



## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR NOVEMBER 4, 2005**

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#### **Refinery News**

Valero Energy Corp reported a sulfur unit problem at its 250,000 bpd Port Arthur, Texas refinery. A report filed with the Texas Commission on Environmental Quality did not say whether the incident affected production at the refinery.

Shell's 58,000 bpd fluid catalytic cracking unit at its 145,000 bpd Anacortes, Washington refinery was shutdown early this week due to a vapor leak last weekend. It was in the process of restarting some units following a 30 day turnaround when the incident occurred.

Production at Shell's 418,000 bpd Pernis refinery will most likely

return to normal by early next week after a deal between management and the union ended a three day strike. Shell made a concession to unions allowing current employees to retire at 60. A spokeswoman said Shell will contribute to the pension plan but employees will also have to participate with up to a 3% contribution. She however said that new Shell workers would all have to retire at 65.

#### **Market Watch**

BP's chief John Browne said oil prices at \$60/barrel are not sustainable as supplies rise and consumers seek cheaper energy sources. He said high prices had spurred significant investment from the private sector and had prompted OPEC members to increase supply. However there may also be some response from consumers and entrepreneurs seeking cheaper alternatives. He also stated that BP wants to strengthen its ties with China's Sinopec but declined to confirm reports it sought a stake in Sinopec to gain wider access to China.

Total SA said that together with Statoil ASA, it has agreed to pay a back tax bill of \$1 billion in Venezuela related to its ultra heavy oil production operations. Meanwhile oil companies that won Venezuelan operating contracts in the 1990s fear the policy changes could erode the value of their assets. President Hugo Chavez has ordered 22 oil companies to convert operating contracts into mixed companies in which PDVSA will hold majority stakes. PDVSA President Rafael Ramirez said the company will hold a 60% to 80% stake in each field, raising fears that the contract conversion would undermine the value of their assets. Oil companies, including Shell, Chevron, Total and ENI SpA plan to sign the agreement to restructure contracts by year end to avoid a complete loss.

Separately, Venezuela's Seniat tax authority may temporarily shut the administrative offices of two oil companies next week if no progress is made on their outstanding tax bills. The Seniat has delivered back tax bills to more than six companies.

The NYMEX said its board has voted to install surveillance cameras in its energy and metals trading pits. It said it expects to begin installing the cameras in the first quarter of next year.

Nippon Oil Corp said it expects its refineries to run at an average 95% of capacity in the second half of the year to March 2006 compared with 84% in the first six months.

GS Caltex Corp plans to maintain its November crude processing rate at full capacity in December. As a result, it plans to export the same amount of gas oil of between 120,000 tons and 160,000 tons in December.

Yemen's Aden refinery increased its output to 120,000 bpd from 90,000-100,000 bpd after maintenance was completed this year.

**Production News**

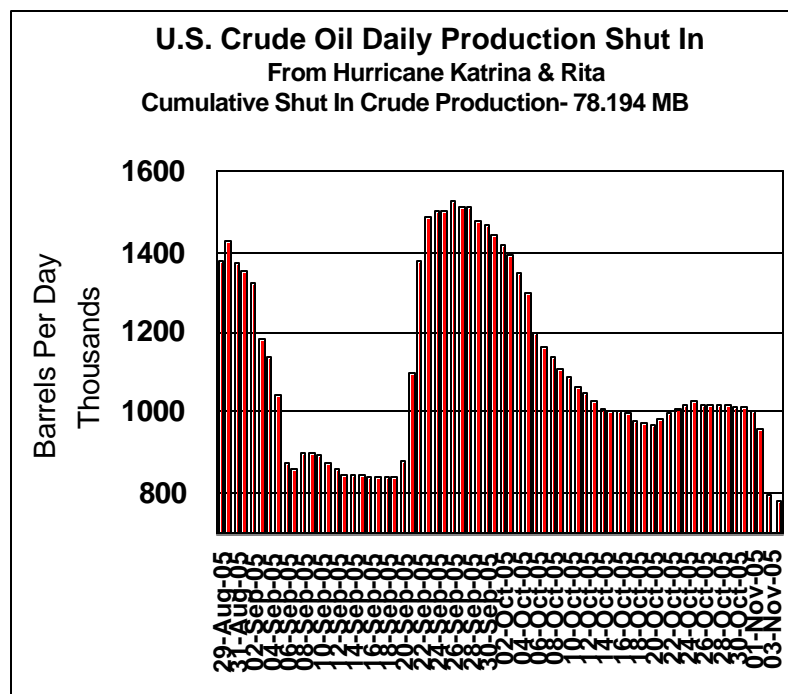
The MMS reported that the recovery of oil and gas production slowed down on Friday after making major gains on Thursday. It reported that about 780,633 bpd of crude production remained shut in, down from 790,610 bpd reported on Thursday.

Pemex said it is no longer dealing with disruptions in oil production and shipments from recent hurricanes in the Gulf of Mexico. The storms cut 118,000 bpd of the company's crude production in the third quarter. Its crude production in the third quarter averaged 3.29 million bpd from 3.38 million bpd in the year ago period. The company's operations have returned to normal.

Total plans to return the Virgo oil and gas production platform by the end of the first quarter of next year. The platform was shut in as a result of Hurricane Katrina.

Delays for oil and gas tankers transiting the Turkish Straits have increased to 6 days for a round trip this week. Local shipping agents said delays have increased to three days to pass north through the Dardanelles and Bosphorus and another three days to move south. Oil tankers over 200 meters in length have been restricted to daylight passage only to minimize the risk of an accident and environmental damage.

Japanese refiners are expected to cut November high sulfur fuel oil exports by 12% from the previous month amid lower crude runs. The November HSFO export volumes are estimated to total 230,000 tons compared with 260,000 tons for October.



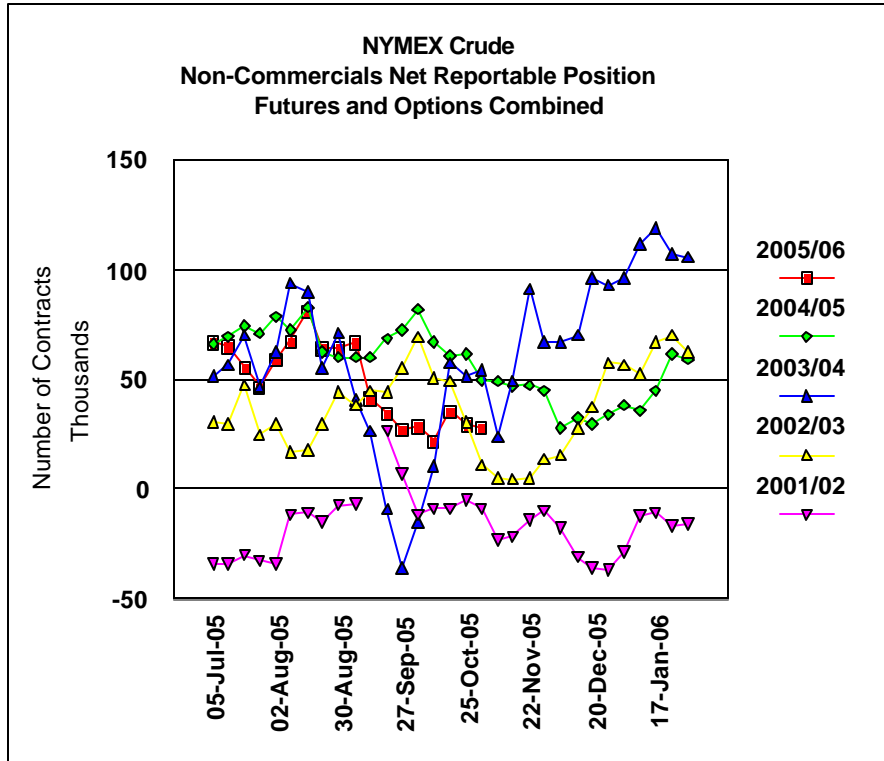
Total is maintaining its target of an annual hydrocarbons production increase to 3-4% for the next five years. Total reported a third quarter decline of 2% year on year to 2.428 million bpd. It said the decline was due to higher prices, which led to lower volume entitlements from fields covered by production sharing agreements.

OPEC's news agency reported that OPEC's basket of crudes increased to \$53.45/barrel on Thursday from \$52.88/barrel on Wednesday.

Ecuador's Energy Ministry reported that the country's average oil production increased by 1% to 528,603 bpd in January-September, up from 523,315 bpd last year. Petroecuador averaged 195,198 bpd or 37% of the total in the first eight months of the year.

**Market Commentary**

The oil complex settled in negative territory after it erased Thursday's sharp gains amid the unusually warm weather. The markets may have also been pressured in light of reports that Shell's Pernis refinery was resuming normal operations by early next week. The crude market opened down 68 cents at 61.10 and posted a high of 61.40. It continued to erase its gains and traded to a low of 60.75 before it settled in a sideways trading pattern. The market later breached its early resistance and posted a high of 61.60. It however failed to test its resistance at its previous high of 61.85 and sold off even further ahead of the close to a low of 60.50. It settled down \$1.20 at 60.58. Volume in the crude was slightly better today with 169,000 lots booked on the day. Meanwhile, the gasoline market posted a mostly neutral trading session. It also settled down 1.88 cents at 160.80, near its opening price of 160.75. The market erased Thursday's late gains and sold off to a low of 159.10 within the first hour of trading. It later bounced off its low and rallied back to a high of 162.70. It however failed to test its resistance at 163.00 and erased some of its gains ahead of the close. The heating oil market settled sharply lower, down 3.74 cents at 179.62 after the market sold off to a low of 178.20 early in the session. The market later retraced some of its gains and settled in a sideways trading pattern as it remained pressured by the warm weather. Volumes in the product markets were light with 32,000 lots booked in the gasoline and 33,000 lots booked in the heating oil market.



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Technical Analysis		
	Levels	Explanation
CL	<b>Resistance</b> 62.64, 62.95 61.70, 61.85	Basis trendline, Previous high Friday's high, Thursday's high
	<b>Support</b> 60.50, 60.10 58.75	Friday's low, Thursday's low Previous low
HO	<b>Resistance</b> 186.00 to 187.50, 189.66 181.75, 183.00	Gap (October 31st), Basis trendline Friday's high, Thursday's high
	<b>Support</b> 178.20 175.00, 174.00, 169.93	Friday's low Previous lows, Basis trendline
HU	<b>Resistance</b> 164.50, 167.00 162.70, 163.00	Previous highs Friday's high, Thursday's high
	<b>Support</b> 159.10 157.60, 155.25	Friday's low Thursday's low, Previous low

According to the Commitment of Traders report, non-commercial traders continued to increase their net short positions by 3,956 contracts to 42,040.

contracts in the week ending November 1<sup>st</sup>. The combined futures and options report also showed that non-commercials cut their net long position by 1,257 contracts to 28,407 contracts on the week. Non-commercials in the gasoline market cut their net long position by 1,664 contracts to 23,745 contracts while non-commercials in the heating oil market increased their net short positions by 3,934 contracts to 10,744 contracts on the week amid the complex's downward trend.

Barring any news over the weekend, the market is seen trading lower. It is still trending lower as it has been unable to break out of its downward trend. The market is seen finding resistance at its highs of 61.70 and 61.85. More distant resistance is seen at 62.64, basis its trendline and 62.95. Meanwhile, support is seen at its lows of 60.50, 60.10 and 58.75.