in its 2004 budget. Crude production by Petroecuador is expected to close the year at about 46 million barrels, down from 54 million barrels.

Oil production by Petrobras fell by 3.3% in November to 1.48 million bpd after three rigs were halted for maintenance. Petrobras' foreign production fell by 4.2% to 164,700 bpd.

Market Commentary

The oil complex settled in positive territory for the second consecutive session in light of the weather forecasts calling for colder than normal temperatures in most of the eastern US. The National Weather Service forecasted below normal temperatures for most of the country in its 8-14 day forecast while a private weather forecaster called for below normal temperatures for the remainder of the December. The crude market opened up 34 cents at 41.35 and quickly breached Monday's high of 41.65 as it posted an intraday high of 41.89 within the first 30 minutes of trading. The market however retraced its gains and settled in a range from 41.05 to 41.60 before it traded to a low of 40.92. It later bounced off that level and never looked back as the strength in the heating oil market lent some support to the complex. The market retraced its move and traded back towards its high on good buying ahead of the close. It settled up 81 cents at 41.82. Volume in the crude market was good with over 207,000 lots booked on the day. Meanwhile, the heating oil market settled sharply higher at 130.45, up 4.75 cents on the day. The market opened up 1.8 cents higher at 127.50 and quickly posted an intraday low of 127.00. It however bounced off that level and never looked back as the market was well supported by the cold weather forecasts. The January heating oil market extended its gains to 5.8 cents as it posted a triple top at its high of 131.50 late in the session. The gasoline market also opened up 68 points at 110.80 and quickly posted an intraday high of 111.60 before it retraced its gains and posted an intraday low of 109.00. The market which held support at its low, bounced off that level and traded back to its high ahead of the close. The gasoline market which posted an inside trading day once again settled up 87 points at 110.99. Volumes in the product markets were good with 51,000 lots booked in the heating oil market and 42,000 lots booked in the gasoline market.

The crude market may retrace some of its gains on Wednesday following the release of the weekly petroleum stock reports if they show larger than expected builds in product

Technical Analysis		
	Levels	Explanation
CL	Resistance	43.10-43.20
	41.82, up 81 cents	41.89, 42.43, 42.94
	Support	40.92, 40.40
HO	Resistance	132.20, 135.00
	130.45, up 4.75 cents	131.50
	Support	127.00
HU	Resistance	113.80, 115.70
	110.99, up 87 points	111.60, 111.70
	Support	109.00, 108.10
		106.50

stocks once again. The reports are expected to show small builds in crude stocks of about 500,000 barrels and builds in distillate and gasoline stocks of 1 million barrels, each. However if the reports show no surprises, the oil market is likely to continue trading higher amid the weather forecasts calling for colder than normal temperatures, which has kept the heating oil market well supported. The crude market is seen holding initial support at 40.92 followed by 40.40, 40.25 and 40.10. Meanwhile resistance is seen at 41.89 followed by 42.43 and 42.94. More distant resistance is seen at its previous highs of 43.10 and 43.20.