



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR JANUARY 3, 2005

Iraq's Oil Minister Thamer al-Ghadhban said two out of six oil wells in northern Iraq that have been burning since late November have been extinguished. However exports through the northern pipeline to Turkey's port of Ceyhan remain suspended for the third week due to sabotage attacks. Iraq's southern exports have been averaging about 1.7 million bpd after loadings were interrupted last week due to bad weather conditions. Meanwhile, a pipeline feeding Baghdad's Dora refinery was attacked during the weekend while another pipeline near the city of Samarra was also attacked hours after damage to it from sabotage a week ago was fixed. Separately, an Iraqi government statement stated that Iraq has taken over the protection of its oil facilities from a South African contractor. Iraq's State Oil Marketing

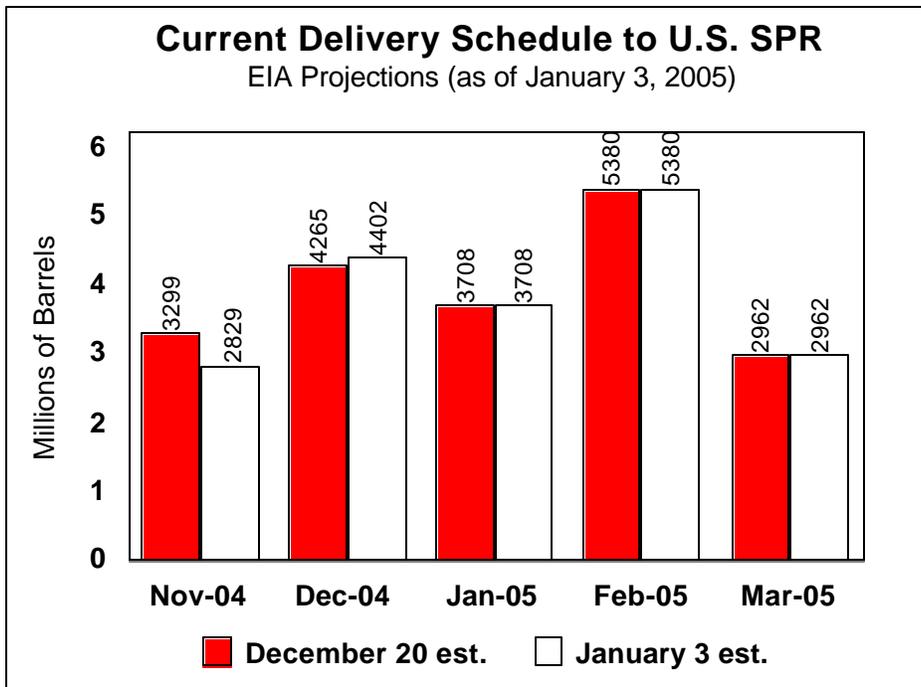
Market Watch

The US National Weather Service forecast that US homeowners will use their heating systems much less than normal for the second consecutive week as mild weather sweeps through the northern and eastern regions. Total US home heating needs were forecast to be 29% below normal in the week ending January 8 after it was nearly 16% below normal in the week ending January 1. It forecast 184 heating degree days on a oil home heating customer weighted basis for the week ending January 8th, down 29% from normal and down 37% from last year's level.

The DOE updated its SPR oil delivery schedule, with shipments to the SPR in December cut by 470,000 barrels to 2.829 million barrels and deliveries in January increased by 137,000 barrels to 4.402 million barrels. Its oil shipments in February, March and April were unchanged at 3.708 million barrels, 5.38 million barrels and 2.962 million barrels, respectively.

US Secretary of State Colin Powell warned of more violence ahead of Iraq's January 30 elections and said a stronger Iraqi force is needed to help increase security. He said one of the biggest challenges facing the country is the buildup of Iraqi forces needed to help combat insurgency. His comments came on the same day that a suicide attacker detonated a car bomb north of Baghdad, killing 19 Iraqis, all but one of them National Guardsmen. The Secretary of State however said the tenuous security situation will not lead to a delay in the assembly election.

The Russian government said state oil pipeline monopoly Transneft will build an 80 million ton/year or 1.6 million bpd pipeline from Taishet in East Siberia to the Perevoznaya Bay in the Pacific Primorsk region. The deal will enable Russian oil exports to be shipped to Japan and the US. It gave no firm schedule for the project but said final proposals should be made before May 25. Russia's Yukos lobbied for a 600,000 bpd pipeline from East Siberia to China, but the idea collapsed after President Vladimir Putin said he preferred the Pacific route.



Organization has decided not to renew its long term contracts with Kirkuk crude lifters amid the ongoing attacks by Iraq insurgents.

OPEC President Sheikh Ahmad al-Fahad al-Sabah has appointed Kuwaiti Adnan Shihab-Eldin, head of OPEC's research division, as OPEC's acting Secretary General.

OPEC's news agency reported that OPEC's basket of crudes increased by 24 cents/barrel to \$36.43/barrel on Friday from \$36.19/barrel on Thursday.

The EIA reported that the US average retail price of diesel fell by 3 cents/gallon to \$1.957/gallon in the week ending January 3^d. It also reported that the US average retail price of gasoline fell by 1.3 cents/gallon to \$1.778/gallon on the week.

Refinery News

Shell Oil restarted an olefins unit at its Deer Park, Texas refinery on January 2 after a week of work to repair a leak. The restart process is expected to take several days, concluding on January 6.

Valero Energy Corp plans to shut a fluid catalytic cracking unit at its Houston, Texas refinery on January 9 for maintenance. The catcracker's regenerator vent and associated equipment will be shut during the work.

BP Plc's Texas City, Texas refinery will shut the resid hydrotreater on January 5 for 12 days of maintenance. The refinery filed a report with the Texas Commission on Environmental Quality about emissions related to the restart of a hydrogen unit on December 31 following repairs to the unit's stripper column. Equipment malfunction last week caused the unit to shutdown.

South Korea's SK Corp cut its crude processing rates for January from December levels due largely to mild winter weather. SK's crude runs in January stood at 750,000 bpd and 800,000 bpd compared with 800,000 bpd in December.

Production News

The US Minerals Management Service reported that US oil output in the Gulf of Mexico was at 91.46% of its normal rate of 1.7 million bpd, up from 91.07% on December 16. It said 145,128 bpd of oil remained shut, down from 151,777 bpd on December 16. Natural gas production shut in was at 584.69 mmcf/d, down from 594.29 mmcf/d on December 16.

According to Baker Hughes, the number of rigs searching for oil and natural gas in the US fell by 14 to 1,243 in the week ending December 31st. The number of rigs searching for oil in the US fell by 1 to 183 while the number of rigs searching for gas fell by 12 to 1,058.

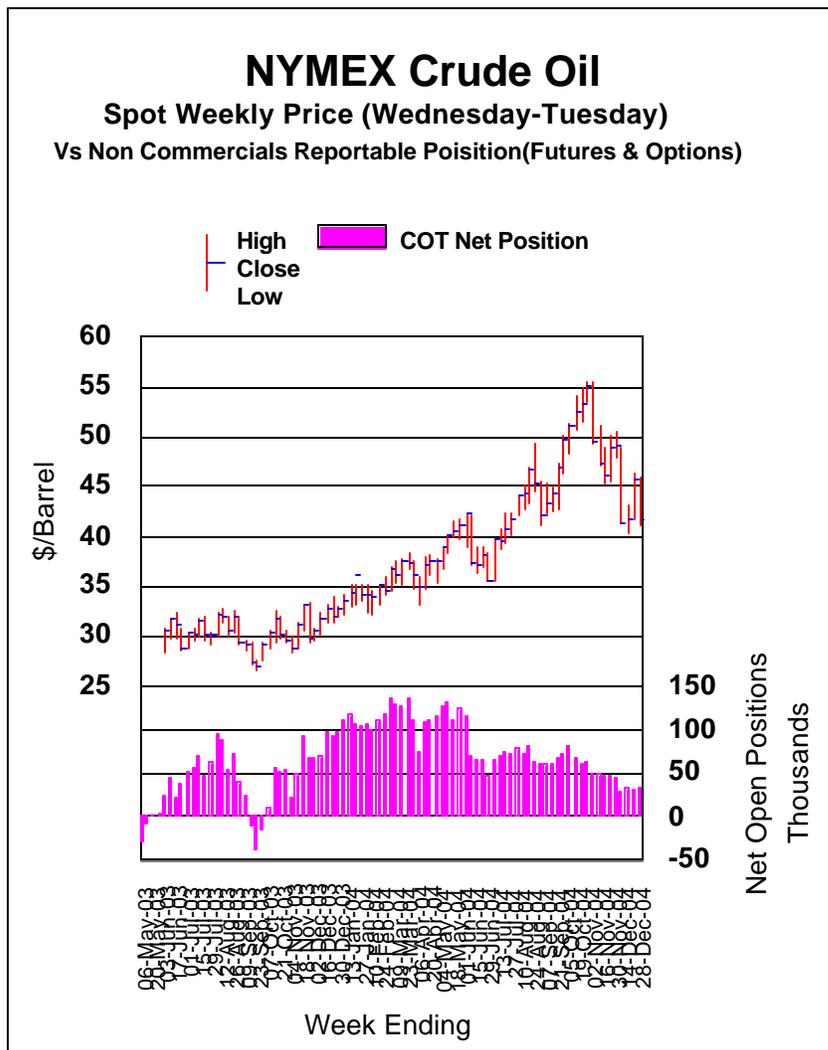
Norway's Statoil said the Snorre and Vigdis oilfields in the North Sea remained shut on Monday, more than a month after a shutdown due to a gas leak as bad weather hindered inspections. Statoil cannot resume production until it obtains approval from the Norwegian Petroleum Safety Authority following inspections.

China's Sinopec has discovered at least one billion tons of oil and a gas field in China's northwest province of Xinjiang, which could add at least a third to the country's proven oil reserves. Sinopec Corp said it found 1.08 billion tons of oil and 59 billion cubic meters of natural gas in the Tahe oil field in Xinjiang's Tarim Basin. Experts estimated oil reserves from the new find could reach as much as 2.7 billion tons.

Lithuania's Mazeikiu Nafta refinery and pipeline system set a production record in December when it refined 832,000 tons of crude oil.

Market Commentary

The NYMEX oil complex traded in negative territory in follow through selling seen in overnight trading as the mild weather forecasts continued to pressure the markets. According to the National Weather Service, total US home heating needs were forecast to be 29% below normal in the week ending January 8th. The February crude contract gapped lower as it opened down \$1.35 at 42.10 on good selling following the long New Year's Day weekend. The oil market traded to its high of 42.25 before it quickly sold off to a low of 41.25. The market later traded in a range during the remainder of the session after the market bounced off its low. Late in the session, the market attempted to test its high as the gasoline market traded to its highs ahead of the close. The February crude contract settled down \$1.33 at 42.12. Meanwhile, the heating oil market settled down 6.04 cents at 119.22. The market gapped lower from 123.75 to 120.60 amid the mild weather forecasts. It partially backfilled its gap as it traded to a high of 121.00 early in



the session before it extended its losses to over 8 cents as it traded to a low of 116.80. The market however bounced off its low and erased some of its losses ahead of the close. This was amid the late day strength seen in the gasoline market which settled down just 12 points at 113.17. Unlike the crude and heating oil markets, the gasoline market did not gap lower on the opening as it opened down at 110.70. It quickly breached Thursday's low of 110.50 as it posted its intraday low of 109.80. However the market bounced off that level and traded mostly sideways before some late buying pushed the market to its high of 113.50 on the close. Volumes were better with 125,000 lots booked in the crude, 43,000 lots in the heating oil and 33,000 lots in the gasoline market.

Tonight's Commitment of Traders report showed the non-commercials increased their net long position as the market seemed to have found good support at its previous lows of 41.20-41.10. Non-commercials in the crude market increased their net long position from 1,638 contracts to 5,019 contracts in the week ending December 28th. Non-commercials cut their total short positions from 68,167 contracts to 64,968 contracts on the week. The combined futures and options report showed that non-commercials increased their net long positions from 29,761 contracts to 33,699 contracts on the week. Meanwhile, non-commercials in the heating oil market cut their net short position from 12,176 contracts to 10,911 contracts while non-commercials in the gasoline market cut their net long positions from 3,555 contracts to 2,296 contracts on the week.

The crude market on Tuesday is seen retracing more of today's sharp losses. However it is seen trading within its recent trading range as traders now await for Wednesday's release of the weekly petroleum stock reports. The market continues to hold good support at its lows of 41.25-41.10 followed by further support at 40.90. Meanwhile resistance is seen at its gap from 42.25 to 42.62. More distant resistance is seen at its previous highs of 43.59 and 43.80.

Technical Analysis		
	Levels	Explanation
CL 42.12, down \$1.33	Resistance 43.59, 43.80 42.25 to 42.62	Previous highs Opening gap
	Support 41.25 41.20, 41.10, 40.90	Monday's low Previous lows
HO 119.22, down 6.04 cents	Resistance 126.50 120.60 to 123.73	Previous high Opening gap
	Support 116.80 115.60	Monday's low Previous low
HU 113.17, down 12 points	Resistance 114.00, 115.50 113.50	Previous high, backfills gap Monday's high
	Support 111.50, 109.80 106.50	Monday's low Double bottom