



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR JANUARY 11, 2005

A senior Iraqi oil official said Iraq will cut its Basra Light crude supply contract by 10% or 160,000 bpd from February 1 through to June due to ongoing insurgent attacks on infrastructure and adverse weather conditions. Iraq's SOMO originally secured Basra Light term contract volume of about 1.6 million bpd for the first half of 2005. Shipping data showed southern exports running at 1.5 million bpd on Tuesday. The Basra terminal is crucial to sustain flows with sabotage attacks keeping exports of Kirkuk crude from Iraq's northern fields at a standstill for the past three weeks.

Market Watch

Saudi Aramco has notified its customers in Europe that it will receive sharply lower term supplies in February than in January. A source stated that global cuts have been made in the vicinity of 30%-50%. A trader at a European refiner said its allocation had been cut by 30%. Saudi Aramco also notified buyers in Japan and South Korea that supplies of Arab Light would be reduced by 9-10%.

According to the Center for Strategic and International Studies, Saudi Arabia's crackdown on al-Qaeda militants has seriously eroded their forces and capabilities. However it added that the group will remain a threat in Saudi Arabia for years. It said four of the network's five main cells in the country have been destroyed.

Nigeria's government has revoked development rights for 24 undeveloped oil blocks and will offer them again in the country's next oil licensing round. According to a Department of Petroleum Resource official the previous owners of the blocks had held them for at least 10 years.

Venezuela's PDVSA has set a \$15 billion spending budget for 2005, similar to the company's budget for last year. Venezuela's Oil Minister Rafael Ramirez said the budget includes \$5 billion in investment outlays.

US refiners and the union representing US refinery workers said they are planning early talks on extending the current 4 year national agreement on wages and benefits. The talks are expected to begin late in January or early February. If an early agreement is not reached, the two sides will move into regular bargaining.

The NYMEX has opened an office in Tokyo as it continues to develop the Asian market. The NYMEX has appointed Thomas J. McMahon as director of the Asian office.

Investor's Business Daily and TechnoMetrica Market Intelligence said their economic optimism index increased by 3.1% to 56.2 in January after it fell to 54.5 in December. It increased for the first time in three months.

Meanwhile, a bomb ripped off a section of a pipeline feeding the 350,000 bpd Baiji refinery on Tuesday and another attack targeted a pipeline feeding a power station in the same area.

An OPEC official reiterated that OPEC is considering Iraq's request to postpone the January 30 meeting due to the elections scheduled in Iraq.

Qatar's Oil Minister Abdullah bin Hamad al-Attiyah said OPEC would consider lowering its production ceiling when it meets on January 30. He estimated an excess supply of 1.5 million bpd and added that cutting production would be one of several options which will be discussed at the meeting. However he said it was premature to give any figure on the size of a possible cut.

Venezuela's Oil Minister Rafael Ramirez said OPEC could cut its oil production at its next meeting in order to defend prices.

OPEC's news agency reported that OPEC's basket of crudes increased by 77 cents/barrel to \$40.12/barrel compared with \$39.35/barrel.

In its latest Short Term Energy Outlook, the EIA said world petroleum demand growth for 2005-2006 is estimated to average 2.1 million bpd, down from the 2.6 million bpd demand growth seen in 2004. World petroleum demand is seen at 84.5 million bpd in 2005, up 100,000 bpd from its previous estimate and at 86.5 million bpd in 2006. This is up from its demand in 2004 of 82.4 million bpd. It said global economic growth is expected to settle at more sustainable rates over the next two years due to high world oil prices. Also Chinese oil demand growth is expected to moderate. It stated that because oil demand growth is expected to remain strong, US oil inventories and inventories in other industrialized countries are not expected to show much growth from 2004 levels. Meanwhile US petroleum demand in 2005 is estimated to average 20.9 million bpd, up 2% from the 2004 level and up 0.82% from its previous estimate. An additional 1.9% growth to 21.29 million bpd is anticipated for 2006. Motor gasoline demand is projected to increase 1.9% to 9.24 million bpd in 2005 and 2.4% to 9.46 million bpd in 2006. Distillate fuel demand, which has grown by about 4% per year for the last two years, is expected to grow more slowly in 2005 and 2006 at 2.5% to 4.18 million bpd and 1.3% to 4.23 million bpd, respectively. US distillate demand during the current quarter should average 4.41 million bpd, up from its previous estimate of 4.4 million bpd. The EIA also stated that US crude oil prices are expected to average \$42.41/barrel in the first quarter of 2005, down from last month's estimate of \$46.57/barrel. In regards to OPEC's production, the EIA reported that total crude oil production increased by 140,000 bpd to 29.59 million bpd in December. Iraq's oil production alone averaged 1.9 million bpd in December, up from 1.7 million bpd in November.

Refinery News

Flint Hills is scheduled to shut a catcracker at its Corpus Christi, Texas refinery on January 17 for two days of maintenance.

PDVSA's 200,000 bpd Puerto La Cruz refinery is operating normally following a power failure last week. It restored production on two distillation units on Saturday and planned to restart other units later in the weekend after performing maintenance on holes detected in a cooling system pipeline.

Taiwan's Chinese Petroleum Corp increased operating rates at its No. 4 385,000 ton per year naphtha cracker to full nameplate capacity.

Production News

Kinder Morgan Energy Partners LP said its refined product pipelines remain shut in the wake of several days of rain in southern California. The system known as the West Line, which runs from San

Bernardino to Phoenix, was shut as a safety precaution due to erosion around several pipelines that has taken away the support of the ground around them. The CalNev pipeline which can transport as much as 128,000 bpd of gasoline, diesel and jet fuel from Colton, California to Las Vegas was closed on Sunday. No restart date can be determined until the company has a chance to inspect the pipelines.

The US Coast Guard reported that ships resumed moving along the Houston Ship Channel on Tuesday morning after traffic along the waterway was once again halted overnight due to dense fog.

An Iranian newspaper reported that thousands of barrels of crude oil spilled from a ruptured pipeline. NIOC officials were unable to confirm the damage or say whether exports from OPEC's second largest exporter had been affected.

The Shetland Island Sullom Voe terminal reopened on Tuesday after bad weather closed the port on Sunday. The closure had little impact on the Brent crude loading program with the next tanker due in on Wednesday.

A port official said the Sullom Voe terminal remains closed due to strong winds. However, with no cargos due to be loaded until Thursday, Brent crude exports from the terminal should not be delayed.

Crude production at Denmark's 40,000 bpd North Sea Siri field has been shut in since Saturday, increasing regional production to 385,000 bpd. A source said bad weather has prevented loading from the Siri storage tank on the seabed for 10 days. Storage reached full capacity of 300,000 barrels on Saturday forcing it to halt production. Meanwhile, Statoil has sought permission for a partial restart of its Snorre and Vigdis oil fields. If approved by the Petroleum Safety Authority, the restart would initially include production from the 75,000 bpd Vigdis field and from the Snorre subsea production system. Work to ensure safety at the Snorre A platform would continue.

Separately, bad weather has forced Amerada Hess to reduce crude production by 26,000 bpd at its 42,000 bpd South Arne field in Denmark for three days. High seas and winds had prevented a tanker loading crude from a seabed storage tank at the South Arne field. The storage tank was near capacity, prompting Amerada Hess to cut production on Saturday. However the tanker started loading late Monday after weather conditions improved. Production will resume if the tanker successfully completes its crude loading.

Royal Dutch/Shell plans throughput of 286,000 bpd for the North Sea Brent blend in February.

Britain's North Sea Flotta crude system is scheduled to load 114,000 bpd in February, up from 103,000 bpd in January. The loading program is for 3.2 million barrels of crude, unchanged from January. The daily load rate is higher in February due to the shorter month.

The February crude loadings from the North Sea Forties system are planned at 568,000 bpd, down from 626,000 bpd in January. Norway's North Sea Troll system is scheduled to load about 314,000 bpd in February, up from 312,000 bpd in January. Meanwhile, the North Sea Oseberg system has scheduled to load 14 cargos totaling 8.4 million barrels, down from January's 9.6 million barrels. The North Sea Gullfaks system plans to load 366,000 bpd in February, up from 359,000 bpd in January.

Denmark's North Sea DUC crude stream is scheduled to load 236,000 bpd in February, up from 232,000 bpd in January.

Turkish maritime authorities reopened the Bosphorus strait to all traffic including tankers at midday on Tuesday as dense fog lifted. Delays for daylight restricted oil tankers transiting the Turkish Straits were down to 6 days for a round trip journey from the Black Sea. Meanwhile, authorities closed the Dardanelles Strait to all traffic due to dense fog.

According to a Dow Jones survey, total OPEC production fell to 29.35 million bpd in December from 30.12 million bpd in November. Production by the ten members, excluding Iraq, fell to 27.65 million bpd, 646,000 bpd above its official output target. Iraq's production fell to 1.7 million bpd as export pipelines were repeatedly sabotaged.

The EIA forecast that Saudi Arabia's crude oil production capacity could reach 18.2 million bpd by 2020 and 22.5 million bpd by 2025. It said Saudi Arabia, which produced about 10.4 million bpd of crude oil, NGLs and other oil liquids in 2004, maintains crude production capacity of 10.5-11 million bpd.

Russia's Energy Ministry reported that Russian oil and gas condensate production increased by almost 9% in 2004 to 458.808 million tons or 9.18 million bpd from 421.377 million tons or 8.46 million bpd in 2003. Russia's oil production in December fell to 9.33 million bpd from 9.39 million bpd in November. Yukos' production fell by 3.5% on the month to 1.66 million bpd in December. It also reported that Russian crude exports via main seaports increased by 27% year on year in 2004 to 116.19 million tons or 2.33 million bpd as the Baltic port of Primorsk increased its capacity. It showed that oil exports through the Druzhba pipeline to central Europe also increased by about 5% to 65.54 million tons or 1.31 million bpd from 62.35 million tons or 1.25 million bpd in 2003. Butinge's volumes were flat in December compared to November at 296,000 tons or 70,000 bpd, down from 400,000 tons or 98,000 bpd in September and 834,000 tons in December 2003. Shipments via the Black Sea port of Novorossiisk fell in December to 3.74 million tons due to bad weather from 3.83 million tons in November and 4.48 million tons in October.

A Russian government official said Russia is expected to cut its crude export duties by almost 18% to \$83/metric tons or \$11.37/barrel from February 1, down from \$101/metric ton effective since December 1.

Azerbaijan's crude oil production and exports to international markets were unchanged on the year in 2004. A BP led group said its output from the Chirag oilfield stood at 6.57 million tons or 132,000 bpd in 2004 compared to 6.57 million tons or 130,000 bpd in 2003. Azerbaijan's SOCAR said its output stood at 9 million tons or 180,000 bpd in 2004 compared with 8.92 million tons or 179,000 bpd in 2003. Total Azeri oil production stood at 15.57 million tons or 312,000 bpd compared with 15.38 million tons or 309,000 bpd in 2003. Its oil exports stood at 8.99 million tons or 180,000 bpd in 2004 compared with 8.72 million tons or 175,000 bpd in 2003.

South Korea's gas oil exports are likely to fall 14% in February from January, mainly due to SK Corp's increased kerosene output at the expense of gas oil after a recent cold snap. South Korean oil refiners plan to export 480,000 tons of gas oil in February compared with 560,000 tons in January.

Market Commentary

The NYMEX oil complex ended the session in positive territory as it retraced some of Monday's sharp losses amid reports of production outages. Iraq announced it would cut its southern crude oil exports by 10% or 160,000 bpd starting in February until June while Norwegian oil production remained shut in amid the adverse weather conditions. The market was also supported by the weather forecasts calling for colder than normal temperatures starting this weekend. The crude market posted an inside trading day as it failed to breach Monday's trading range despite the mostly supportive news. It failed to test

Monday's low of 45.00 as it traded to a low of 45.05 early in the session. The market however bounced off its low and rallied to a high of 46.15 before the market once again gave up its gains and settled in a range during the remainder of the session. The market traded within a range from 46.00 to 45.25 ahead of the close. It settled up 35 cents at 45.68. Volume in the crude was good with over 191,000 lots booked on the day. Meanwhile, the heating oil market settled up 1.73 cents at 129.36 amid the weather forecasts, even though some weather models had moderated their 11-15 day forecasts. The market opened over 1 cent higher at 128.70 and traded to 129.85 before it retraced its gains and posted a low of 127.40. The market, which failed to test Monday's low of 127.30 bounced off its low and traded to a high of 130.70. In a yo-yo pattern, the market once again erased its gains and settled in a trading range ahead of Wednesday's release of the weekly petroleum stock reports. Unlike the crude and heating oil market, the gasoline market breached its support level and posted an intraday low of 119.20 early in the session. However the market bounced off that level and erased its losses as it posted its intraday high of 122.10. It later retraced some of its gains and settled in a range from 120.10 to 122.10 ahead of the close. It settled up just 20 points at 121.04. Volumes in the product markets were good with 45,000 lots booked in the heating oil and 47,000 lots booked in the gasoline market.

The market on Wednesday will seek further direction from the weekly petroleum stocks reports after the crude and heating oil markets posted inside trading days during today's session as traders lacked any real conviction. The market expects to see draws in crude stocks of close to 2 million barrels, builds in distillate stocks of about 1 million barrels and builds in gasoline stocks of about 1.5 million barrels. If the market does not see the expected builds in product stocks, the oil complex will remain well supported amid the reports of the continued production shut ins. If the reports do show the expected builds in stocks, the crude market is seen breaching its support at its 45.05-45.00. More distant support is seen at 44.75 followed by 43.20 and 42.60. Meanwhile resistance is seen at 46.00, 46.15

followed by
47.30 and
47.83.

Technical Analysis		
	Levels	Explanation
CL 45.68, up 35 cents	Resistance 47.30, 47.83 46.00, 46.15	Monday's high, 50% retracement (54.75 and 40.90) Tuesday's high
	Support 45.05, 45.00 44.75, 43.20, 42.60	Double bottom Previous lows
HO 129.36, up 1.73 cents	Resistance 135.00, 136.10 130.70, 133.20	Monday's high, Previous high Tuesday's high
	Support 127.40, 127.30 125.00	Double bottom Previous low
HU 121.04, up 20 points	Resistance 125.50, 126.00 122.10, 124.20	Monday's high Tuesday's high
	Support 119.20 118.55, 116.25, 115.90	Tuesday's low 38% and 50% retracement (106.50&126.00) Previous low