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ENERGY MARKET REPORT FOR FEBRUARY 16, 2005

Iran's Interior Ministry stated that an explosion near the town of Dailam, near a nuclear facility, was not caused by a hostile attack. Iran's Deputy Interior Minister Ali Asghar Mohammadi did not say if there had been Iranian military or exercises in the region. However a top security official said the blast was caused during the construction of a dam. An official for the Supreme National Security Council said the explosion was the result of detonating a path for dam building operations. Meanwhile, local officials said the dropping of a fuel tank from an aircraft flying over Dailam may have caused the explosion. Iranian state television had earlier reported that an unknown aircraft fired a missile in Dailam in the province of Bushehr where Iran has a nuclear power plant. Senior Israeli

Market Watch

Israel said Iran was just six months away from having the knowledge to build an atomic bomb. The Israeli warning followed US Secretary of State Condoleezza Rice's call last week for Iran to abandon any pursuit of nuclear weapons and meet its international obligations if it was to be sure of avoiding conflict. Meanwhile, Iran's Intelligence Minister Ali Yunesi denied that Iran's civilian nuclear facilities were a cover for an atomic weapons program, saying US satellites were spying on Iran but would not find anything. Iran's Vice President Mohammad Reza Aref, who met with Syria's Prime Minister Najji al-Otari said Iran and Syria were forming a common front to face challenges and threats.

According to forecasters at the Met Office in the UK, snow and below zero temperatures look set to reach the UK next week.

A Russian presidential economic aid Andrei Illarionov said Russia should allow foreign companies to develop its oil and gas resources if it wants to develop a liberal market economy.

Economists stated that Japan has fallen into its fourth recession in a decade as the economy contracted by 0.1% in the last three months of 2004. The fall in GDP for the October-December period from the preceding quarter marked three straight quarters of contraction. On an annualized basis, GDP fell by 0.5% in the last three months of the year. However Japan's GDP is expected to increase in the first quarter of 2005 amid improved consumption. For calendar 2004, the economy grew by 2.6%.

London's IPE temporarily suspended open outcry trading in Brent crude and gas oil futures following a protest by environmentalists on Wednesday. However electronic dealing continued as normal.

The US Security & Exchange Commission's reserve accounting rules was criticized during an Energy Institute seminar in London. Deloitte's UK energy chief Carl Hughes called for general acceptance of the principle that oil reserves should be booked on a broader basis whereby proved and probable reserves are reported.

The NYMEX announced that effective Thursday, February 17th, non-member customer margins for its heating oil futures contract and its heating oil calendar swap contracts will fall to \$4,725 from \$5,400 for the spot contract. Margins for the second trading month will fall to \$4,388 from \$5,063.

security sources said Israel's military was not involved in the incident.

OPEC's Secretary General Adnan Shihab-Eldin said OPEC producers are leaning towards a plan to cut its oil production at its meeting in March.

Separately, in its monthly Oil Market Report, OPEC raised its forecast for world oil demand growth this year by 80,000 bpd to 1.73 million bpd. It raised its forecast of demand for OPEC's oil in the first quarter this year by 270,000 bpd to 29.04 million bpd. It however left the second quarter call on OPEC oil steady at 27.7 million bpd. OPEC also reported that its production fell by 610,000 bpd in January to 29.15 million bpd. Separately, OPEC stated that India and China's new emissions standards will increase demand for sweet crude oil because their refineries cannot use heavy, sour oil.

The IEA said projections of a second quarter stock build should not alarm producers as refiner demand for crude oil will not fall as sharply as end-user consumption.

An Iraqi oil official stated that Iraq's oil export pipeline to Turkey was sabotaged late Tuesday. He said flows are likely to remain halted until early next week. Saboteurs also hit another pipeline east of the city of Baiji while gunmen opened fire and killed an army colonel in charge of security at oil pipelines in Kirkuk. Iraq had only resumed operations on the northern pipeline on Monday and was pumping 100,000 bpd.

The IEA stated that OPEC should not cut its production quotas before its March 16 meeting. It stated that while demand for oil products normally drops in the second quarter, demand from refiners for crude does not.

Separately, the EIA stated that US oil refiners operated at 91.7% last week, which is among the top for February refinery rates since 1990.

The API reported that US imports of crude oil and petroleum products averaged 12.9 million bpd in January, up 10% from a year ago. It stated that petroleum deliveries in January averaged 20.4 million bpd, down 0.1%. It also noted that US refineries operated at the highest utilization rate for January in seven years, averaging 93.1% of capacity. On the supply side, domestic crude production averaged 5.4 million bpd, down 5% from January last year.

OPEC's news agency reported that OPEC's basket of crude increased to \$41.84/barrel on Tuesday from \$41.44/barrel on Monday.

Refinery News

ConocoPhillips is scheduled to shut a fluid catalytic cracking unit at its 145,000 bpd Borger, Texas refinery for about two weeks of maintenance starting March 1.

Japan's Nippon Oil Corp said its 340,000 bpd Negishi refinery was unaffected by an earthquake which had a magnitude of 5.4. Idemitsu Kosan Co and Japan Energy Corp also stated that their facilities in eastern Japan were unaffected by the quake.

China plans to shut a total of about 400,000 bpd of crude refining capacity for one month of maintenance during the March-June period. China's Guangzhou Petrochemical Corp will shut a 50,000 bpd crude processing unit for a month of maintenance starting in May. China's Maoming refinery is expected to shut its 100,000 bpd crude unit for one month in March while its Jinzhou refinery is expected to shut its 60,000 bpd crude unit for 20 days in the second or third quarter. Its Fujian

refinery is expected to shut its 80,000 bpd crude unit for one month of maintenance in March while its Qingdao is expected to shut its 48,000 bpd crude unit for one month in May.

Production News

The Houston Ship Channel was open to traffic on Wednesday morning after fog overnight shut the waterway. The Houston Pilots Association said about 20 ships had been delayed by the overnight fog.

The head of Saudi Aramco said Saudi Arabia is producing slightly less than 9 million bpd and is on track to start up two major new developments by the end of the decade. He said the Khursaniyah project would reach 500,000 bpd production in 2007 and that output from its Khurais oilfield was likely to total more than 1 million bpd before the end of the decade.

A senior Iranian oil official said the country's crude oil production had only been slightly affected following a recent gas pipeline explosion. Iran's governor to OPEC, Hossein Kazempour Ardebili said just 8,000 bpd of oil was currently offstream at the Gachsaran oilfield. He said before the incident the field was pumping 740,000 bpd. Meanwhile a National Iranian Oil Co official said the oilfield is still shut following the pipeline blast.

Japan's Ministry of Economy, Trade and Industry reported that the country's kerosene stocks fell by 8.6% to 2.538 million kiloliters in the week ending February 12th due to increased demand amid a mid-winter cold spell. Gasoline stocks increased by 2.4% to 2.38 million kl while total product stocks fell by 2.5% to 11.424 million kl. The average operating rate was 91.8% in the week ending February 12 compared with 90.3% the previous week.

An industry official said sale of refined products by India's state run firms increased by 2.3% to 8.15 million tons in January from the same month last year.

Traders stated that China may see a surge in diesel imports in the second quarter after a lull in the past two months to meet seasonal demand for farming and to fill a supply gap due to refinery shutdowns.

Market Commentary

The NYMEX crude market opened about 40 cents higher at 47.70 in follow through strength seen in overnight trading following the initial news reports that a plane fired a missile in Dailam in the province of Bushehr where Iran has a nuclear power plant. The market was also supported amid the comments made by OPEC's Secretary General that OPEC producers were leaning towards cutting their production during the March meeting. Even though Iran stated that the explosion was not caused by a hostile attack, the market remained supported as it traded to a high of 48.00. However the market quickly sold off to its intraday low of 46.95 following the release of the DOE and API reports which showed large builds in crude stocks of 2.1 million and 5.6 million barrels, respectively. The market however held good support at its low and settled in a 50 cent trading range from 47.00 to 47.50 for most of the session. The market later breached its resistance at 47.50 and its earlier high of 48.00 and rallied to a high of 48.65. It backfilled its gap from 48.25 to 48.60 before it retraced some of its gains on the close and settled up \$1.07 at 48.33. Volume in the crude market was excellent with over 240,000 lots booked on the day. Meanwhile, the product market also settled sharply higher with the heating oil market settling up 5.07 cents at 134.20 and the gasoline market settling up 2.64 cents at 128.28. The heating oil market gapped higher this morning from 131.00 to 131.30 and traded to a high of 131.70 following the release of the reports showing draws in distillate stocks of 3.1 million barrels on the week. However the market backfilled its opening gap and sold off to a low of 128.80 amid the weakness in the crude market. It later settled in a range before further buying pushed the market to its intraday high of 134.40 amid the strength in the crude market. The gasoline market traded to a high of

127.00 early in the session but quickly sold off to its intraday low of 122.85 in light of the builds of over 4 million barrels reported in gasoline stocks. The market however retraced its losses despite the builds in stocks and rallied to a high of 128.80 ahead of the close. Volumes in the product markets were good with 52,000 lots booked in the heating oil and 49,000 lots booked in the gasoline market.

The crude market on Thursday will likely retrace some of today's late day rally. The market, which backfilled its gap and held resistance at 49.65, is technically starting to look overbought. The market is seen finding resistance at 48.65 followed by more distant resistance at its previous highs of 49.65-49.75. Meanwhile support is seen at 48.00 followed by 47.50 and today's low of 46.95. More distant support is seen at 46.60 followed by 46.15.

Technical Analysis		
	Levels	Explanation
CL 48.33, up \$1.07	Resistance 49.65 to 49.70 48.65	Previous highs Wednesday's high
	Support 48.00, 47.50 46.95, 46.60, 46.15	Wednesday's low, Previous low, 62% (44.60 and 48.65)
HO 134.20, up 5.07 cents	Resistance 134.55, 135.00, 136.80 134.40	62% (142.00 and 122.50), Previous highs Wednesday's high
	Support 132.00, 129.50 128.80, 127.75, 126.97	Wednesday's low, Previous low, 62% (122.50 and 134.20)
HU 128.28, up 2.64 cents	Resistance 131.58, 132.50 128.80-129, 129.90 - 130.10	62% retracement (138.40 and 120.55), Previous high Intraday highs
	Support 126.30, 123.90 122.85	Wednesday's low