



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR SEPTEMBER 1, 2005

President George W. Bush said he expects Saudi Arabia to do everything it can to provide more crude oil to replace supplies that have been disrupted by Hurricane Katrina. However he said Saudi Arabia has limited capacity to pump more oil. He also urged for energy conservation and warned against price gouging of gasoline in the aftermath of Hurricane Katrina. He said the shutdown of refineries would bring a temporary disruption to the energy industry. Separately, President Bush temporarily waived the Jones Act, which will allow foreign tankers to deliver oil to US ports to

Market Watch

Meteorologists at Planalytics see further storm threats to the US and the Gulf of Mexico in the coming week and a half based on three tropical systems they are following. They said environmental conditions ranging from favorable sea water temperatures, increasingly favorable upper level shear profiles and the future elimination of dry mid level desert air will support additional development of the systems. They expect a hurricane threat to the eastern US and Gulf of Mexico late next week.

Ship brokers stated that 20 gasoline cargoes have been booked from Europe to the US since Monday. They said exports were booked from northern Europe and the Mediterranean, many for second half September loading.

Asian oil traders have added 150,000 tons of diesel to their westward arbitrage shipments this month. The latest shipments will extend flows to more than 400,000 tons for September. South Korea is exporting 90,000 tons of low sulfur diesel to Europe.

The NYMEX announced that at the close of business on Friday, September 2, it will increase margins on its Unleaded Gasoline futures contract and NY Harbor Gasoline Calendar Swap contract from \$11,475 to \$14,175 for the October contract and from \$8,100 to \$9,450 for all other contracts. It will also increase margins on its Heating Oil contract and NY Harbor Heating Oil Calendar Swap from \$7,425 to \$9,450 in the October contract.

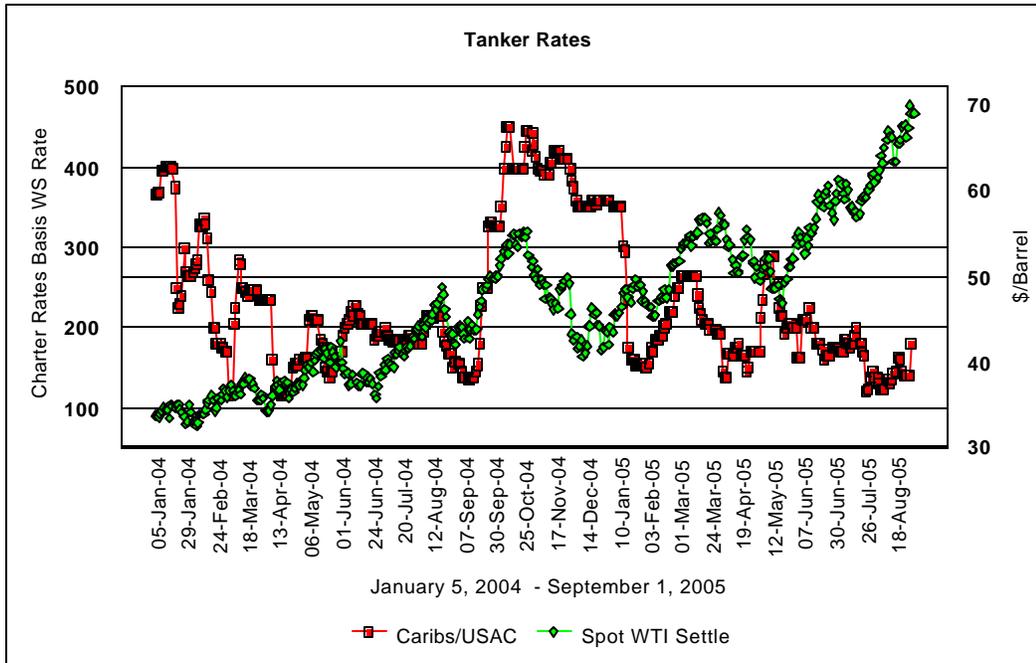
According to a RAND study, the US has an oil reserve at least three times that of Saudi Arabia in oil shale deposits beneath federal land in Colorado, Utah and Wyoming. However it cautions the federal government to balance the environmental and economic impacts with development pressure. For years, the industry and the government considered oil shale, a rock that produces petroleum when heated, too expensive to be a feasible source of oil. However oil prices combined with advances in technology could soon make it feasible to tap the estimated 500 billion to 1.1 trillion recoverable barrels. However it is unclear how new technologies will affect the land, air and the Colorado River.

The European Commission will relaunch a proposal to coordinate oil stocks across the European Union. Member states and the European Parliament have rejected previous proposals, which would have required states to increase the minimum level of national oil stocks to 120 days from 90 and would have given the Commission the power to also decide on the reserves' emergency release.

Bank of England Governor Mervyn King said some of the increase in oil prices over recent weeks is temporary. However he stated that the rally in prices over the last year will remain. He said the cost of fuel will push up inflation in the short term and reduce consumer spending power.

east disruptions caused by Hurricane Katrina.

The Bush administration's decision to lend refiners oil from the SPR may have little effect on the oil market. The US needs oil products rather than crude oil. The US has no emergency reserves of oil products while commercial reserves are near a two year low and depleting as refiners are unable to replenish their storage tanks. Meanwhile, the EU stipulates that its member countries hold reserves of



oil and oil products. However whether it is feasible for Europe to send oil products to the US is unclear. Germany's Economy Minister Wolfgang Clement said Germany's government does not see any need to use strategic oil reserves to offset possible bottlenecks in US supply and production triggered by Hurricane Katrina.

The Consumer Federation of America said that \$3/gallon for gasoline was justified given current market conditions. It said it expects to see higher prices for gasoline given the problems with refineries.

Pennsylvania Governor Ed Rendell urged conservation of gasoline and said he is considering more dramatic steps if gasoline prices continue to rise, including rationing fuel or suspending the state's 31 cent per gallon fuel tax.

The EPA said its suspension of certain clear air rules for gasoline sold nationwide would waive all federal Reid Vapor Pressure volatility standards. The waiver will also allow diesel fuel to be sold with a sulfur content of more than 500 parts per million. It said it relaxed fuel restrictions to increase fuel inventory and lower gasoline prices.

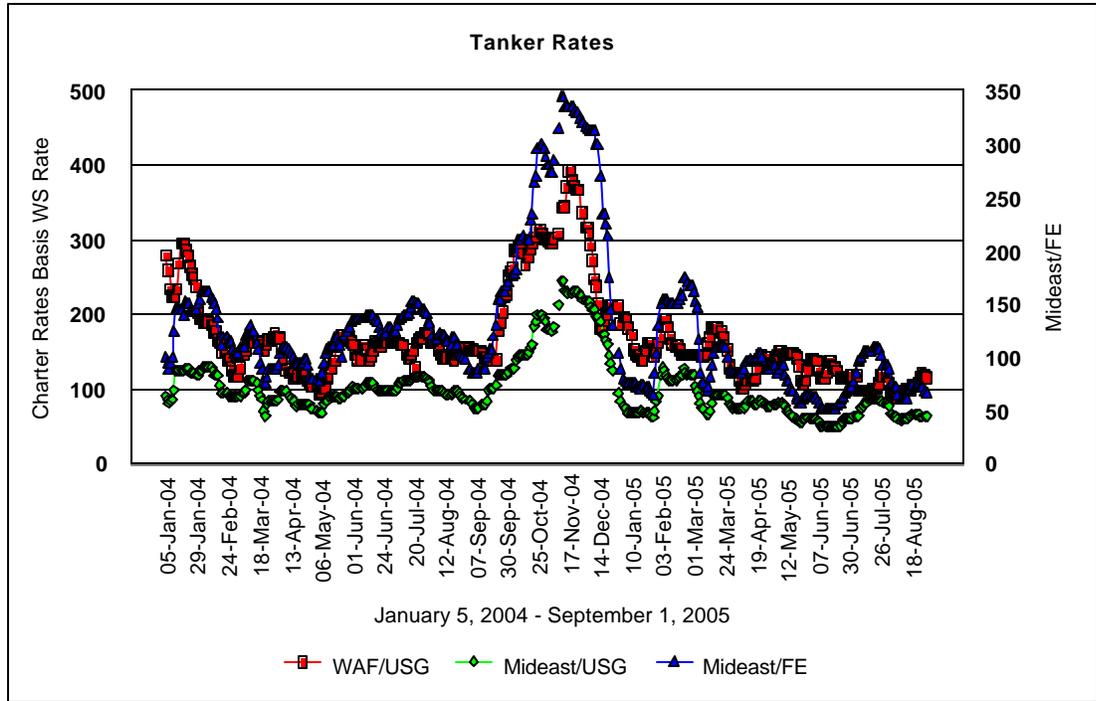
US House Energy and Commerce Committee chairman Joe Barton is scheduling a hearing on Hurricane Katrina's impact on gasoline prices for next week. The September 8 hearing will focus on the energy market, both at wholesale and retail levels.

According to shipping sources, Iraq exported a total of 1.49 million bpd of crude oil in August, down 90,000 bpd on the month. The fall was due to reduced exports from the Turkish terminal of Ceyhan. Exports from Ceyhan in August totaled 650,000 barrels, down on the 4.3 million barrels exported in July while exports from the Basra and Khor al-Amaya terminals totaled 45.4 million barrels. The shipping lists showed at least 18 million barrels were exported to the US while at least 12 million barrels were exported to Asia.

Oil Movements reported that OPEC's total oil exports in the four weeks ending September 17 increased by 90,000 bpd to 24.42 million bpd.

Refinery News

The API stated that Hurricane Katrina forced 12 US refineries to cut runs in addition to the eight refineries that were



completely shutdown. It said the 12 refineries had to reduce operations due to a lack of crude oil. The affected refineries represent 17% of total US capacity and stretch all the way north to Whiting, Indiana. The API urged energy conservation in the wake of the problems.

The EIA estimated that it could take key refineries several months to resume full production of petroleum products, even as some oil pipelines and storage systems have started to resume operations. The industry's problems extend beyond flooded refineries, though. Most Gulf of Mexico oil and natural gas production remains shut in. Companies are also struggling to get in contact with staff. Apache, Chevron and Anadarko Petroleum said even if they could restart their platforms and rigs, the amount they can produce depends on conditions of the pipelines, storage facilities and transportation.

Valero Energy Corp requested a loan of 1.5 million barrels of crude oil from the SPR for its Memphis, Tennessee refinery, its Lima Ohio refinery and its Krotz Springs refinery. It expects its Krotz Springs refinery to return to full capacity by Sunday. Meanwhile, power was restored at its St. Charles refinery in Norco, Louisiana. Earlier in the week, it said damage was light and a restart could come in two weeks.

The Energy Department said Exxon Mobil Corp will borrow 6 million barrels of crude oil from the SPR to offset shortages caused by Hurricane Katrina. It will borrow 3 million barrels of sweet crude and 3 million barrels of sour crude. It also confirmed that Placid Refining will borrow 1 million barrels of SPR crude.

Murphy Oil stated that its 125,000 bpd Meraux, Louisiana refinery escaped major damage from Hurricane Katrina. It found flooding of a few feet.

Motiva Enterprises may restart its 235,000 bpd Convent, Louisiana refinery within days. The facility suffered only minimal damage is seen restarting sometime within the next week.

Citgo's 324,300 bpd Lake Charles, Louisiana refinery is operating normally. This follows a report issued on Wednesday by the DOE's Office of Electricity Delivery and Energy Reliability said the refinery had a total supply loss. Meanwhile Citgo's Chalmette, Louisiana refinery remains shut.

Marathon Petroleum Co said it plans to restart its 245,000 bpd refinery in Garyville, Louisiana. It hopes to begin restarting some units over the weekend. Meanwhile, its refineries in Catlettsburg, Kentucky and Robinson, Illinois remained running at reduced rates due to the shutdown of pipeline connecting the Midwest to the Gulf.

ConocoPhillips said that parts of its 255,000 bpd Alliance refinery in Belle Chase, Louisiana are flooded.

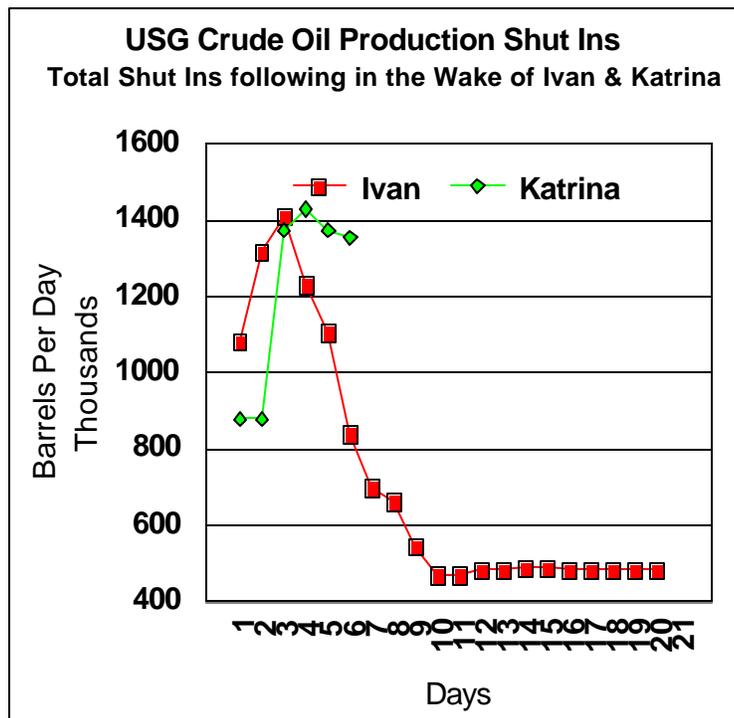
Tesoro's 68,000 bpd fluid catalytic cracking unit at its 162,000 bpd refinery in Martinez, California is scheduled to begin its restart mode this weekend. The unit was shut on August 24 following a fire.

China's Zhenhai Refining & Chemical Co Ltd will keep September runs near unchanged at 360,000 bpd following an August increase.

Production News

According to the US MMS, US crude oil production in the Gulf of Mexico remained cut by more than 90% on Thursday due to Hurricane Katrina. Crude production was cut by 1.36 million bpd or 90.43%, down from 1.371 million bpd on Wednesday. A total of 7.4 million barrels of crude oil have been cut since August 26.

The Capline pipeline has returned to service but will continue to operate at reduced rates through Saturday. It has sufficient supply at the St. James terminal in Louisiana to run at reduced rates for three days. It is operating at 30,000 bpd or about two-thirds of its capacity. Meanwhile, the LOOP is hoping to begin unloading oil on Friday. The port executive director said generators were started at the Clovelly onshore terminal which takes oil from the port and sends it along the Locap pipeline to refineries in Louisiana.



The Colonial Pipeline restarted main lines 1 and 2 on Wednesday night and added that gasoline and distillate fuels are flowing through the system at 25% to 30% of the normal operating rate. The company expects to have diesel generators installed at other pumping stations by the weekend, allowing it to increase the operating rate to 50%-60%. Colonial does not expect any problems obtaining diesel fuel to run the generators. It is expected to increase its throughput to about 86% by early next week. Meanwhile, the Plantation pipeline system was near 25% of its capacity. It was running about 150,000 bpd on Thursday.

Apache Corp said it lost eight production platforms in the Gulf of Mexico due to Hurricane Katrina. It said production from

the platforms totaled 7,158 bpd of oil and 12.1 mmcf/d of natural gas.

The US Coast Guard said the port of Mobile in Alabama reopened on Thursday after being shut down due to Hurricane Katrina.

Plains Exploration and Production Co cut its production forecasts for the third and fourth quarters in part due to the effects of Hurricane Katrina. It expects daily average production of 61,000-63,000 barrels of oil equivalent/day in the third quarter and 62,000-68,000 boe/d in the fourth quarter.

Marathon Oil Corp said there was some damage on its three South Pass production platforms. It said it is not able to fully supply non-contracted customers from its refinery operations as a result of Hurricane Katrina and reduced operations at other facilities.

An analyst reported that gas oil inventories in Amsterdam-Rotterdam-Antwerp fell by 175,000 tons in the week ending September 1 to 1.925 million tons. Meanwhile, gasoline stocks fell by 25,000 tons on the week to 600,000 tons, naphtha stocks fell by 40,000 tons to 50,000 tons, fuel oil stocks fell by 125,000 tons to 500,000 tons and jet fuel stocks increased by 25,000 tons to 350,000 tons.

Labor leaders in Nigeria are organizing a strike over fuel prices but have yet to set a date. Labor officials will continue meeting through the weekend to determine a date and other details for a strike that could target the oil industry. Analysts stated that the threatened strike is unlikely to affect the country's oil exports but if it did it would reduce the supply of light sweet crude to US refineries. They said it would be difficult for US refiners to find a substitute for Nigeria's light sweet crude on world markets. In the first nine months of the year, Nigeria's total oil exports averaged 2.15 million bpd. US Gulf buyers have already bought about 950,000 bpd of crude loading in September.

The Russian government is expected to set the oil export duty at \$179.90/ton starting October 1 compared with \$140/ton. The export duty on light oil products will be set at \$133.50/ton, up from \$106.60/ton.

The closure of the main gas pipeline feeding the Nigerian Liquefied Natural Gas plant has forced Royal Dutch/Shell to shut 12,000 bpd of condensate and 426 million mmcf/d of gas output. It reduced its output and declared force majeure on gas exports following a fire last week.

Indian Oil Corp wants the government to increase retail petrol prices by 7.50 rupees/liter and diesel prices by 5.5 rupees/liter to match the surge in world oil prices.

Nippon Oil Corp may join Libya's next licensing round for new exploration blocks to expand the company's upstream business. Libya is expected to award new exploration licenses for 40 blocks in October.

OPEC's news agency reported that OPEC's basket of crudes increased 74 cents/barrel to \$61.10/barrel on Wednesday.

Market Commentary

The gasoline market continued to rally amid continued concerns as the refineries remained shut. The market gapped higher from 231 to 237 on the opening amid reports that the government believed some key refineries may take months to restart operations. The market immediately extended its gains to 19.47 cents and posted a high of 245.00. However the market later settled in a sideways trading pattern before it partially backfilled its gap as it traded to a low of 233. The market traded off its high on reports that the pipelines were starting their operations. The gasoline market however

bounced off its low and traded back towards its high ahead of the close. It settled up 15.37 cents at 240.90. Volume was light with 44,000 lots booked on the day. Unlike the gasoline market, the crude market posted an inside trading session as it moved in and out of positive territory throughout the session. The oil market opened slightly lower at 68.85 and sold off to a low of 68.25. The market later bounced off its low amid the continued strength in the gasoline market. The oil market, which attempted to test its low late in the session bounced back into positive territory and rallied to a high of 69.60 ahead of the close and settled up 53 cents at 69.47. Volume was lighter today with 173,000 lots booked on the day. Meanwhile, the heating oil market followed in the gasoline market's footsteps as it gapped higher on the opening from 210 to 212.50. The market partially backfilled its gap as it traded to a low of 211.50 early in the session. However it traded toward the 215 level where it held some resistance before further buying ahead of the close pushed the market to its high of 221.00. It settled up 12.20 cents at 219.85. Volume in the heating oil market was also lighter today with 45,000 lots traded.

The oil complex on Friday is seen continuing its upward trend ahead of the long holiday weekend. The market will remain supported amid the news that the refineries remain shut, even though the Bush administration has started to loan SPR oil to the refiners. The oil market is seen finding resistance at 69.60

followed by 70.25 and 70.85. Support is however seen at 69.00, 68.25, 67.80 and 66.30.

Technical Analysis		
	Levels	Explanation
CL 69.47, up 53 cents	Resistance 70.25, 70.85	Previous highs
	Support 69.60	Thursday's high
HO 219.85, up 12.20 cents	Resistance 221.00	Thursday's high
	Support 215.00 211.50 to 210.00	Opening gap
HU 240.90, up 15.37 cents	Resistance 250.00 245.00	Previous high(continuation chart) Thursday's high
	Support 233.00 to 231.00 213.75	Opening gap Previous low