



## ***ENERGY RISK MANAGEMENT***

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

**www.e-windham.com**

---

### **ENERGY MARKET REPORT FOR MARCH 3, 2005**

---

OPEC's Secretary General Adnan Shihab-Eldin said the possibility that oil prices will rise to \$80/barrel over the next two years is highly unlikely however he could not rule out the chances of such a steep rally, when asked if prices could rise to \$80/barrel. He said if prices increased due to a cut in supply from a country producing 1-2 million bpd, the rally in prices would not last long. He added that if prices increased to \$50-\$60/barrel for two or more years, investment in other sources of supply and reduction in demand would cause prices to fall.

A senior Libyan official warned it would be too risky for OPEC to increase its production at its March 16 meeting. He said high oil prices are mainly due to the extended winter and added that this weather pattern is unlikely to continue for much longer. However as OPEC prepares to meet later this month, the likelihood of the group cutting its production is also becoming increasingly unlikely.

#### **Market Watch**

The US Energy Information Administration is checking the accuracy of US Gulf Coast gasoline inventories. It however added that it was too early to say whether the data will be revised downwards. The EIA noted that the normal range for gasoline stocks in the Gulf Coast is near 64 million barrels while in the most recent week, the EIA reported 71.2 million barrels, a difference of more than 7 million barrels. Rumors in the petroleum trading community concerned a doublecounting of blending stocks that could lead to a downward revision of Gulf Coast gasoline stocks by 5 million to 8 million barrels.

Shipping brokers stated that Saudi Aramco has booked a fourth Very Large Crude Carrier from the Gulf to the US in March, increasing spot shipments from the month to eight million barrels. It booked a tanker to load 280,000 tons on March 25 to the US Gulf. Saudi Arabia had already booked three other VLCCs to move similar amounts to the US Gulf loading in early March. Saudi Arabia booked eight VLCCs to move 16 million barrels to the US in February.

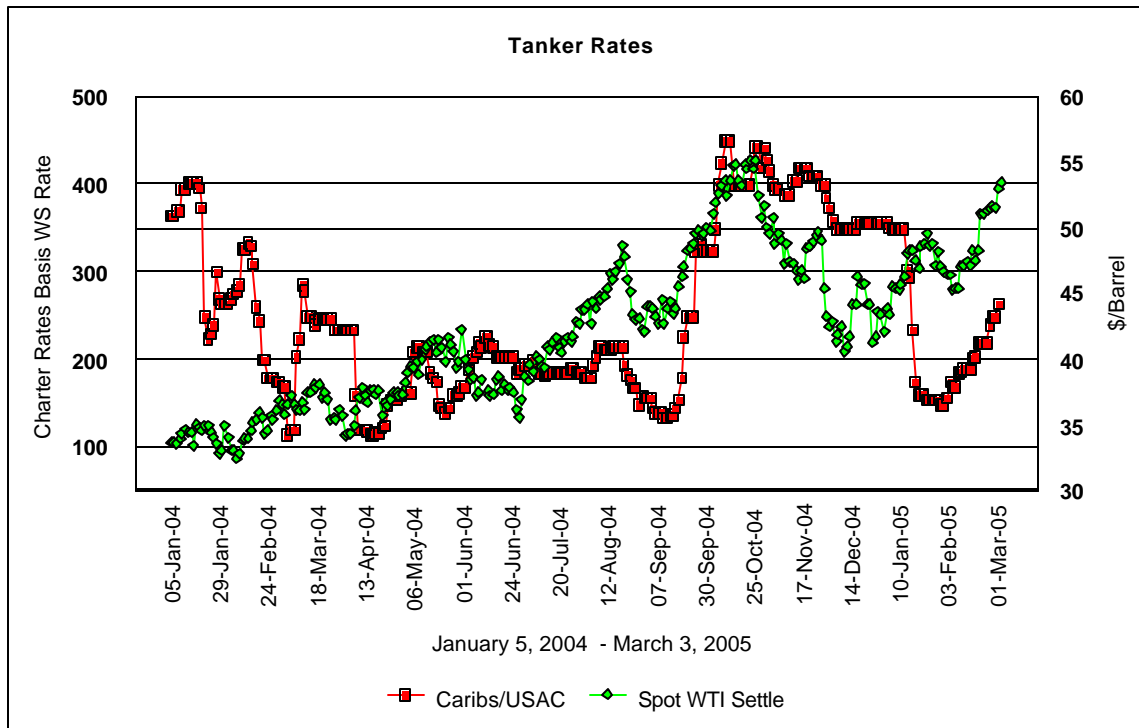
Statistics Norway stated that investment in Norway's oil and gas sector is expected to increase to a record 88.5 billion Norwegian crowns or \$14.24 billion this year from 71.1 billion in 2004. However the new 2005 investment estimate was cut from a previous estimate of 89.5 billion crowns. It also cut its forecast for oil and gas exploration investment in 2005 to 8.4 billion crowns from a previous estimate of 9 billion given in December.

On Thursday, Venezuela devalued its Bolivar currency by 10.7% to 2,150 bolivars to the dollar. Venezuela will generate more bolivars for government coffers from its oil exports in dollars with the devaluation from the rate of 1,920 bolivars.

Venezuela's government will meet with ExxonMobil Corp to discuss the decision to increase royalties paid by foreign oil companies involved in heavy crude upgrade ventures. Venezuela's President Hugo Chavez ended a tax holiday for four foreign financed ventures with PDVSA, including the Mobil Cerro Negro project. Venezuela's President said the country will earn \$2.5 billion this year due to the royalty increase.

Europe has been hit by an unusual cold snap causing a rise in heating costs. Some parts of Europe have experienced its lowest temperatures in decades this month.

A Venezuelan Oil Ministry source said OPEC is unlikely to increase oil production quotas at its next meeting despite a sharp increase in crude prices. The source said oil prices have rallied due to refinery outages in the US and increased demand for heating oil.



Oil and security officials said saboteurs blew up a gas pipeline feeding Iraq's main power station on Thursday as guerrillas continue their campaign to cripple the country's energy infrastructure. An oil pipeline feeding the Dora refinery on the edge of Baghdad was blown up near the city of Samarra on Tuesday. Oil officials expect flows to Turkey to resume within 10 days after storage builds up in export tanks. In the south, exports were running at 840,000 bpd from the Basra terminal.

According to Oil Movements, OPEC crude oil shipments are expected to increase by 180,000 bpd to 24.15 million bpd in the four weeks ending March 19, up from 23.97 in the four weeks ending February 19. Spot shipments from the Gulf to western and eastern refiners fell 2.5 million bpd in the middle 10 days of March to 6.149 million bpd. It is down from 8.836 million bpd in the same 10 day period in February.

According to a Reuters survey, OPEC's crude oil production increased by 340,000 bpd on the month to 29.54 million bpd in February. Saudi Arabia accounted for over 50% of the increase as it increased its production by 190,000 bpd to about 9.26 million bpd. The ten OPEC members increased their production to 27.63 million bpd, up 310,000 bpd on the month. It was still 630,000 bpd above its 27 million bpd ceiling. It reported that Iraq's production increased by 30,000 bpd in February to 1.91 million bpd.

US Energy Secretary Sam Bodman said the Bush administration is urging OPEC not to cut oil production when it meets later this month but added that it has limited influence over OPEC.

OPEC's news agency reported that OPEC's basket of crudes increased by \$.84/barrel to \$47.01/barrel on Wednesday from \$46.17/barrel on Tuesday.

**Refinery News**

Lyondell-Citgo Refining said gasoline production at its 270,000 bpd Houston, Texas refinery was unaffected by the closure of a coking drum on Tuesday. Separately, Lyondell-Citgo is expected to

start an extensive turnaround at its Houston, Texas refinery on April 11. The maintenance will require the plant to shutdown one of its sulfur recovery units, a crude unit, a hydrodesulfurization unit and one of the refinery's two coking units. Most major units are expected to restart in May, with work on the sulfur recovery unit scheduled to end on May 9. The crude unit will resume operations on May 16.

Sources reported that a fluid catalytic cracking unit at ChevronTexaco's 260,000 bpd El Segundo, California refinery was operating at 75% of its capacity. The 45,000 bpd catcracker was scheduled to return from planned turnaround on February 25 but had not reached full capacity by Thursday.

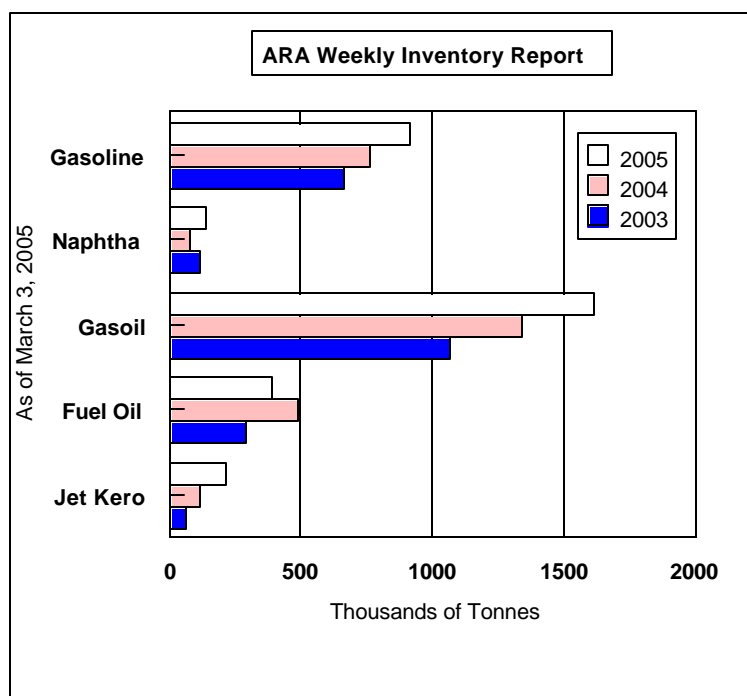
ConocoPhillips Inc plans to restart a fluid catalytic cracking unit at its Sweeny, Texas refinery on March 14 following planned maintenance which started on February 10.

According to a report to the Texas Commission on Environmental Quality, maintenance on several hydrogen units and resid hydrotreating unit at BP's Texas City, Texas refinery is concluding. A hydrogen recovery unit is due to restart on March 5.

Most of China's major oil refineries are keeping operating rates at record levels in March to cover for production losses due to shutdowns at other plants and meet increasing seasonal demand. The high operating rates may prompt China to increase crude imports in the second quarter. Ten refineries are expected to process 2 million bpd of crude in March.

Inchon Oil Refinery Co. Ltd. plans to lift its average crude processing rate in March and April after locking in a products sale deal with Vitol. The refiner, which has a total capacity of 275,000 bpd, would increase its rate to 160,000 bpd or 58% of capacity, in March and April from the originally planned level of about 120,000 bpd.

Taiwan's Formosa Petrochemical Corp has delayed all March loading gasoline cargoes by 10 days following a 16 day shutdown of a residual fluid catalytic cracker unit, which has since resumed operations.



Asia-Pacific refiners will shut about 840,000 bpd of capacity for spring maintenance in the second quarter. The outage will be most severe during the third quarter in June, when an average 980,000 bpd is offline, while only 450,000 bpd is shut in March and 635,000 bpd will be lost in April.

Italy's Saras will cut its diesel supplies to the Mediterranean market by up to 180,000 tons this month due to a partial turnaround at its Sardinian refinery. The 310,000 bpd Sarroch refinery's hydrocracker and one of its four desulfurization units will be shut for about 20 days during March following the 20 day shutdown of another desulfurization unit in February.

**Production News**

ChevronTexaco Corp said its oil and gas reserves fell by 6% in 2004 to 11.3 billion barrels of oil equivalent, down from 12 billion boe in 2003. The company which is said to be considering a bid to buy Unocal Corp said it replaced only 18% of its 2004 production.

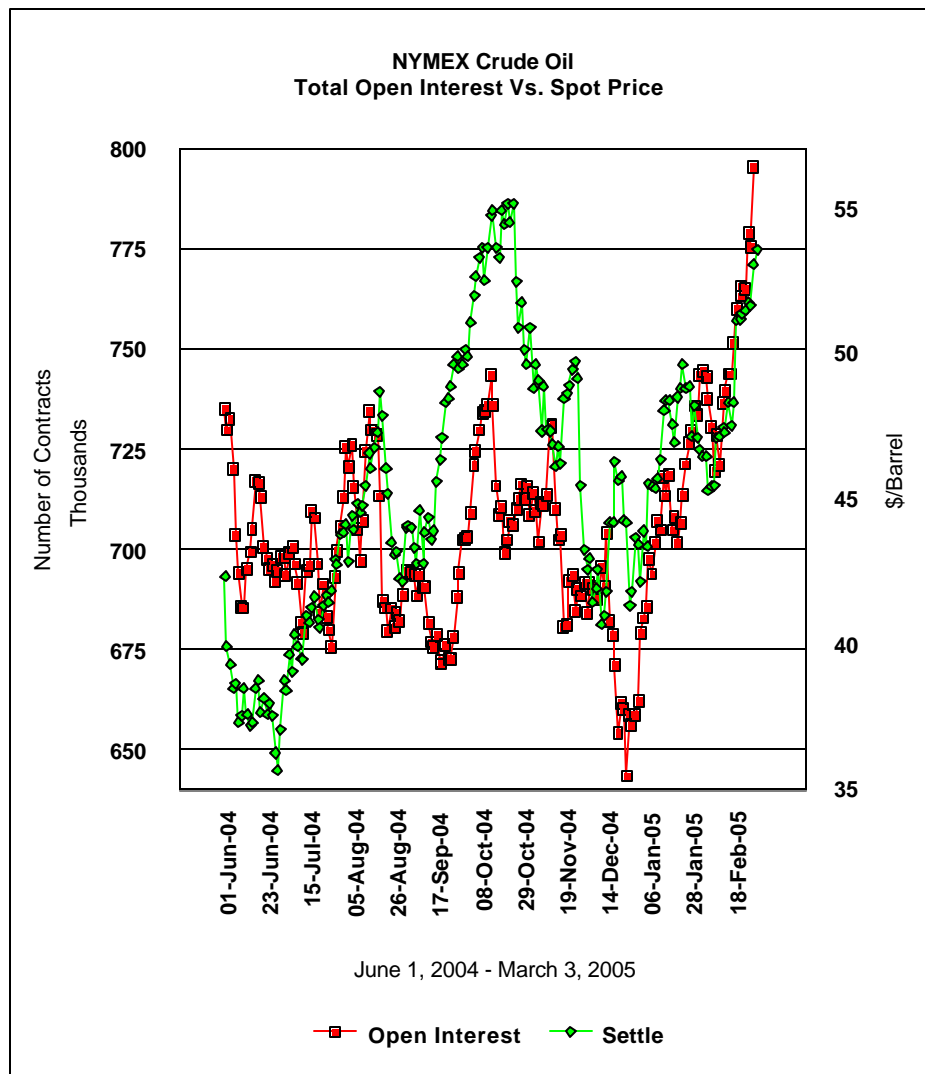
The Shetland Island Council reported that Brent blend crude oil liftings from Sullom Voe increased to 469,584 tons in the week ending March 1. There were no loadings during the previous week.

According to an analyst, gas oil stocks held in independent Amsterdam-Rotterdam-Antwerp storage increased by 100,000 tons or 6% to 1.625 million tons in the week ending March 3. It is up from last year's level of 1.35 million tons. Gas oil imports from the US have increased in response to increasing prices as a cold front hit Europe. Meanwhile gasoline stocks increased by 50,000 tons to 925,000 tons while naphtha stocks increased by 25,000 tons to 150,000 tons. Fuel oil stocks fell by 25,000 tons to 400,000 tons while jet fuel stocks remained unchanged at 225,000 tons on the week.

Nigeria's export loading schedules indicate that Nigeria plans to export 63.2 million barrels or 2.04 million bpd in March from 61.8 million barrels or 2.21 million bpd in the shorter month of February. Some of the fall in planned exports is accounted for by increased runs to refineries.

Russia's main Black Sea port of Novorossiisk remained shut on Thursday due to high winds. The port reopened briefly on Monday after staying shut over the weekend but closed again on Tuesday after a gale warning and high winds.

Russian crude oil and product exports by rail increased by 2.3% in 2004 as producers continued to seek extra capacity amid increasing output and a lack of new pipelines. Russia's railway monopoly said crude oil and refined products exports increased to 106.4 million tons or 2.13 million bpd due to larger shipments to China and through Russian ports. Total crude oil shipments by rail fell by 3.6% in 2004 to 40.3 million tons or 807,000 bpd while refined products exports increased by 6.4% to 66.1 million tons. Oil and product deliveries to the Baltic states' ports fell by 12.8% from 2003 to 32.7 million tons while exports via Russian sea ports increased by 13% year on year. Novorossiisk



received 7.7 million tons of oil and products by rail in 2004 or 17.7% more than in 2003.

Singapore's International Enterprise reported that Singapore's light distillate stocks increased by 1.325 million barrels to 9.689 million barrels in the week ending March 2. It reported that middle distillate stocks increased by 504,000 barrels to 6.808 million barrels while residual fuel stocks fell by 347,000 barrels to 11.549 million barrels.

Russia's Gazprom's merger with Rosneft will not include any debt incurred by Rosneft to fund its \$9.4 billion purchase of Yuganskneftegaz. The head of Gazprom, Alexei Miller said that the company would acquire Rosneft but that Yuganskneftegaz was not part of the deal and would remain an independent entity.

Separately Russia's Industry and Energy Minister Viktor Khristenko said the government is discussing the possibility of selling part of Yuganskneftegaz to outside shareholders. He said talks were still ongoing between the new management of Yuganskneftegaz and foreign partners but declined to specify further.

Russia's Lukoil Holdings wants to bid jointly with Rosneft in an auction for licenses to develop the Trebs and Titov deposits in the Nenets Autonomous District. The Trebs and Titov fields are estimated to hold more than 1 billion barrels of oil reserves.

Nigeria's President Olusegun Obasanjo said he approved guidelines for this year's oil block licensing round, which he said would be held in July.

### **Market Commentary**

The NYMEX oil complex held firm and rallied once again to new highs amid continued fund buying. The markets were mostly supported by the comments made by OPEC's Secretary General, who stated that oil prices could possibly rally to \$80/barrel over the next two years. The market opened slightly lower at 53.00 and quickly posted an intraday low of 52.86. However the market, which failed to retrace much of its previous gains, bounced off its low and traded to 56.65 before further buying pushed the market to an intraday high of 55.20. This was amid the strength in the gasoline market once again which continued to find good buying on spreads. It is the first time the crude market trades over the 55.00 level since late October when it posted an intraday high of 55.65. The crude market later retraced more than 62% of its earlier move to the upside as it traded to 53.40 on the close. It settled up 52 cents at 53.57. Volume in the crude market was excellent with over 334,000 lots booked on the day, of which 190,000 lots traded via spreads. Meanwhile the gasoline market, which continued to lend much support to the complex, opened down 38 points at 148.00 as it retraced some of Wednesday's sharp gains. However the market quickly bounced off its low and rallied to a high of 154.50 as stops were triggered and traders remained good buyers of spreads. The gasoline market extended its gains to 6 cents as it rallied to a new high of 154.50. It later retraced some of its gains ahead of the close as it traded back towards the 150.00 level. It settled up 2.37 cents at 150.75. Unlike the crude and gasoline market, the heating oil market settled in negative territory, down 1.77 cents at 149.08. The market opened down 1.10 cents at 149.70 and traded to a low of 148.50 early in the session before the strength in the gasoline market helped push the heating oil market to its high of 154.50. However the market later retraced its gains and traded to a low of 147.70 ahead of the close. Volumes in the product markets were excellent with over 73,000 lots booked in the gasoline market and over 59,000 lots in the heating oil market.

Open interest in the crude market built by a total of 20,046 contracts to a record level of 795,920 contracts as traders continued to add to their long positions. The crude market saw the majority of the

builds in the first five months, with open interest April and May contracts increasing by 2,634 lots and 5,339 lots, respectively.

The oil markets are likely to retrace some more of today's earlier gains. Technically, the crude market looks like it may have found it near term top as it stochastics have finally crossed to the downside. However if the market does breach today's high, the market is seen finding more distant resistance at its previous high of 55.65 which it seemed to have been targeting during today's session. Meanwhile

support is seen at its low of 52.86 followed by 52.75, 52.10 and 51.50.

Technical Analysis		
	Levels	Explanation
<b>CL</b> 53.57, up 52 cents	<b>Resistance</b> 55.20, 55.65 54.35, 54.70	Thursday's high, Previous high (continuation chart)
	<b>Support</b> 52.86, 52.75, 52.10 51.50, 50.65, 50.46	Thursday's low Wednesday's low, Previous lows
<b>HO</b> 149.08, down 1.77 cents	<b>Resistance</b> 152.75, 155.75 151.60	Thursday's high, Basis trendline
	<b>Support</b> 147.70 147.50, 146.50	Thursday's low Wednesday's low
<b>HU</b> 150.75, up 2.37 cents	<b>Resistance</b> 154.50, 154.95 152.60, 153.20	Thursday's high, Basis trendline
	<b>Support</b> 147.50, 144.90, 143.30 141.50 to 140.70	Thursday's low Opening gap (March 3rd)