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ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR JANUARY 28, 2005

OPEC ministers are voicing concerns that the oil market could become oversupplied after the winter ends but they continue to state that they will hold off on making further cuts at its meeting on Sunday. Confidence is rising among OPEC members that the world economy can absorb higher energy costs without restraining world fuel demand growth. OPEC's President Sheikh Ahmad Fahad al-Ahmad al-Sabah said oil prices are too high but added that they are not causing harm to oil demand growth or the world economy. Meanwhile, Libya's Energy Minister Fathi Omar Bin Shatwan said OPEC will not change its output ceiling at its meeting on Sunday but added that it should defend a \$30-\$35 price for its crude basket. He however does not expect to

agree on a new price band target when it meets on March 16. He said he believed high oil prices were not hurting the world economy. Meanwhile, Algeria's Oil Minister Chakib Khelil also said oil prices around \$50/barrel show no signs of harming economic growth or oil demand.

OPEC's news agency reported that OPEC's basket of crudes fell by \$0.09/barrel to \$43.01/barrel against \$43.10/barrel on Wednesday.

Refinery News

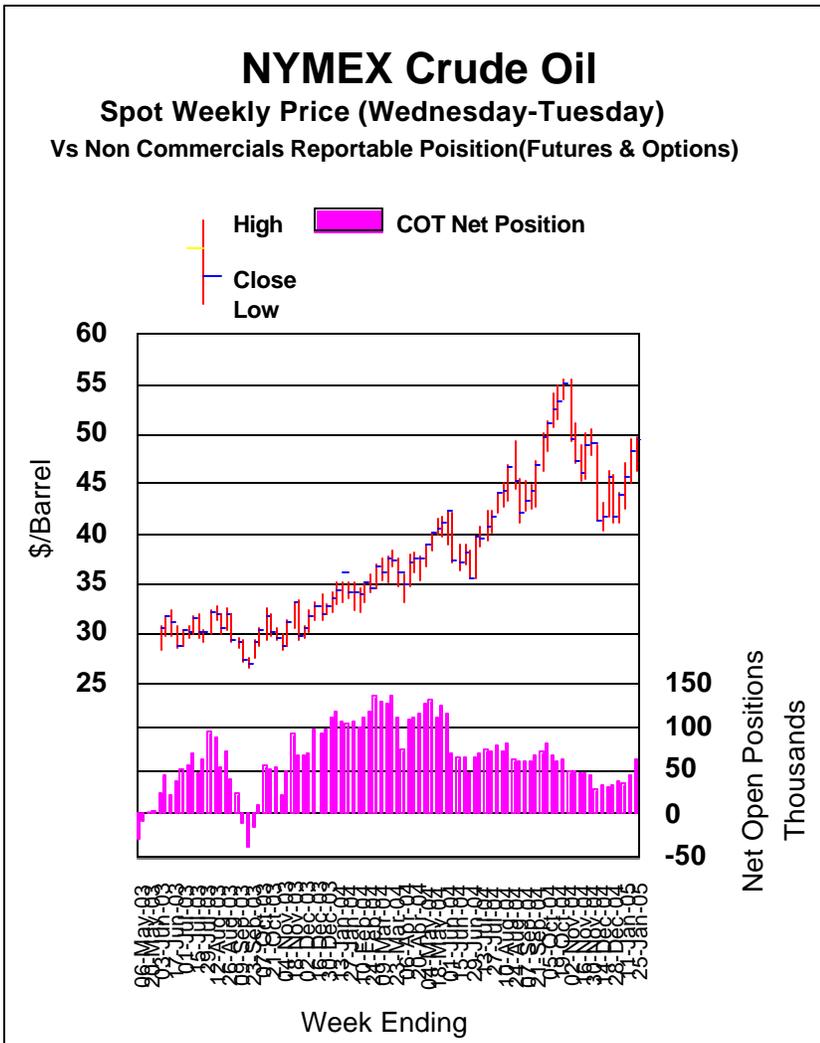
Premcor has cut crude runs at its 170,000 bpd Lima, Ohio refinery by about 25% to 30% after a crude pipeline feeding the refinery was closed on Wednesday due to a leak. The refinery may need to stop producing fuel if the pipeline is shut past Tuesday.

Market Watch

The US ambassador to Iraq, John Negroponte said some Iraqi Sunnis would vote regardless of boycott calls and fears of violence. Meanwhile, UN Secretary General Kofi Annan urged all Iraqis on Friday to help decide their country's future by voting and warned that intimidating voters, election workers or candidates was never justified.

Saudi Arabia has booked two more very large crude carriers from the Gulf to the US in February, increasing spot shipments for the month to 14 million barrels. It booked a tanker, Universal Hope to carry 280,000 tons from Ras Tanura loading on February 15. It also booked the Sebu to ship 275,000 tons, loading on February 20 to the US Gulf. Spot shipments are about double that in January, when it shipped 8 million barrels.

A top security official in Iraq said the government had arrested two associates of terror mastermind Abu Musab al-Zarqawi in mid-January. The announcement came days before the election that Zarqawi's group has vowed to disrupt.



Flint Hills Resources LP will shut a hydrocracker, continuous catalytic reformer and other units for scheduled maintenance during February at its 305,000 bpd Corpus Christi, Texas refinery.

South Korea's SK Corp is investing \$205 million to build a middle distillate hydrodesulfurizer unit to produce ultra low sulfur diesel. Construction of the planned 80,000 bpd unit at SK Corp's 850,000 bpd refinery in Ulsan will start in the middle of the year and will be completed in June 2007.

Production News

Sunoco Logistics Partners LP said it had no estimated time for the return of its Mid-Valley crude pipeline which was closed on Wednesday following a leak. The pipeline was still being stabilized prior to the start of repair work. Meanwhile, crews made progress Thursday in cleaning a section of the Kentucky River after 63,000 gallons of oil spilled. It is not yet clear what caused the early Wednesday rupture of Sunoco's pipeline which carries up to 195,000 bpd of crude.

According to Baker Hughes, the number of rigs searching for oil and natural gas in the US fell by 7 to 1,256 in the week ending January 21. It said the number of rigs searching for oil increased by 8 to 185 while the number of rigs searching for natural gas fell by 25 to 1,059.

Nigerian authorities are still negotiating to end a community protest that has shut 35,000 bpd of Royal Dutch/Shell's oil production for the fourth day. A group of 300 people from the Owaza community in the southeastern Abia state blocked access to the Imo River 1 and 3 platforms forcing Shell to shut the facilities and evacuate its workers. The protest over the choice of a representative to the board of government development agency is the latest crisis to hit Shell's production.

ChevronTexaco said it is slowly increasing operation at oil facilities shut down in western Niger Delta nearly two years ago. It may take another 2-3 years to restore 140,000 bpd of oil production. A company official said consideration for safety remains the major constraint toward full restoration of operations in the affected area. The company's production capacity is 530,000 bpd but the official stated that the company has been producing 370,800 bpd.

Shell Canada Ltd said it was increasing production at its oil sands processing plant after completing repairs on a key unit that was shut since October. The upgrading plant has been pumping at about 65% of its 155,000 bpd capacity with one of two production trains off line.

A small leakage of crude prompted the Czech state pipeline operator Mero to halt supplies on the Druzhba pipeline. Repair work should be completed by Saturday afternoon.

Kazakhstan forecasts oil output will reach 62 million tons in 2005 or 1.24 million to 1.26 million bpd. This year, Kazakhstan plans to sell licenses to develop about 120 offshore blocks in the Caspian Sea, calling for up to \$30 billion in foreign investment by 2015. Separately, Kazakhstan said it had agreed with an Eni-led consortium to pay more than \$600 million for half of BG's stake in the Kashagan oilfield in the Caspian Sea. Kazakhstan's Energy Minister said it plans to sign a production sharing agreement with Oman later this year to enable Oman to develop an oil block in its sector of the Caspian Sea. He said the reserves of the Zhemchuzhina block were estimated at up to 100 million tons of hydrocarbons.

A senior government official said India's crude oil imports in December fell by 8% to 6.98 million tons from 7.5 million tons the previous year. It imported 71.8 million tons or 1.91 million bpd in the April-December period, up 7.3% on the year. The country's oil product imports fell by 22.4% on year to 590,000 metric tons in December.

Market Commentary

The energy complex tumbled amid long liquidation as OPEC producers continued to signal that they would not cut their production quotas at the OPEC meeting on Sunday. The markets also seemed to have been pressured in light of the weather forecasts stating that temperatures would warm up over the weekend and into next week prompting further selling, especially in the heating oil market. Forecasters stated that the cold temperatures would be get replaced by more seasonable temperatures. The crude market gapped sharply lower from 48.60 to 47.90 in follow through selling seen on Access. The crude market partially backfilled its gap as it traded to a high of 48.20. However the market continued to sell off amid the OPEC rhetoric that they would not cut their production quotas at the meeting on Sunday. The market extended its gains to \$1.84 as it posted an intraday low of 47.00. The market held good support at level and traded mostly sideways within a range from 47.00 to 47.50. The March crude contract however later breached its earlier low on further selling ahead of the close and posted an intraday low of 46.80. It settled down \$1.66 at 47.18. Volume in the crude market was good

with over 194,000 lots booked on the day. The heating oil market also settled sharply lower, down 5.89 cents at 133.80 after the market plunged and retraced more than 38% of its

Technical Analysis			
		Levels	Explanation
CL	Resistance	48.20 to 48.60	Remaining gap (January 28th)
		47.50	
	Support	46.80, 46.71	Friday's low, Previous low
		46.56, 45.58, 45.20-45.05	38% and 50% retracement(41.40&49.75), Previous lows
HO	Resistance	137.80 to 139.50	Remaining gap (January 28th)
		135.40	
	Support	132.80	Friday's low
		131.90, 131.00, 130.40	Previous lows, 50% retracement (116.80 and 144.00)
HU	Resistance	134.00 to 134.40	Remaining gap (January 28th)
		132.20	
	Support	130.30	Friday's low
		129.60, 128.25, 127.00	Previous lows

move from a low of 116.80 to a high of 144.00. The market gapped lower this morning from 139.50 to 137.25 in light of the weather forecasts. The market partially backfilled its gap as it traded to a high of 137.80. However extended its losses to over 6.8 cents as it traded to a low of 132.80 within the first hour of trading. The market later erased some of its gains and remained range bound during the remainder of the session. It tested its low ahead of the close but was able to hold support at that level. Meanwhile the gasoline market also gapped lower from 134.40 to 133.00 before it sold off to its low of 130.50, where it held some support. However further selling ahead of the close pushed the market to its low of 130.30. It settled down 4.37 cents at 130.82. Volumes in the product markets were good with over 67,000 lots booked in the heating oil market and 53,000 lots booked in the gasoline market.

The oil market, which surprisingly sold off ahead of the weekend will be driven by the outcomes of the OPEC meeting as well as the Iraqi elections on Sunday. Even though the market has already priced in the likelihood that OPEC will not cut its production quotas during Sunday's meeting, the market will continue to be driven by the headlines. The market on Monday will also be driven by the liquidation of the February product contracts ahead of their expiration at the close. Technically, the oil market has some further downside following today's sharp sell off. The market's stochastics, which crossed to the downside, still have further room to the downside. The crude market is seen finding initial support at its low of 46.80 followed by its previous low of 46.71. More distant support is seen at 46.56, 45.58 and 45.20 to 45.05. Meanwhile resistance is seen at 47.50 followed by its gap from 48.20 to 48.60.

According to the latest Commitment of Traders report, non-commercials in the crude market increased their net long positions from 15,925 contracts to 33,850 contracts in the week ending January 25th. The combined futures and options report also showed that non-commercials increased their net long positions from 44,639 contracts to 61,408 contracts on the week. This was amid the market's rally to its recent high of 49.75. However given today's sharp sell off, it is likely that the non-commercials were forced to liquidate their long positions. Meanwhile non-commercials in the heating oil market cut their net short positions from 13,322 contracts to 6,319 contracts while non-commercials in the gasoline market increased their net long positions from 11,733 contracts to 18,022 contracts on the week.