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ENERGY RISK MANAGEMENT

Howard Rennell & Pat Shigueta
(212) 624-1132 (888) 885-6100

www.e-windham.com

ENERGY MARKET REPORT FOR FEBRUARY 7, 2005

OPEC's President Sheikh Ahmad Fahad al-Ahmad al-Sabah said there was no need for telephone consultations ahead of OPEC's March meeting. Algeria's Oil Minister Chakib Khelil also stated that he did not think OPEC should call an emergency meeting to discuss the oil market before its next meeting. Meanwhile, Qatar's Oil Minister Abdullah bin Hamad al-Attiyah said that OPEC was watching oil inventories closely, echoing comments made by a senior delegate with the group who said the next two weeks are critical. The delegate said if the price of crude fell sharply and inventories built substantially, a substantial cut of 500,000 bpd would be implemented.

An Iraqi oil official said Iraq expects to restart its northern oil export pipeline in five or six days. Exports have been idle since December 18 due to a sabotage attack on the pipeline that runs from the Kirkuk oilfields to Turkey's port of Ceyhan.

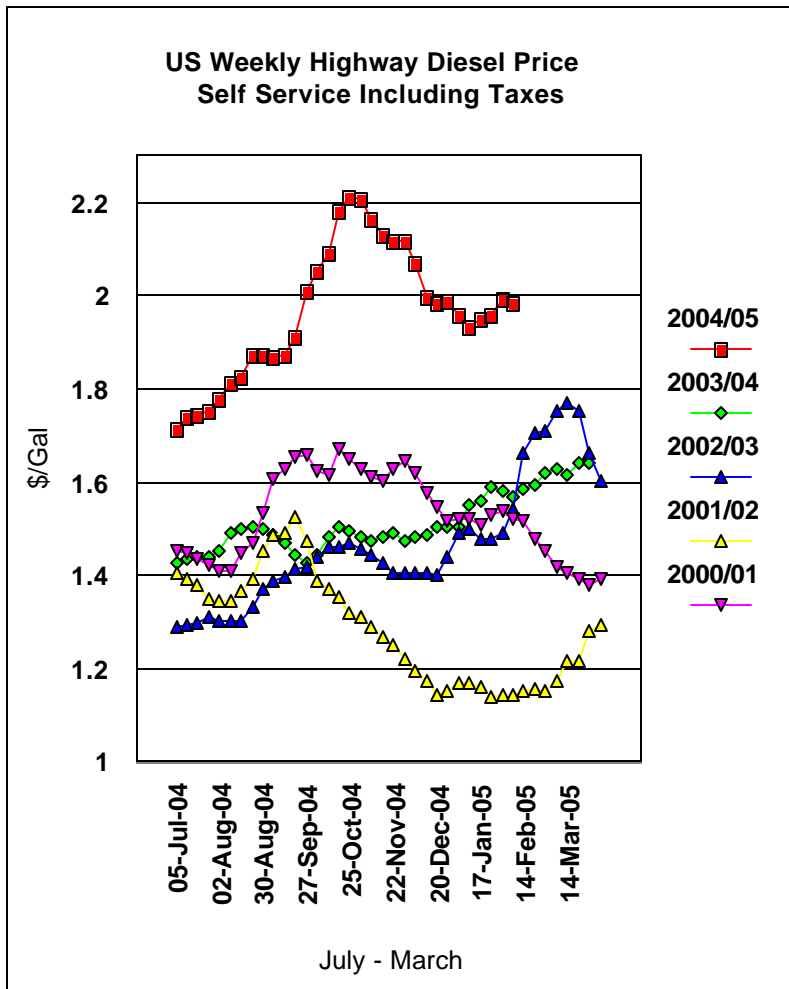
Market Watch

According to the Climate Prediction Center, there was a total of 184 Heating Degree Days for the US in the week ending February 5th, up from its previous estimate of 177 HDD. It is down 11.1% on the year and down 8% from normal. It reported a total of 245 HDD on an oil home heating customer weighted basis, down 3.9% on the year and down 6% from normal. It also estimated a total of 164 HDD during the week ending February 12th, down 18.4% on the year and down 15% from normal. The Climate Prediction Center also estimated 200 HDD on an oil home heating customer weighted basis in the week ending February 12th. It is down 17% on the year and down 21% from normal.

Citigroup increased its Brent crude price forecast by 12% in 2005, partly because it expects OPEC to target higher prices to compensate for a fall in the US dollar. Brent crude will average \$37/barrel this year, up from a previous forecast of \$33/barrel. It also increased its long term Brent forecast to \$32/barrel from \$26/barrel.

Oil company executives and industry leaders have stated that a February 1 tax increase could threaten future investment in the North Slope. The tax change imposed by Gov. Frank Murkowski means a tax increase that estimates have placed between \$150 million and \$190 million per year at current prices for the five oil companies that own the Prudhoe Bay field. The state Department of Revenue said the satellite fields are operating independently with Prudhoe Bay and should be taxed as one unit. The satellites now pay little or no production tax due to a formula called the economic limit factor that was meant to encourage the development of small or marginally profitable fields. Industry officials stated that the changing the structure without due process will threaten the viability of affected satellite fields and could send exploration money elsewhere. The tax change could also crimp contract negotiations already underway for Alaska's Holy Grail, a \$20 billion gas pipeline from the North Slope.

Royal Dutch/Shell Group Chief Financial Officer Peter Voser said he did not see much change in the price of oil in the near term.



ChevronTexaco said it remains committed to renewed talks with the community after protesters occupied a major oil terminal on Friday. Hundreds of protesters occupied the Escravos terminal and demand the closure of the terminal until more local people are hired.

The US State Department stated in its latest Iraq Weekly Status Report that Iraq's crude production for the week ending January 30 totaled 2.12 million bpd, slightly higher than its 2.11 million bpd average in the previous week. It stated that Iraq's crude export revenue stood at \$1.32 billion in January compared with \$1.44 billion in December. Iraq's total oil revenue for 2004 stood at \$17.01 billion.

According to Petrologistics, OPEC's crude oil production fell by 1 million bpd on the month to 29.4 million bpd in January. It stated that Iraq's crude oil production was revised down 160,000 bpd from preliminary January figures to 1.76 million bpd due to weather related loading delays and sabotage. The ten OPEC members produced a total of

27.64 million bpd or 640,000 bpd over its current production ceiling.

Indonesia's Energy Minister Purnomo Yugiantoro said it is reviewing its membership in OPEC as it struggles to remain a net exporter of crude. The director general of oil and gas at the ministry said Indonesia exported a net 30,000 bpd of crude on average last year, although data has shown that the country was a net importer during certain months.

OPEC reported that its basket of crudes increased to \$40.73/barrel on Friday from Thursday's \$40.19/barrel. OPEC also reported that its basket of crudes fell by \$1.72/barrel to \$40.97/barrel in the week ending February 3rd.

The EIA reported that the US average price of retail diesel fuel fell by 0.9 cents/gallon to \$1.983/gallon in the week ending February 7th. It also reported that the average price of retail gasoline fell by \$0.2 cents/gallon to \$1.909/gallon.

Refinery News

Valero Energy Corp plans to repair a blower at its Corpus Christi, Texas refinery. An investigation was ongoing to determine the cause of the blower problems. The refinery intends to return the blower to service as quickly as possible. It is also scheduled to perform 24 hours of maintenance at its Texas City, Texas refinery starting February 14 at midnight. The work will be routine maintenance in Complex One of the refinery.

Shell Oil plans to restart a stripper unit at its Deer Park, Texas refinery on February 11. The unit was taken out of service for cleaning and maintenance.

Premcor Inc has scheduled two days of maintenance on a sulfur unit at its Port Arthur, Texas refinery from February 6 until February 8. It also plans to shut a unit at its Port Arthur, Texas refinery for a turnaround starting February 15. The unit shutdown is expected to give off emissions between February 15 and March 9. A report filed with the Texas Commission for Environmental Quality did not specify which unit would be shutdown.

Alon USA's Big Spring refinery in Texas has scheduled maintenance on its low sulfur gasoline hydrotreater from February 7-9.

Lithuania's Mazeikiu Nafta, the only refinery in the Baltics, said lack of crude supplies forced it to suspend processing. Crude oil supplies were halted on Saturday and the refinery is circulating the minimum amount of liquids necessary to stay operational.

China's top 14 oil refineries are expected to increase its crude processing rates by 9% this year or about 210,000 bpd to meet strong demand growth. The refineries plan to refine some 2.6 million bpd of crude oil this year. China's oil demand is forecast to increase between 5 and 8% in 2005, easing from last year's 15%.

Sempra Commodities announced an agreement with New Hope Partners, a renewable energy developer, to create a joint venture focused on ethanol production in the U.S. Ethanol is a non-toxic, water soluble and quickly biodegradable fuel that, when blended into gasoline, is effective in reducing motor-vehicle emissions. Nearly 3 billion gallons are consumed in the U.S. annually. Sempra believes the ethanol market will grow rapidly over the next 10 years, and be a significant component of the nation's energy mix over the next decade. New Hope Partners will take the lead on siting and developing the production facilities, while Sempra Commodities will market the ethanol and provide risk management services.

Production News

Storms forecast for the North Sea this week may delay crude oil loading programs. A trading source said two Statoil Staffjord/Gulfaks Suez Max crude loading programs of 850,000 barrels each will likely be delayed if the storm reaches forecast proportions. The source confirmed that beside the Staffjord loadings, loading programs throughout the North Sea should also be affected from Tuesday until Saturday.

The North Sea Brent crude oil system is scheduled to load an average of 190,000 bpd in March, down from 278,000 bpd in February.

Russia's main Black Sea port of Novorossiisk was preparing to reopen after a closure of over 3 days as stormy weather showed signs of improvement.

Severe winter weather forced the closure of Turkey's Bosphorus shipping channel to tanker traffic on Monday. Seven tankers were waiting to make northbound trips, while no vessels were waiting at the Black Sea entrance. Meanwhile the Dardanelles Strait remained open but a total of 21 tankers were waiting to enter the waterway at both ends.

Azerbaijan's crude oil production and exports increased in January year on year, while refined product exports fell due to maintenance. Total Azerbaijan oil production stood at 1.38 million tons or 327,000

bpd compared with 1.31 million tons or 310,000 bpd in January. It exported 804,600 tons or 190,000 bpd in January 2005 compared with 694,200 tons in the same period last year. Exports of refined products fell to 95,278 tons from 161,982 tons in January of last year. Separately, Azerbaijan International Operating Co's crude oil production in January increased by 12.1% on the year to 621,000 tons in January. In 2004, its oil production increased by 1.73% on the year to 6.572 million tons.

Singapore's International Enterprise reported that the country's total middle distillate stocks fell by 800,000 barrels to 6.229 million barrels in the period between February 3 and 6. Its light distillate stocks fell by 219,000 barrels to 9.019 million barrels while its residual fuel stocks increased by 380,000 barrels to 11.288 million barrels.

Saudi Aramco increased its prices for crude bound to both the US and Europe. It set its Arab Extra Light bound to the US at WTI minus \$4.10/barrel, up \$1, its Arab Light at WTI minus \$7.30/barrel, up \$1, its Medium grade at WTI minus \$9.45/barrel, up 90 cents and its Arab Heavy at WTI minus \$11.80/barrel, up 60 cents. Its Arab Extra Light crude bound to Europe was priced at the IPE Brent crude weighted average minus \$1.90/barrel, up \$1.25, its Arab Light at BWAVE minus \$5.50/barrel, up \$1.10, its Arab Medium at BWAVE minus \$8.40, up 90 cents and its Arab Heavy at BWAVE minus \$10.65/barrel, up 65 cents. It also set its prices for crude bound to Asia with its Arab Super Light set at the Oman/Dubai average plus \$5.75, unchanged on the month. It also set its Arab Extra Light at the Oman/Dubai average plus \$2.85, down 25 cents, its Arab Light at the Oman/Dubai average plus \$0.25, up 40 cents, its Arab Medium at the Oman/Dubai average minus \$1.85, up 55 cents and its Arab Heavy was set at the Oman/Dubai average minus \$4.15/barrel, up 70 cents.

Russia's Ministry of Natural Resources is expected to auction 38 oil and gas deposits in Eastern Siberia this year, including one of the world's largest, the Vedomosti. The auction would include the Chayandinskoye deposit which contains 1.24 billion cubic meters of recoverable gas reserves and 50 million tons or 366.5 million barrels of oil.

Meanwhile, Russia's Economic Development and Trade Ministry forecast that Russia's oil exports will increase to

289 million-310 million metric tons a year by 2015 from 257 million tons in 2004. Oil exports are expected to increase to 269-276 million tons in 2005 and may increase to 280 million-

Technical Analysis		
	Levels	Explanation
CL 45.28, down \$1.20	Resistance 46.80, 47.25	Friday's high
	Support 45.50, 46.15-46.25	Remaining gap (February 7th)
	Support 45.10 44.59	Monday's low 62% retracement (41.40 and 49.75)
HO 123.06, down 4.36 cents	Resistance 125.80 to 127.00 123.70, 124.70	Remaining gap (February 7th)
	Support 122.50 121.80, 118.20	Monday's low Previous lows
	Resistance 123.80 to 125.00 122.65	Remaining gap (February 7th)
HU 121.22, down 4.83 cents	Support 120.70 120.23, 119.70	Monday's low 62% retracement (109.00 and 138.40), Previous low

286 million tons in 2006. In 2007, oil exports are expected to reach 285 million-291 million tons while in 2012, oil exports are expected to reach 290-301 million tons. The price of Urals oil blend is forecast at \$31-\$33/barrel in 2005 compared with \$34.40/barrel in 2004.

Russia's Yukos dropped five banks from a proceeding in the US Bankruptcy Court in Houston. Yukos ended its action against ABN Amro, BNP Paribas, Credit Agricole, JP Morgan Chase and Dresdner Bank AG after it convinced the banks did not help finance the forced sale of Yuganskneftegaz.

Market Commentary

The oil market gapped lower this morning from 46.25 to 45.95 amid the signals that OPEC could wait until its mid-March meeting to make any production cuts. The OPEC comments pressured the markets as the statements contradicted previous notions that OPEC may cut its output before its March meeting. The market partially backfilled its gap as it quickly posted an intraday high of 46.15. However the market continued to sell off amid the weakness in the product markets. The crude market traded to a low of 45.40 where it held some support before further selling ahead of the close pushed the market to intraday low of 45.10. However the market retraced some of its losses and traded back towards the 45.50 level before it settled down \$1.20 at 45.28. Volume in the crude was excellent with over 205,000 lots booked on the day, of which 124,000 lots traded via spreads. The product markets also settled sharply lower, with the gasoline market settling down 4.83 cents at 121.22 and the heating oil market settling down 4.36 cents at 123.06. The gasoline market gapped lower 125.00 to 123.10, which it partially backfilled as it traded to a high of 123.80 early in the session. However the market continued on its downward slide. It traded to a low of 121.50 where it held some support before further selling ahead of the close pushed the market to its low of 120.70. It retraced nearly 62% of its move from a low of 109 to a high of 138.40 as it traded to its low amid good spread activity. The gasoline market however retraced some its losses ahead of the close. The heating oil market also gapped lower from 127.00 to 125.80 in follow through selling seen on Access. The market sold off to an early low of 123.00 and traded mostly sideways before further selling pushed the market to its intraday low of 122.50 ahead of the close. Volumes in the product markets were good with 50,000 lots booked in the gasoline market and 49,000 lots booked in the heating oil market.

The oil market is seen trading sideways as traders await the release of the weekly petroleum stock reports on Wednesday. The market's losses however are seen limited. Even though the near term temperatures have moderated, the latest 8-14 day forecast showed the eastern third of the US below normal, which will likely provide the heating oil market some support. The crude market is seen finding some support at its low of 45.10 followed by more distant support at 44.59, its 62% retracement level. Meanwhile resistance is seen at 45.50 followed by its gap from 46.15-46.25. More distant resistance is seen at 46.80 and 47.25.