



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR AUGUST 30, 2005

Representative Joe Barton said the White House is likely to release oil from the SPR and will make a decision within the next few days. Meanwhile the US DOE said it received a request from a refiner anxious to borrow crude from the SPR but did not say how soon a decision would be made. It said the department is currently reviewing the request and will review any additional requests if they are made. On Monday, Citgo Petroleum said it requested 250,000 to 500,000 barrels from the SPR for its Lake Charles, Louisiana refinery.

OPEC's Secretary General Adnan Shihab-Eldin said economic fundamentals did not justify current record high oil prices and added that stocks are building. He said a more rational market would have a far lower

Market Watch

Florida's Governor Jeb Bush warned Florida of gasoline shortages as a result of Hurricane Katrina. He said Florida has worked with the US DOE and the Petroleum Industry bring significant supplies of gasoline into the state's ports. According to the state DEP, more than 162 million gallons of fuel are in storage or at Florida's ports for distribution throughout the state.

Goldman Sachs chief equity strategist Abbey Joseph Cohen said the price of oil will likely average about \$60/barrel over the next 12 months.

The chief executive of Chevron Corp said oil prices that have rallied over \$70/barrel are unsustainable as they will erode consumption. Separately, in regards to Indonesia he stated that Indonesia needs to quickly cut the red tape and improve its tax regime if it wants to attract more foreign investment in the energy sector. He said it is critical for the government to take steps to streamline the regulatory process in order to accelerate project development.

Meanwhile, some analysts are stating that oil prices could increase as high as \$80/barrel if damage reports bear bad news.

French President Jacques Chirac said world oil prices are likely to remain high for a long time and called for an overhaul of the country's energy policy.

Venezuela plans to allocate 10% of Citgo's refined crude or 66,000 bpd for heating oil production which it will later sell directly to poor communities in the US.

Nigeria's labor unions are considering strikes to protest a steep increase in fuel prices ordered by the government. A decision could come as early as Wednesday when union officials are expected to meet. The Trade Union Congress of 24 white collar unions said it plans to work with its blue collar counterpart to coordinate a joint response.

Standard & Poor's Ratings Services said the impact of Hurricane Katrina will likely hurt third quarter GDP. However it said repair work could increase GDP in subsequent quarters.

The US CFTC froze over \$1.5 million in a hedge fund that was supposed to invest in crude oil futures contracts. It alleges that Stuart Pippin, who did business as Pippin Investments, transferred \$1.9 million he received from 35 investors to his personal account. He admitted that he sent monthly statements to the investors falsely claiming that the fund had earned more than \$4.2 million from profitable trading. The CFTC also charged him with not registering with the commission as a commodity pool operator.

floor of about \$40/barrel. He also stated that he supported a proposal by OPEC's President Sheikh Ahmad al-Fahd al-Sabah for OPEC to increase its output by 500,000 bpd at a meeting in September.

Meanwhile, Nigeria's Minister of State for Petroleum, Edmund Daukoru said an increase of 1 million bpd in OPEC oil production would have a better effect on rising oil prices than the 500,000 bpd increase proposed by OPEC's President. He said he supported the proposal to increase the official output ceiling at the September 19 meeting even though many countries are already producing at full capacity.

Algeria's Energy and Mines Minister Chakib Khelil said Algeria will support an eventual decision by OPEC to increase its output quotas to help lower oil prices. He added the increase in world crude prices was not linked to supply problems but said that very few members had capacity to increase production.

The IEA is awaiting a full assessment of the damage to US oil facilities from Hurricane Katrina before it decides whether a release of oil reserves is appropriate.

The NYMEX announced that effective at the close of business on Tuesday, margin rates on its Light, Sweet crude, WTI Crude Oil Calendar Swap, Brent Crude Oil, Brent Crude Oil Calendar Swap for the October 2005-July 2006 contracts will increase to \$6,075 from \$4,725. Margins for its Light, Sweet Crude Oil e-miNY contract will increase to \$3,038 from \$2,363. The NYMEX also announced that margins on its September and October Unleaded Gasoline and New York Harbor Gasoline Calendar Swap futures contract will increase to \$11,475 from \$8,100. Meanwhile, margins on its Heating Oil and New York Heating Oil Calendar Swap will increase to \$7,425 from \$6,075.

Refinery News

The US DOE said at least nine US refineries are shut as a result of Hurricane Katrina, including Chalmette Refining's 190,000 bpd refinery, Chevron's 325,000 bpd Pascagoula refinery, ConocoPhillip's 247,000 bpd Belle Chase refinery, Motiva's 235,000 bpd Convent refinery and its 227,000 bpd Norco refinery. Valero's 185,000 bpd Norco refinery also remains closed while Valero's 85,000 bpd Krotz Springs refinery, Total's 285,000 bpd Port Arthur refinery and Premcor's 180,000 bpd Memphis refinery are operating at reduced rates.

Two levee breaches are sending floodwaters into New Orleans, with one of the breaches worsening the already bad situation in St. Bernard Parish, where two refineries are situated. The rising water dampened the prospect for a restart at the 183,000 bpd Chalmette refinery jointly owned by Exxon Mobil and PDVSA and Murphy Oil's 120,000 bpd Meraux refinery.

Valero Energy Corp expects to take about two weeks to restart its St. Charles refinery after shutting down ahead of Hurricane Katrina. It said the biggest problem at the refinery is the lack of power in the region. The refinery has about a week's worth of crude on site to refine.

A crude supply shortage at Exxon Mobil's Baton Rouge, Louisiana refinery is expected to last for a couple of weeks. Pipeline damage and reduced tanker traffic have both significantly impacted the refinery's crude supply in the wake of Hurricane Katrina.

Marathon Oil Corp has sent an inspection team into its Garyville, Louisiana refinery to assess damage to the refinery from Hurricane Katrina. The 245,000 bpd refinery was shut on Sunday ahead of the hurricane.

Motiva Enterprises' two Louisiana refineries remained shut on Tuesday. Its 235,000 bpd Convent refinery avoided most of the impact and does not appear to have sustained any significant damage. It is currently assessing damage at the Norco 240,000 bpd refinery with no estimated time of restart.

Premcor Inc's 190,000 bpd Memphis, Tennessee refinery has reduced its crude throughput. The refinery has reduced crude throughput due to crude supply snags.

ConocoPhillips was flying airplanes Tuesday over its Gulf of Mexico production facilities and its Alliance refinery in Belle Chase, Louisiana as it attempts to get an initial assessment of damage caused by Hurricane Katrina.

Placid Refining Co said its 50,000 bpd refinery in Port Allen, Louisiana was operating at reduced rates following Hurricane Katrina. It is operating at about 70% of its capacity. It is expected to resume normal operations within 24 hours.

PDVSA has restarted the 77,000 bpd catalytic cracking unit at its Cardon refinery following the completion of maintenance.

Production News

According to the Minerals Management Service, there was a further increase in the amount of oil and natural gas production shut in by Hurricane Katrina. The amount of production shut in totaled 1.427 million bpd or 95.2% as of Tuesday. This is up from 1.375 million bpd or 91.75% of Gulf of Mexico production that was shut on Monday.

An official said the LOOP appears to have escaped major damage from Hurricane Katrina and is attempting to resume crude deliveries by Thursday. He said the LOOP appears to have suffered fairly routine damage and workers were preparing to begin repairs. Power remained out at the LOOP's operations center and at a 48 inch pipeline that serves three inland refineries. Electricity is expected to be back in service later Tuesday or Wednesday. Separately, Port Fourchon, the Louisiana port which serves the oil services industry, suffered considerable damage and remains closed. A port official said the port could reopen when power is restored. A key concern is whether the hurricane caused major silt buildups in the port, which could make the area too shallow for oil servicing ships to use the facility.

Royal Dutch/Shell Plc's Capline pipeline remains shut on Tuesday as the company assesses damage from Hurricane Katrina. The Capline pipeline was shut on Sunday afternoon ahead of the hurricane.

Colonial Pipeline Co has yet to resume shipments between Houston and Greensboro, North Carolina on its pipeline. It halted operations between Houston and Greensboro on Monday due to power failures.

Kinder Morgan said its Plantation oil products pipeline system, shut late Sunday was still shut in on Tuesday. It said once the Collins pump station in Mississippi resumes operation, oil products would be able to resume flowing the Plantation line.

Royal Dutch/Shell said an aerial inspection of its Mars platform in the Gulf of Mexico indicated some damage to its upper deck following the passing of Hurricane Katrina. Meanwhile, BP said its staff had not observed any damage to its Mad Dog, Holstein, Nakika, Marlin and Horn Mountain platforms. Crews from Noble and Transocean are scheduled to be deployed to reestablish operating systems on two drifting drilling rigs. The rigs will be brought to shallow water and shipyards for repair. Separately, Marathon Oil said its early assessments of its offshore operations showed no damage. ExxonMobil

and Anadarko Petroleum Corp said they started post storm damage assessments of their offshore installations.

Kerr McGee resumed oil and natural gas production in the western US Gulf of Mexico. It is restarting 60,000 boe. It said it would send a team of inspectors later on Tuesday to its facilities in the eastern US Gulf.

Chevron Corp said it has no immediate plans to ask the US government for supply from the SPR before the full extent of Hurricane Katrina's impact on its US Gulf operations are assessed.

Newfield Exploration Co said its "A" production platform in the eastern Gulf of Mexico appears to have been lost as a result of Hurricane Katrina. The lost platform was producing a gross 1,500 bpd of oil before it was shut due to the hurricane.

Buyers of Saudi crude said Saudi Heavy Arab crude oil is the wrong kind of crude to replace US production lost due to Hurricane Katrina. Saudi Arabia on Monday said it is ready to increase its production to 11 million bpd from current estimates of about 9.5 million bpd. However most Saudi spare production capacity is of heavy sour crude that refiners find difficult to process into oil products. Increased Saudi production would also take at least 40 days to arrive on the US Gulf Coast.

According to the Renewable Fuels Association, increasing oil prices led to record demand for ethanol in June. US production of ethanol reached a record 343 million gallons or 249,000 bpd in June, up 12% on the year.

The UAE has increased its output to about 2.5 million bpd after completing maintenance on its oil fields.

Petroecuador will return to its normal production of 201,000 bpd of crude by October 7. Ecuador's Energy Minister, Ivan Rodriguez, said Petroecuador's production is recovering more quickly than expected. However he did not say when it would resume exports.

Norway's Energy Minister Thorhild Widvey said the Norwegian government must open up new oil and natural gas exploration acreage to help counter a significant decline in the country's oil production.

Germany's BAFA reported that the country's crude oil import bill increased 38.3% on the year to 29.6 billion euros of \$36.48 billion in the 12 months ending July 2005. It imported 110.8 million tons, up 1.6% on the year.

China is suspending contracts that allowed tax free refining of imported oil for re-export in a bid to reduce fuel shortages. The Commerce Ministry will not approve any new contracts for export processing of oil between September 1 and December 31.

Russia's oil production increased for a third consecutive month in August. Russia's Energy Ministry said output likely increased by at least 40,000 bpd in August. Crude production from August 1-29 increased to 37.529 million tons or 9.49 million bpd.

OPEC's news agency reported that OPEC's basket of crudes increased by \$0.57/barrel to \$60.33/barrel on Monday.

Libya kept its September official selling price for Essider crude steady from August at Dated BFO minus \$1.90/barrel.

Market Commentary

The NYMEX oil complex surged once again to new record highs as oil firms began to assess damage caused by Hurricane Katrina, which wreaked havoc in the Gulf of Mexico, where oil and gas production remained at a standstill. The oil market opened up \$1.45 at 68.65 and quickly surged to its high of 70.85 as it extended its gains to over \$3.65. The market was well supported by the reports that the refineries remained shut due to lack of power and crude supply snags while rising water in the New Orleans area was dampening the prospect of refineries restarting. Also, some oil companies were reporting some damage to their platforms while oil pipelines were still shut in. The crude market erased its gains and traded back towards its low of 68.56. It later retraced some of its losses ahead of the close and settled up \$2.61 at 69.81. Volume in the crude market was excellent with over 351,000 lots booked on the day. The gasoline market, which continued to lend support to the complex, posted a 35 cent trading range as it opened at its low of 215.00 and rallied to a high of 250.00 amid the reports the refinery shut ins. The market halted its trading for 5 minutes after it traded 25 cents higher on the day early in the session before it surged close to 44 cents as it rallied to a high of 250.00 on the close. It settled up over 41 cents at 247.45. The USG gasoline cash market traded \$1 over the NYMEX amid the concerns over supplies. The heating oil market continued to follow in the gasoline market's footsteps as it rallied over 18 cents to a high of 209.00. It opened at its low of 197.00 and never looked back. It settled up over 16 cents at 207.59. Volumes in the products were excellent with over 81,000 lots booked in the gasoline market and 70,000 lots booked in the heating oil market.

The oil market on Wednesday is still seen trending higher amid the continued strength in the gasoline market. The market is seen supported amid the concerns over supplies as the pipelines remain shut and refineries are unable to restart. The market is seen remaining supported even if the weekly petroleum stock reports do not show the expected draws in gasoline stocks. The DOE and API reports are expected to show small builds in crude stocks of less than 500,000 barrels, builds in distillate stocks of 1.4 million barrels and draws of 1.5 million barrels in gasoline stocks. The crude market is seen finding resistance at 70.85 followed by 71.36, basis a trendline. Meanwhile, resistance is seen at its high of 70.85

followed by 71.36.

The morning surge in prices appeared also have received a boost of buying from previous sellers of the call strikes at \$70 and

\$70.50 that moved into the money this morning. These two call strikes in the first four months (October - January) had a combined open interest of over 48, 350 contracts as of the close of business Monday afternoon.

Technical Analysis			
	Levels	Explanation	
CL 69.81, up \$2.61	Resistance	71.36 70.85	Basis trendline Tuesday's high
	Support	68.56 66.30, 65.90	Tuesday's low Previous lows
	HO 207.59, up 16.71 cents	Resistance	210.00 209.00
Support		205.00 200.50, 197.00	Tuesday's low
HU 247.45, up 41.39 cents		Resistance	260.00 250.00
	Support	240.00 236.63, 232.50, 228.37, 215.00	38%, 50%, 62% (215.00 and 250.00), Tuesday's low