



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR APRIL 26, 2005

An oil official said saboteurs attacked oil facilities near the city of Kirkuk in northern Iraq, cutting the region's crude production. A sabotage attack on the 50,000 bpd Bay Hassan oilfield cut its output slightly as repairs on the export pipeline to Turkey were completed. A number of wells were shut down as a result of the bomb attacks. The official said export capacity was not affected. The Kirkuk pipeline is ready but a decision is yet to be made to resume flows. The north was producing about 400,000 bpd before the attack.

Separately, Iraq's Vice Oil Minister Abdul Jabar al-Wagga said Iraq could increase its oil production from the current 2.1 million bpd to 2.8 million bpd within

two years if the government were to succeed in reducing rebel attacks on production and refining units.

Market Watch

BP Plc said it expected the price of oil to remain supported above \$40/barrel in 2005 on the back of world oil consumption, growth and limited spare production capacity.

According to a Fitch Rating article, crude oil prices for the remainder of 2005 should average lower than the \$50+ range experienced during the first quarter of the year, as inventory levels continue to rise. It said world and domestic inventories of crude are at comfortable levels despite recent record prices.

The chairwoman of the US Commodity Futures Trading Commission, Sharon Brown-Hruska, said the hedge funds in the energy industry are not creating increased volatility in energy prices. She said the CFTC instead found that the influx of hedge funds has dampened volatility by providing increased liquidity and more positions on energy prices to counter price spikes. She said that as part of the CFTC's efforts to ensure market integrity in the energy industry, it has completed 97% of its investigations of energy companies.

Callers at Venezuela's Oil Ministry are listening to a repeated recording of a recent speech by President Hugo Chavez. The message states, "What is the reason for the imperialist aggression against our country? Venezuela is the world's top oil reserve and the world's oil is running out." President Chavez has ordered an overhaul of foreign oil contracts. He has warned the US that it will halt its exports to the US if it attempts to harm him or invade the country.

Schlumberger Ltd said it does not expect the major integrated oil companies to start drilling additional deepwater projects until 2006. It also stated that its oil field activity in Russia is accelerating again, following the company's resumption of work on assets formerly owned by OAO Yukos.

Saudi Arabia has hired an eighth VLCC to the US in May, increasing spot exports for the month to at least 16 million barrels. Industry sources said Saudi Aramco has provisionally booked the Soro to transport 285,000 tons of crude oil to the US loading on May 22.

Qatar's Oil Minister, Abdullah al-Attiyah said OPEC is doing everything it can to lower oil prices. He also stated that he was not worried about oversupply due to the May OPEC increase. He added that OPEC would be prepared to increase production, if it was needed at its next meeting in June. He said US refinery bottlenecks as well as gasoline regulations play a big role in current high oil prices. He said the US should consider increasing its refining capacity and streamline its fuel specifications from a state-to-state basis to a national plan.

Meanwhile, the Oil Ministers of Iran and the UAE said that oil markets are well supplied despite oil prices hovering well over \$50/barrel. Iran's Oil Minister Bijan Zanganeh said world oil markets are well supplied and may even be oversupplied. The UAE's Oil Minister Mohammed bin Dhaen al-Hamili said the market is well supplied but added that OPEC will pump more oil if there is demand for it. He said constraints on refining capacity were driving oil prices higher.

OPEC's acting Secretary General Adnan Shihab-Eldin said oil prices much above \$50/barrel will start to hurt world economic growth. He said if prices increase significantly above \$50/barrel the market may see response measures that may impact the growth in the world economy.

According to Petrologistics, OPEC is expected to produce 30.4 million bpd in April, up 700,000 bpd on the month. The ten OPEC members, excluding Iraq, produced 28.6 million bpd, up from 27.9 million bpd in March. Saudi Arabia increased its production in April by 600,000 bpd to 9.6 million bpd. It revised up its March estimate for Saudi Arabia's output to 9 million bpd from its earlier estimate of 8.93 million bpd. Iran also increased its production to 4.05 million bpd, from 3.9 million bpd in March.

The DOE stated that 5.4 million barrels of government crude oil loaned to five US refiners last autumn after Hurricane Ivan have been repaid. The loans or exchanges of light, sweet crude from the SPR were made to offset supplies disrupted by hurricane damage to offshore production platforms and pipelines in the Gulf of Mexico.

The EIA reported that the US ethanol industry produced 245,000 bpd in February, surpassing the previous all time record set in January of 241,000 bpd. It also reported that ethanol demand remained strong in February at 285 million gallons, relatively unchanged on the month. US ethanol stocks stood at 260.4 million gallons at the end of February, representing only 25 days of demand.

OPEC's news agency reported that OPEC's basket of crudes fell by 44 cents/barrel to \$50.17/barrel, down from Friday's \$50.61/barrel.

Iraq's Prime Minister Ibrahim al-Jaafari completed a draft list of Cabinet members, which he is submitting to the president. If the list is approved by President Jalal Talabani's three member presidential council, al-Jaafari could submit it to parliament for a vote later on Tuesday.

Chairman of the Joint Chiefs of Staff, Air Force Gen. Richard Myers said Iraq's insurgency remains undiminished in the past year despite US led efforts to crush the rebels. He said the rebels are staging 50-60 attacks a day in Iraq after the number had dipped to about 40 daily. He argued that political progress was the key to crushing the insurgency. A new Iraqi constitution is scheduled to be drawn up by August 15. Defense Secretary, Donald Rumsfeld in the meantime said political progress was vital to give ordinary Iraqis a sense that they have a stake in their own country.

Refinery News

Sources stated that ChevronTexaco shut a 96,000 bpd hydrocracker unit at its 255,000 bpd refinery in Richmond, California on an unplanned basis over the weekend. The unit is expected to remain down for five days while repairs are made to what sources described as pin-hole leaks.

Flint Hills Resources restarted its sulfur recovery unit No. 1 on Tuesday at its 260,000 bpd refinery in Corpus Christi, Texas. The unit had an unplanned shutdown after a fuse blew on the hot oil heater electrical system.

Valero Energy Corp plans to begin restarting its 95,000 bpd Three Rivers, Texas refinery on May 1. The unit was shut on April 10 for 22 days of planned maintenance. It will restart a crude unit, a fluid catalytic cracking unit, a hydrocracking unit and two sulfur recovery units. Separately, Valero is investigating the cause of maintenance work involving a cold flash drum and overhead accumulator at its 148,000 bpd Corpus Christi, Texas refinery. The maintenance work started on Monday.

According to documents regarding the merger between Premcor and Valero, Premcor Inc could owe \$150 million if its acquisition by Valero Energy falls apart under certain conditions. Either refining company may be able to terminate the deal if the merger is not effective by the end of March 2006.

A hydrogen cracker unit at Kuwait's 270,000 bpd Mina Abdullah refinery will be restarted by next week at the latest following the completion of maintenance work.

China's Guangzhou Petrochemical Corp will shut a crude distillation unit at the end of May and will keep next month's refining rates unchanged at 141,000 bpd. Its 50,000 bpd crude distillation unit is scheduled to shut for a one month maintenance period from May 30.

Japan's Idemitsu Kosan Inc said it will process 1.89 million kiloliters of crude or 383,487 bpd in May, down 13% on the year. It is planning to conduct inspections on several units of its 220,000 bpd refinery in Chiba. It is expected to shut down its 220,000 bpd crude distillation unit of a month.

Lukoil plans to spend \$380 million in 2005-2008 on the investment program of its subsidiary, Lukoil-Nizhgorodenefteorgsintez refinery. It plans to invest in the construction of a complex for advanced oil refining, which should double light oil product output by 2009.

Production News

Workers at Petrobras will schedule a five day warning strike in the event that the company fails to come up with a better profit sharing plan by Friday. The union, known as the Federation of Petroleum Workers, has not settled on a start date for an eventual five day walkout. In March, FUP organized a 24 hour strike as a form of protest over the profit-sharing plan but production was not affected. A union official declined to comment on the extent of the production losses that may result from a five day strike.

Russia's domestic fuel oil prices have increased 35% over the past month to \$130/ton due to higher world prices and after refiners started building up stocks for the summer export season. Oil firms have also started stockpiling volumes as the river navigation season opens at the end of April and large volumes of fuel oil flow to the Black Sea and the Baltics. Also, domestic prices of gasoil and gasoline increased by 10%. Domestic wholesale gas oil prices increased by 9% to \$500/ton as of April 14 after having been almost flat in January-March at about \$460/ton. Low octane gasoline prices increased by 7.5% to about \$488/ton while high octane gasoline increased by about 10% to \$580-\$606/ton.

Traders and analysts stated that gas oil and fuel oil exports from the former Soviet Union are rebounding in April. The return to normal operations of refineries such as TNK-BP's Ryazan plant in mid-March have helped increase FSU fuel oil exports while weather related delays have also eased. Fuel oil shipments in March from FSU ports in the Baltic, Black Sea and Far East fell by 40,000 bpd from the previous month and 80,000 bpd on the year to 770,000 bpd. Gas oil exports in March fell by 65,000 bpd from the previous month and by 10,000 bpd on the year to 895,000 bpd.

Oil transit through Ukraine's Feodosia seaport fell to 200,700 tons in January-March from 2.845 million tons in the same period in 2004. The fall was blamed on sharply reduced oil supplies from Russia's Yukos. In 2004, oil transit through Feodosia seaport fell to 4.236 million tons from 10.1 million tons in 2003.

Lukoil-Komi produced 2.414 million tons of oil in January-March, up 2.4% on the year.

Ukraine's Theodosia port said it shipped only 200,700 tons of oil in the first quarter compared with 2.845 million tons a year ago after losing its key client, Russia's Yukos. Yukos was the main supplier to the port in 2003 and 2004 but it severely reduced exports last year after a \$27.5 billion back tax claim.

India's Oil and Natural Gas Corp said its overseas subsidiary's output increased by 31% to 5.062 million tons of oil and oil equivalent gas. Separately, India's Oil Minister Mani Shankar Aiyar said that its overseas output was estimated to increase to 5.2 million tons this fiscal year. India's Oil Minister also stated that the country's crude oil output is likely to increase to 34.45 million tons in the fiscal year to March 2006 from 33.98 million tons the previous year.

South Korea has won the right to explore an oil block in Yemen. South Korea has been seeking to secure stable energy supplies to reduce its vulnerability to world oil price fluctuations. Energy Minister Lee Hee-beom signed a production sharing agreement on Tuesday with his Yemeni counterpart Rasheed Barabaa for block 70, which is estimated to hold oil reserves of between 50 million and 200 million barrels.

Market Commentary

The oil market continued to trade lower as the market remained pressured following the comments made by Saudi Arabia that it could tap its spare oil production capacity if needed. A Saudi official said Saudi

Arabia believes world oil supplies are adequate but he stated that the country was willing to provide as much oil as its customers demand.

Technical Analysis		
	Levels	Explanation
CL 54.2, down 37 cents	Resistance 55.88 to 55.90 54.40	Double top Tuesday's high
	Support 53.90, 53.35 53.00, 52.88	Tuesday's low Previous low, 62% retracement (51.01 and 55.90)
HO 150.79, down 1.02 cents	Resistance 155.60 to 155.80 151.30, 152.00	Double top Tuesday's high
	Support 150.00, 148.80 147.89, 147.75	Tuesday's low 62% retracement (143 and 155.80)
HU 162.51, down 2.56 cents	Resistance 165.00, 169.00 163.10	Tuesday's high, Monday's high
	Support 160.80, 159.60 157.60, 154.91	Tuesday's low 50% and 62% retracement(146.20 and 169)

The market was also pressured amid the comments made by several OPEC members that the supply is currently adequate to meet demand. The market gapped lower from 54.30 to 53.95 and quickly backfilled its gap as it extended its losses to \$1.22 and posted an intraday low of 53.35. The market however bounced off that level later in the session and rallied to a high of 54.40 despite the lack of any news. It erased some of its gains ahead of the close and settled down 37 cents at 54.20. Volume in the crude remained light with 198,000 lots booked on the day. Meanwhile, the gasoline market ended the session down 2.56 cents at 162.51 after it traded to a high of 165.00. However as the market failed to find further upside momentum, the market erased its gains and traded below the 160.00 level and posted an intraday low of 159.60. It retraced more than 38% of its move from a low of 146.20 to a high of 169.00 as it traded to its low. The market later bounced off its low and retraced most of its earlier losses ahead of the close. Similarly, the heating oil market rallied to a high of 152.00 early in the session but quickly erased its gains and sold off to a low of 148.80. However the market later bounced off its low and retraced most of its losses as it traded back above the 150.00 level. Volumes in the product markets were good with 63,000 lots booked in the gasoline and over 54,000 lots booked in the heating oil market.

The oil complex on Wednesday will seek further direction from the weekly petroleum stock reports, which are expected to show slight builds of 500,000 barrels in crude stocks, 500,000 barrels in distillate stocks and draws of close to 1 million barrels in gasoline stocks. If the reports do show the expected builds in crude stocks, the crude market will continue to trend lower. The market is seen finding support at 53.90 followed by 53.35, 53.00 and 52.88. Meanwhile resistance is seen at 54.40 followed by more distant resistance at its double top of 55.88-55.90.