

W The
Windham Group



ENERGY RISK MANAGEMENT

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

www.e-windham.com

ENERGY MARKET REPORT FOR JANUARY 10, 2005

An official with Iraq's SOMO said that export levels were fluctuating in the aftermath of power shortages over the weekend. Iraq's southern exports flowed at reduced rates on Sunday after power failures at a pumping station halted crude exports. However, a shipping agent said Iraq's southern crude exports were running at 80,000 barrels/hour or 1.92 million bpd on Monday with both Basra and Khor al-Amaya oil terminals working normally.

Meanwhile, Iraq is aiming to sustain Basra Light crude exports this month at about 1.6 million bpd, relatively

Market Watch

A trade source stated that Saudi Arabia's crude allocations to its US customers in February will remain steady from January. A US customer will receive about 15-20% under regular allocations. Meanwhile sources stated that Saudi Arabia cut crude allocations to world refining systems in February compared with January. The cuts are smaller than those made in January from December but sources declined to give precise levels.

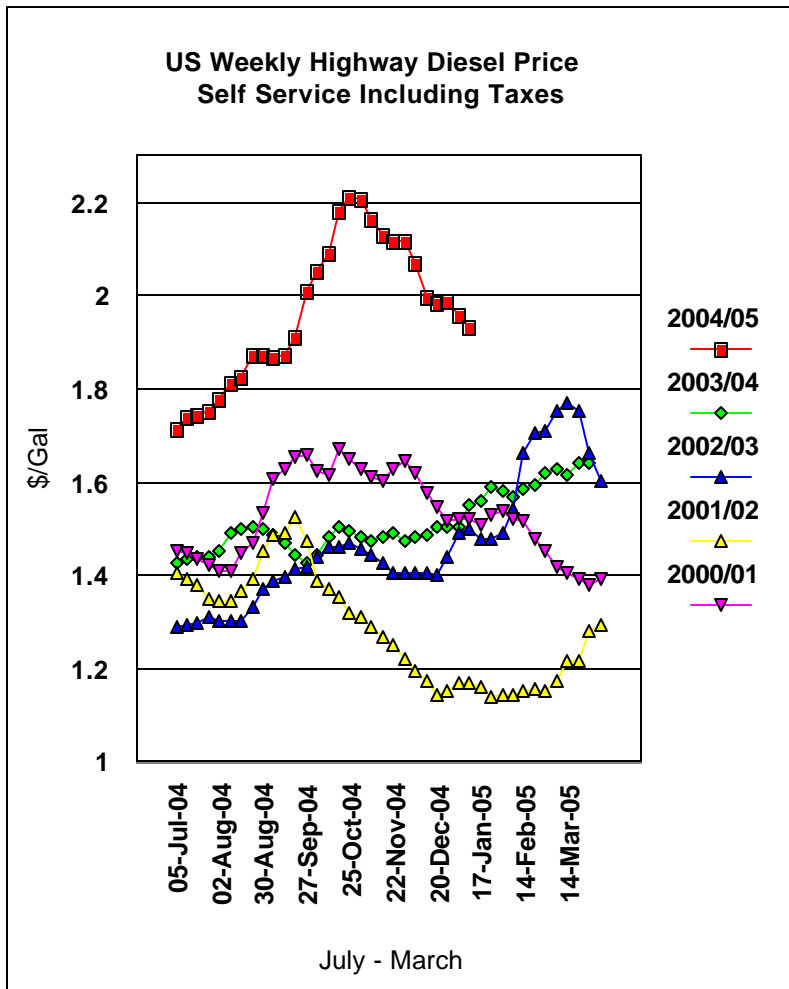
The Climate Prediction Center estimated that in the week ending January 8, there was a total of 160 HDD compared with its previous forecast of 147 HDD. The total HDD was down 29% on the year and down 23% from normal. It estimated 195 HDD on an oil home heating customer weighted basis, which is down 33% on the year and down 25% from normal. Meanwhile for the week ending January 15th, it estimated a total of 164 HDD, down 18% on the year and down 22% from normal. It estimated 202 HDD on an oil home heating customer weighted basis down 36% on the year and down 23% from normal.

According to EIA estimates the average gasoline price will top an all time high of \$2.06/barrel set in May by July. The average gasoline price is forecast to be \$1.98/gallon this year, up 7% from last year's \$1.85/gallon. It said demand for gasoline is rising faster than US oil refiners can increase production. Gasoline demand is expected to grow three times as fast as output at refiners. US fuel demand is expected to increase by 2% annually over the next three years while refining capacity will grow by just 0.6% a year in that period.

The Middle East Economic Digest reported that Saudi Aramco is fast tracking the development of three new oil fields. It has requested companies to tender bids for the engineering and design of onshore Aby Hadriyah, Fadhili and Khursaniya fields.

Shell Oil announced it has agreed to sell its Bakersfield, California refinery to Flying J. Inc, a privately held refiner in Utah. The agreement will allow the plant to continue to supply 6% of California's diesel fuel and 2% of its gasoline. The sale is scheduled to close during the first quarter of 2005.

A militant group, Secret Republican Army, posted threats in at least two towns on Monday warning it would deploy highly trained snipers to target voters around Iraq during the January 30 elections. The threat is the latest in a campaign of intimidation by militants targeting Iraqi voters and electoral workers.



unchanged from December.

Iraq has increased its February official selling prices for Basra Light crude bound for the US, Europe and Asia. Basra Light crude to the US was priced at WTI minus \$9.80/barrel, compared with WTI minus \$11.30/barrel. Basra Light crude to Europe is priced at Dated Brent minus \$7.75/barrel compared with Dated Brent minus \$9.25/barrel while Basra Light bound to Asia was set at the Oman/Dubai average minus \$2.60/barrel compared to the Oman/Dubai average minus \$3.00/barrel last month.

An OPEC delegate said OPEC is considering an Iraqi request to move date of its planned January 30 ministerial meeting to avoid a clash with the Iraqi elections. The meeting could be moved forward by a few days or postponed until the first week of February.

Iran's Oil Minister Bijan Zanganeh reiterated that the world oil markets were oversupplied and that OPEC should cut production if prices fell

below \$40/barrel.

Algeria's Energy Minister Chakib Khelil said Algeria's request for a higher OPEC quota is no longer on the agenda since the country is like many oil producing nations, exceeding the official ceiling. He said Algeria was currently producing well above its quota of 862,000 bpd at about 1.4 million bpd.

A senior Libyan official said OPEC's January 30 meeting may be too early to assess the impact of a 1 million bpd cut in production agreed by OPEC, saying the group may have to wait until its March 16 meeting before deciding what action to take regarding oil production.

OPEC's news agency reported that OPEC's basket of crudes increased further to \$39.35/barrel on Friday, up from Thursday's \$38.19/barrel.

According to the Lundberg Survey, the average price of gasoline fell by more than 3 cents/gallon to \$1.82/gallon in the two weeks ending December 7th.

The EIA reported that the US average retail price of diesel fuel fell by 2.3 cents/gallon to \$1.934/gallon in the week ending January 10th. It also reported that US retail gasoline prices increased for the first time in 10 weeks to \$1.793/gallon, up 1.5 cents/gallon on the week.

Refinery News

A fluid catalytic cracker at Deer Park Refining's 340,000 bpd refinery was operating at reduced rates after it was restarted on Friday. The unit was shut on Wednesday to repair a pump.

ExxonMobil Corp said a hydrocracking unit at its Baytown, Texas refinery is expected to restart on January 20 following a turnaround. The unit was shut on January 5 for planned work.

According to the Texas Commission for Environmental Quality, a fire in a feed line required ConocoPhillips to shut the natural gas liquids fractionator at its Borger, Texas refinery. The unit was shut on Sunday morning. Meanwhile, it shut down a sulfur recovery unit at its Borger, Texas refinery on Friday for maintenance.

PDVSA said its 195,000 bpd Puerto La Cruz refinery was expected to return to full capacity on Sunday after a blackout forced an unplanned shutdown on Friday.

Kuwait National Petroleum Corp has shut down more than 50% of its 450,000 bpd al-Ahmadi refinery for planned maintenance. However exports from the refinery have not been affected. Its 120,000 bpd crude distillation unit no. 3 was closed Friday, January 7 for five to six weeks and its 122,000 bpd crude distillation unit no. 5 was closed on Sunday for three weeks.

Swedish Preem cut its crude runs at its 113,000 bpd Gothenburg refinery due to poor refining margins. The refiner cut crude runs by 15% to 85%.

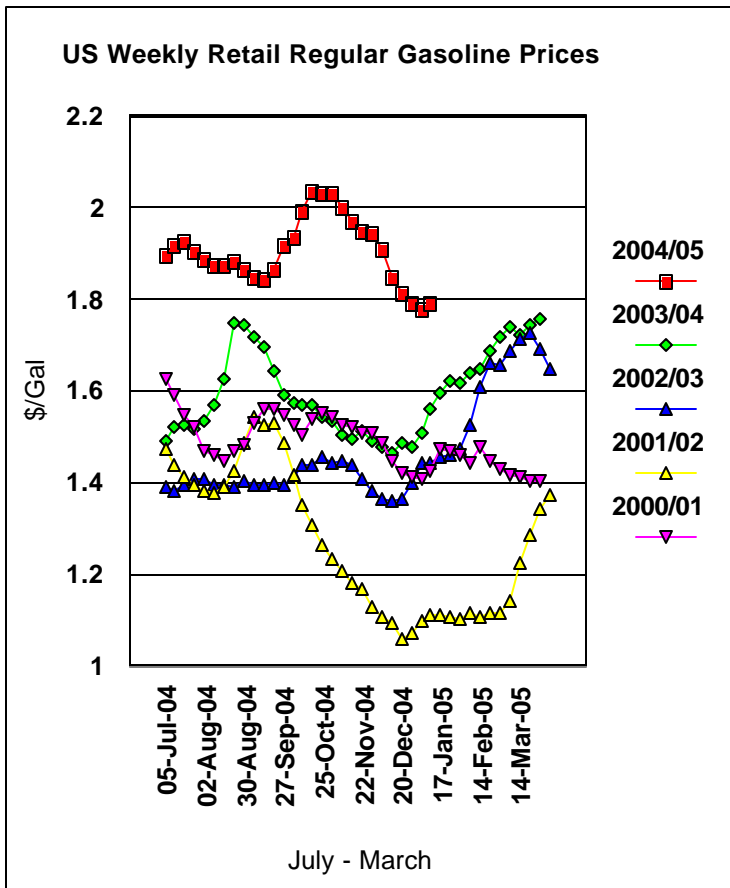
Shell Oil said Monday that will seel its 70,000 b/d refinery in Bakersfield, CA to Flying J. The deal is expected to close before the end of 1Q2005.

Production News

The Houston Ship Channel was open to traffic on Monday after the waterway was shut for 12 hours due to dense fog. None of the refineries in the area reported any problems due to the traffic halt.

Royal Dutch/Shell expects to restore up to 100,000 bpd of Nigerian crude this week that has been shut in due to community unrest. Shell has already restored about 40,000 bpd of production from two flow stations following the end of the dispute last week. Separately, Shell said output was cut in a separate dispute which resulted in the vandalism of a pipeline at Egbema, shutting in about 44,000 bpd. It was forced also to close its Odeama flow station over the weekend in a dispute over a community development project that has shut in a further 8,000 bpd.

Norwegian oil fields with 345,000 bpd capacity remained shut on Monday as bad weather prevented repairs and inspection work. Statoil's 130,000 bpd Snorre field and its 75,000 bpd Vigdis satellite



remain closed more than a month after a November 28 gas leak. Royal Dutch/Shell said the 140,000 bpd Draugen oilfield remained shut on Monday as bad weather persisted in hampering attempts to repair loading equipment. Shell said it remained unclear when the weather would improve enough to allow the completion of repair work. It said more damage was discovered over the weekend, requiring more time for repairs than originally thought.

A port official said strong winds forced the closure of the Sullom Voe terminal, halting Brent crude export operations. The closure is likely to delay Brent export loadings. The port was closed for about 13 hours over Saturday night and then reopened on Sunday before it was closed once again late in the evening. A port official stated that the terminal may reopen later on Monday if weather conditions improved.

Separately, the North Sea Brent crude oil system is scheduled to load 17 cargoes totaling 7.786 million barrels, down from 7.99 million barrels in January.

The North Sea Ekofisk crude oil system plans to load 17.3 million barrels of crude to load in February, down from 950,000 barrels in January. Norway's Statfjord crude system plans to load 427,500 bpd in February, up from 303,000 bpd in January.

Latvia's Ventspils Nafta Terminal has suspended loadings of large oil tankers due to high winds.

Petrologistics reported that OPEC's total crude production fell by 100,000 bpd to 29.6 million bpd in December. Excluding Iraq, OPEC's production stood at 27.94 million bpd, unchanged on the month. It stated that Iraq's oil production fell sharply following several sabotage attacks to 1.65 million bpd from 1.9 million bpd. Saudi Arabia increased its production in December to 9.5 million bpd compared with 9.1 million bpd in November.

Delays for daylight-restricted oil tankers transiting the Turkish Straits were down to 6 days for a round trip journey from the Black Sea compared with 26 days this time last year. Shipping agents said oil tankers were waiting an average of three days to pass north through the Dardanelles and Bosphorus passages and three days south again.

China's Sinopec Corp is set to implement low sulfur gasoline and diesel at all its plants from April 1 to meet a nationwide shift to cleaner fuels from July. Sinopec will adopt 500 ppm, or 0.05% sulfur content for both oil products compared with 0.2% for diesel and 0.08% for gasoline.

SK Corp is forecast to cut February diesel exports to 1.8 million barrels, down 25% from January's exports. South Korea is keeping diesel for domestic consumption during the winter months.

Market Commentary

The crude market opened up 67 cents at 46.10, Friday's high, as the energy complex was supported by the weather forecasts calling for colder temperatures starting next week. There were also reports of interruptions in southern Iraq's oil exports in addition to the Norwegian oil production that remains shut in due to the adverse weather conditions that have hampered repairs. It held support at its low as it continued to trend higher amid the strength in the heating oil market. The February crude contract rallied to a high of 47.30 as it breached its resistance levels. The market later settled in a range from 47.30 to 46.50 before it erased all of its gains and fell into negative territory ahead of the close. The market surprisingly tumbled to a low of 45.00 and settled down 10 cents at 45.33. Volume was good with 215,000 lots booked on the day. Meanwhile, the heating oil market settled up just 30 points at 127.63 after it too saw a free fall in prices despite the lack of any news. The February heating oil contract gapped higher from 128.70 to 132.20 as it opened up 4.87 cents. It quickly rallied to a high of

135.00 early in the session in light of the weather forecasts before it retraced some of its gains and settled in a trading range from its high of 135.00 to 132.60 during most of the afternoon. The market however sold off sharply ahead of the close as it backfilled its gap. It traded to a low of 127.30 after the market's rally stalled and traders liquidated their positions. The gasoline market settled down 58 points at 120.84 after the market also saw a free fall in prices from its high of 126.00 to a low of 120.30 ahead of the close. Volumes in the product markets were good with 46,000 lots booked in the heating oil market and over 42,000 lots booked in the gasoline market.

The crude market, which surprisingly tumbled ahead of the close is seen holding its support amid the weather forecasts as traders await the release of the weekly petroleum inventory reports on Wednesday. Private weather forecaster Earthsat said the Eastern US should experience a colder February than normal, with the first sustained cold weather in the Northeast starting this weekend. Its 11-15 day forecast calls for much below temperatures in New England while the rest of the Northeast and Mid-Atlantic regions should see below normal temperatures. The crude market is seen holding support at its low of 45.00 followed by 44.75 and its previous low of 43.20. Meanwhile resistance is seen at 46.00, 46.85 followed by its high of 47.30.

Technical Analysis		
	Levels	Explanation
CL 45.33, down 10 cents	Resistance 47.30, 47.83 46.00, 46.85	Monday's high, 50% retracement (54.75 and 40.90)
	Support 45.00 44.75, 43.20, 42.60	
HO 127.63, up 30 points	Resistance 135.00 129.80, 133.20	Monday's high
	Support 127.25 125.00	Monday's low Previous low
HU 120.84, down 58 points	Resistance 125.50, 126.50 122.50, 124.20	Monday's high
	Support 120.30 119.90, 115.90	Monday's low Previous lows