



ENERGY RISK MANAGEMENT

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

www.e-windham.com

ENERGY MARKET REPORT FOR JULY 5, 2005

Tropical Storm Cindy is expected to make landfall on the central US Gulf coast Tuesday night or early Wednesday. Its has maximum sustained winds of 60 mph. However, the greater concern to the energy industry is Tropical Storm Dennis, which is expected to become a hurricane. According to a meteorologist at the US National Hurricane Center, Tropical Storm Dennis is likely to enter the Gulf of Mexico and will likely reach hurricane strength by Friday. He said once the storm enters the Gulf, conditions are conducive to hurricane strengthening. It may allow the storm to strengthen into a category 2 hurricane.

According to Dow Jones, OPEC's production increased slightly by 60,000 bpd to 30.06 million bpd. Production from the ten OPEC members, excluding Iraq, increased by 80,000 bpd

Market Watch

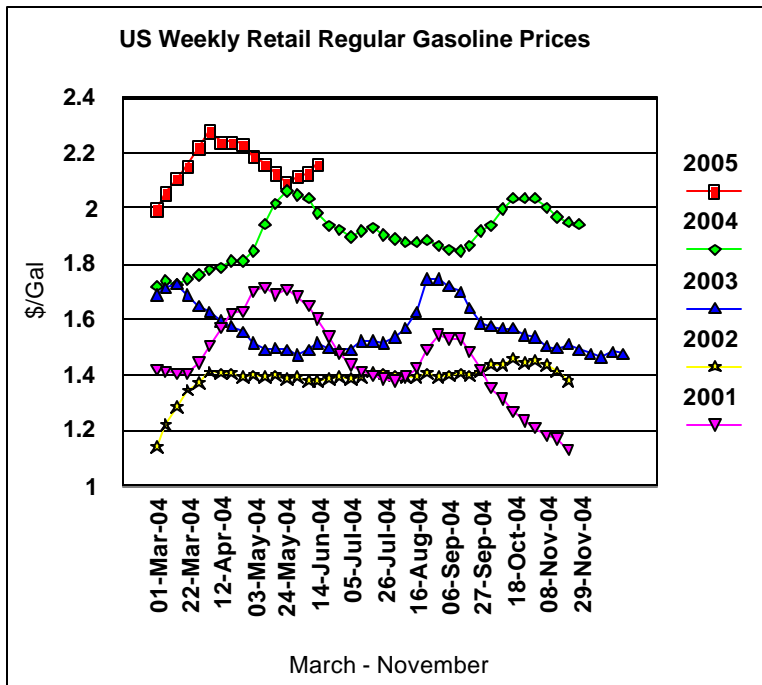
According to the Federal Trade Commission, the rise in US gasoline prices since last year is due mostly to increasing world oil demand rather than collusion or consolidation in the oil industry. It said the prices are a reflection of producers' costs and consumers' willingness to pay for the fuel. It brushed aside claims of industry misconduct and said the rising cost of crude accounts for 85% of the price changes in the US market for gasoline. It said oil producers were unprepared in 2004 for the increase in world demand, due to increased demand in China and India. It also said that while cleaner burning gasoline blends have helped improve US air quality, they have also increased the costs for consumers and increased the possibility for supply disruptions.

Germany's Chancellor Gerhard Schroeder said G8 leaders should send a signal to calm the oil markets at their meeting this week. He said the main reason for the rally in oil prices was purely speculative and reiterated his call for more transparency in world markets.

China's Premier Wen Jiabao called for a wide range of actions to save energy as the country is expected to face a severe electricity shortfall this year. China is bracing for electricity shortages this summer which are expected to be worse than in 2004.

Pacific Energy Partners has agreed to buy a package of terminal and pipeline assets from Valero for a total of \$455 million. The assets consist of two California terminals handling refined products, blend stocks and crude oil, three East Coast refined products terminals and a refined products pipeline with four truck terminals and storage in the US Rocky Mountains. Valero was required to divest the assets by the Federal Trade Commission in connection with its recent \$2.8 billion acquisition of the Kaneb Pipe Line Partners.

British Airways Plc said it increased its oil hedging cover for the balance of its current financial year ending March 31, 2006. The company has hedged 70% of its fuel needs at an average cost of \$42/barrel for the rest of the year. It said that for the following fiscal year ending March 2007, British Airways now has 30% cover at an average of \$46/barrel.



to 28.23 million bpd. Iraq's oil production fell slightly to 1.83 million bpd in June. It reported that Saudi Arabia's oil production was flat at 9.4 million bpd in June.

The EIA reported that the average retail price of gasoline increased by 1.1 cent/gallon to \$2.226/gallon in the week ending July 5th. It also reported that the average retail price of diesel increased 1.2 cents/gallon to \$2.348/gallon on the week.

BBC News reported that gunmen attacked a convoy carrying Pakistan's envoy to Iraq, hours after Bahrain's top envoy was shot in Baghdad. Police said the Pakistan envoy escaped unharmed. The attack comes days after Egypt's ambassador designate was taken

hostage as he bought a newspaper in the city. There have been no demands from the kidnappers. Rebels seem to be targeting diplomats to stop further recognition of Iraq's new government. It also reported that a bomb exploded near the Iranian mission in Baghdad but police said it targeted a US military patrol rather than Iranian diplomats. Elsewhere, armed men seized eight Iraqis as they drove to work at a US base in Baquba, northeast of Baghdad. In separate incidents in Mosul, armed men killed a senior member of the Kurdish Democratic Party's Mosul branch and a bodyguard of the provincial Nineveh governor.

Meanwhile, new Sunni delegates are expected to meet for the first time later on Tuesday with the parliamentary committee that is drafting a new constitution. The committee will have its first full meeting on Wednesday. The main points of contention would probably be the extent to which the constitution described Iraq as an Arab state and the boundaries and degree of autonomy of federal regions.

Refinery News

Shell Deer Park Refining once again failed to restart its 67,000 bpd catalytic cracking unit. The 340,000 bpd Deer Park refinery began to restart the unit on Saturday but scrapped the operation on Monday due to a catalyst circulation problem. The restart problems mean the unit will remain off line nearly two weeks longer than Shell had expected.

Total Petrochemicals USA restarted its sulfur recovery unit 1 at its Port Arthur, Texas refinery on Saturday after it was shut as a result of mechanical issues with a gas oil hydrotreater.

Delek US' oil refinery in Tyler, Texas started the process of restarting all processing units on Saturday after a direct lightning strike at the main power substation caused a plant wide power failure.

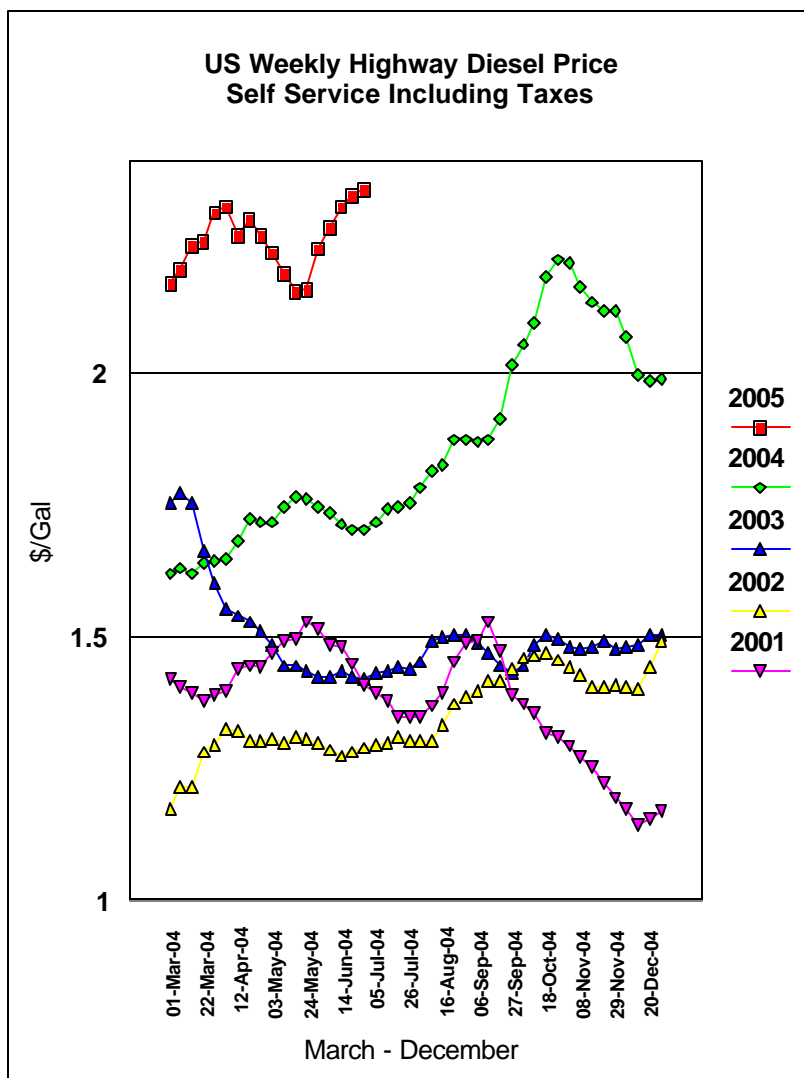
Kuwait's Shuaiba refinery plans to shut down a 40,000 bpd jet fuel producing hydrocracker in early September for about 35 days of planned maintenance. A refinery official said liftings of jet fuel have already been scheduled around the upcoming outage.

Production News

The Louisiana Offshore Oil Port halted offloading operations on Tuesday due to approaching Tropical Storm Cindy. The port halted mooring new arrivals earlier. It does not expect to resume operations until some time on Wednesday.

The US Minerals Management Service reported that 3.32% of the Gulf of Mexico's daily oil production or 49,830 bpd was shut in as a result of evacuations caused by Tropical Storm Cindy. Meanwhile, Dow Jones reported a total of about 94,000 bpd of oil production was shut in.

Marathon Oil Corp is currently evacuating all its personnel from some of its Gulf of Mexico oil and gas operations in preparation for Tropical Storm Cindy. The evacuations include three oil and gas platforms, causing 2,400 bpd and 9.5 mmcf/d of natural gas to be shut in. It started evacuating the South Pass, Ewing Banks and the Vermillion platforms. However it continues to produce 16,500 bpd of oil and 17 mmcf/d of natural gas. Meanwhile, Murphy Oil Corp shut in 80,000 bpd of oil and 75 mmcf/d of natural gas production from its Medusa and Front Runner platforms late Monday ahead of Tropical Storm Cindy. Despite the production shut in, Murphy Oil has not evacuated its staff from the platform. Also, BP has evacuated nonessential workers from some facilities in the Gulf of Mexico. Total shut in 65,000 barrels of oil equivalent/day in the US Gulf of Mexico. It was evacuating 42 workers from the Gulf after shutting in the Matterhorn platform and Canyon Express operations. ConocoPhillips, Royal Dutch/Shell and Chevron Corp moved some nonessential and essential workers ashore, but their production has not been affected.



A senior Iraqi oil official said Iraq is expected to add 40,000 bpd to its crude production from southern oil fields. The head of Iraq's South Oil Co, Abdul Jabbar al-Luaybi said engineers have been installing new equipment in the Majnoon oil field. The Majnoon oil field has proven oil reserves of 23 billion to 25 billion barrels and its production capacity could be raised to 650,000 bpd.

OPEC's news agency reported that the basket of crudes increased to \$53.41/barrel on Monday, up from \$52.58/barrel on Friday.

BP Plc said its second quarter production increased by 3.5% compared to the same period last year. It is on track to meet its 2005 production goal of 4.1-4.2 million barrels of oil equivalent/day. Overall production was around 4.11 million boe/d compared to 3.97 million boe/d in the second quarter of 2004.

Saudi Aramco set its official selling prices for Arab Extra Light from Ras Tanura bound for Europe at BWAVE minus \$2.65 in August, down 70 cents on the month. Its Arab Light was set at BWAVE minus \$5.80, down \$1.00, its Arab Medium was set at BWAVE minus \$8.50, down \$1.40 and its Arab Heavy crude was set at BWAVE minus \$11.25, down \$1.70 on the month. Meanwhile, Arab Extra Light crude bound to the US was priced at WTI minus \$2.20, up 15 cents, its Arab Light was priced at WTI minus \$5.15, down 20 cents, its Medium grade was priced at WTI minus \$7.75, down 65 cents and its Arab Heavy was priced at WTI minus \$10.45, down \$1.00. Its Arab Extra Light crude bound for Asia was priced at the Oman/Dubai average plus \$3.35, up 40 cents, its Arab Light was priced at the Oman/Dubai average plus 85 cents, its Arab Medium was priced at the Oman/Dubai average minus \$1.55, down 50 cents and its Arab Heavy was priced at the Oman/Dubai average minus \$4.55, down \$1.10.

Following eight months of stagnation, Russia's crude oil output reached a new high of 9.43 million bpd in June. However the month on month increase does not provide any evidence that the trend toward slowing oil output growth is reversing. Oil production increased by almost 100,000 bpd from May.

Russia's Rosneft will sign a production sharing agreement to develop Kazakhstan's Caspian Sea oilfields on Wednesday.

Russia's Ministry of Foreign Affairs said Russia agreed to supply at least 10 million tons of crude oil to China this year.

Ukraine's Fuel and Energy Ministry reported that oil transportation via the Odessa-Brody pipeline stood at 2.775 million tons in January-June. In June, oil exports via the pipeline fell to 493,000 tons from 765,700 tons in May. Oil exports through Ukraine's Yuzhny port on the Black Sea amounted to 2.662 million tons in January-June, including 859,800 tons in May and 427,100 tons in June.

Indian Oil Corp said it will import 400,000 tons of kerosene between July and March.

South Korea will increase taxes on diesel this month but keep those for kerosene steady to ease the financial burden on rural areas. The domestic transport tax on diesel will increase 14.4% to 365 won or \$0.36/liter from July 8. The consumption tax on kerosene will remain unchanged at 154 won/liter. The tax revision will result in a 6% increase in the retail price of diesel to 1,098 won/liter from July 8.

Japanese refiners plan to increase their oil product exports to Asia and the US West Coast. Cosmo Oil Co plans to export 700,000 kiloliters or 4.4 million barrels of diesel in 2005, up from last year's 330,000 kl, mainly to South Korea, Australia and the US West Coast. In July, Nippon Oil plans to export 100,000 kl of jet fuel compared with 40,000 kl in June. Meanwhile, Fuji Oil Co plans to increase distillate exports to 480,000 kl or 3 million barrels in the current business year to March 2006. Japan Energy Corp plans to export 100,000 kl of diesel in the second half of 2005. It also plans to export between 50,000 and 100,000 kl of fuel oil in 2005 compared with 70,000 kl last year.

Taiwan's Formosa Petrochemical Corp has cut its jet fuel exports in July to 60,000 tons from 90,000 tons last month due to planned maintenance.

Indonesia's Pertamina is seeking a total of 1.98 million barrels of oil products for late July and August through its usual monthly tender.

Oman has set the retroactive official selling price for its crude oil sold in June to term lifters at a record high of \$52.07/barrel. The June premium however was cut to 99 cents/barrel over the average Dubai price last month of \$51.08/barrel.

Market Commentary
The oil market remained supported and continued to trend higher following Friday's sharp rally. The market was mostly supported by concerns over

Technical Analysis			
	Levels	Explanation	
CL 59.59, up 84 cents	Resistance	60.95 60.10	Previous high Tuesday's high
	Support	59.25 to 59.15 58.50, 58.00, 57.50, 56.70	Opening gap (July 5th) 38%, 50%, 62%(55.90 and 60.10), Previous low
HO 173.24, up 2.13 cents	Resistance	183.12 176.50	Basis resistance line Tuesday's high
	Support	173.00 170.16, 168.20, 166.24, 165.00	Tuesday's low 38%, 50%, 62% (159.90 and 176.50), Previous low
HU 168.18, up 3.33 cents	Resistance	173.00 171.50	Basis resistance line Tuesday's high
	Support	165.30 163.50, 161.61, 158.20	Tuesday's low 50%, 62% retracement(155.50 and 171.50), Previous low

disruptions of US supplies in light of the tropical weather forecasts calling for Tropical Storm Cindy to make landfall late Tuesday or early Wednesday in Louisiana. The crude market, which gapped higher from 59.15 to 59.45 on the opening, partially backfilled its gap as it traded to a low of 59.25 early in the session. The market later bounced off its low and backfilled its previous gap as it traded to a high of 60.10. The oil market, which traded mostly sideways, was mostly supported as oil companies started to shut in production in the Gulf of Mexico as a precaution ahead of the approaching storm. The August crude contract settled up 84 cents at 59.59. Volume in the crude was excellent with over 234,000 lots booked on the day. The product markets also remained well supported with the gasoline market settling up 3.33 cents at 168.18 amid reports that Shell once again failed to restart its catcracker at its Deer Park refinery in Texas. The gasoline market, which gapped higher from 165.20 to 166.10, partially backfilled its gap as it traded to a low of 165.30 early in the session. However the market bounced off that level and never looked back as it rallied to a high of 171.50 by mid-day. The market retraced some of its gains ahead of the close but still remained well above its low. The heating oil market posted a mostly neutral trading session. It settled up 2.13 cents at 173.24. Volumes in the product markets were good with 44,000 lots booked in the gasoline market and 40,000 lots booked in the heating oil market.

The oil markets will remain supported as the market continues to watch developments of the tropical storm expected to make landfall later tonight or early Wednesday. The market will be further supported by tropical storm Dennis which is expected to become a hurricane later this week. The market is seen finding support at its gap from 59.25-59.15 followed by 58.50, 58.00, 57.50 and its previous low of 56.70. Meanwhile resistance is seen at 60.10 followed by 60.95.