



## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR JANUARY 27, 2005**

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Senior OPEC delegates said OPEC producers are unlikely to agree to a deferred April supply cut when it meets on Sunday unless prices fall sharply before the meeting. Ministers from Kuwait, the UAE, Nigeria and Indonesia have all said that crude prices are too high now for OPEC to justify cutting supplies. However they are warning OPEC will need to reduce supplies for the second quarter starting in April, when demand falls. The senior OPEC delegates said OPEC was also unlikely to agree to a pre-emptive move, such as announcing a cut on Sunday starting in April, unless prices fall sharply ahead of the meeting. Meanwhile, Saudi Arabia's Oil Minister Ali Naimi also stated that OPEC does not need to cut its production at its meeting on Sunday and can afford to wait at least until March before reducing supply. Separately, he stated that Saudi Arabia has spare capacity of 1.5 million-2 million bpd. Libya's Oil Minister also stated that he saw no reason for OPEC to cut its quota during its Sunday meeting. However he said there was a strong possibility OPEC would cut its

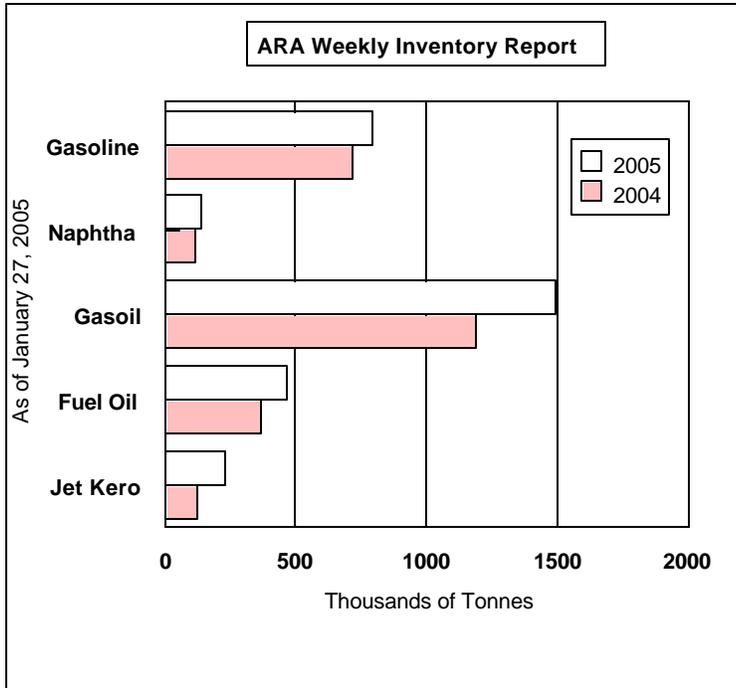
#### **Market Watch**

A foreign elections adviser in Iraq said Iraqis may have to wait weeks to learn the winners of this weekend's elections, with attacks and other factors expected to slow the vote tally. He said some early results may trickle out, however Iraq's Independent Electoral Commission will not be able to declare winners until a count is finished.

Separately, a leading Shi'ite candidate in the Iraqi elections, Ahmad Chalabi called for autonomy for the country's mostly Shi'ite south. He said the move would ensure a fairer share of wealth for a region that provides the majority of Iraqi revenue but receives only a fraction of state spending. He expressed confidence that the country could stay united even if it is divided into three autonomous regions, including a Shi'ite south and a mainly Sunni Arab center. He said although the United Iraq Coalition may emerge as the most powerful bloc in parliament, Iraq would end up with a coalition government that would try to draft a constitution acceptable to the main components of Iraqi society.

Enbridge Inc expects to win regulatory approval to establish unconventional toll structure to finance a pipeline to enable more Canadian crude to be transported to the US. Enbridge's proposed Spearhead pipeline would have an initial capacity of 120,000 bpd with the possibility to expand capacity to 160,000 barrels. It is also in the process of building 6.2 million barrels of crude oil storage capacity in the same region served by Spearhead. The Enbridge proposal would reverse the flow on the south to north pipeline and instead ship oil from Chicago to Cushing, Oklahoma.

Pemex stated that it needs \$3 billion over the next six years to properly maintain its pipelines. Pemex chief executive Luis Ramirez said the amount would help reduce the risk of accidents. During the past six weeks, Pemex has had four accidents ranging from minor leaks to explosions.



output in March in light of the expected demand drop in the second quarter. He also stated that OPEC should defend \$35/barrel for Brent. OPEC President Sheikh Ahmad Fahad al-Ahmad al-Sabah said he would not rule out a ceiling cut but said the group would most likely discuss it at its March meeting in Iran. He said he hopes to hold OPEC's regular third quarter meeting in Kuwait. He added that the meeting is most likely to take place in September. Algeria's Oil Minister Chakib Khelil said strong oil prices and high inventory levels meant current oil market conditions suited both producers and consumers. He however stated that OPEC would discuss reducing output at its meeting on Sunday. He said OPEC would strive to maintain oil price stability. Meanwhile Qatar's Oil Minister Abdullah al-Attiyah said that the world oil markets are

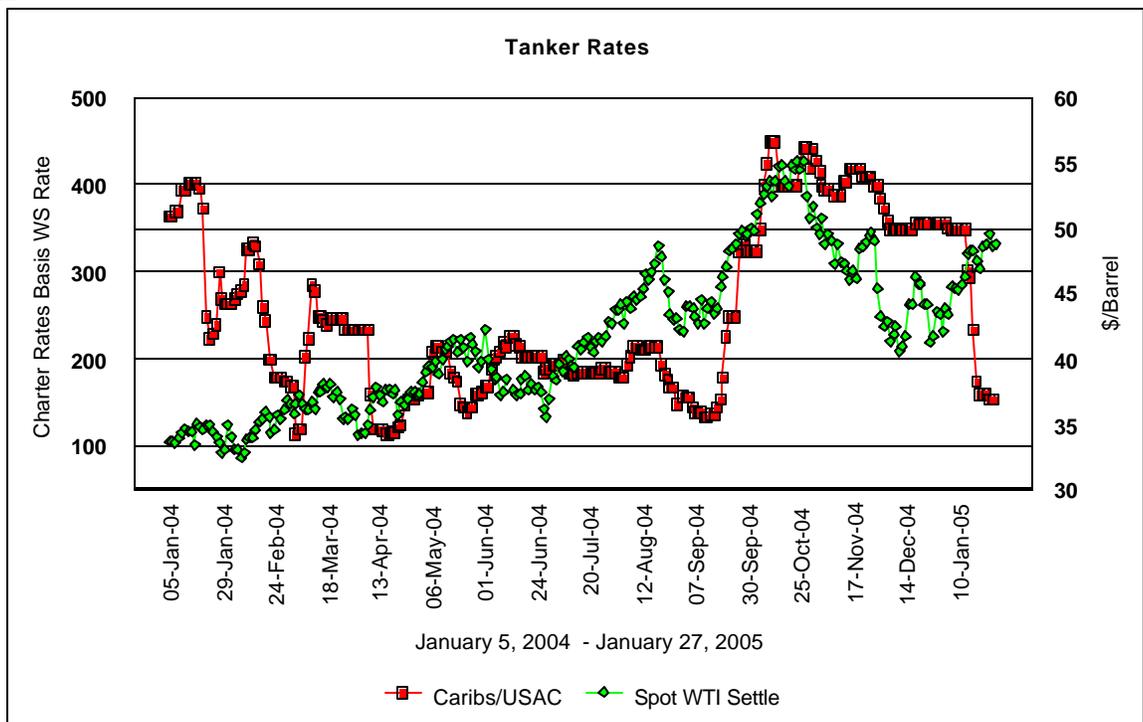
oversupplied by 1.5 million bpd.

According to Oil Movements, total booked oil shipments or seaborne exports from the OPEC 11 fell only 30,000 bpd to 23.71 million bpd in the four weeks ending February 12 compared with 23.74 million bpd in the four weeks ending January 15. It also stated that stocks at sea fell by 24.3 million barrels to 419.3 million barrels en route to world consumers.

OPEC's news agency reported that OPEC's basket of crudes increased by \$0.42/barrel to \$43.10/barrel on Wednesday from \$42.68/barrel on Tuesday.

### Refinery News

Premcor expects production at its refineries to average normal output levels in the first quarter, with the exception of its Port Arthur, Texas refinery. It said the Port Arthur, Texas



refinery is undergoing maintenance turnaround on a coker and hydrocracker unit which is expected to last 30-35 days. The second phase, occurring over 28-33 days will include work on the fluid catalytic cracker and alkylation unit. Its refinery in Lima, rated at 170,000 bpd is expected to average 145,000 bpd to 150,000 bpd of throughput in the first quarter. The Memphis refinery, rated at 190,000 bpd is expected to average 150,000-160,000 bpd January through March.

Italy's Saras will shut a desulphurisation unit at its 310,000 bpd Sarroch refinery in Sardinia for maintenance in February. The partial shutdown will cut the refinery's output of low sulphur diesel by two or three cargoes for the month. It is also expected to shut a visbreaker unit for about a week in February.

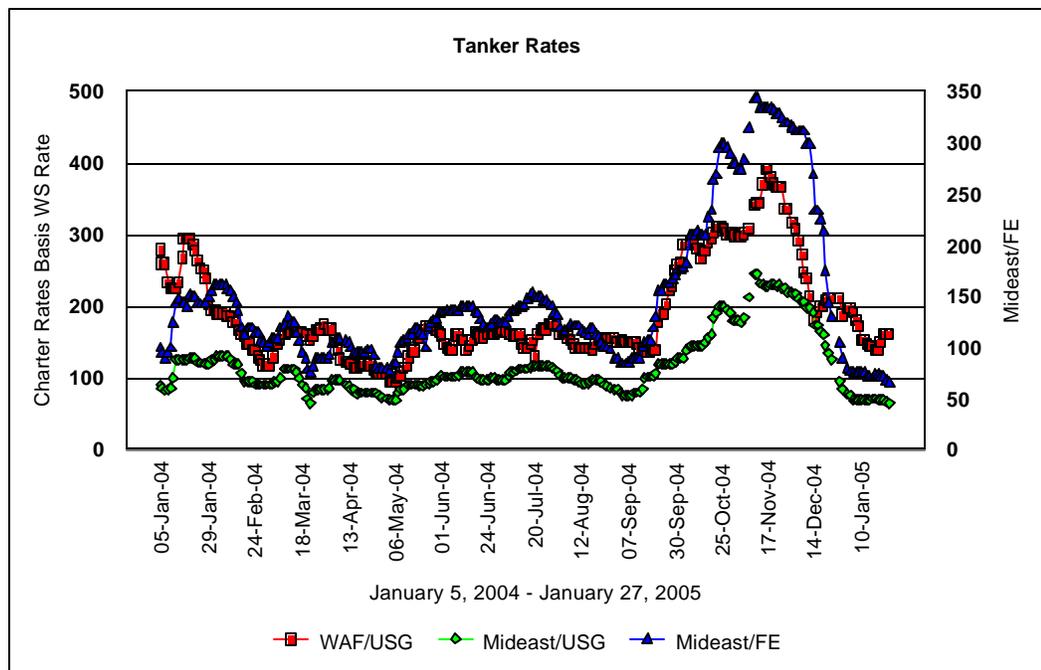
Total will partially shut its 100,000 bpd Grandpuits refinery in France for six weeks starting in March. The refinery will shut its secondary conversion units such as its fluid catalytic cracker and alkylation unit for routine maintenance from March 20 until April 30.

China's Jinling refinery plans to increase its February crude processing rate by up to 7% from January levels to about 800,000 tons. The refinery was operating at 750,000-780,000 tons this month or about 68% of its total crude capacity at 13.5 million tons per year.

**Production News**

Sunoco Logistics Partners LP said its Mid-Valley Pipeline which moves 195,000 bpd of sweet crude from Texas to Ohio was shut on Wednesday after a leak was discovered. The pipeline delivers oil to Premcor's Lima, Ohio refinery and Sunoco's Toledo, Ohio refinery. Premcor's spokeswoman would not confirm a report that its 170,000 bpd refinery has reduced production by 20% due to the pipeline closure. The US Department of Transportation's Office of Pipeline Safety could not estimate the time it would take to fix the line because the cause of the leak was still undetermined.

The Houston Pilots Association said the Houston Ship Channel was closed at midnight due to fog. However it was reopened early Thursday morning. A dispatcher said delays are expected to be minimal.



Colonial Pipeline Co. Inc again allocated distillate shipments on its mainline, north of Collins, Mississippi and Greensboro, NC during the 4<sup>th</sup> cycle. The allocation curtails the amount of product to reach the US Northeast as the company limits the amount of product it will accept from each of the shippers as demand for space continues to

exceed available capacity.

An analyst reported that gas oil stocks held in independent storage in the Amsterdam-Rotterdam-Antwerp area fell by 75,000 tons to 1.5 million tons in the week ending January 27 when a cold snap in the US opened the arbitrage window. It was still 300,000 tons higher than a year ago. Gasoline stocks in the ARA area fell by 25,000 tons to 800,000 tons while naphtha stocks fell by 25,000 tons on the week to 150,000 tons. Meanwhile fuel oil stocks fell by 75,000 tons to 475,000 tons while jet fuel stocks fell by 10,000 tons to 240,000 tons.

Suncor Energy said higher crude oil prices helped increase its fourth quarter net earnings. However higher prices were largely offset by higher Oil Sands Alberta Crown Royalties, higher crude oil hedging losses and lower production. Its fourth quarter net earnings increased to C\$333 million from C\$302 million a year earlier. Suncor said its combined oil sands and natural gas production for the quarter 258,600 barrels of oil equivalent compared with 270,900 boe/d a year earlier.

An oil official in China stated that the country is still hopeful of obtaining direct access to Russian crude via a new pipeline being built by Russia. On Wednesday, Russia's pipeline monopoly Transneft said it started project work on the pipeline with a branch to China. The official in China said the possibility still exists for them to build a spur line to transfer oil to Daqing.

India produced 2.88 million tons of crude oil in December compared with 2.89 million tons in the same month a year ago. Refinery throughput increased to 10.59 million tons from 9.69 million a year ago.

### **Market Commentary**

The NYMEX oil market opened 37 cents higher at 49.15 in follow through strength seen in overnight trading as it continued to retrace Wednesday's losses following the news that Sunoco shut a crude pipeline due to a leak. The market was also supported amid fears of possible disruptions ahead of Iraq's elections on Sunday. The market breached its overnight high of 49.45 and posted an intraday high of 49.65 before it gave up its gains amid the lack of further upside momentum. The market later extended its losses as it posted an intraday low of 48.60. It however retraced some of its losses ahead of the close and settled just 6 cents higher at 48.84 as traders seemed reluctant to take a position ahead of Iraqi election and OPEC meeting scheduled for Sunday. Volume in the crude market was good with 186,000 lots booked on the day. Meanwhile, the product markets ended the session in negative territory, with the heating oil market settling down 64 points at 139.69 and the gasoline market settling

down 74 points at 135.19. The heating oil market, which posted an inside trading day, opened 1.42 cents higher at 141.75 and quickly posted its intraday high of 142.20.

<b>Technical Analysis</b>			
		<b>Levels</b>	<b>Explanation</b>
<b>CL</b>	<b>Resistance</b>	49.60 to 49.75, 50.40	Triple top, Previous high
	48.84, up 6 cents	49.00	
	<b>Support</b>	48.60	
<b>HO</b>	<b>Resistance</b>	144.00, 145.80	Wednesday's high, Previous high Thursday's high
	139.69, down 64 points	142.20	
	<b>Support</b>	139.50, 138.50, 137.80	
<b>HU</b>	<b>Resistance</b>	143.30, 143.62	Previous high, basis resistance line Thursday's high
	135.19, down 74 points	136.00, 137.40	
	<b>Support</b>	134.40, 133.00	
		129.60, 128.25	Thursday's low, Wednesday's low Previous lows

However the market which failed to trade higher, gave up its gains and sold off to a low of 139.50. This was amid the fall in the natural gas market despite the supportive draw of 230 bcf reported by the EIA. The heating oil market later retraced some of its gains and remained mostly rangebound ahead of the close. The gasoline market opened about a 1 cent higher at 137.00 and immediately posted an intraday high of 137.40. However the market just as quickly gave up its gains and sold off to a low of 134.40 before it settled in a sideways trading pattern ahead of the close. Volumes in the product markets were good with over 57,000 lots booked in the heating oil and 46,000 lots booked in the gasoline market.

The crude market on Friday is seen remaining supported as traders will not want to go home short ahead of the weekend. The market will remain concerned over the Iraqi elections and the OPEC meeting both scheduled for Sunday. However technically, the markets look overbought and its upside will be limited. The crude market continues to find good resistance at its highs of 49.60 to 49.65. More distant resistance is seen at the 50.00 level. Meanwhile support is seen at its low of 48.60 followed by its lows of 47.90, 47.80-47.75.