

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 26, 2005

Kuwait's Oil Minister and current OPEC President, Sheik Ahmad Fahad al-Ahmad al-Sabah said OPEC is facing a difficult situation in the second quarter because there is still excess supply in the market. He said although there is between 500,000 bpd of excess supply in the market, OPEC would wait until the March meeting to act on a production cut. He said oil prices are too high to allow OPEC to cut its output.

According to a senior Saudi official, OPEC is unlikely to change its official output ceiling when it meets on Sunday. Meanwhile on the sidelines of World Economic Forum, the head of Kuwait Petroleum Corp also stated that OPEC was would most likely not cut its production quotas at its meeting. UAE Oil Minister Mohammed bin Dhaen al-Hamali said that OPEC may keep its current output ceiling of 27 million bpd unchanged when its meets on Sunday. He however called on all OPEC members to adhere to their individual quotas. He said there is now 1 million bpd of excess supply in the market. He said OPEC should aim for a crude basket price of about \$36.

Iraq's Oil Minister Thamer al-Ghadhban said Iraq's oil production averaged about 2 million bpd in 2004 while its exports averaged 1.5 million bpd. In regards to Iraq's refined products, Iraq produced 10 million liters/day of gasoline, 12.3 million liters/day of gas oil and 7 million liters/day of kerosene. He stated that the ministry earned \$17.8 billion from sale of crude oil and oil products last year. However revenue losses due to damage and lost exports reached \$6 billion in 2004. It also had to import \$1.6 billion worth of oil products last year. He said there were 51 attacks on export pipelines, 22 on wells, 88 on pipelines feeding refineries with crude, 80 on gas pipelines and 23 other attacks. Meanwhile the director general of Iraq's SOMO said Iraq aims for a sustainable average export rate of 1.7-1.75 million bpd for 2005. However he stated that ongoing attacks against the country's pipeline network and technical problems may hamper Iraq's export target goals. He said SOMO has decided not to restart flows until the pipelines are quite secure. It said it has no plans to issue no long term contracts with

Market Watch

Nigerian oil unions called off their threat to strike after the Labor Minister intervened in a dispute over the mistreatment of workers. While Pengassan had insisted that two expatriate workers at Wasco leave the country, the union accepted a compromise that they instead stay away from company operations until the dispute is resolved. Workers at Wasco, who have been on strike, will resume work on Thursday.

Norwegian and Russian Foreign Ministries will renew negotiations to resolve a 30 year boundary dispute in the Barents Sea within months. Official negotiations over the disputed area, where 12 billion barrels of oil equivalent is estimated to be untapped, have been dormant for almost a decade.

lifters until the pipeline can be secured. Also southern exports have fallen because pipelines are unable to operate at full capacity without further repairs. Separately, shipping sources stated that crude tankers are currently waiting up to ten days to berth. There are currently seven tankers at anchor and waiting to berth.

OPEC's news agency reported that OPEC's basket of crudes increased by \$0.19/barrel on Tuesday to \$42.68/barrel compared with \$42.49/barrel on Monday.

According to the API, US demand for crude oil and oil products in December increased by 1.5% from a year earlier to 20.983 million bpd. Demand during 2004 averaged 20.5 million bpd, up 2.3% on the year. API reported that distillate fuel demand in December increased by 4.8% to 4.231 million bpd while gasoline demand increased by 1.1% to 9.114 million bpd. On the supply side, domestic crude production fell by 1.9% in December to 5.471 million bpd. Crude oil and petroleum product imports in December increased by 9.7% from a year earlier to 13.204 million bpd.

Refinery News

Sunoco confirmed that it shut its 60,000 bpd catcracker at the Girard Point section of the 330,000 bpd Philadelphia refinery following a fire Tuesday evening. There were reports of an explosion immediately before the fire. The cause of the fire is under investigation and there is no estimate of the extent of repairs or how long the unit will be out of service.

An official with the Louisiana Department of Environmental Quality said a fire caused major damage to a catcracker unit at ConocoPhillips' Alliance refinery in Belle Chase, Louisiana. It said it would likely take months to fully repair.

Astra Oil Co plans to invest in meeting clean fuel standards at the Pasadena, Texas refinery it has agreed to buy from Crown Central Petroleum. The company will upgrade the refinery to produce lower sulfur gasoline in compliance with federal regulations.

Hovensa Refining LLC started maintenance on its catcracker unit last week and expects the turnaround to be completed in about 40 days.

Japan's Nippon Oil Corp said it planned to refine 5 million kiloliters or about 1.12 million bpd of crude oil in February, down 4% from a year earlier. It estimated its crude run for January at 5.1 million kl. The February run rate accounts for about 92% of its total refining capacity of 1.217 million bpd. It also stated that it reduced the run rate of the 150,000 bpd No. 4 crude distillation unit at its Negishi refinery due to minor mechanical problems. Meanwhile Idemitsu Kosan Co said it would refine 2.54 million kl or about 571,000 bpd of crude oil in February compared with an estimated 2.8 million kl in January.

Production News

Sunoco Logistics Partners LP shut a crude pipeline north of Carrolton, Kentucky early Wednesday due to a leak. The 22 inch pipeline runs from Houston to Toledo, Ohio and has a 195,000 bpd capacity. It is unknown when the pipeline will restart.

Statoil began work on Wednesday to resume full production at its 130,000 bpd Snorre oilfield. It said it was too early to say when full production would be reached and also declined to give details about the output level achieved so far on a satellite field and the subsea equipment at Snorre.

Abu Dhabi National Oil Co will provide incremental crude oil supply to its Asian term customers in March. It will supply a total of about 1 million to 2 million barrels of its light sour crude above agreed

volumes. Its decision comes despite a pledge by the UAE to reduce its total exports from January by 120,000 bpd under an agreement by OPEC.

ConocoPhillips said its production increased by 7.6% in the fourth quarter to an average of 1.6 million barrels of oil equivalent/day. It achieved its production target of 1.56 million bpd in 2004 but fell short when it came to being able to replace its proved reserves.

Russia's Transneft has started project work for a massive pipeline to the Pacific coast, including a branch to China that had been in doubt.

Ukraine's Ukrtransnafta said Ukraine plans to pump 7 million tons or 140,000 bpd of crude via its Odessa-Brody pipeline this year. It said the pipeline shipped 1.049 million tons of oil in the last quarter of 2004 to the Black Sea port of Yuzhny and onwards to the Mediterranean.

The Caspian Sea port of Aktau handled 8.3 million tons of oil and oil products in 2004 compared with 7 million tons a year earlier.

Local shipping agents said delays for larger oil tankers fell to 13 days through the Turkish Straits for a round trip to the Black Sea on Wednesday after intermittently opening and closing due to bad weather last week. Freight prices for oil firms transporting cargoes from the Black Sea have surged on the delays in the last two weeks as more tonnage is tied up for longer periods.

Shipping agents stated that fuel oil imports into Huangpu, China's largest terminal for the product, were set to reach a nine month high of 1.65 million tons for January, up 10% from December. China's total fuel oil imports reached a record 30.5 million tons in 2004, up 28% from 2003.

Market Commentary

The oil market remained under pressure for most of the session as it settled down 86 cents at 48.78. The March crude contract opened down 50 cents at 49.14 and traded mostly sideways ahead of the release of the weekly petroleum stock reports. However the market breached its early trading range and rallied to a high of 49.70 following the release of the DOE and API reports which showed draws in product stocks. The market however held good resistance at its previous high of 49.75 and just as quickly erased its gains as it traded to an early low of 49.30. The market traded mostly sideways as it continued to test its upside. However the market later sold off and posted an intraday low of 47.90 amid the news that Nigeria's oil union called off its threat to strike. The market was also pressured in light of the OPEC comments stating that a cut during Sunday's meeting is unlikely. The market bounced off

its low and retraced most of its losses ahead of the close. Volume in the crude was excellent with over 237,000 lots booked on the market.

Technical Analysis		
	Levels	Explanation
CL 48.78, down 86 cents	Resistance 49.70, 49.75, 50.40 48.95, 49.50	Double top, Previous high
	Support 47.90, 47.80-47.75 46.71, 46.56	Wednesday's low, Previous lows Previous lows, 38% retracement (41.40 and 49.75)
HO 140.33, down 2.15 cents	Resistance 144.00, 145.80 140.70, 142.00	Wednesday's high, Previous high
	Support 138.50, 137.80 135.90, 133.61	Wednesday's low, Previous low Previous low, 38% retracement (116.80 and 144.00)
HU 135.93, up 1.48 cents	Resistance 141.86 136.50	Basis trendline Wednesday's high
	Support 133.00 129.60, 128.25	Wednesday's low Previous lows

Meanwhile, the product markets ended mixed with the heating oil market settling down 2.15 cents at 140.33 and the gasoline market settling up 1.48 cents at 135.93. The heating oil market opened down 1.48 cents at an early low 141.00 and traded in a 1 cent trading range ahead of the stock reports. However the market quickly traded to a high of 144.00 in light of the draws reported by the DOE and API of 2.3 and 4.2 million barrels, respectively. In volatile trading, the market later traded in and out of positive territory before it extended its losses to close to 4 cents as it traded to a low of 138.50 late in the session. The market later bounced off its low and traded above the 140.00 level ahead of the close. Meanwhile the gasoline market traded to a high of 135.50 in light of the draws reported in gasoline stocks. While the market did give up some of its gains, it held good support at its low of 133.00 posted on the opening. The market later rallied to a high of 136.50 ahead of the close as it remained well supported by some further refinery problems. Volumes were good in the product markets with 67,000 lots traded in the heating oil and 58,000 lots traded in the gasoline market.

The oil market which continues to hold resistance at the 50.00 level will likely trade lower once again on Thursday as its stochastics are ready to cross back to the downside. The weather forecasts are less than supportive, with the 8-14 day forecast showing the northern half of the country normal to above normal. Its losses may however be limited by the late day report of a 195,000 bpd crude pipeline that was shut down due to a leak. The market is seen holding resistance at 48.95, 49.50 followed by its double top at 49.70 and 49.75. Meanwhile support is seen at its lows of 47.90, 47.80-47.75 followed by 46.71 and 46.56, its 38% retracement level.