



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR SEPTEMBER 6, 2005

An OPEC delegate said Saudi Arabia's decision to cut the price of its crude for export to the US and Europe in October is aimed at increasing supplies and reducing world oil prices. The delegate said its decision is likely to be followed by others in OPEC. October prices for crude bound for refiners in the US and Europe were cut by an average of \$1.70 from September following similar cuts to Asia. The steepest discounts were for heavier varieties of crude oil.

Nigeria's Oil Minister Edmund Daukoru said the world market is well supplied with crude oil and added that fuel

Market Watch

Traders and shipbrokers stated that about 1.2 million tons of gasoline have been booked in Europe and are bound for the US. They said a further four or five 37,000 ton vessels have been booked over the past 24 hours, bringing the total number of fixtures since early last week to about 34 or 35.

The CFTC said US energy prices are being set fairly in a competitive market.

Separately, a Republican member of the Senate Commerce Commission said the FTC is not aggressively investigating the rapid rise in gasoline price since Hurricane Katrina. He said the FTC should do more to probe the fuel price spike.

US Treasury Secretary John Snow said Hurricane Katrina is likely to be a drag on US GDP growth for a quarter or so. However he said Gulf coast rebuilding will eventually boost the economy.

The OECD's chief economist, Jean-Philippe Cotis said there is no end in sight to the oil price shock, which has created greater uncertainty than in previous periods of surging energy costs. He said Hurricane Katrina may lead to short term surge in US inflation rates. However he stated that with the underlying economy still strong, the fallout from the disaster may be absorbed without a marked slowdown in economic growth.

Germany's Chancellor Gerhard Schroeder expressed renewed concern over the current high price of oil as a result of Hurricane Katrina, saying that the worst is not over for the world economy. He also stated that he had not received the necessary support from some international partners for his initiative at G8 level to increase transparency in the oil markets to help counter the speculation Germany blames for increasing crude prices.

The EIA and API will release their weekly petroleum stock reports on Thursday, September 8 following the Labor Day holiday.

The NYMEX received regulatory approval from UK regulators to launch an open outcry energy exchange in London on September 12.

The Nigeria Labor Congress will commence protest in selected cities on September 14. The protests are aimed at forcing a reversal of some of the government's policies, including a recent increase in gasoline prices. Nigeria's Pengassan and Nupeng are among the unions involved in the planned protest.

Iraq's al Qaeda leader Abu Musab al-Zarqawi called Saudi Arabia's rulers "despots" as they allow westerners to loot the riches of Islam's birthplace.

price reductions will require increasing investment in fuel refining capacity.

The IEA's head of emergency planning, Klaus Jakoby said the IEA has not ruled out further measures following the release of 60 million barrels of oil from strategic reserves. He said it would decide next week if anything should be changed.

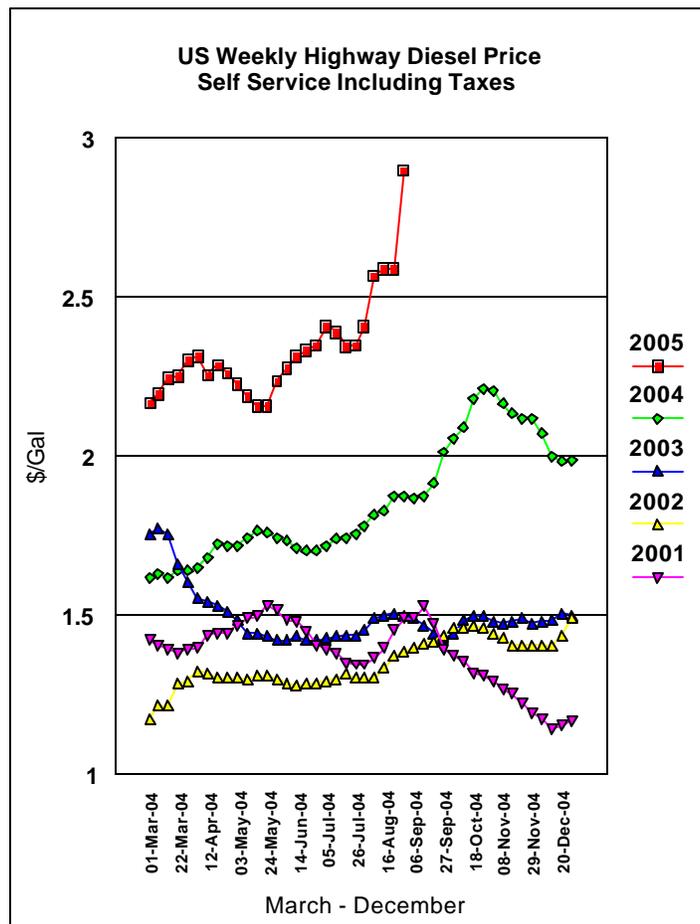
A spokesman for German oil reserve agency EBV said Germany would start the sales process for oil products from its strategic oil reserves on Wednesday with the first products expected to be delivered on September 12. He said no final decision on product type had been made but crude oil was not set to be sold. The sales were likely to include super grade gasoline and possibly diesel and light heating oil. Germany's Economy Ministry said it would sell 474,000 tons of crude oil and oil products from its strategic oil reserves. However traders stated that they doubted much of the fuel would reach US markets.

An Iraqi oil official stated that Iraq expects its oil exports to increase by 110,000 bpd in September and aims to increase sales by at least another 200,000 bpd by the end of the year. The Director General of Economics and Oil Marketing, Shamkhi Faraj, said exports could even increase by 400,000 bpd if Kirkuk oil could flow uninterrupted through the country's northern pipeline to Ceyhan. Exports in September are expected to increase to 1.6 million bpd compared with 1.49 million bpd in August. He expects Iraq's oilfields to increase production by 200,000-400,000 bpd by the end of the year, which would result in export sales of 1.8 million to 2 million bpd. Production from Iraq's southern oilfields was expected to increase to 1.93 million bpd by December from current rates of 1.76 million bpd.

Senate Energy Committee Chairman Pete Domenici said he would be willing to look at any ideas for creating a US gasoline stockpile. However he did note some problems to create a gasoline stockpile, including a lack of refining capacity.

The EIA said US retail gasoline prices should ease from current record levels but remain relatively high. The head of the EIA, Guy Caruso, said gasoline prices are seen averaging \$2.60/gallon in the third quarter and \$2.40/gallon in 2006. He also said consumers should expect high heating bills this winter, as natural gas prices remain strong and heating oil costs average 30% above last year's level. The EIA also stated that US gasoline supplies will remain tight for weeks due to disrupted fuel supplies. The head of the EIA also stated a government system to monitor US refineries' plans for maintenance work and seasonal turnarounds may help keep US refining capacity operating at a strong pace to meet demand.

The EIA reported that the US average retail price of diesel increased by 30.8 cents/gallon to \$2.898/gallon in the week ending



September 6th.

The head of the AAA, Robert Darbelnet, said the recent gasoline price spike should serve as a wake up call for Congress to impose stricter mileage standards on US vehicles. He said Congress should require better mileage in new US vehicles than the proposal issued two weeks ago by the Bush administration. The Transportation Department's plan would raise the requirement for sport utility vehicles and minivans to 22.2 miles/gallon from 20.7 mpg required in the 2005-07 model years.

Refinery News

Louisiana Senator David Vitter said oil infrastructure repair in those areas hardest hit by Hurricane Katrina will come slowly. He said efforts will focus on restoring plants with the least damage as quickly as possible. He said infrastructure in Plaquemines and St. Bernard Parishes will be slow to return. Refineries in those parishes include ConocoPhillips' 225,000 bpd Alliance refinery in Belle Chase, Louisiana, Murphy Oil's 130,000 bpd Meraux refinery and ExxonMobil and PDVSA's 183,000 bpd refinery in Chalmette.

Meanwhile, Chevron's 325,000 bpd Pascagoula, Mississippi refinery remains shut after it suffered major damage. Also, Motiva's 227,000 bpd Norco refinery and Valero's 185,000 bpd Norco refinery remain down but are expected to restart by mid-week. Separately, the refineries operating at reduced rates include ExxonMobil's 494,000 bpd Baton Rouge refinery, Total's 285,000 bpd Port Arthur refinery, its 211,500 bpd Lake Charles refinery, Placid's 48,500 bpd Port Allen refinery, BP's 410,000 bpd Whiting, Indiana refinery, BP's 160,000 bpd Toledo, Ohio refinery and ConocoPhillips's 306,000 bpd Wood River, Illinois refinery.

Murphy Oil said any restart of its Meraux, Louisiana refinery is seen in months, not weeks. Access to the refinery remains limited to boats, which is curtailing the company's ability to get people and equipment in to assess the damage.

The fluid catalytic cracking unit at Deer Park Refining LP's Deer Park, Texas refinery is operating at reduced rates following a shutdown on Saturday. The 67,000 bpd cat cracker was shut due to a problem with a compressor motor. The unit is expected to return to normal operations by the end of the week.

Kuwait's 270,000 bpd Mina Abdullah will proceed with a September 7 shutdown of an 80,000 bpd crude distillation unit and three other units in a 25 day planned turnaround. The decision comes despite a suggestion from an OPEC official that Kuwait and other OPEC members may delay such work to help combat shortages of refined products due to Hurricane Katrina.

Production News

US Gulf of Mexico oil and natural gas operations showed a large improvement on Tuesday as producers brought back increased quantities of energy shutdown by Hurricane Katrina. The MMS reported that shut in crude production stood at 870,374 bpd of 58.02% of total US production in the Gulf. On Monday, it reported that 1.04 million bpd of crude remained shut in. The MMS reported that full restoration of US oil and natural gas output in the Gulf of Mexico could take weeks or months.

The DOE reported that the Colonial Pipeline resumed full operating rates on Monday afternoon after full power was restored. Colonial Pipeline delivers an average of 95 million gallons/day of gasoline, diesel fuel, home heating oil, aviation and military fuels through a system of pipelines from refineries in the Gulf Coast to the New York Harbor market.

The LOOP has been operating at almost full capacity but Entergy has not yet restored power to the Clovelly storage facility. The LOOP expects to be at full capacity when Fourchon gets power, which should occur in about 7 days. Tankers are making crude deliveries to the LOOP, which is making deliveries to the Capline. The Capline is running at about 80% of capacity.

According to the US Coast Guard, 29 oil platforms are missing in the Gulf of Mexico and 29 are damaged following Hurricane Katrina. It said a total of 56 oil and natural gas offshore platforms have been lost or damaged. It said four drilling rigs have sunk and 16 are damaged.

Production is now flowing from all assets operated by Royal Dutch Shell Plc in the western Gulf of Mexico which had been forced to shut due to Hurricane Katrina. However it said it is evaluating any damage the Hurricane caused to its assets in the Eastern part of the Gulf.

Anadarko Petroleum Corp said the Marco Polo platform resumed production on Sunday evening. The Gulf of Mexico platform is currently producing 20,000 bpd of oil equivalent/day in oil and natural gas.

Marathon Oil reported major damage at its three South Pass platforms. Meanwhile, BP reported that seven platforms have toppled while two are leaning in the shallow waters of the Gulf. BP however reported that it resumed production of 55,000 barrels of oil equivalent/day at its West US Gulf and onshore Louisiana facilities. It said the Caesar and Cleopatra pipelines have also been returned to service.

ExxonMobil Corp's Gulf of Mexico gross production shut in by Hurricane Katrina stands at 28,000 bpd of oil and 309 mmcf/d of natural gas.

Apache Corp has restored 41,900 bpd of oil production suspended due to Hurricane Katrina. It said about 28,200 bpd of crude oil production remain shut in.

The US Coast Guard reported that the lower Mississippi River from Baton Rouge, Louisiana to the Gulf of Mexico was open during daylight hours to vessels with a draft of 39 feet or less. The port of Gulfport, Mississippi was expected to reopen on Tuesday. The port of Pascagoula, Mississippi was open during the daylight to boats with a draft of 12 feet or less. The port of Mobile, Alabama was open during daylight to vessels with a draft of 43 feet or less.

Suncor Energy Inc expects to resume full production at its Alberta oil sands operations this month after repairing damage caused by a fire in January. It has been operating the oil sands plant at about half its 225,000 bpd capacity since one of two upgrading units was damaged in the fire.

Nexen has shut in 35,000 bpd of crude and 70 mmcf/d of natural gas production at its Scott Field in the North Sea following a suspected gas leak on Monday.

According to Dow Jones, OPEC's oil production in August increased by 200,000 bpd to 30.57 million bpd. It said drilling activity in Saudi Arabia increased, bringing output up to 9.6 million bpd from the revised July figure of 9.5 million bpd. Output from the UAE increased by 80,000 bpd in August to 2.53 million bpd. Meanwhile, Iraq's output fell by 20,000 bpd to 1.92 million bpd.

Kazakh companies' oil and gas condensate production increased on the year to 40.781 million tons in January-August.

Russia's Surgutneftegaz's oil production increased by 8% on the year to 42.162 million tons in January-August.

Ukraine's Fuel and Energy Ministry reported that oil refining in Ukraine fell by 10.2% on the year to 12.557 million tons in January-August. Oil supplies to refineries fell by 24% on the year to 12.249 million tons in the period. In January-August, gasoline output fell by 9.4% on the year to 2.779 million tons, diesel output fell by 9.7% to 3.62 million tons and fuel oil output fell by 14.8% on the year to 4.282 million tons.

Turkmenistan reported that its oil and gas condensate output increased by 2.5% on the year to 6.5 million tons in January-August. Oil refining increased by 0.5% on the year to 4.6 million tons in January-August.

OPEC's news agency reported that OPEC's basket of crudes fell by \$1.51/barrel to \$59.22/barrel on Monday.

India's Petroleum and Natural Gas Minister Mani Shankar Aiyar said India's cabinet allowed oil companies to raise gasoline and diesel prices to keep pace with increasing oil prices. Gasoline prices were raised by INR3/liter and diesel prices by INR2/liter.

Market Commentary

The energy complex ended in negative territory once again as it continued to give up its recent gains amid reports that Saudi Arabia decided to cut its prices, a move expected to increase supplies. Also, over the long weekend, the MMS reported that the level of crude production shut in the Gulf of Mexico improved, even though it is seen taking weeks and even months for full production to resume. The markets also traded lower as the Colonial pipeline reported that it resumed full operations. However the market seemed to have ignored that several refineries remained shut following Hurricane Katrina. The crude market opened down 52 cents at 67.05 and quickly posted a high of 67.30. The market however sold off to a low of 65.65 and settled in a sideways trading pattern during the remainder of the session. It retraced more than 62% of its move from a low of 62.75 to a high of 70.85. The market settled down \$1.61 at 65.96. Volume in the crude was good with 219,000 lots booked on the day. The gasoline market opened down 4.37 cents at 214.00 and quickly posted a high of 217.00. However it continued to retrace its recent gains. The market traded to a low of 210.00 and held some support at that level as it settled in a sideways trading pattern from 210.00 to 213.50. However the market later retraced more than 50% of its move from a low of 174.00 to a high of 245.00 and backfilled a previous gap as it fell to a low of 204.00 on the close. It settled down 12.87 cents at 205.50. The heating oil market also

settled down 3.68 cents at 205.43 after the market sold off to a low of 205.00 on the close. The market, which traded to a high of 209.50 on the opening, settled in a sideways trading

| Technical Analysis | | |
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| | Levels | Explanation |
| CL 65.96, down \$1.61 | Resistance 67.30, 68.60 | Tuesday's high, Previous high |
| | Support 65.65 65.30, 64.65, 64.50 to 64.30 | Tuesday's low Previous lows, Remaining gap (August 19th) |
| HO 205.43, down 3.68 cents | Resistance 214.50 207.00, 209.50 | Previous high Tuesday's high |
| | Support 205.00 204.00, 200.15, 199.00, 195.23 | Tuesday's low Previous low, 50% (179.30 and 221), Previous low, 62% |
| HU 205.50, down 12.87 cents | Resistance 217.00 205.50, 210.75, 213.50 | Tuesday's high |
| | Support 204.00 201.12, 191.00 | Tuesday's low 62% (174.00 and 245), Previous low |

range from 206.00 to 209.00 for most of the day. Volumes in the product markets were light with 37,000 lots booked in each the gasoline and heating oil markets.

The oil market will may continue to retrace its recent gains. However the market's losses are seen limited as several refineries remain shut and are not seen resuming operations for weeks and even months. Also, the market may once again be supported by an Accuweather forecast stating that a tropical depression developing off the coast of Florida may become a hurricane within 48 hours. It is forecasting it to move west southwest across Florida and head towards Louisiana. Technically, the crude market is seen finding support at 65.65, 65.30, 64.65 and its gap from 64.50 to 64.30. Meanwhile resistance is seen at 66.50 followed by 67.30 and 68.60.