



## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR APRIL 11, 2005**

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OPEC's President Sheikh Ahmad al-Fahad al-Sabah said that production by the ten OPEC members bound by quotas was expected to increase to 28.5 million bpd in May from its current production of just over 28 million bpd to help build oil inventories ahead of the expected third quarter demand surge. He said it will be an increase in actual production. He said Kuwait was pumping 2.65 million bpd now and would maintain that flow in May. It implies that the majority of the additional oil will come from Saudi Arabia.

#### Market Watch

According to the latest SPR delivery schedule released by the DOE, crude deliveries in March were increased by 2,000 barrels to 6.146 million barrels, while deliveries in April and May were increased by 6,000 barrels to 3.912 million barrels and 8,000 barrels to 1.808 million barrels, respectively. Meanwhile, the DOE also increased SPR deliveries in August by 381,000 barrels to 2.181 million barrels.

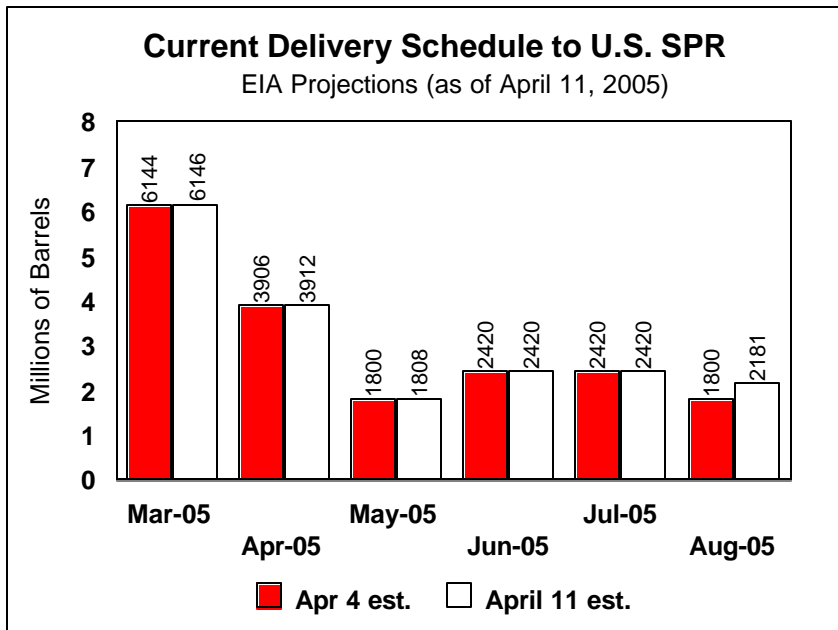
An ECB Governing Council member, Yves Mersch, said current high oil prices should be temporary but still pose risks to both economic growth and inflation in the euro zone. It is leaving its forecasts unchanged for growth at 1.6% and inflation at 1.9%. He expressed similar sentiment at the ECB President Jean-Claude Trichet who said that high costs endanger the outlook.

IPE floor brokers stated that the first day of electronic trading on IPE was judged a success after over 129,000 lots of Brent and 48,000 lots of gasoil traded compared with earlier expectations. Previously, about 100,000 lots of Brent and 40,000 lots of gasoil were expected to trade without local participation. Meanwhile, increased volume in the Dublin open outcry Brent pit on Monday still lagged behind the IPE's volume on its first full day of electronic trading. Traders stated that customers were supportive of the NYMEX but ultimately would back the exchange with most liquidity. Volume on the NYMEX pit in Dublin was nearly 6,000 lots on Friday and had reached 4,155 lots by Monday afternoon.

A Russian co-owner of TNK-BP said it was prepared to go to court to challenge a new back tax bill of close to \$1 billion for 2001.

Kinder Morgan Energy Partners LP said it was acquiring seven bulk terminal operations from Trans-Global Solutions Inc. The deal is expected to close by the end of April. At the close of the transaction, Kinder Morgan will also execute a development agreement with TGS where TGS will develop new solid bulk projects, including petcoke and coal projects. Kinder Morgan said it believed the US refineries would process more heavy crude in the future, generating more petcoke, which should enable it to capture additional petcoke related opportunities.

Industry sources stated that Saudi Arabia has booked two spot VLCCs from the Gulf to the US in May. The vessels are expected to carry up to 290,000 tons each. The sources said the ships were provisionally booked to load in a May 5-10 and May 1-5 loading window. Saudi Arabia booked only eight million bpd of spot crude in April or four VLCCs. Separately, a Gulf source stated that refiners are not seeking more crude from Saudi Arabia even though it deepened the discount for barrels loaded



in May. The source said the market was well balanced with ample supplies of both light and heavy crude. A trader stated that Saudi Arabia will keep its crude oil supply steady to US refiners in May. Refiners will receive 25% under their contract volumes, unchanged from its April level. It is also expected to keep supply steady to European refiners. European refiners will receive 25% under contract volumes in May, unchanged on the month. However a trader later stated that Saudi Arabia has increased its May crude allocations to some world oil majors in May. The trader did not give further details of how much

more crude would be received.

Libya's Oil Minister Fathi bin Shatwan warned that oil prices could crash if OPEC increases its output ceiling by 500,000 bpd. He said he has not yet been approached by the OPEC President regarding the increase but added that he did not agree with such a move. He also warned that the lack of transparency in China means that it is unclear how strong demand will be in the months ahead.

Iraqi oil officials stated that crews were struggling to repair Iraq's northern oil pipeline and no exports to Turkey are expected for at least two more weeks. Work to restart exports has been hampered by sabotage attacks over the past two months. Oil officials had hoped that attacks on oil facilities, concentrated in Sunni Muslim regions in the north, would lessen after Iraq held general elections on January 30, however sabotage has continued.

Iraq's new president Jalal Talabani said he hopes the new interim Prime Minister will have his Cabinet formed in one week. He said he believed Iraqi security could take control of the country within two years. Meanwhile, Iraqi legislators proceeded with business as members of the National Assembly met to hear proposed rules for governing the lawmaking body.

The head of the IEA, Claude Mandil said oil markets are well supplied and inventory levels are comfortable in all main consuming regions except Asia. He reiterated that he believed concerns over a fourth quarter supply crunch were overstated. He said there would be no problem with OPEC crude supply meeting world oil demand in the fourth quarter this year.

BP's chief executive John Browne said he sees little evidence that high oil prices are cutting consumption. He said demand appears stronger than expected. He also reiterated that oil prices were unlikely to fall back below \$30/barrel.

Euroilstock stated that the total European oil and product stocks increased by 7.46 million barrels or 0.7% on the month to 1.098 billion barrels in March. It was up 12.73 million barrels or 1.2% on the year. It reported that crude inventories increased by 3.06 million barrels or 0.7% on the month to 468.22 million barrels while gasoline stocks fell by 2.3 million barrels or 1.6% on the month to 140.59

million barrels. Meanwhile distillate stocks increased by 10.05 million barrels or 2.9% on the month to 357.38 million barrels in March. Refinery utilization fell to 92.56% in March from 93.94% in February.

The EIA reported that the US average retail price of diesel increased by 1.3 cents/gallon to \$2.316/gallon in the week ending April 11<sup>th</sup>. It also reported that the average retail price of gasoline increased by 6.3 cents/gallon to \$2.28/gallon on the week.

According to the Lundberg survey, retail gasoline prices in the US increased by an average of 19 cents/gallon in the past three weeks to \$2.32/gallon due to high crude oil prices, increasing demand and increased refining costs.

OPEC's news agency reported that OPEC's basket of crudes fell by \$1.91/barrel on Friday to \$49.94/barrel from Thursday's \$51.85/barrel level. It also stated that the OPEC basket price increased by \$2.89/barrel to \$52.05/barrel last week.

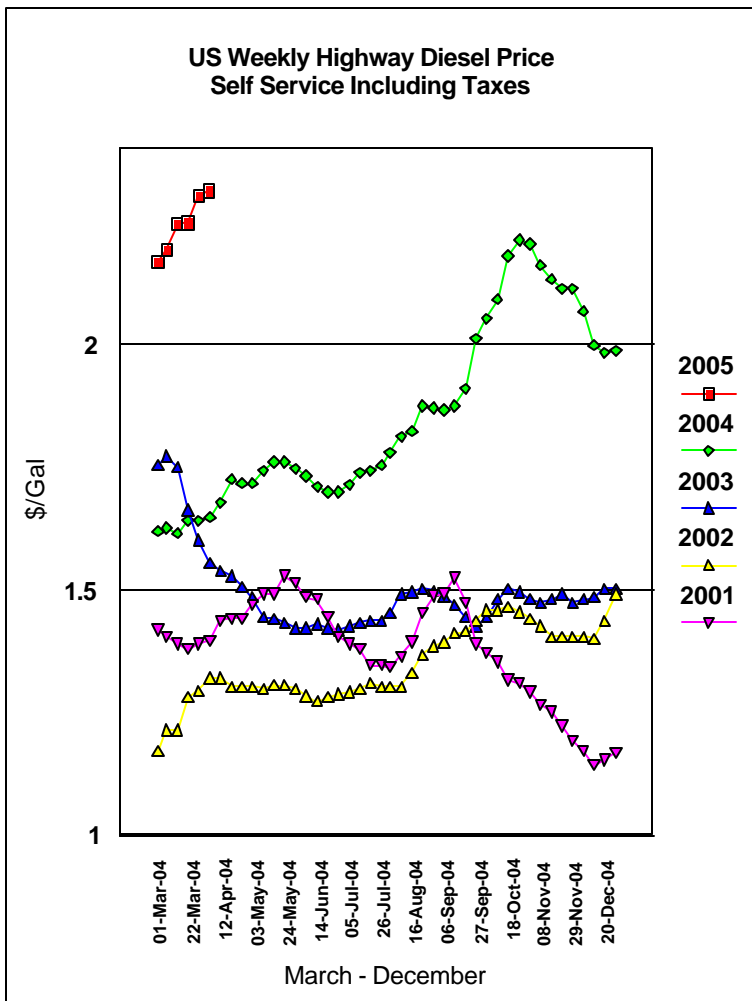
### Refinery News

Valero Energy Corp's Three Rivers, Texas refinery announced emissions from its fluid catalytic cracker unit on Sunday. According to a report filed to the Texas Commission on Environmental Quality, the fluid catalytic cracker was shut. Maintenance on the catcracker resulted in excess of opacity. According to a second report, maintenance on a sour water stripper had resulted in emissions.

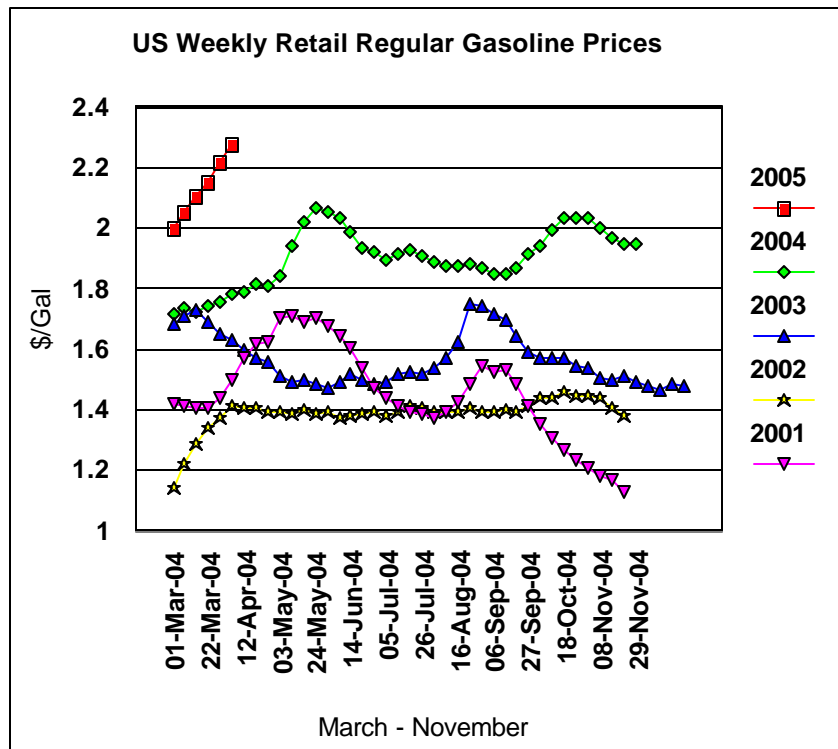
PDVSA's 106,000 bpd fluid catalytic cracker at its Amuay refinery has been reshut after a failed restart bid late last week. The unit is not expected to restart until April 18 at the earliest. As a result, Amuay is not expected to resume gasoline export shipments until late next week or the week of April 25. The refinery's flexicoker is restarting possibly as early as this weekend. The delayed coker is also in the early stages of startup. A source at the refinery said the refinery is operating at about 80%. In contrast to other reports, shipping sources said the loading program at the refinery continued relatively normal on Monday.

A maintenance turnaround now underway on a fluid catalytic cracking unit, an alkylation unit and methyl tertiary ether unit at Citgo Petroleum Inc's refinery in Corpus Christi, Texas is seen lasting about 34 days.

Alon USA plans to perform maintenance on a hydrogen desulfurization unit at its 62,000 bpd Big Spring, Texas refinery starting April 20.



Citgo Petroleum plans to more than double its spending on environmental and regulatory capital improvements in 2005. It said a total of \$261 million is going towards regulatory projects, \$162 million is earmarked for strategic projects and \$92 million is set aside for maintenance projects. During the next five years, Citgo plans to spend \$1.1 billion to meet federal clean fuel regulations.



Total said there was a small fire at a desulfurization unit at its Antwerp refinery on Sunday. It said the desulfurization unit remains offline however the incident did reduce output at the refinery, which is scheduled to begin a two month maintenance program on May 1.

Italy's ERG will restart its 160,000 bpd Isab Nord refinery in Priolo, Sicily following a 50 day maintenance shutdown. ERG is an active exporter of gasoline both to European markets and on the arbitrage to the US. The plant restart will make more cargoes available in the run up to the summer driving season.

Japan's Mitsubishi Chemical Corp said it would restart its 828,000 bpd ton per year ethylene plant in

Kashima on Friday or Saturday at the earliest after it was shutdown caused by an earthquake Monday morning.

### **Production News**

Nigeria's crude oil exports in April are expected to increase to 2.12 million bpd from about 2.06 million bpd in March. The export loading schedule showed 63.5 million barrels planned for April from 63.7 million barrels planned for March. Refinery input appeared steady from March at about 250,000 bpd, leaving total production up by about 60,000 bpd at some 2.37 million bpd.

Trading sources stated that the May loading program for North Sea Ekofisk crude scheduled 18.85 million barrels to load, up 2.3 million barrels on the month. Meanwhile, the May loading program for North Sea Oseberg crude scheduled 8.4 million barrels or 272,000 bpd, down from 318,000 bpd in April. The May crude oil loadings scheduled from the North Sea Forties system increased to 555,000 bpd from 538,000 bpd in April. The North Sea Statfjord crude system plans to load 331,000 bpd in May compared with 370,000 bpd in April.

The May loading program for North Sea Brent crude scheduled 7.145 million barrels, down from 8.3 million barrels in March.

Britain's North Sea Flotta crude oil system plans to load 2.6 million barrels or 84,000 bpd in May, down from 108,000 bpd in April.

Kuwait Petroleum Corp set its official selling prices for May crude oil term supply to Asia at a \$1.65/barrel discount to the Oman/Dubai average, up 35 cents from the April official selling price.

China's crude oil imports reversed two months of decline in March and surged to the second highest volume on record. However the fall in the first quarter signaled that demand growth may be slowing. China's crude imports in March increased by 23% on the year to 11.47 million tons or 2.7 million bpd. First quarter imports fell by 1.7% to 29.64 million tons or 2.4 million bpd. Despite surging exports of diesel and gasoline and slower fuel oil imports, commercial stocks by the end of March were still high and the market has yet to detect any concrete signs of shortages. The market was expecting demand to increase in the second quarter but the pace of growth could be sharply below last year's average of about 16%.

China's Premier Wen Jiabao said during a visit to India that the two countries agreed to cooperate in their quest for energy security for their economies. The joint statement said China and India would encourage relevant departments and units of the two countries to engage in the survey and exploration of petroleum and natural gas resources in third countries.

Russian companies' oil product exports to non-CIS countries increased by 14.9% on the year to 12.778 billion metric tons in January-February. Russia's gasoline exports to non-CIS countries in the period increased by 52.6% on the year to 948,400 tons while its diesel exports increased by 3.3% on the year to 4.747 million tons and its fuel oil exports increased by 19.3% on the year to 5.914 million tons. The total oil product exports amounted to 13.304 million tons in January-February.

Ukrainian President Victor Yushchenko said there were no supply or financing problems in extending a pipeline to carry Caspian crude to the EU. He has made extending and reversing the flow of the existing Odessa-Brody Pipeline a political priority and a symbol of Ukraine's growing independence from Moscow. He said if the project fails, a refinery could be built in Brody to refine Caspian crude.

ExxonMobil Corp said it expected crude oil production from the Bass Strait off Australia's southern coast to fall by 50% over the next five to 10 years. Production from the Bass Strait oil fields peaked at about 550,000 bpd in the mid-1980s and are currently producing about 110,000 bpd. ExxonMobil Australia chairman said the quality of the oil reservoirs meant production would continue for many

years to come but said the focus was now on gas and about \$61 million had recently been spent on exploration.

Shell Canada said today that a major processing unit tied to its Alberta oil sands project was operating at full capacity after being shut down for three weeks for repairs.

Technical Analysis		
	Levels	Explanation
CL 53.71, up 39 cents	Resistance 54.65, 56.05, 56.59 53.85, 53.90	Thursday's high Monday's high, Friday's high
	Support 52.90, 52.50 52.10, 51.30, 50.90	Monday's low, Previous lows
	Resistance 153.80, 158.10, 160.40 149.50, 151.90	Thursday's high Monday's high, Friday's high
HO 148.71, down 1.01 cents	Support 146.10 145.50, 145.00	Monday's low, Previous low
	Resistance 158.00, 163.20, 166.30 155.30, 156.00	Thursday's high Monday's high, Friday's high
	Support 153.20, 150.50, 150.25	Monday's low, Previous low

## **Market Commentary**

The NYMEX oil market ended the session higher after it retraced its earlier losses amid the renewed strength in the gasoline market. The crude market gapped lower from 52.70 to 52.51 in follow through weakness seen in overnight trading following the statement made by OPEC's President that OPEC would increase its production by 500,000 bpd to 28.5 million bpd in May, implying an increase in actual production. The market quickly backfilled its opening gap as it traded to a high of 52.90. However the market, which was holding support at 52.51, breached that level and sold off to a low of 52.10. The May crude contract later bounced off its low after it failed to break out and sell off even further. It settled in a sideways trading range for most of the session as it traded in a range from 52.40 to 52.90. The market however breached its early high and rallied more than 50 cents on the day as it traded to a high of 53.85. It settled up 39 cents at 53.71. Volume in the crude was excellent with over 231,000 booked in the crude. Meanwhile, the gasoline market ended the session up 1.32 cents at 154.98 after it rebounded ahead of the close. The market opened down 1.86 cents at 151.80 and traded to a high of 153.20 before it continued its recent sell off as it traded to a low of 150.50. The gasoline market however bounced off its low and settled in a range before renewed buying pushed the market to its high of 155.30 ahead of the close. The market may have been supported by the earlier news that a catcracker unit at PDVSA's Amuay refinery was reshut after its restart attempt failed. Meanwhile, the heating oil market ended the session in negative territory, but well off its low as it also retraced its earlier losses. The heating oil market gapped lower from 147.50 to 147.00 and traded to a low of 145.50. However the heating oil market also bounced off its low and settled in a range before it rallied to a high of 149.50 ahead of the close. It settled down 1.01 cents at 148.71. Volume in the product markets were good with 49,000 lots booked in the gasoline and 54,000 lots booked in the heating oil market. Meanwhile open interest in the crude market once again fell by over 11,000 lots as of Friday, with open interest in the May contract falling by 24,877 lots amid the sell off in the market.

The crude market on Tuesday is seen trading sideways after the market failed to break out to the downside as it held good support at 52.10. The market is likely to trade within its recent range as traders will be reluctant to take a position ahead of Wednesday's report. The market is seen finding support at 52.90, 52.50 and 52.10. More distant support is seen at 51.30 followed by 50.90. Meanwhile resistance is seen at its high of 53.85, 53.90 followed by 54.65, 56.05 and 56.59.