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## ***ENERGY RISK MANAGEMENT***

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

**www.e-windham.com**

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### **ENERGY MARKET REPORT FOR MARCH 14, 2005**

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Saudi Arabia's Oil Minister Ali al-Naimi said OPEC should increase its production ceiling by 500,000 bpd to 27.5 million bpd. He said the current increase in crude prices is unjustified in light of the current supply and demand. However he stated that projections show an increase in demand in the later part of the year would require additional crude oil to satisfy. He stated that Saudi Arabia's current capacity of 11 million bpd can and will be made available to meet market requirements. Saudi Arabia's proposal is at odds with the wishes of many in OPEC, including Iran's Oil Minister, who wants output left unchanged. Iran's Oil Minister Bijan Namdar Zanganeh said there is enough oil in the market. He also stated that OPEC is not able to contain oil prices by itself. He however stated that Iran will support any consensus that emerges at the meeting. Libya's Energy Minister Fathi Omar bin Shatwan said Libya does not support Saudi Arabia's proposal for OPEC to increase its oil supply. A

#### **Market Watch**

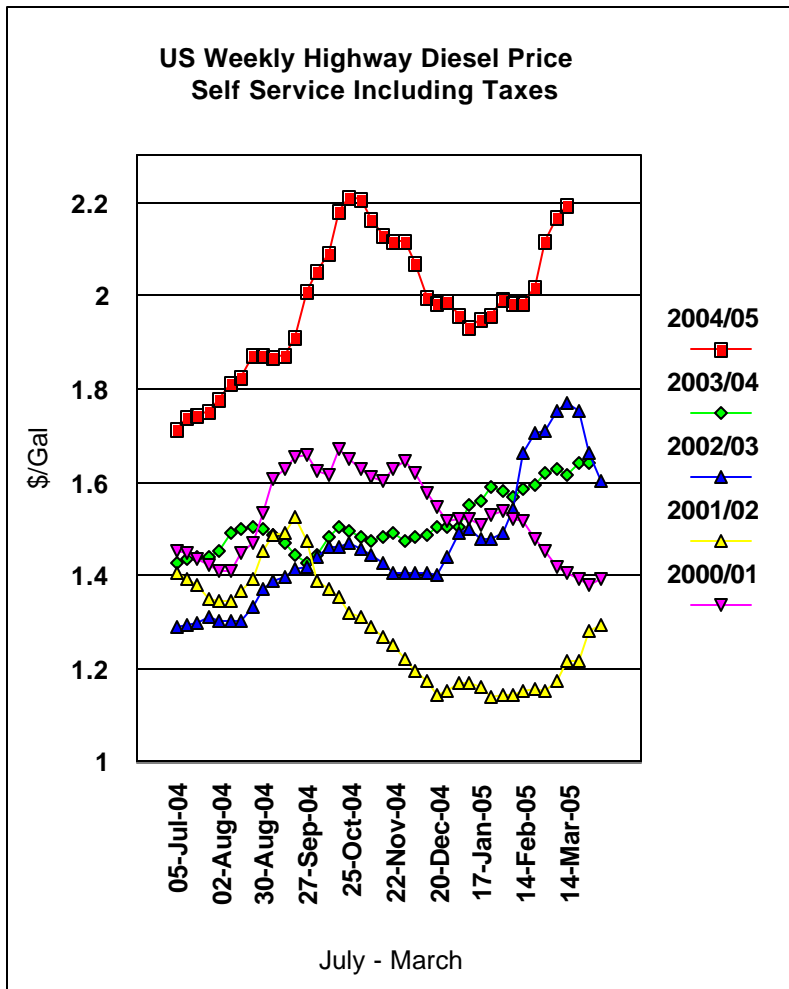
The Climate Prediction Center reported a total of 151 Heating Degree Days for the week ending March 12<sup>th</sup>, up from its previous estimate of 142 HDD. It is up 11.9% on the year and up 3% from normal. It reported a total of 231 HDD on an oil home heating customer weighted basis, up 19.7% on the year and up 15% from normal. It estimated a total of 153 HDD for the week ending March 19<sup>th</sup>, up 29.7% on the year and 14% from normal. Its estimated a total of 211 HDD on an oil home heating customer weighted basis, up 3.4% on the year and up 14% from normal.

US refinery margins were supported last week by colder temperatures and a mid-week gasoline surge to record highs after a major refinery outage. US Gulf refiners cracking Brent crude made an average of \$2.10/barrel last week, more than double its \$0.94/barrel level a week ago. US Gulf plants using US light crude showed an even larger profit gain last week, reaching \$2.08/barrel from \$0.64/barrel in the previous week.

The NYMEX is developing a gasoil futures contract as part of its plan to attract European traders. It is developing a gasoil contract and a delivery mechanism for the contract but declined to provide a timetable for the contract's launch. The exchange's first attempt at a gasoil contract comes as it seeks to take on London's IPE, which plans to end open outcry trading of its Brent crude futures and gasoil futures contracts on April 7. The NYMEX also announced that NYMEX Europe has signed an agreement to lease space for its open outcry trading venue it intends to open after receiving regulatory approval.

Venezuelan SENIAT tax officials said they were reviewing the books of foreign and domestic oil companies involved in 32 production contracts with PDVSA. They said the review would check whether all companies involved with PDVSA contracts had filed the correct income tax on their operations in Venezuela. The probe will take about 30-40 days after which SENIAT could temporarily close and fine those firms found to have tax irregularities.

Nigeria may take unilateral action to deal with its \$35 billion in foreign debt. Nigeria's President Olusegun Obasanjo said his country would continue to negotiate with foreign creditors. Last week, Nigeria's lower chamber of parliament passed a nonbinding resolution demanding Nigeria stop repaying its foreign debt.



500,000 bpd increase in OPEC's production would not add much to supplies. Latest estimates are that the ten members are already producing about 500,000 bpd above their 27 million bpd limit.

OPEC's President Ahmad Fahad al-Ahmad al-Sabah said OPEC will not cut its output quotas and will consider whether to increase its production when it meets on Wednesday. He said he could not rule out OPEC agreeing to increase output. Separately, Algeria's Energy and Mines Minister Chakib Khelil said OPEC is concerned about a possible world recession hurting demand for its oil. He said a US recession remained possible and would hit world oil demand and weaken prices. However he stated that he expected oil prices will fall in the second quarter as demand eases with warmer weather in the northern hemisphere. Meanwhile Nigeria's Presidential adviser on petroleum and energy, Edmund Dakouru said OPEC is unlikely to manage more than a cosmetic increase in its output. He said that while Saudi Arabia has called

for an increase of 500,000 bpd, OPEC is already exceeding its quota by more than that amount.

OPEC's ministerial monitoring committee is scheduled to meet at 1230 GMT on Tuesday. An OPEC official also stated that OPEC has scheduled a closed policy decision meeting for 730 GMT on Wednesday followed by an open session starting at 930 GMT and a plenary session to ratify the decision and cover any other issues at 1030 GMT. An OPEC source said OPEC is considering meeting again in early May following its Wednesday meeting. The source said several dates were under consideration, with May 6 the most likely.

The head of the IEA, Claude Mandil, welcomed Saudi Arabia's proposal to increase OPEC's formal output ceiling and warned insufficient spare oil production capacity still weighs on oil prices.

An EIA analyst told refining executives attending the annual National Petrochemical & Refiners Association meeting, that it continues to project continued high oil prices that ease only with additional supply. She said the EIA still sees the need for a significant increase.

According to a top Iraqi official, Iraq is targeting an average of 3 million bpd of oil production by the end of the year if security improves. Iraqi Deputy Oil Minister Ahmed al-Shammaa said the current Iraqi oil production is 2.1 million bpd. Iraqi is currently exporting about 1.4 million bpd and producing about 1.8 million bpd from its southern fields and about 300,000 bpd from the north.

OPEC's news agency reported that OPEC's basket of crudes fell by \$0.20/barrel to \$49.20/barrel on Friday from \$ 49.40/barrel on Thursday. OPEC's basket of crudes increased by \$2.21/barrel to \$48.80/barrel in the week ending March 10.

China will use its foreign exchange reserves to buy oil for the country's planned strategic reserves. Demand for reserves would be in addition to strong growth in consumption fueled by China's economic expansion. Ten million barrels of storage capacity will be ready for use in August while another 140 million barrels of storage is scheduled for completion in three to five years.

Talks between Shi'ite and Kurdish parties that won the most votes in Iraq's election stalled on Sunday, cutting hopes of forming a new government before Wednesday's debut session in the national assembly. A scheduled meeting Sunday between the Shi'ite Muslim group, United Iraqi Alliance, and a coalition of Kurdish parties was postponed when the Kurds delayed their response to a proposed power sharing deal. Sources stated that talks could resume as early as Monday. He said talks would continue after the national assembly convened if there was still not agreement on the shape and mandate of a government to replace the US appointed interim Iraqi leadership.

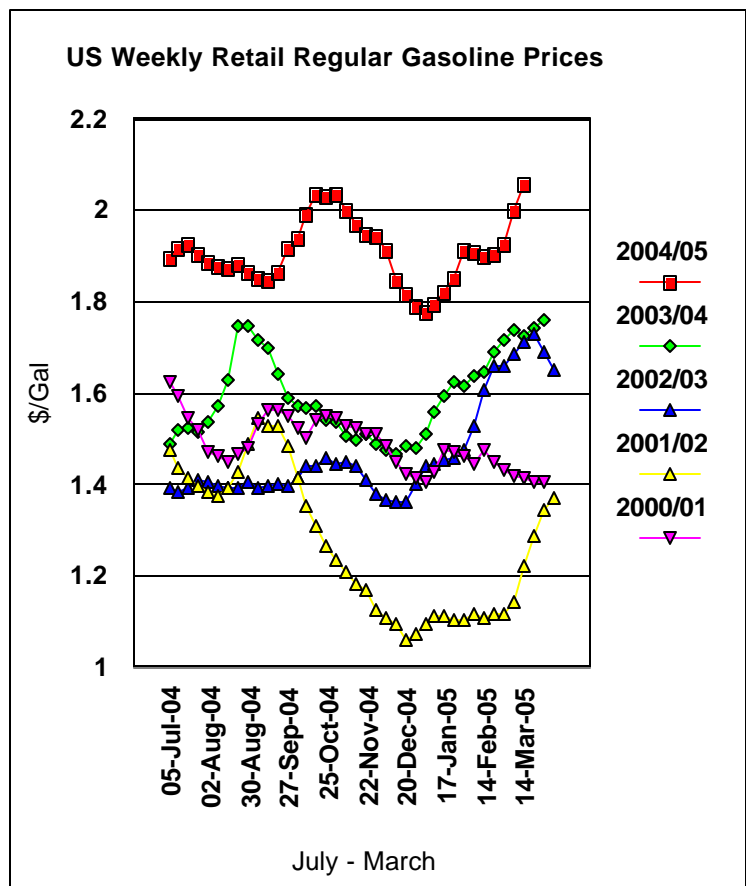
Efforts to form the Iraq's elected government are making the prospect of major contracts more real even if it could still be at least a year away. There are about 20 companies that have offered Iraq's interim government training for oil personnel, free geological studies or technical assistance. However long term contracts may still have to wait until after the framing of the new constitution and a second round of elections scheduled for the end of the year and even until the adoption of a new hydrocarbon law after that.

The Senate Budget Committee last week advanced a budget plan that supports opening up Alaska's Arctic national Wildlife Refuge to drilling. The budget supports ANWR drilling by including language that assumes \$2.5 billion will come from energy development there over the next five years. However Democrats are expected to introduce an amendment to strike the language from the budget package.

The EIA reported that the average retail price of diesel increased by 2.6 cents/gallon to \$2.194/gallon in the week ending March 14<sup>th</sup>. It reported that the average retail price of gasoline increased by 5.7 cents/gallon to \$2.056/gallon on the week.

**Refinery News**

Flint Hills is restarting its hydrocracker unit at its Corpus Christi, Texas refinery following the completion of planned maintenance.



Israel's Delek Group said it acquired the 54,000 bpd La Gloria refinery and crude pipeline in Texas from Crown Central Petroleum for \$78 million. It expects the deal to close on April 29. The company is expected to use the refinery supply its chain of gasoline stations directly through a swap agreement.

Shell restarted a gasoline unit at its 156,000 bpd Port Dickson refinery in Malaysia after it was temporarily shut for maintenance.

**Production News**

Shell reported that full production at its 140,000 bpd Draugen oilfield will restart on Monday after a 10 day shutdown following a platform leak.

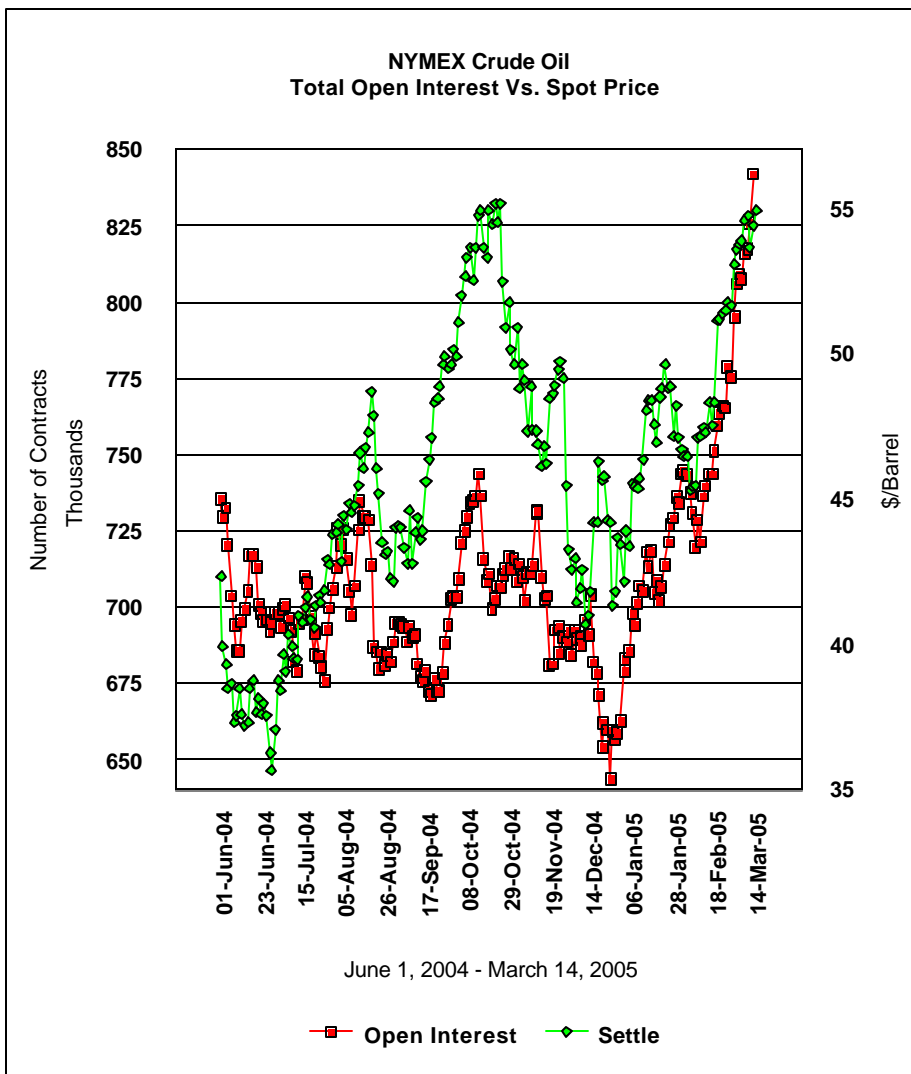
Suncor Energy Inc will file applications on Monday for the next expansion of its Alberta oil sands operation, a plan aimed at nearly doubling current output capacity within about 5 years. It will apply to Alberta's energy regulator to build a third upgrading plant at its oil sands mining site. The third upgrader would increase production to about 550,000 bpd by 2010-2012, up from today's 225,000 bpd.

Russia's Lukoil and KazMunaiGaz agreed to set up a venture to tap a Caspian offshore field. The Khvolynskoye field is estimated to contain 322 billion cubic meters of gas and more than 50 million

tons or 367 million barrels of oil and gas condensate reserves. Meanwhile Lukoil said it signed a formal agreement governing the development of the Tsentralnoye field in the Caspian Sea.

Mexico's Pemex hopes to lift total oil and gas reserves by more than 50% this year. It said that while Pemex cannot explore potentially large deep sea oil reserves without a change in the law to allow foreign joint ventures, the company hopes other projects will increase reserves.

India's Petroleum Secretary reported that its net oil import bill for the financial year ending March 2005 is likely to be 1,000 billion rupees or \$23 billion. He said the country's plan to build its own strategic crude oil reserves aimed at meeting supply disruptions is on schedule.



**Market Commentary**

The oil market opened 33 cents lower this morning at 54.10 in follow through selling seen in overnight trading as traders took profits following the news that Saudi Arabia's Oil Minister called for an increase in OPEC's production ceiling of 500,000 bpd. OPEC's President also stated that he could not rule out an increase in the group's production. However during the overnight session, the market seemed to have been supported amid the news that China would use its foreign exchange reserves to buy oil for the country's planned strategic reserve. The crude market traded to a low of 53.52 and bounced off that level to its early high of 54.25. The April crude contract which settled in a sideways trading pattern later breached its resistance and rallied to a high 55.05 amid the strength in the natural gas market, as it breached its resistance at 7.00 early in the session. The oil market remained well supported ahead of the close and settled up 52 cents at 54.95. Volume was excellent with over 221,000 lots booked on the day. Open interest in the crude market continued to build, by 15,977 lots as of Friday's session as new longs were added to the market. Open interest in the April contract fell by 20,517 lots while open interest in the May contract built by 29,724 contracts. Meanwhile the product markets ended in negative territory, with the heating oil market settling down 67 points at 153.60 and the gasoline market settling down 85 points at 150.90. The heating oil market opened down 1.67 cents at 152.60 and sold off to its intraday low of 149.80 within the first hour of trading. However the market bounced off that level and rallied to a high of 154.60 amid the strength in the natural gas market. It later retraced some of its gains but settled in a range ahead of the close. The gasoline market sold off to a low of 148.80 early in the session and settled in a sideways trading pattern amid light volume trading. The market, which held good support at its low rallied to a high of 152.25 late in the session before it retraced some of its gains ahead of the close. Volumes in the product markets were good with 45,000 lots booked in the heating oil and 30,000 lots booked in the gasoline market.

The crude market on Tuesday may continue to trade in its recent range as traders await OPEC's decision on Wednesday as well as the release of the weekly petroleum stock reports. It will remain headline driven as we head toward the OPEC meeting on Wednesday. The market is seen finding support at its low of 53.52 followed by its double bottom at 52.90. More distant support is seen at 52.70

followed by 52.00. Meanwhile resistance is seen at its high of 55.05 followed by 55.65, its previous high.

Technical Analysis			
	Levels	Explanation	
<b>CL</b> 54.95, up 52 cents	<b>Resistance</b>	55.65 55.05	Wednesday's high&Previous high Monday's high
	<b>Support</b>	53.52, 52.92 to 52.86 52.70, 52.00	Monday's low, Previous lows 50% and 62% retracement (49.75 and 55.65)
<b>HO</b> 153.60, down 67 points	<b>Resistance</b>	159.00 154.60, 155.30, 155.60	Previous high(continuation chart) Monday's high, Previous highs
	<b>Support</b>	153.10,150.50, 149.80 148.40, 148.30	Monday's low Thursday's low, 38% retracement (136.50 and 155.60)
<b>HU</b> 150.65, down 1.10 cents	<b>Resistance</b>	156.00 152.00, 152.25-152.30	Previous high Friday's high, Double top
	<b>Support</b>	148.80 147.20 to 147.00, 145.05	Monday's low Double bottom, 50%retracement (134.10 and 156.00)