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ENERGY MARKET REPORT FOR JANUARY 7, 2005

Iran's Oil Minister Bijan Namdar Zanganeh said OPEC should defend prices at \$40/barrel for US crude. He said OPEC may need to cut its production limits when it meets on January 30 if crude oil prices fall below \$40/barrel. Meanwhile, Saudi Arabia's Oil Minister Ali al-Naimi said it was too early to say whether or not OPEC would reduce its supply. He said he was waiting to see market data before he could say what decision OPEC was likely to make regarding oil production.

Market Watch

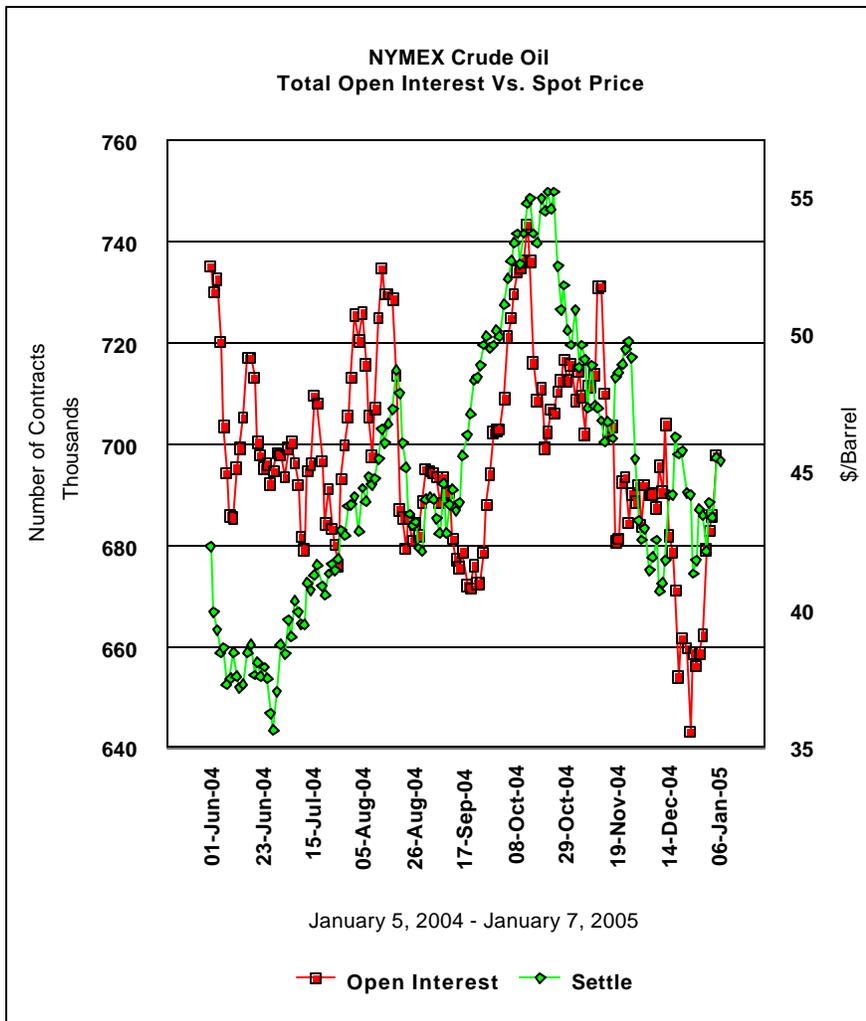
A Coast Guard official said a barge fully loaded with 130,000 barrels of No. 2 heating oil ran aground in New York's East River. However it showed no sign of a spill. The barge was en route to Rhode Island and heading into the Long Island Sound when the tug that was steering it apparently had a steering malfunction. The barge ran aground late Thursday and is now anchored in the East River as crews remove its heating oil load.

Saudi Arabia has booked a very large crude carrier to the US in early February after confirming four spot bookings over January. It has booked a vessel, World Luck, to carry 285,000 tons to the US Gulf loading in February 1-3. Saudi Arabia's spot bookings to the US of about 8 million barrels in January are well below its average of about 14-16 million during the last four months. The spot bookings are down on December, when Saudi Arabia booked nine VLCCs to carry 18.4 million barrels of crude to the US for arrival in January.

A Houston bankruptcy judge announced that she would hear motion to dismiss the Yukos bankruptcy filing during the third week of February. The judge said she would allot at least two days to debate a motion filed by Deutsche Bank to dismiss the case because the court lacks jurisdiction. Meanwhile, lawyers for Yukos are seeking the identity of new owner of Yuganskneftegaz. At a hearing on Thursday, Yukos said it aims to file a \$20 billion lawsuit against the new owner of the unit. The actual new owner of Yuganskneftegaz, remains unclear following the December 19 auction.

Venezuelan government and PDVSA officials said objections from dissident oil workers will not stop unions from signing a new wage contract agreed with PDVSA next week. Venezuela's main oil unions reached an agreement with PDVSA over the wage contract in late December.

Separately, the UAE's Oil Minister Mohamed bin-Dhaen al-Hamad said that the UAE is adhering to its OPEC quota of 2.356 million bpd.



Iraqi oil officials stated that repairs on Iraq's northern export pipelines are expected to take another 10 days. Iraq's northern exports have been idle since December 18, when saboteurs blew up a section of the pipeline. An international shipping agent said four ships have been waiting to load Iraqi crude at Ceyhan for up to three weeks. Meanwhile, Iraq's southern crude exports from its Basra terminal were halted on Friday due to a power outage.

OPEC's news agency reported that OPEC's basket of crudes increased to \$38.19/barrel on Thursday, up from Wednesday's \$37.24/barrel.

Refinery News

The restart of Shell's 67,000 bpd fluid catalytic cracker at its Deer Park, Texas refinery was on schedule Friday. Normal operating rates should be reached later in the evening. The unit was shut on Wednesday to facilitate repairs

to an associated pump.

According to the Texas Commission on Environmental Quality, BP Plc plans to restart a fluid catalytic cracker at its 437,000 bpd refinery in Texas City, Texas on Friday. Maintenance at BP Plc's Texas City, Texas refinery to repair equipment associated with a fluid catalytic cracker to avoid a possible shutdown has been slightly delayed. Separately, hydrogen unit 1 is flaring due to an unscheduled unit startup.

Valero Energy Corp plans to restart a catalytic cracker at its Houston, Texas refinery on January 17 after about a week of maintenance. The cat cracker's regenerator vent and associated equipment will be shut on January 9 to allow for the work.

Flint Hills Resources LP plans to shut its fluid catalytic cracker at its Corpus Christi, Texas refinery for two days starting on January 17. The unit will be shutdown in order to replace a valve that is no longer functioning. The catcracker is expected to restart on January 19.

Kuwait National Petroleum Corp shut a 120,000 bpd crude distillation unit at its 460,000 bpd Mina al-Ahmadi refinery on Friday for five weeks of planned maintenance. Another 120,000 bpd crude distillation unit will also be shut for three weeks of work. The refinery's 200,000 bpd crude distillation unit will remain fully operational during the turnarounds.

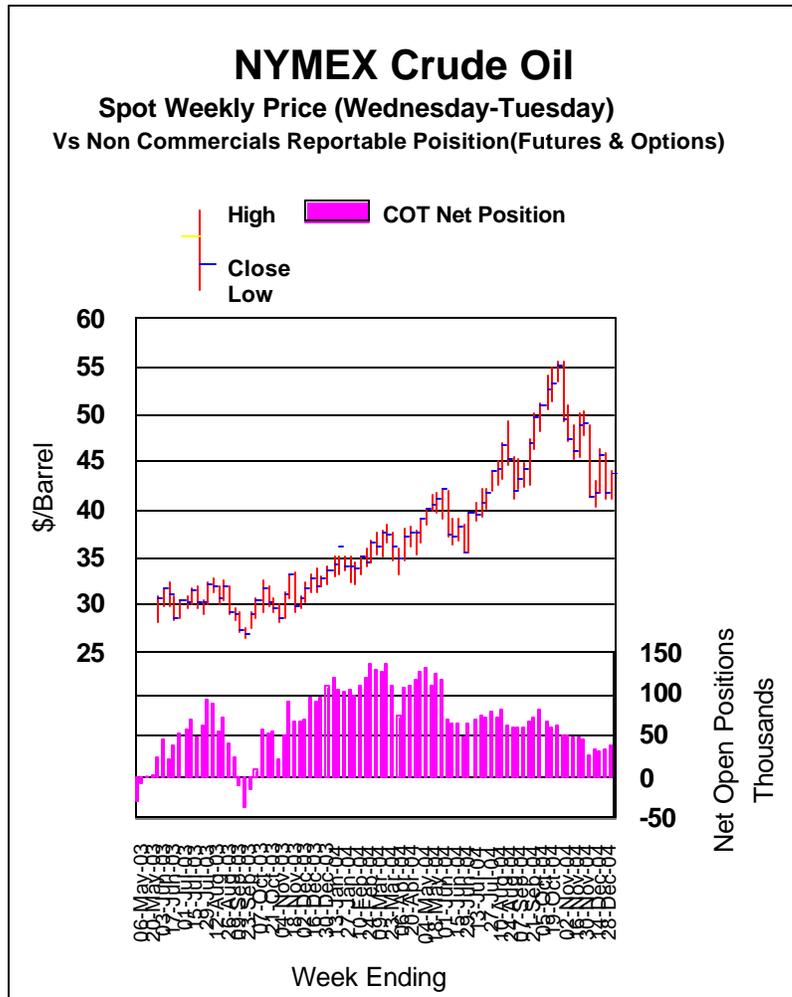
Japan's Maruzen Petrochemical Co. Ltd has no plans to conduct maintenance at the 480,000 ton per year naphtha cracker at its Goi plant this year.

A power outage shut down Venezuela's 200,000 b/d Puerto La Cruz refinery midday Friday.

Production News

The Houston Ship Channel was shut due to fog on Friday afternoon. A spokesman for the Houston Pilots said boats currently moving in the channel would be allowed to continue, however no new boats would be allowed to enter. The area closed is south of the Ship Channel's refinery row, meaning tankers may not be able to reach Houston area refineries. No time for reopening the channel was set.

Baker Hughes reported that the number of rigs searching for oil and natural gas in the US fell by 1 to 1,242 in the week ending January 7. The number of rigs searching for oil fell by 6 to 177 while the number of rigs searching for natural gas increased by 5 to 1,063.



Royal Dutch/Shell shutdown crude oil production at its 140,000 bpd North Sea Draugen field early on Friday, taking the total output in the region offline to 345,000 bpd. Bad weather prevented attempts to repair loading equipment at Draugen, forcing Shell to shut in production. The field had been operating at 70,000 bpd when loading equipment was damaged. Repairs will be carried out as soon as weather permits. Meanwhile, bad weather has also prevented Norway's Statoil from restarting production at its 205,000 bpd Snorre and Vigdis field. Statoil cannot resume production until it gets approval from the Norwegian Petroleum Safety Authority once inspections of the repairs to the damaged well are passed. However rough weather has held up the work, forcing Statoil to miss goals of restarting production.

Royal Dutch/Shell has restored 42,000 bpd of oil production after ending a community dispute that had shut in 100,000 bpd for a month. Output from the Santa Barbara and Belema flow stations resumed production on Wednesday however the Ekulama I and II flow stations were still undergoing work.

BP Plc is expected to reveal record production of 4 million barrels of oil equivalent/day during 2004 in its quarterly report next week. The 4 million boe/d figure would be the company's highest annual output in over 30 years.

Market Commentary

The oil market opened down 36 cents at 45.20 as traders took profits following Thursday's sharp rally. The market, which was holding some support at 44.90, breached that level and posted an intraday low of 44.75. However the market bounced off its low and rallied to its intraday high of 46.10 early in the session. It was the first time it traded above 46.00 since December 21st when it traded to 46.15. In a yo-yo pattern the market later retraced some of its gains and traded back towards 45.25 and settled in a range from 45.25 to 46.00 during the remainder of the session. It settled down 13 cents at 45.43. Volume was good with over 203,000 lots booked on the day. Open interest in the crude market continued to increase, with a total build of 12,071 contracts seen as of Thursday's session. Open interest has continued to increase as traders add to their long positions. Meanwhile, the product markets also ended the session in negative territory amid some profit taking. The heating oil market posted an inside trading day after it failed to breach Thursday's 7.5 cent trading range. The market opened down more than two cents at 126.00 and quickly posted an intraday low of 125.00. However the market later bounced off its low and rallied to its high of 128.70. The February heating oil contract retraced some of its gains before it once again tested its high later in the session. However it remained locked in a trading range during the remainder of the session. It settled down 80 points at 127.33. Similarly, the gasoline market also posted an inside trading day. It traded to its intraday low of 119.90 on some early profit taking following Thursday's sharp gains. However it traded to a high of 123.10 before it retraced its gains and also settled in a range from 120.50 to 122.30. The gasoline market settled down 87 points at 121.42. Volumes in the products were good with 58,000 lots booked in the heating oil market and 47,000 lots booked in the gasoline market.

According to the latest Commitment of Traders report, non-commercials in the crude market increased their net long position from 5,019 contracts to 7,547 contracts in the week ending January 4th. The non-commercials increased their total long positions by 4,580 contracts. Meanwhile, the combined futures and options report also showed that non-commercials increased their net long positions from 33,699 contracts to 38,058 contracts on the week. This was while the market continued to find further buying as the market traded towards the 41.00 level. Given the market's move in recent days and the continued increase in open interest as seen in the accompanying chart, non-commercials have further increased their net long position. Meanwhile, non-commercials in the heating oil increased their net short position from 10,911 contracts to 13,579 contracts while non-commercials in the gasoline market added to their net long position of 2,296 contracts to 2,755 contracts on the week.

The crude market on Monday will likely continue to retrace Friday's early gains, barring any bullish news over the weekend. The market

Technical Analysis		
	Levels	Explanation
CL 45.43, down 13 cents	Resistance	46.15-46.20, 46.65
		46.10
	Support	45.15, 44.75
		43.20, 42.60
HO 127.33, down 80 points	Resistance	131.30, 132.80, 134.72
		128.70, 129.00, 129.30
	Support	126.00, 125.00
		122.50
HU 121.42, down 87 points	Resistance	125.65, 129.80
		123.10, 123.30, 123.50
	Support	119.90
		115.90

may remain pressured amid the weather forecasts calling for above normal temperatures next week. The latest 8-14 day forecast is calling for normal temperatures for most of the country. The crude

market is seen finding support at 45.15 followed by 44.75. More distant support is seen at its previous lows of 43.20 and 42.60. Meanwhile resistance is seen at its high of 46.10 followed by 46.15-46.20 and 46.65.