



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR JANUARY 18, 2005

According to two senior OPEC delegates, OPEC will not cut its production if world oil prices remain at current levels. Meanwhile, Saudi Arabia said it was too early for OPEC to discuss production cuts given the current volatility in the market.

The head of the IEA, Claude Mandil, said oil demand growth in 2005 will slow down from last year's record rate. However the world supply chain is vulnerable to a repeat of 2004's demand shock if demand surges once again. He said oil demand growth will be 1.4 million bpd in 2005, up 100,000 bpd from its previous estimate but down from last year's 2.65 million bpd. Oil demand is estimated at 83 million bpd. He also stated that OPEC must avoid reacting to much needed crude and product inventory builds when it meets on January 30 to discuss its output policy. He said OPEC will need to produce more oil than

Market Watch

Iraq's Interior Minister warned that if the country's Sunni Arab minority does not vote on the January 30 elections, the country could have a civil war. He said boycotting the elections will not produce a National Assembly that represents the Iraqi people. Sunni clerics have called for a boycott of the election while Sunni insurgents have threatened to attack polling stations. By contrast, members of the Shiite majority are expected to turn out in large numbers, hoping to end generations of dominance by the Sunni minority.

The NYMEX launched outright price trading in four grades of crude on its Access overnight system on January 17th. It said the outright price trading was launched on Mars blend crude, Louisiana Light Sweet, West Texas Sour and West Texas Intermediate, delivered at Midland, Texas as opposed to the main benchmark contract for light sweet crude delivered at Cushing, Oklahoma. The contracts trade on Access starting at 3:15pm each day running through noon the following day.

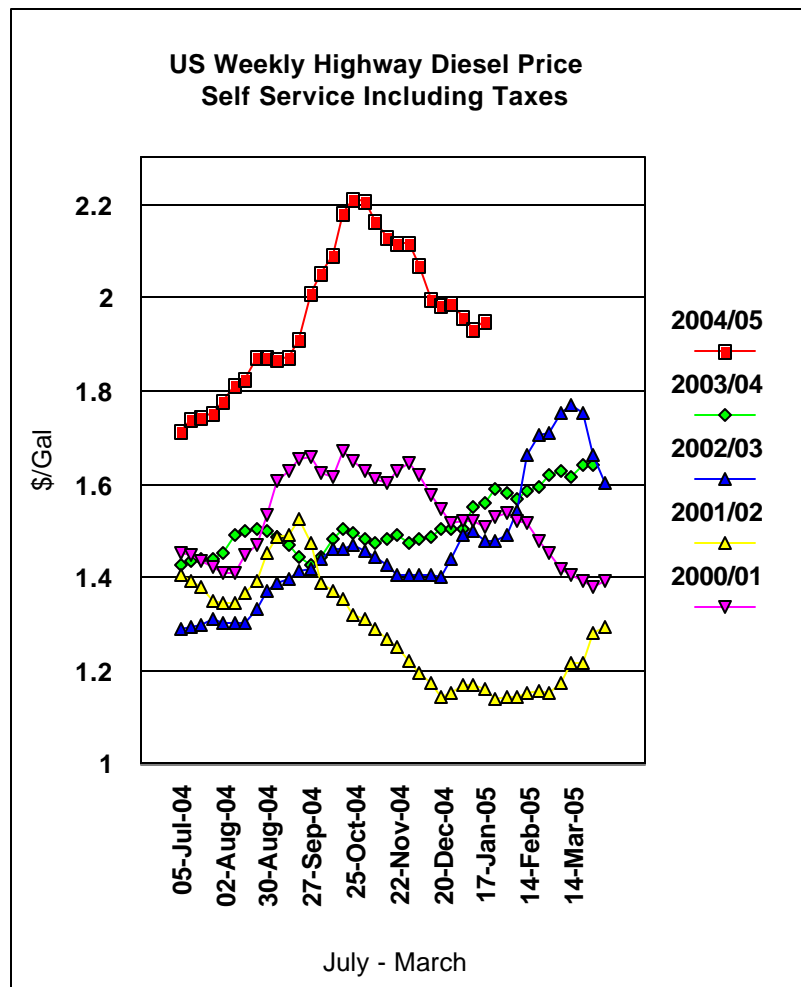
The Norwegian Oil and Energy Ministry reported that investment in Norway's oil and gas sector is likely to increase to a new record above 90 billion crowns or \$16.29 billion this year. It said it expected 30-40 new exploration wells to be drilled off Norway this year. Norway's Energy Minister Thorhild Widvey said that Norway and the UK had finalized its cross border oil and gas treaty. The treaty opens the way for development of oil and gas fields that share the North Sea border between the countries.

The Climate Prediction Center reported that in the week ending January 15 there were a total of 164 Heating Degree Days in the US, unchanged from its previous forecast. It is down 18% on the year and down 22% from normal. It stated that on an oil home heating customer weighted basis there was a total of 202 HDD, which is down 36% on the year and down 23% from normal. In the week ending January 22nd, it is predicting a total of 215 HDD, which is down 6% on the year but up 3% from normal. On an oil home heating customer weighted basis it is predicting a total of 300 HDD, down 2.9% on the year and up 14% from normal.

US Secretary of State designate Condoleezza Rice accused Venezuela of meddling in the affairs of neighboring countries and also expressed concern about its friendship with Cuba. She said the US cannot remain indifferent to what Venezuela is doing beyond its border.

expected during the northern winter because of supply problems outside the cartel. Demand for OPEC crude will be 500,000 bpd higher at 28.6 million bpd in the first quarter, as oilfield disruptions in North America and the North Sea reduce non-OPEC supply. It also revised its forecast call on OPEC supply by 300,000 bpd for the second quarter. The IEA reported that world oil supply fell by 45,000 bpd in December as disruptions in the North Sea and Canada helped cut 165,000 bpd from non-OPEC production. December OPEC supply held steady from November at 29.5 million bpd, with 160,000 bpd more output from Iraq and 100,000 bpd extra from the UAE balancing out lower production in Nigeria, Iran and Saudi Arabia. OPEC's production fell by 160,000 bpd for December to 27.6 million bpd compared with its 27 million bpd quota. Iraq's production increased by 160,000 bpd in December to 1.95 million bpd. Russia's crude production fell by 60,000 bpd to 9.4 million bpd. It estimated Russia's production in 2005 will total 9.65 million bpd. It revised its 2004 estimate for total non-OPEC supply down by 50,000 bpd to 21.24 million bpd and also cut its forecast for 2005 non-OPEC supply by 110,000 bpd to 21.18 million bpd. China's oil demand increased in November to a record 6.72 million bpd from 6.35 million bpd in October. The IEA also stated that doubts over future demand growth and reluctance to commit capital will inhibit investment in oil exploration and production despite the rally in oil prices last year. It forecast OPEC producers and major oil companies alike will take a cautious approach towards increasing 2005 upstream expenditure as they are not yet sure prices will remain high. It said OECD crude stocks increased by 22 million barrels in November while distillate stocks increased by 12 million barrels on the month and gasoline stocks increased by 7 million barrels on the month.

Iraq's Oil Ministry has asked the cabinet to approve four new contracts with international oil companies for the development of upstream oil and gas fields as well as refinery upgrades. The official said the two oil field contracts are for Hemrin, Subba and Luhais fields. The third contract is for the development of al-Zubeir natural gas field and an upgrade of the gasoline production unit at the Basra refinery. Prime Minister Ayad Allawi's current interim cabinet is likely to approve some of the contracts while an elected government to be set up after Iraq's elections would approve the remainder. Separately, analysts stated that it could take at least a year for the country's soon to be elected government to focus on opening its fields to oil multinationals. Iraqi politicians' first task after the January 30 elections will be drafting a constitution and only when that is finished will they be able to focus on a petroleum law vital for foreign investment. Oil companies will also have to assess the security situation that is now preventing them from working on the ground.



Iraq's Prime Minister Ayad Allawi said he would make security and the fight against terror his top priority if he returns to office following the January 30 election.

OPEC's news agency reported that OPEC's basket of crudes was relatively unchanged at \$41.81/barrel on Monday, up 1 cent from \$40.80/barrel.

The EIA reported that the US retail price of diesel increased by 1.8 cent/gallon to \$1.952/gallon in the week ending January 17th.

Refinery News

Boilers associated with a gasoline producing unit at ExxonMobil's Baytown, Texas refinery were shut unexpectedly on January 15. The shutdown of the boilers associated with the fluid catalytic cracker was caused by a power unit tripping off-line. According to a filing with the Texas Commission on Environment Quality, ExxonMobil is expected to resume operations on a hydrocracking unit at its Baytown, Texas refinery by January 20 as expected.

Flint Hills Resources LP said a planned two day maintenance shutdown to repair a valve at a fluid catalytic cracking unit at its 305,000 bpd Corpus Christi, Texas refinery was completed. In a filing with the Texas Commission for Environmental Quality, it said it would shut a unit for two days starting January 17 to replace a slurry bypass valve that was no longer functioning.

Shell Oil is scheduled to begin to restart a section of an olefins unit at its Deer Park, Texas refinery on January 18. The restart process to the cold fractionation section of the Olefins 3 unit is seen taking several days.

Alon USA reported in a filing with the Texas Commission for Environmental Quality that it plans to shut 14 units at its 62,000 bpd Big Spring, Texas refinery for overhauls in February. The shutdown, scheduled for February 3-11 will include a crude unit, fluid catalytic cracker, reformer, gas oil hydrotreater, low-sulfur gasoline hydrotreater and its alkylation unit.

Premcor Inc said it will begin the restart of its 260,000 bpd Port Arthur, Texas refinery on February 2 as scheduled following planned maintenance. The maintenance is expected to be completed by February 9.

Italy's ERG's 140,000 bpd refinery in Priolo, Sicily is due to shutdown on February 18 for routine maintenance for 50 days.

Sweden's Preem restarted a 32,000 bpd reformer at its 210,000 bpd Lysekil refinery. The reformer resumed normal operations at the end of last week after it was shut a month ago, forcing the refiner to declare force majeure on gasoline and diesel cargoes.

Tesoro's FCC unit at its 168,000 b/d Golden Eagle refinery in Martinez, CA, remained idled Tuesday because of ongoing complications with the plant's #5 boiler that was shut late last week.

Production News

The US Minerals Management Service reported that 140,564 bpd of oil production remained shut, down from 145,128 bpd on January 3. US oil output was at 91.73% of its normal rate of 1.7 million bpd. The cumulative shut in totals stood at 40.1 million barrels of oil and 159.2 bcf of natural gas.

Kinder Morgan Energy Partners said that two pipelines that bring gasoline from California refineries to neighboring western states have been returned to service after a cautionary shutdown due to record rainfall in California. It said no gasoline leaks were found. The company said normal operations resumed on the Arizona line on Thursday while the Nevada line resumed operations on Saturday.

Colonial Pipeline Co. Inc. again restricted the amount of distillate products it will accept from each of its shippers to move to the Northeast. Demand for space on its mainline continues to exceed available capacity. The latest restrictions affect 3rd cycle liftings on Colonial's distillate mainline.

BP Plc announced that it has started oil and natural gas production from its Mad Dog deepwater project in the Gulf of Mexico. Production started January 13 and will increase over the next year as additional wells are brought on line. The facility is designed to process about 100,000 barrels of oil and 60 mmcf/d of natural gas.

Saudi Aramco's chief executive, Abdallah S. Jum'ah said it is ready to increase its output on any instruction from the Saudi government.

Statoil ASA is expected to ask Norway's Petroleum Safety Authority on Tuesday for permission to restart its remaining 100,000 bpd of production on its Snorre A oil field in the North Sea. It acknowledged that it failed to meet its own safety standards at the North Sea Snorre oilfield in connection with a November gas leak and would take steps to correct the problems.

Royal Dutch/Shell has resumed at least 29,100 bpd of oil production, out of 44,000 bpd shut in since December due to vandalism of a major pipeline in southeastern Nigeria. Production at the Egbema flow station was restored on Tuesday after Shell repaired all 34 holes drilled in the pipeline by vandals. Shell said it will not lift its force majeure until it resolves all of the community disputes in the area. The Awoba flow station which was not directly affected by the dispute, was shutdown because it produces into the Ekulama I platform. Meanwhile, its 8,000 bpd Odeama flow station was still shut due to the ongoing community dispute.

Traders seeking to ship gas oil across the Atlantic said loading restrictions at a key Baltic port have reduced export possibilities. The Latvian port of Ventspils reopened at the end of last week following some stormy weather, though the approach channel has silted up, preventing larger tankers from loading this week. Traders said the economics of shipping gas oil to the US were marginal although several 62,000 ton cargos have been fixed for mid-January loading from the UK/Cont to the US Atlantic coast. The US Gulf coast shipped gas oil and jet fuel to Europe in the second half of 2004 amid mild US weather and strong European prices.

Russia's main Black Sea port of Novorossiisk remained closed on Tuesday after swells and strong winds shut the terminal on the weekend. The nearby CPC terminal was also closed.

Russia's Orenburgneft's oil production increased by 15.4% on the year in 2004 to 13.934 million metric tons.

Mexico's Pemex produced 3.38 million bpd of crude in 2004, up from 3.37 million bpd in 2003. It exported 1.87 million bpd during the year at an average price of \$31.01/barrel, up from 1.84 million bpd in 2003 at \$24.77/barrel.

China's PetroChina is building a petrochemical complex and upgrading its refinery near Kazakhstan for \$3 billion. It started work this month on a 1 million ton per year ethylene plant. It will more than double

the refining capacity at Dushanzi to 200,000 bpd. The petrochemical complex is due for startup by 2008 while the refinery expansion is expected to be completed by 2007.

Indian Oil Corp has initiated talks with Saudi Aramco for cooperation in building a strategic reserve of about 37.5 million barrels. India plans to build a strategic reserve of crude oil to meet 15 days of domestic demand.

Market Commentary

The oil complex opened sharply higher as a cold front moved into the Northeast. According to a private weather forecaster, temperatures in the Northeast are expected to be well below normal this week. The crude market gapped higher from 48.65 to 49.30 in follow through strength seen in overnight trading in light of the weather forecasts. The oil market retraced little more than 62% of its move from a high of 54.75 to a low of 40.90 as it posted an intraday high of 49.50. The market however erased its gains as it failed to continue its upward momentum. It traded sharply lower and settled in a range before it traded to a low of 47.70 late in the session. The market later managed to retrace some of its losses and settled unchanged at 48.38. Volumes were excellent with over 262,000 lots booked on the day. The heating oil market which provided the energy complex with support, gapped higher on the opening from 136.30 to 138.80. The market rallied to a high of 139.50 before the market sold off to 133.50 and settled in a range as traders realized that the weather forecasts would moderate next week. The latest 8-14 day forecast showed much of the country normal to above normal. The market continued to sell off to a low of 133.00 late in the day. It however bounced off that level and traded back towards the 134.00 level. It settled down 71 points at 134.38. The gasoline market settled down 1.42 cents at 126.19 after it also gapped higher from 128.00 to 129.00. The market traded to a high of 130.30 early in the session amid the overall strength in the complex. It however erased some of its gains and traded to 125.40 before it sold off even further to a low of 125.00 late in the session. Volumes were good with 44,000 lots booked in the gasoline market and 47,000 lots booked in the heating oil market.

The crude market is seen trading in a range on Wednesday ahead of the weekly petroleum stock reports. The weekly petroleum stock reports are expected to show builds

Technical Analysis		
	Levels	Explanation
CL 48.38, unchanged	Resistance 49.50, 50.28 48.50	Tuesday's high, Basis trendline
	Support 47.70, 47.60 46.70 to 46.60	Double bottom Remaining gap (January 13th)
HO 134.38, down 71 points	Resistance 136.75, 141.46, 141.70 139.50	62% retracement(156.70 and 116.80), Previous high Tuesday's high
	Support 133.00, 132.80 131.00-130.80, 125.85	Tuesday's low, Friday's low Remaining gap (January 13th), Previous low
HU 126.19, down 1.42 cents	Resistance 133.85 130.30	Previous high Tuesday's high
	Support 125.00, 124.70 122.80 to 122.20	Tuesday's low, Friday's low Remaining gap (January 13th)

in crude stocks of about 1 million barrels, a build of less than 500,000 barrels in distillate stocks and builds in gasoline stocks of about 1 million barrels. The crude market is seen finding resistance at 48.50 followed by its high of 49.50. More distant resistance is seen at 50.28. Meanwhile support is seen at its double bottom of 47.70-47.60 followed by its gap from 46.70 to 46.60.

Please note the EIA and API weekly petroleum stock reports will be delayed until 5 pm on Wednesday, January 19th. Federal offices were closed on Monday, January 17th for the Martin Luther King holiday and will be closed on Thursday, January 20 for the presidential inauguration.