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### **ENERGY MARKET REPORT FOR JANUARY 13, 2005**

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The Iraqi Oil Ministry stated that four out of six oil wells in northern Iraq that have been burning since late November have been extinguished. Exports from northern Iraq have been suspended since mid-December due to sabotage attacks. Meanwhile, an official with the North Oil Co said engineers have repaired a major pipeline linking Kirkuk's oil field to the Baiji refinery after a sabotage attack interrupted pumping for three weeks. The official said pumping to the refinery resumed two hours before Baiji's reserves would have been depleted. He also stated that the northern pipeline to the Turkish port of Ceyhan still needs another 10 days to be repaired. Separately, Iraq's Basra Oil Terminal was exporting crude at normal rates on Thursday despite severe power shortages. Exports of Basra Light were running over a week behind schedule due to weather and power related delays in late December.

#### **Market Watch**

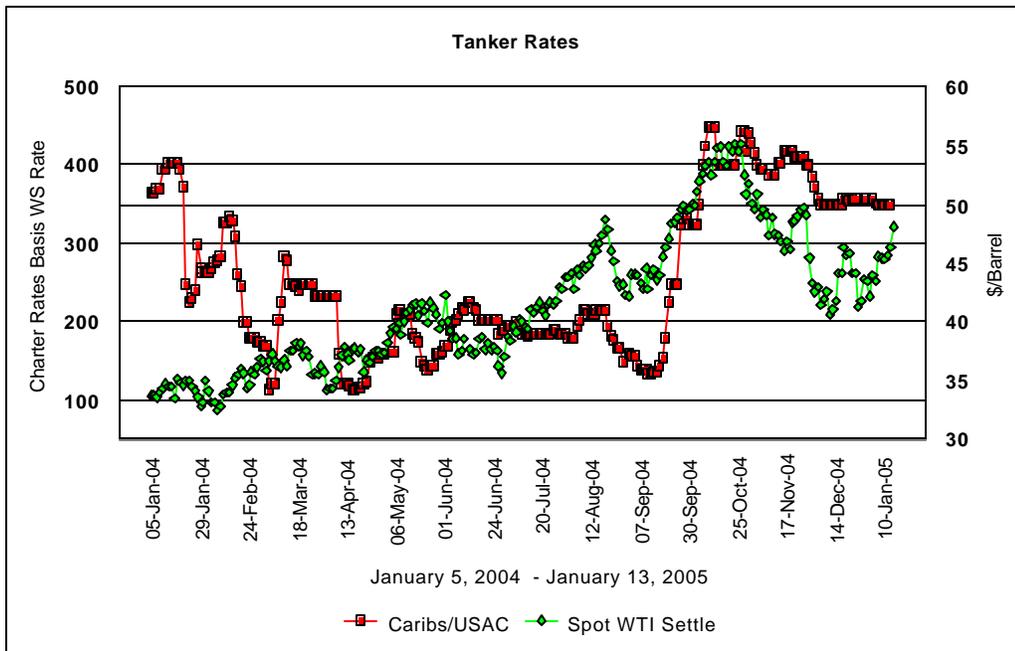
The chairman of the Senate Foreign Relations Committee wants to know what contingency plans the US has in place to counter a disruption in crude oil and product imports from Venezuela. Senator Richard Lugar requested that the Government Accountability Office investigate what the US can do to handle a cutoff in Venezuelan oil supplies.

According to an analyst at Merrill Lynch strong demand growth for fuels and structural tightness in refining capacity will keep margins much higher than historical averages. However profitability will be lower on the year and therefore deter refiners from costly new refinery upgrades. He said European refinery margins for 2005 will be between 20% and 40% lower on the year while refinery margins in the US will be about 10% lower on the year.

European diesel demand will continue to increase this year as nearly half of new cars will use the fuel, straining the region's oil refining capacity and keeping prices for transport and heating strong. Global competition for diesel supply is intensifying as economic expansion in the US and China drives demand growth. European diesel demand is increasing amid the lower government duty when compared with the gasoline duty. Analysts stated that Europe will become increasingly dependent on imports of distillate fuels as regional investors have underinvested in diesel production.

Alaska's Governor Frank Murkowski said satellite fields surrounding the Prudhoe Bay oil field will no longer be allowed to take advantage of a state tax break that was intended to encourage development of marginal deposits. Starting February 1, oil from those fields will be charged at the same production tax rate as that from Prudhoe Bay.

Bank of Canada Senior Deputy Governor Paul Jenkins said the high oil prices pose a risk to the world's economic outlook despite the moderation in prices.



A Gulf source reiterated that Saudi Arabia will continue to produce 9 million bpd of crude in February, unchanged on the month.

Nigeria's Presidential adviser on petroleum Edmund Daukoru said OPEC ministers are unlikely to reach a consensus to cut their output ceiling at the January 30 meeting if prices remain at current levels.

According to Oil Movements, OPEC crude shipments will fall by 530,000 bpd to 23.89 million bpd in the four week period ending January 29 compared with 24.42 million bpd through December 29. It said Arab Gulf tanker sailings bound for Asian markets have eased off from mid-December peaks to below year ago levels while westbound sailings are increasing.

OPEC's news agency reported that OPEC's basket of crudes increased by 36 cents/barrel to \$39.81/barrel on Wednesday compared with \$39.45/barrel on Tuesday.

The Danish Army said that the situation in Basra has become more tense in the run up to the election. It said attacks are aimed at Iraqi security forces and police before the scheduled January 30 national elections.

Separately, an aide to Iraq's top Shia Muslim cleric, Ayatollah Ali Sistani, was assassinated along with four bodyguards and his son. The attack against Sheikh Mahmoud al-Madaini is the latest of a strong of attacks launched by mainly Sunni insurgents to derail national elections scheduled for January 30. Insurgents trying to derail the elections appeared to be sending a message to al-Sistani, who strongly supports the vote. Elsewhere, gunmen killed six people and abducted a Turkish businessman in an ambush outside a Baghdad hotel. Also, an unidentified armed group kidnapped an Egyptian oil company manager in Kirkuk.

According to a joint report by the Financial Times and Italy's Il Sole 24 Ore newspapers, the US ignored warnings that Iraq and Jordan were involved in large scale oil smuggling outside the scope of the UN oil-for-food program in early 2003. It said one major deal netted \$50 million for the Iraqis involved and a further \$150 million in profits from the sale of the oil. Overall the operation involved 14 tankers engaged by a Jordanian entity to load at least 7 million barrels of oil. The report said the US ignored the warnings, justifying the smuggling on the grounds that its Jordanian ally needed the oil to build reserves before the expected Iraqi invasion. However it noted that most of the oil never reached Jordan and instead ended up at the Middle East Oil Refinery in Alexandria, Egypt, a refinery in Aden, Yemen and Malaysia and China.

## Refinery News

A problem with a boiler supplying a coking unit at Tesoro Corp's 168,000 bpd Golden Eagle refinery in Martinez, California will have minimal impact on the refinery's output.

Valero said it was performing unexpected maintenance on a unit at its 340,000 bpd Corpus Christi, Texas refinery starting Thursday. The maintenance was being conducted in Complex 1 of the refinery's West Plant.

PDVSA's 200,000 bpd Puerto La Cruz refinery is operating at full capacity after suffering a power outage last Friday that damaged units. Repairs to some units were completed over the weekend and production has full recovered.

## Production News

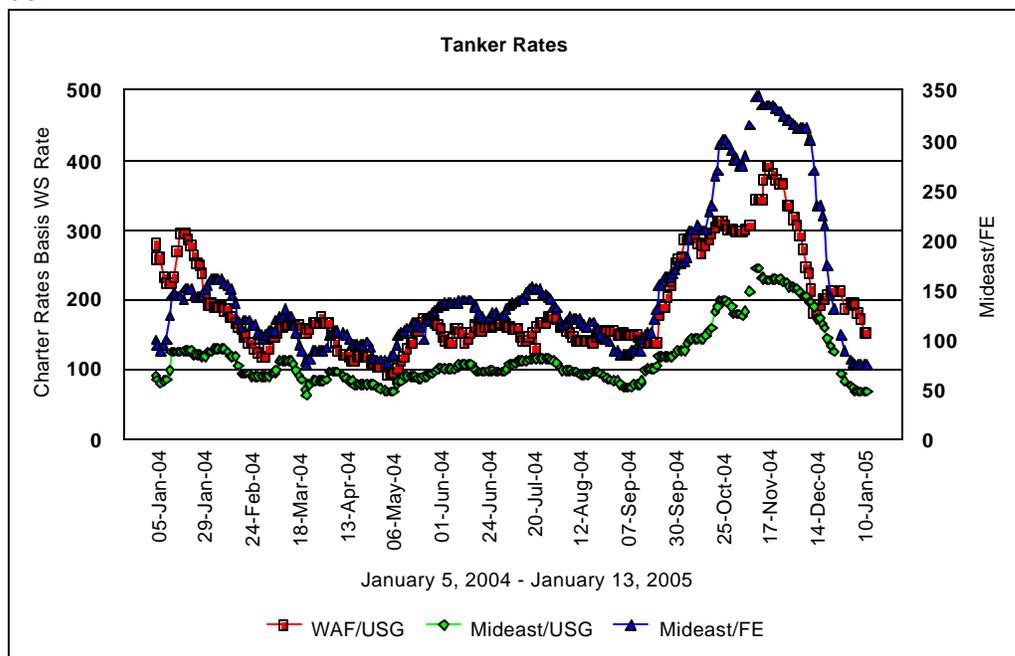
Kinder Morgan restarted its refined products pipeline from California to Arizona early Thursday. The pipeline is fed by two Kinder Morgan lines running from Watson Station, California to Colton, California which were both restarted on Wednesday night. Meanwhile an 8 inch line supplying jet fuel to Las Vegas remained shut.

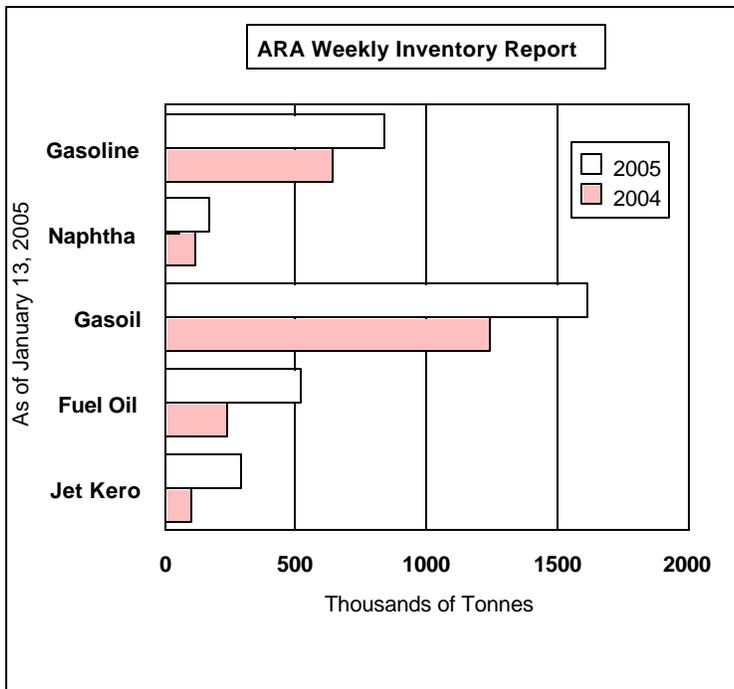
Nigeria is expected to load 65 million barrels or 2.09 million bpd of crude in January. Its December loading estimates were revised down following last month's force majeure on Bonny Light crude liftings, with exports pegged at just over 65 million barrels or 2.1 million bpd.

Royal Dutch/Shell said bad weather is preventing it from repairing its Draugen rig in the North Sea. A source said improving weather conditions on Friday may allow it to fix a loading hose at the rig. It has halted 140,000 bpd of crude production since January 7. Output amounting to 345,000 bpd remains idled.

Turkish maritime authorities closed the Bosphorus and Dardanelles straits to all traffic including tankers overnight due to poor visibility caused by fog. Local agents said some 31 tankers were waiting at the entrance to the Dardanelles traveling in both directions while ten vessels were waiting at the entrance to the Bosphorus.

The Norwegian Petroleum Directorate said 22.8 million barrels of oil equivalent were produced on the Norwegian shelf in November, 600,000 boe lower than last year's level. The decrease in production was mostly due to technical problems on several fields. During January-November, the total production was about 241 million





As of January 13, 2005

Rotterdam-Antwerp area increased by 10% in the week ending January 13<sup>th</sup> to 1.625 million tons from 1.475 million tons the previous week. Meanwhile gasoline stocks in the ARA area increased by 50,000 tons to 850,000 tons while naphtha stocks remained unchanged at 175,000 tons. Fuel oil stocks fell by 50,000 tons to 525,000 tons while jet fuel stocks increased by 50,000 tons to 300,000 tons on the week.

The new owner of Yuganskneftegaz may be given extra time to rectify oil license issues. In October, Russia's Natural Resources Ministry accused the company of exceeding oil production quotas on 21 oil deposit development licenses. The ministry said it will check whether it has rectified the license violations in early February 2005.

Russia's Surgutneftegaz said its 2004 oil output was 59.4 million metric tons or 1.2 million bpd, up 10% on the year. It exceeded its forecast of 58.6 million tons or 1.17 million bpd for the year.

Russia's Lukoil forecast it would post net profits of \$4 billion in 2004, up 60% due to high oil prices and increasing production. It said it was likely to have increased reserves by 120 million tons of oil equivalent, including 71 million tons of oil and 49 billion cubic meters of gas.

Kazakhstan's crude oil production increased nearly 15% last year to 58.8 million tons or 1.22 million bpd compared to a year earlier. It forecast that this year's oil production will reach 61 million tons. Its exports in 2004 totaled 47.1 million tons compared with 44.3 million tons in 2003.

Brazil's Petrobras said that its average domestic crude oil production fell in 2004 as the start of operation from new rigs was delayed. The company's average oil production from domestic fields fell by 3% to 1.493 million bpd in 2004 from 1.54 million bpd in 2003. Its combined oil and gas production from both domestic and overseas fields was down 0.7% in 2004 to an average of 2.02 million barrels of oil equivalent.

Singapore's International Enterprise reported that the country's residual fuel stocks fell by 1.48 million barrels to 10.692 million barrels in the week ending January 12. It also stated that middle distillate

boe, 2.9 million boe higher than in 2003. Preliminary figures show an average daily production of about 2.582 million bpd for December. It also stated that Norway's total oil and natural gas production in the next five years is expected to increase by 8% to 1.39 billion cubic meters of oil equivalent from the previous five year period. It said while the country's gas production is expected to increase, oil output is forecast to fall over the period by almost 12% to 4.812 billion barrels.

Danish Underground Consortium's oil production from its 14 fields in the Danish part of the North Sea increased by 11.6% year on year in December to 325,000 bpd. In 2004, oil production totaled 112.4 million barrels, up 0.7% on the year.

Gas oil stocks in the Amsterdam-

stocks increased by 27,000 barrels to 8.243 million barrels while light distillate stocks increased by 1.096 million barrels to 9.837 million barrels.

### **Market Commentary**

The oil complex opened higher in light of the short term weather forecasts showing below normal temperatures while the 8-14 day forecast released on Wednesday evening showed normal to above normal temperatures for most of the country. The crude market gapped higher from 46.60 to 46.85 as it opened up 48 cents in follow through strength seen in overnight trading. The market traded in a range from 47.10 to 46.70 early before the market rallied following the release of the natural gas inventory report showing a draw of 88 bcf. Even though the report was bearish, the natural gas market seemed to have ignored it and instead rallied 20 cents on the report lending support to rest of the energy complex. The oil market, which followed in the natural gas market's footsteps rallied above the 48.00 level to 48.25, where it held good resistance. Later in the session, the market breached its resistance and rallied to a high of 48.40 before it retraced some of its gains ahead of the close. It settled up \$1.67 at 48.04. Volumes were excellent with over 266,000 lots booked in the crude market. Open interest in the crude market fell by a total of 2,171 lots to 705,190 lots. Open interest in the February contract fell by 17,156 contracts while open interest in the March contract built by 13,873 contracts as traders rolled their positions forward ahead of expiration next week. Meanwhile, the heating oil market settled up 4.07 cents at 134.11 amid the weather forecasts and the strength in the natural gas market. The February heating oil contract gapped higher from 130.80 to 131.50 on the opening and traded in a range from 132.00 to 131.00 early in the session. However the market later breached its resistance as it was well supported by the strength in the natural gas market. The market extended its gains to over 4.7 cents as it traded to a high of 134.75. It later retraced some of its gains and settled in a sideways trading pattern during the remainder of the session. The gasoline market also gapped higher from 122.20 to 123.00 and quickly rallied to 126.00. The market later breached that level and posted an intraday high of 127.00 before it retraced some of its gains ahead of the close and settled up 3.61 cents at 125.46. Volumes in the product markets were good with 48,000 lots booked in each the heating oil and gasoline markets.

Despite our belief that the market's upside was limited, it now seems poised to target the 50.00 level amid the change in the weather forecast and the ongoing production shut ins. Its

<b>Technical Analysis</b>		
	<b>Levels</b>	<b>Explanation</b>
<b>CL</b> 48.04, up \$1.67	<b>Resistance</b> 49.13, 49.46 48.40	Previous high, 62% retracement (54.75 and 40.90) Thursday's high
	<b>Support</b> 47.80, 46.70-46.60 45.00, 44.75	Remaining gap (January 13th) Previous lows
<b>HO</b> 134.11, up 4.07 cents	<b>Resistance</b> 135.00, 136.10, 136.75 134.75	Previous highs, 50% retracement (156.70 and 116.80) Thursday's high
	<b>Support</b> 133.40, 132.70 131.00-130.80, 125.85	Remaining gap (January 13th), Previous low
<b>HU</b> 125.46, up 3.61 cents	<b>Resistance</b> 129.80, 130.17 127.00	Previous high, 62% retracement (144.80 and 106.50) Thursday's high
	<b>Support</b> 125.00, 123.80 122.80 to 122.20	Remaining gap (January 13th)

stochastics are still trending higher and the 8-14 day weather forecast is likely to keep the heating oil market supported with the forecast showing the East coast below normal while the rest of the country is normal to above normal. The market is seen testing its resistance at 48.40 followed by its previous high of 49.13. More distant resistance is seen at 49.46 and 50.00. Meanwhile support is seen at 47.80 followed by its remaining gap from 46.70 to 46.60. More distant support is seen at 45.00 and 44.75.

