

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 31, 2005

OPEC ministers on Sunday agreed to keep their production quotas unchanged, convinced that oil prices near \$50/barrel are not stifling world economic growth. They also agreed to officially set aside their \$22-\$28/barrel range for the OPEC basket. However they were in no hurry to set a new target range, saying prices are too volatile. While the group gave little indication what price levels it will seek to defend in the future, comments from ministers have made clear OPEC is growing increasingly comfortable with prices near \$50/barrel. They stated that they would keep a close watch over coming weeks on whether their decision to keep production quotas unchanged threatens to erode strong prices. OPEC President Sheikh Ahmad al-Fahd al-Sabah said OPEC ministers have not set a price trigger for a possible output cut ahead of the second quarter. He said OPEC would cut its output if it saw what it deemed an excessive build in world oil stocks before it meets again in Iran on March 16.

He said he felt \$35 was a fair target for OPEC's basket of crudes while Libya's Oil Minister Fathi Omar Bin Shatwan said producers should defend a price floor of \$30-\$35/barrel for the basket. Similarly, Qatar's Oil Minister Abdullah al-Attiyah said he saw \$30-\$35/barrel as a reasonable price for OPEC's basket. He said OPEC is unlikely to increase its oil production in the weeks ahead of its March

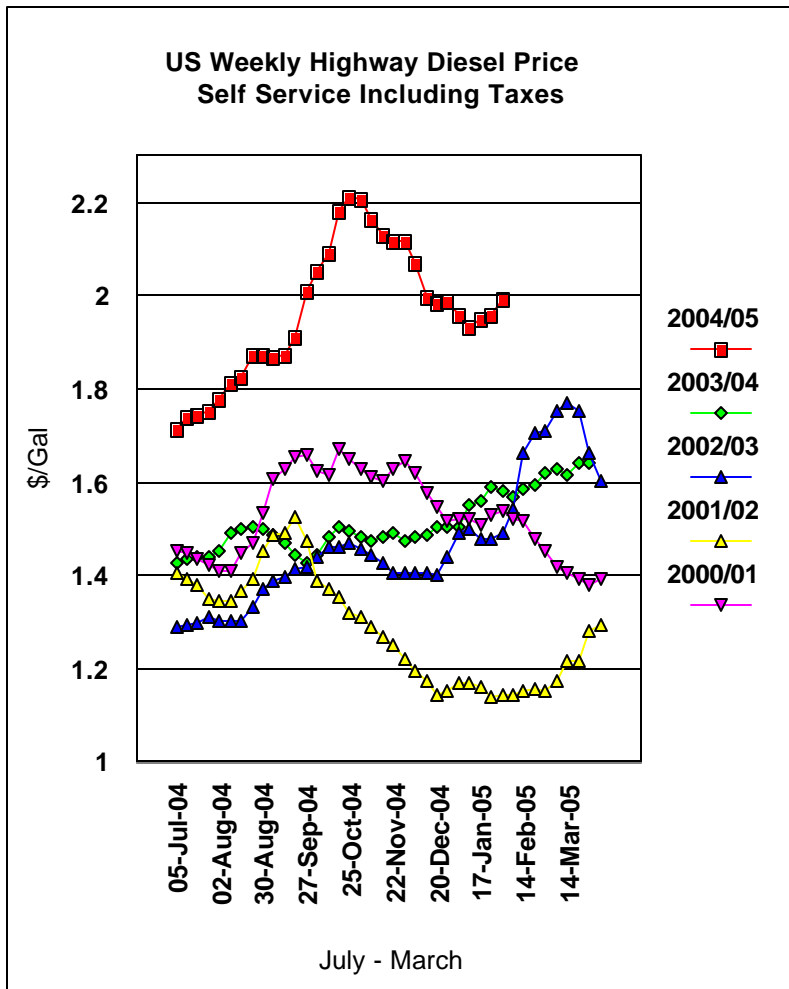
Market Watch

The Climate Prediction Center reported that it estimated that the US saw 330 Heating Degree Days on an oil home heating customer weighted basis for the week ending January 29, up from its previous estimate of 291 HDD. It was unchanged on the year but up 25% from normal. It also estimated that in the week ending February 5th, the US will see 235 HDD on an oil home heating customer weighted basis. It is down 7.8% on the year and down 10% from normal.

Traders stated that Europe sent as much as 2.5 million tons of gasoline to the US in January. The estimate reflects exports from northwest Europe, the Mediterranean and the Baltic region to the US Atlantic coast. A European trader estimated February 2005 would see as much as 1.8 million tons exported from western Europe and the Baltic to the US.

The Chicago Board of Trade intends to launch its corn based ethanol futures in the second quarter of 2005. The new contract is set to debut amid increasing interest in alternative fuels.

Libya's Prime Minister Shokri Ghanem said the country hopes international oil majors will bid aggressively in the country's next oilfield licensing round after they shied away from an initial tender awarded on Saturday. US oil companies Occidental Petroleum Corp, Amerada Hess Corp and ChevronTexaco were among winners of a total of 15 licenses that were offered for onshore and offshore blocks. Libya will open a new bidding round for licenses to explore for oil and natural gas in March.



meeting as the markets are likely to be oversupplied in the second quarter. Meanwhile, Iran's Oil Minister Bijan Zanganeh said OPEC should defend prices between \$30-\$40/barrel.

According to the Middle East Economic Survey, if OPEC decides it needs to reduce oil production before the group's March meeting, OPEC would make a substantial cut that could take effect as soon as March 1. OPEC President Sheikh Ahmad al-Fahd al-Sabah said should inventories build too quickly and prices fall, he could call a ministerial teleconference to take action.

The White House said it believes it is important for OPEC to act to ensure affordable energy supplies.

Iraq's southern oil exports were running normally at 1.3 million bpd on Monday following the violence on election day. Exports from the Gulf terminal were around the same level on Sunday when insurgents mounted attacks on polling stations across the country. Iraq's northern exports have

been shut since attack on the Iraq-Turkey pipeline on December 18.

Iraq's former US Governor, Paul Bremer said Iraq's election was a victory for democracy and it proved skeptics wrong. While the elections in Iraq on Sunday were marred by some attacks, there was a greater turnout than expected and it was immediately declared a success by President George W. Bush. However he said despite the apparent success of the poll, he said he expected more violence ahead. US ambassador to Iraq, John Negroponte said he was also impressed by Sunday's poll. President George W. Bush encouraged Iraq's interim leaders to ensure minority Sunni Arabs are included in Iraq's political process. Meanwhile Iraqi Prime Minister Ayad Allawi said the elections were a major blow to insurgents trying to undermine his government but added that there would still be some acts of violence. He called on Iraqis to set aside their differences and work together toward peace now that Iraq's elections are over. Separately, a US official acknowledged that the participation by Sunni Arab voters was low, raising fears that the group that drives the insurgency can grow even more alienated.

Shi'ite Muslim Iran hailed Iraq's elections as a triumph over insurgent attacks, sensing the Shi'ite majority would win and hoping its victory would pave the way for US troops to leave the region.

OPEC's news agency reported that OPEC's basket of crudes increased by \$1.25/barrel to \$42.67/barrel in the week ending January 27, up from \$41.42/barrel the previous week.

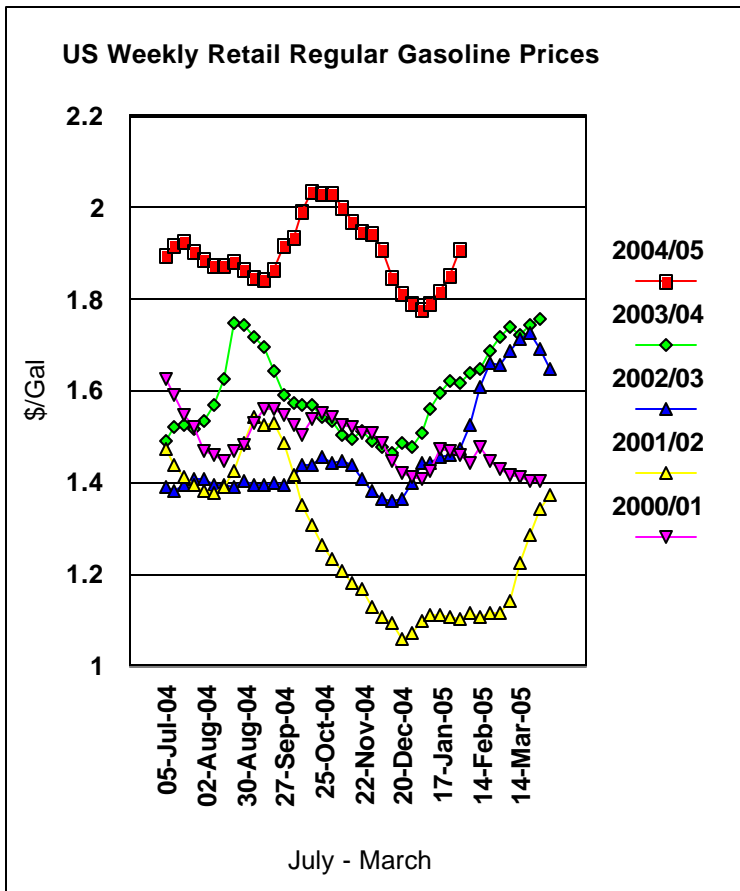
The US EIA reported that the US average retail price of diesel increased by 3.3 cents/gallon to \$1.992/gallon in the week ending January 31st. It also reported the US retail price of gasoline increased by 5.8 cents to \$1.911/gallon on the week.

Refinery News

Work on a fluid catalytic cracking unit at Sunoco's Philadelphia refinery is continuing with no estimate as to when the unit will return. The shutdown will not hinder the company's ability to meet its customers' needs for fuel.

Valero Energy Corp planned to restart processing units at its Corpus Christi, Texas refinery Sunday following about 25 days of planned maintenance. The complex affected by the work includes a sulfur unit, an MTBE unit and the refinery's heavy oil cracker.

Flint Hills Resources has scheduled to shut several units including its hydrocracker and reformer on the West Plant of its Corpus Christi, Texas refinery for ten days to two weeks in February.



Production News

Sunoco Logistics Partners LP said repairs were completed on Sunday on the Mid-Valley Pipeline and it has returned to service with normal throughput expected later on Monday. The pipeline which transports 195,000 bpd of crude from Texas to Ohio was shut last Wednesday when a leak was discovered. The US Department of Transportation confirmed that the refinery was repaired and was restarted. Both DOT and Sunoco said the cause of the leak was still under investigation.

According to the US Minerals Management Service, the percentage of Gulf of Mexico's daily oil production that is offline fell to 7.98% from 8.27% while the percentage of natural gas offline fell to 3.73% from 4.54%. The amount of production shut in is 135,736 bpd of crude oil and 489.39 mmcf/d of natural gas.

A company spokesman said the Colonial Pipeline could ship gasoline on its main distillate line if there is enough demand in the eastern US markets leading into the summer driving season. Such a move would help keep the East Coast gasoline markets supplied once peak demand begins and refiners in the Gulf Coast increase production. The amount of gasoline that could be shifted to run on the distillate line leading into the driving season was not released by the company. However it stated the amount of gasoline that can be shifted depends on the amount of room made by any fall in distillate shipping orders.

Japan's Ministry of Economy, Trade and Industry reported that the country's crude oil imports in December fell by 12.9% on the year to 20.49 million kiloliters or 4.16 million bpd. Crude oil throughput

in December totaled 21.43 million kl or 4.35 million bpd. Refinery utilization averaged 91.1% in December, up from 88.1% in December 2003. It also reported that the country's kerosene sales fell by 13.7% in December to 3.93 million kl. It stated that in 2004, Japan's sale of gasoline totaled 61.22 million kl, up 1.9% from the previous year.

India's Oil and Natural Gas Corp Ltd expects total crude production in 2004/05 to be 27.4 million tons and 28 million tons in 2005/06.

Market Commentary

The crude market gapped lower this morning from 46.80 to 46.10 in follow through selling seen in overnight trading. The market traded sharply lower following the news that OPEC decided to keep its oil production quota unchanged while the Iraqi election, which was marred by some violence, did not disrupt Iraq's oil exports. Also adding to the bearish sentiment, the weather forecasts were moderating, with temperatures in the Northeast returning to normal. The 8-14 day forecast released over the weekend showed above normal temperatures for the entire country. The crude market immediately posted an intraday low of 46.05. However as the market failed to test the 46.00 level, it bounced off its low and started to backfill its opening gap. The market retraced some of its losses as it traded to 46.70 and held resistance at that level. However the market later breached that level and rallied above the 47.00 level to 47.15, where it held some resistance. The market later extended its gains to over \$1 as it rallied to a high of 48.25 ahead of the close as it started to partially backfill its previous gap. The market settled up \$1.02 at 48.20. The crude market was well supported by the late day strength in the product markets as they recovered from their earlier losses ahead of the February product expiration. Volume in the crude was excellent with over 201,000 lots booked on the day. The February heating oil contract settled down 72 points at 133.08 as traders liquidated their positions ahead of its expiration at the close. The market gapped lower on the opening from 132.80 to 129.70 before it started to backfill the gap. The February heating oil contract traded to 131.50 before it sold off to a low of 129.00. The market held good support at that level and traded sideways for most of the session. However the market later rallied to an intraday high of 135.50 as traders liquidated their positions ahead of the close. The Feb/Mar heating oil spread flipped with the March heating oil running over the February contract. The March heating oil contract settled up 2.09 cents at 134.81. Meanwhile, the February gasoline contract also gapped lower from 130.30 to 127.00 and posted an intraday low of 126.80. The market started to quickly backfill its gap before it sold off once again and settled in a range. The February gasoline contract later backfilled its entire gap and rallied to a high of 133.60

ahead of the close as traders liquidated their positions ahead of its expiration. It settled up 95 points at 131.77. The March gasoline contract settled up 2.55 cents at

Technical Analysis		
	Levels	Explanation
CL	Resistance 48.20, up \$1.02	49.65 to 49.75 48.25 to 48.60
	Support	47.40, 46.55 46.05, 45.20
HO	Resistance 134.81, up 2.09 cents	136.80 to 138.20 135.00
	Support	March 131.70, 129.50 128.35, 125.93, 125.50
HU	Resistance 134.76, up 2.55 cents	135.50, 138.40 135.00
	Support	March 132.10, 129.60 128.10, 127.17, 123.70

Monday's low, 62% (116 and 142), Previous low
Monday's high
Monday's high
Monday's low, 38% and 50% retracement (109 & 138.40)

134.76. Volumes in the product markets were good with over 61,000 lots booked in the heating oil market and 49,000 lots booked in the gasoline market.

The oil market on Tuesday will likely retrace some its sharp gains and trade mostly sideways ahead of Wednesday's release of the weekly petroleum stock reports. Technically, the crude market is seen finding resistance at its remaining gap from 48.25-48.60 followed by more distant resistance at its highs of 49.65-49.75. Support is however seen at 47.40, 46.55 followed by its low of 46.05 and its previous low of 45.20.