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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 APRIL 5, 2005**

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According to a port and an Iraqi oil official, Iraq has resumed crude loadings from its southern oil terminals early Tuesday after loadings were suspended for about one day due to bad weather. In Baghdad, an Iraqi oil official confirmed the berthing and unberthing of two tankers but said bad weather was still hindering three more vessels, one at Khor al-Amaya and the second at the Basra terminal from sailing. Iraq exported 1.46 million bpd in March from Basra and Khor al-Amaya.

Talks between Nigeria's oil unions, government officials and representatives from Belbop and Conoil Upstream resumed on Tuesday to try to avert a three day warning strike called for next week.

#### Market Watch

Federal Reserve Chairman Alan Greenspan said that market forces could eventually lead to a large enough increase in oil inventories to cool the recent oil price rally. He said high prices have modestly slowed the oil demand and added that stocks of crude oil have started to rebound because future prices have risen more than spot prices. He however stopped short of stating that he fears high oil prices will seriously dent US economic growth. He expressed concern over a lack of world crude oil refining capacity. He said oil market will resolve the bottlenecks on their own, adding that higher prices will generate increased investment to expand output capacity, develop more efficient technology and promote the use of alternative fuels.

IMF chief Rodrigo Rato said high oil prices are an increasing downward risk to the world economy and will reduce world growth by at least 0.25 to 0.5% this year.

Shipping executives at Saudi Aramco said they are worried increasing oil demand could strain the world tanker market. The head Saudi Petroleum International said the energy industry is heading into uncharted territory, with world oil demand reaching 100 million bpd in the next few years.

The head of Saudi Arabia's Aramco Services Co said increased demand for oil in China and India is so large they have created a worrisome climate among the world's energy producers. He said China and India's demand is quite substantial and is frightening. He said all producing nations will have to chip in to meet the needs if demand in those two countries continue to rise.

India's Petroleum Minister said that rising world crude prices and severe volatility in the international oil market are a major concern for India. He however stated that country has sufficient foreign exchange reserves to meet its crude import requirements.

The NYMEX said it will launch a Northwest Europe gas oil futures contract in Dublin on Friday. It is hoping to lure London traders away from the IPE by offering its Brent contract and its new gas oil contract. The gas oil futures contract, which will be physically delivered in Amsterdam, Rotterdam and Antwerp will be available for open outcry Monday through Friday from 9:15 am to 5:30 pm Dublin time and on Access Monday mornings from midnight to 8:45 am Dublin time and Monday through Thursday from 6:30 pm until 8:45 am. The contract will be listed for 18 consecutive months, starting with May of this year.

The Chicago ethanol futures markets closed firm on Tuesday following thin trading once again. The CBOT June contract ended up ½ at \$1.20-1/2. The open interest in the CBOT contract fell by 1 lot to 240 lots. The CME contracts did not trade on Tuesday.

Union leaders said they signed a deal with the two companies but were now in wider talks. Union leaders said the two oil companies had agreed to improve the relationship between management and workers and in particular ensure that employees would be assigned to specific tasks according to their skills. However they said it was not enough to call off the three day warning strike.

Iran's Oil Minister Bijan Namdar Zanganeh said he had not been contacted by his OPEC counterparts yet on whether the cartel needed to increase output by 500,000 bpd to lower oil prices. On Monday, OPEC's President Sheikh Ahmad al-Fahd al-Sabah said oil ministers had started telephone consultations on increasing production to lower prices. Meanwhile Indonesia's Energy Minister Purnomo Yusgiantoro said he has not been contacted by OPEC officials regarding consultations on a further 500,000 bpd crude production increase.

Venezuela's Oil Minister Rafael Ramirez said OPEC is running out of spare capacity. However he added that the market is currently well supplied.

According to a Reuters survey, OPEC's oil production increased by 175,000 bpd in March to 29.705 million bpd. Saudi Arabia accounted for a majority of the increase as it increased its supply by 130,000 bpd to 9.39 million bpd. The ten OPEC members, excluding Iraq also increased its output by 175,000 bpd to 27.795 million bpd in March. Meanwhile Iraq's production was steady at 1.91 million bpd.

OPEC's news agency reported that OPEC's basket of crudes increased by \$1.28/barrel to \$52.93/barrel on Monday.

BBC News reported that at least nine militants are reported to have died in clashes with the Saudi security forces. The clashes entered its third day and is one of the largest battles Saudi forces have ever fought against Islamic militants. Saudi officials said at least 10 militants are still said to be holding out against security forces in the northern town of al-Ras.

The House Energy Committee will take up the stalled energy bill on Tuesday afternoon. Rep. Joe Barton, chairman of the House Energy Committee, unveiled a draft energy bill that will be the starting point for talks by his panel scheduled to begin on Tuesday and continue on Wednesday. In a bid to spur construction of new US refineries, the bill would expedite federal permit consideration and tap the Energy Department as the lead decision maker. The bill will push for new refineries to be built in areas of the country with high unemployment rates. Another addition to the legislation seeks to reduce the number of specialized gasoline blends that different states require to meet local clean air requirements. The opening of the Arctic National Wildlife Refuge to oil drilling will be handled by the House Resource Committee. The panel could consider this week legislation for ANWR drilling, which would likely be rolled into a broad energy bill. However the bill includes a possible deal breaker, which would shield US refiners and makers of the additive MTBE from liability lawsuits for contaminating water supplies.

Meanwhile, Sen. Ron Wyden wants the Commerce Department to release the names of US companies that are exporting US petroleum products to other countries amid the high gasoline and crude prices. He said the information on the 268 million barrels of US petroleum products exported in 2004 is needed as Congress considers a broad energy bill.

State officials in Alaska stated that high oil prices are likely to persist through the coming fiscal year before eventually falling to more historical levels. However Alaska's oil production will continue its steady decline as major fields mature. For fiscal 2005, which ends June 30, Alaska North Slope crude prices have averaged \$42.30/barrel so far. Prices are expected to ease to \$41.75/barrel by the end of

the fiscal year and fall further to \$38.60/barrel for fiscal 2006 and eventually fall to \$25.50/barrel by 2015.

The Group of Seven economies will call for the development of alternative energy sources in the face of record high crude oil prices when they meet next week.

Saudi Arabia signaled its commitment to see oil stocks build by lowering prices it will charge US customers in May. The move will make Saudi grades more competitive with alternatives on the US Gulf Coast and should encourage customers to stockpile more crude. It cut its price of Arab Light to the US to WTI minus \$6.60, down \$1.55 while its Arab Medium was cut to WTI minus \$9.25, down \$1.80 and its Arab Heavy was cut to WTI minus \$12.35, down \$2.00. Meanwhile its Arab Extra Light crude bound to Europe was cut to weighted Brent average minus \$1.25, down \$0.95, its Arab Light was cut to BWAVE minus \$5.55, down \$1.55, its Arab Medium was cut to BWAVE minus \$8.40, down \$1.25 and its Arab Heavy was cut to BWAVE minus \$11.05, down \$1.65. Its Arab Super Light bound to Asia was cut to the Oman/Dubai average plus \$3.90, down \$2.85 and its Arab Extra Light was cut to the Oman/Dubai average plus \$2.00, down \$1.40. Meanwhile its Arab Light bound to Asia was increased to the Oman/Dubai average plus \$1.05, up \$0.40, its Arab Medium was increased to the Oman/Dubai average minus \$1.40, up \$0.30 and its Arab Heavy was increased to the Oman/Dubai average minus \$4.35, up \$0.20.

### **Refinery News**

The chief executive of Lyondell Chemical Co, Dan Smith, said one lesson that can be drawn from the explosion at BP's Texas City refinery is that a refinery is a poor target for terrorists. He said that while the loss of life is horrible, the destruction was confined to a small area in a large refinery complex.

Shell has shut its 67,000 bpd Fredericia refinery in Denmark for planned maintenance work.

India's Hindustan Petroleum Corp Ltd will restart its 110,000 bpd Bombay refinery on April 11 following scheduled maintenance. The refinery was shut on February 18.

Sinopec Corp is scheduled to shut its 100,000 bpd refinery in Tianjin for 45 days of maintenance from mid-May. China is currently carrying out more refinery maintenance works in the second quarter than in the year ago period as it is scheduled to shut down 120,000 bpd of refining capacity apart from Tianjin.

A senior Saudi Aramco official said it plans to build an export oriented refinery with a 400,000 bpd capacity in the Red Sea city of Yanbu. The official said Yanbu is strategically located and the new refinery could supply the US East Coast with high quality gasoline, low sulfur diesel to Europe and naphtha to East Asia. The proposed refinery will run heavier quality crude. Aramco envisages offering two international partners a total 30% stake in the new Yanbu plant.

### **Production News**

The Houston Ship Channel has remained closed since Monday afternoon as searchers looked for a crew member still missing after a tug boat overturned and sank. There are about 58 ships waiting to transit, 31 inbound and 27 outbound. However there are no oil tankers waiting to arrive. The Houston Ship Channel is expected to reopen at noon Wednesday. Separately, a spokeswoman for Valero Energy Corp said operations at its Texas City, and Houston, Texas refineries have not been affected by the closure of the Houston Ship Channel.

ConocoPhillips said it expects 2005 production to be about 3% higher than last year.

Murphy Oil Corp's existing production program should guarantee steady output growth into 2010. While its existing production portfolio is expected to peak next year, its Kikeh field in Malaysia should begin increasing overall output when it comes on line in 2007. Production, which is expected to reach a record 130,000 barrels of oil equivalent in 2005, should reach between 180 and 190 million boe in 2009.

Apache Corp has almost doubled its oil production at its Forties field in the North Sea to 80,000 bpd.

ChevronTexaco Corp hopes to begin investing in the heavy crude project in Venezuela's Orinoco tar belt before the end of the year. ChevronTexaco and Spain's Repsol announced last week its plans for a joint project to make extra heavy Orinoco oil into synthetic crude and transport it through a new regional pipeline.

Russian Natural Resources Minister Yury Trutnev said Russia needs to limit foreign energy companies' access to some hydrocarbon and mineral reserves in order to protect the national economy. In February, he stated that companies had to have at least a 51% Russian shareholding to bid for the undeveloped reserves in the country.

Russia's Lukoil said its proved reserves as of January 1 are estimated at 20.07 billion barrels of oil equivalent, including 15.97 billion barrels of oil and 24.6 trillion cubic feet of gas.

Russia's main Black Sea port of Novorossiisk reopened on Monday as storm conditions at the port waned.

A ChevronTexaco led group, which is pumping oil by pipeline from Kazakhstan and Russia to the Black Sea, said its exports increased by 50,000 bpd on the month in March to 642,000 bpd. In March, shipments from Kazakhstan stood at 2.286 million tons while Russian producers supplied about 430,000 tons.

Investors seeking to drill for oil in Nigeria expressed concern over new regulations requiring winning bidders to enter equity partnerships with local companies and make more use of Nigerian services and employees. The regulations are intended to increase the domestic oil industry however some investors said they were worried the government was saddling them with unwanted risk. A company representative said it is an enforced partnership risk. There were also concerns about efforts by the Nigerian legislature to collect higher taxes and royalties from companies drilling for oil.

Turkey's  
Tupras said  
expects to  
increase its  
production  
to 23.6  
million tons  
in 2005. Its  
domestic  
sales  
increased by  
6.3% year  
on year to  
4.2 million  
tons in the

Technical Analysis		
	Levels	Explanation
<b>Resistance</b> CL 56.04, down 97 cents	57.20, 58.20, 60.06 56.55	Tuesday's high, Monday's high, Basis trendline
<b>Support</b>	55.90 55.35, 55.15, 54.90	Tuesday's low 50% (52.50 and 58.20), Previous lows
<b>Resistance</b> HO 162.11, down 2.11 cents	166.30, 168.30 163.80, 165.50	Tuesday's high, Monday's high
<b>Support</b>	161.80 161.12, 160.80, 159-156.60	Tuesday's low 38% (149.50 and 168.30), Previous low, Gap
<b>Resistance</b> HU 168.80, down 3.36 cents	172.60, 174.80 170.40	Tuesday's high, Monday's high
<b>Support</b>	168.50 167.62, 165.70, 163.80-161.90	Tuesday's low 38% (156.00 and 174.80), Previous low, Gap

first quarter. Its exports increased by 41.6% to \$427 million in the same period.

### **Market Commentary**

The NYMEX oil complex ended the session in negative territory once again as it was weighed down by the sell off in the gasoline market. The gasoline market continued the sell off seen late Monday amid the news that PDVSA's Amuay refinery restarted a crude unit while the rest of the refinery is expected to resume operations by the end of the week. The May gasoline contract opened down 96 cents at 171.20 and traded to a low of 170.55 early in the session on continued profit taking. It later traded to a high of 172.60 as the markets were pushed higher on the news that the Houston Ship Channel was closed since Monday afternoon after a tug boat sank. There was also news supporting the complex that clashes between the Saudi security forces and militants had entered its third day. The market however erased its gains and sold off sharply to a low of 168.50 ahead of the close as the market seemed to have overreacted to the outage at PDVSA's Amuay refinery last week. It settled down 3.36 cents at 168.80. Meanwhile, the crude market opened down 31 cents at 56.70 and traded to a high of 57.20. The market later erased its gains and sold off to a low of 56.55 and settled in a sideways trading pattern. However the market breached its support level and sold off to a low of 55.90 ahead of the close in follow through selling seen in the gasoline market. The market may have also been pressured amid expectations that the weekly petroleum stock reports on Wednesday will show builds of just over 2 million barrels in crude stocks. Similarly, the heating oil market settled down 2.11 cents at 162.11 after the market sold off to a low of 161.80 on the close. The market which opened down 42 points at 163.80 saw a three cent trading range within the first hour of trading as it traded from a low of 163.02 to a high of 166.30. The market which traded mostly sideways, breached its support and sold off to its low of 161.80 ahead of the close. Volumes were good with 200,000 lots booked in the crude, 47,000 lots in the gasoline and 28,000 lots in the heating oil. Open interest in the crude market built by a total of 7,527, with open interest in the May contract falling by 7,682 lots while the June and July crude contracts saw open interest build by 6,366 and 3,056 lots, respectively.

The crude market on Wednesday will mostly be driven by the weekly petroleum stock reports, which are expected to show builds in crude stocks of little more than 2 million barrels while product stocks are expected to show draws of 1-1.5 million barrels on the week. If the market does see a large build in crude stocks, the market is seen trending lower as the market may have realized that it overacted to news of the outage at PDVSA's Amuay refinery last week. The oil market is seen finding resistance at 56.55 followed by its high of 57.20. More distant resistance is seen at its previous high of 58.20 and 60.06. Meanwhile support is seen at 55.90 followed by 55.35, 55.15 and 54.90.