



## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR SEPTEMBER 7, 2005**

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The EIA reported in its Short Term Energy Outlook that it cut its third quarter US oil demand estimate by 230,000 bpd to 20.86 million bpd and by 140,000 bpd to 21.29 million bpd in the fourth quarter. It said projections are difficult to make given the considerable uncertainty regarding the extent of damage caused by Hurricane Katrina. Its forecasts are based on a medium recovery scenario following Hurricane Katrina. It also cut its full year 2005 demand growth projection by 60,000 bpd to 100,000 bpd. It estimates demand at 20.83 million bpd. Demand growth in 2006 was cut by 60,000 bpd from its previous forecast to 330,000 bpd, with demand at 21.16 million bpd. The EIA left its estimates for world oil demand unchanged on the month. It estimated that fourth quarter

#### Market Watch

The National Hurricane Center expects Tropical Storm Ophelia to remain in the Atlantic Ocean through early next week. However some weather models are forecasting the storm to cross Florida and enter the Gulf of Mexico. Of the seven weather models, the Geophysical Fluid Dynamics Laboratory and the Beta and Advection Model Medium projected the storm would cross central Florida and threaten the natural gas and oil rigs in the Gulf of Mexico over the next several days. The storm's sustain wind has increased to 50 mph and forecasters said it could reach hurricane strength.

Total is expected to send an additional two 40,000 ton cargoes of gasoline to the US during September, bringing the total number of vessels to 10. Gasoline traders said that about 34-35 cargoes or 1.2 million tons had been booked to cross the Atlantic over the past week alone following Hurricane Katrina. On average, Europe ships about 1.5 million tons of gasoline to the US each month.

Venezuela's US embassy said Venezuela will ship 1 million barrels of gasoline to the US in September in addition to the usual amount of refined products it already ships. It said four additional shipments of gasoline, totaling more than 960,000 barrels will be shipped to the US. Citgo Petroleum will receive and distribute the gasoline, which will come in addition to the 1.2 million barrels of petroleum it will receive from PDVSA in September.

Exxon Mobil Corp said it is finding new clients for oil produced at the Cerro Negro heavy crude joint venture in Venezuela until the Chalmette refinery in Louisiana is returned to service. Cerro Negro has a contract to supply the 183,000 bpd Chalmette refinery. Meanwhile, Venezuela's Amuay refinery is expected to send an additional two cargoes of diesel fuel to the US this month, bringing the total number of cargoes of products bound to the US to six for September.

The Republican head of the House Energy and Commerce Committee said he plans to move quickly in offering legislation that would help US energy companies build new oil refineries.

German Chancellor Gerhard Schroeder said record oil prices have been inflated by up to \$30/barrel by market speculation.

The NYMEX plans to open energy pit trading an hour later at 11 am on Friday in commemoration of the fourth anniversary of the September 11 attack on the World Trade Center. In addition, transactions will be halted for one minute each at 8:46 am and 9:03 am on Access and Clearport and again on Clearport at 9:59 am and 10:29 am.

demand is expected to average 86.4 million bpd, up 2.2 million bpd from a year ago. For the full year 2005, world demand is expected to be 84.2 million bpd, up from 82.5 million bpd in 2004 and for 2006 demand is expected to be 86 million bpd, up 1.8 million bpd. In regards to prices, the EIA reported that retail gasoline prices are expected to average close to \$3/gallon in September in the Medium Recovery case. The average pump price for the third quarter 2005 is now expected to be about \$2.57/gallon and \$2.58/gallon in the fourth quarter. Retail gasoline prices are estimated to average \$2.32 in 2005. The EIA also stated that retail diesel fuel prices are expected to reach their highest monthly level at over \$2.71/gallon. It projects that average heating oil prices will be about 31% higher this winter compared with last winter.

The IEA said its 26 members have agreed to release a total of 1.97 million bpd of oil equivalent from strategic reserves over the next 30 days to help offset the supply disruption caused by Hurricane Katrina. It said 65% or 1.29 million bpd of the stock release will be in the form of crude oil. It will release 19% or 369,000 bpd of gasoline, 276,000 bpd of middle distillates and 38,000 bpd of fuel oil. The US is contributing 1 million bpd of crude oil while Europe is expected to contribute 624,000 bpd to the emergency release, with product accounting for 545,000 bpd. The head of the IEA, Claude Mandil said the IEA could extend its oil stock release beyond its initial 30 day period if a US gasoline crunch continues longer than expected.

An official at Germany's oil reserve agency EBV said the country will sell 300,000 tons of gasoline and 145,000 tons of diesel fuel from its strategic oil reserves on Wednesday. Most of the gasoline will be super grade but a small volume of lower grade will also be sold.

A senior Iranian oil official said Iran will supply the US with 20 million barrels of crude oil, if the US is prepared to waive sanctions. However it is unlikely that there will be any change in the US policy towards Iran.

An Iraqi oil official said Iraq's southern oil exports were halted due to bad weather.

### **Refinery News**

The head of the EIA, Guy Caruso said it will be months before the four refineries still shut return to normal operations. The four refineries still shut are Chevron Corp's 325,000 bpd Pascagoula, Mississippi refinery, Exxon Mobil and PDVSA's 183,000 bpd Chalmette, Louisiana refinery, ConocoPhillips' Alliance refinery in Belle Chase, Louisiana and Murphy Oil Corp's 120,000 bpd Meraux, Louisiana refinery.

Chevron Corp said late Tuesday it will be days before it knows the full extent of damage to its 325,000 bpd Pascagoula, Mississippi refinery or when the facility may resume operations. It said one of three Mississippi Power feeder lines was restored on September 5, giving the facility limited power. Generators at the marketing terminal are enabling Chevron to provide previously produced gasoline and diesel to emergency responders and local Chevron Texaco stations. A source familiar with the refinery's operations said the refinery has suffered damage to its cooling towers and dock and some water damage to pumps. Meanwhile, the Pascagoula shipping channel near the refinery docks was not badly damaged by Hurricane Katrina and should be available soon for shipping traffic.

Motiva Enterprises LLC's 225,000 bpd refinery in Convent, Louisiana was expected to be at about two-thirds capacity late Tuesday, blending its first gasoline stocks.

Valero Energy Corp said it has restarted some units, including a fluid catalytic cracking unit at its 185,000 bpd St. Charles, Louisiana refinery. It said the refinery will resume full operations by the end of the week. Valero stated that it has not seen any fall in gasoline demand following Hurricane Katrina.

Separately, Valero Energy Corp shut a 22,000 bpd hydrocracking unit at its Port Arthur, Texas refinery on Tuesday to perform maintenance. It will be shut until September 11 to allow for maintenance on the charge pumps. The restart of the unit is set for September 11 through September 14.

Exxon Mobil Corp advanced efforts towards repairing and restarting its Chalmette, Louisiana refinery on Wednesday, saying a full assessment of the refinery will be completed in several weeks.

Tesoro Corp said a fluid catalytic cracker at its 168,000 bpd Golden Eagle refinery in Martinez, California resumed operations and was running at 90% of capacity. It is expected to return to full capacity soon.

Alon USA has scheduled maintenance on September 16-17 for its crude vent gas compressor at its Big Spring, Texas refinery.

Industry analysts stated that some US oil refiners could delay plans for scheduled maintenance at their refineries this fall to avert feared supply shortages and take advantage of windfall profit margins.

Total SA stated that workers agreed to end a strike that had reduced operations at five of its refineries by about 50%. The affected plants were the 328,000 bpd Normandy, 231,000 bpd Donges, 119,000 bpd Feyzin, 99,000 bpd Grandpuits and the 155,000 bpd La Mede refinery in Provence. Full production capacity is expected to be reached later on Wednesday. The CGT labor union called the strike on Monday after four employees were dismissed after a technical incident at the Provence refinery.

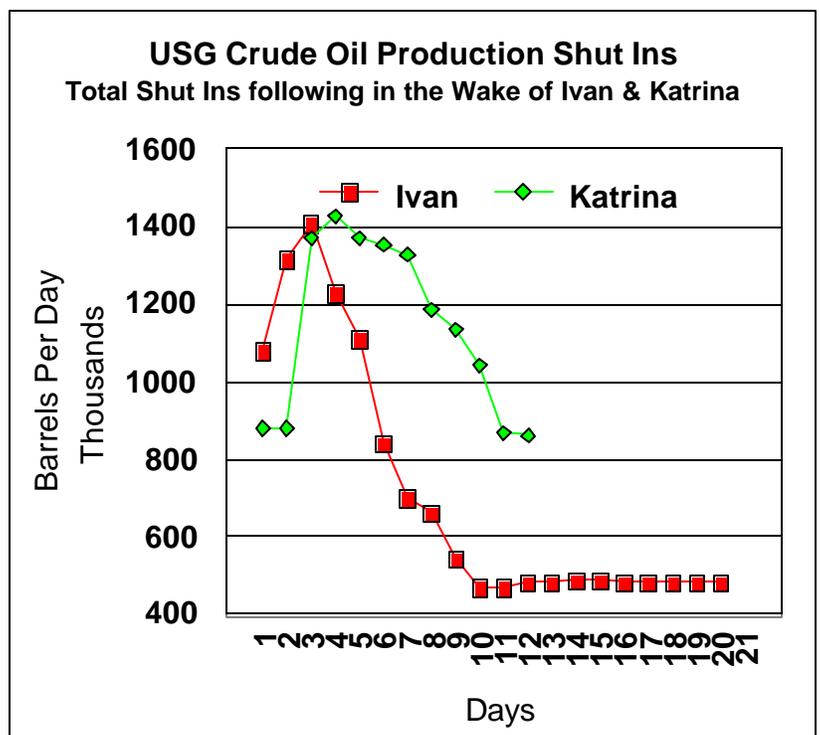
Kuwait's Mina Abdulla refinery will close four small units on Wednesday for routine maintenance. The 25 day planned shutdown includes an 80,000 bpd crude distillation unit, a 35,000 bpd desulphurization unit, a hydrogen cracking unit and a 10,000 bpd naphtha hydrotreater unit.

S-Oil Corp will shut a desulphurization unit for 30 days of maintenance work starting September 23.

**Production News**

The MMS reported little improvement on Wednesday in the amount of oil and natural gas shut in by Hurricane Katrina. It stated that there was still 860,568 bpd of crude shut in or 57.37% of the daily production in the Gulf of Mexico. It is down from 870,374 bpd reported on Tuesday. The cumulative lost oil production reached 13.607 million barrels.

Interior Secretary Gale Norton said about 90% of US oil and natural gas production in the Gulf of Mexico should be flowing again by the end of the month. She said production from four platforms and one major junction facility will remain shut down beyond this month.



Colonial Pipeline said it would limit the amount of MTBE in gasoline flowing through the system. It said that starting on November 20, it would limit the content of methyl tertiary butyl ether to 0.25% of volume of conventional gasoline. On March 1, 2006 it will limit MTBE content in premium gasoline to 0.25% of volume.

BHP Billiton Ltd said it has shut down production at its Gulf of Mexico oil wells indefinitely following Hurricane Katrina. It produces 25,000 bpd in the Gulf of Mexico from the Mad Dog, Cameron, Genesis, Green Canyon, Typhoon and Boris fields. While inspections showed its facilities sustained only minimal damage, its impact on people and refining will not allow it to restart.

ConocoPhillips expects to produce 50,000 bpd of oil equivalent from its North Sea Brodgar and Callandish oil and gas fields from 2007.

Saudi Aramco said it is on schedule to complete work to add 300,000 bpd of oil production by early next year. Construction of the Haradh Arab Light Crude Increment III project is 70% complete. The field already has the capacity to produce 600,000 bpd of Arab Light.

OPEC's news agency reported that OPEC's basket of crudes fell by \$0.17/barrel to \$59.05/barrel on Tuesday.

Russian Railways' President Vladimir Yakunin said Russian companies are scheduled to supply 8.8 million tons of oil to China by rail in 2005. In January-July, oil shipments by rail to China increased by 23% on the year to 4.4 million tons.

The Petroleum Association of Japan said the country's commercial gasoline stocks fell last week below a level seen indicating supply tightness before the government decided to free up oil as part of a move to ease US supply shortages caused by Hurricane Katrina. Inventories of gasoline fell by 0.8% to 1.99 million kiloliters or 12.52 million barrels in the week ending September 3 from 2.01 million kl the previous week. Japan temporarily cut its minimum requirement for private oil stocks by three days to 67 days of consumption. It also said it would release about 240,000 bpd of oil stocks as part of the IEA's attempt to ease US gasoline shortages. Japan's commercial crude stocks totaled 19.18 million kl or 120.64 million barrels, up from 18.08 million kl the previous week. The Petroleum Association of Japan also reported that Japan imported 49,146 kl of gasoline or 44,000 bpd on the week.

Lukoil exported 4.12 million tons of crude oil and oil products via its terminal at the Baltic Sea port of Vysotsk in January-August.

### **Market Commentary**

The energy complex sold off once again as it failed to find upside momentum amid the reports that refineries remained shut and would take days before companies are able to see the full extent of damage done to the refineries. There were also reports of a strike at Total's refineries in France, which cut the operating rates by 50%. Despite some supportive news, the market opened down 31 cents at 65.65 in follow through selling. The market rallied to a high of 66.50 early in the session but quickly gave up its gains. The oil market traded to a low of 65.20, where it held some good support. However the market sold off sharply amid a bearish PIRA report and the EIA's Short Term Energy Outlook in which it cut its demand estimates. The market retraced more than 50% of its move from a low of 57.20 to a high of 70.85 as it sold off to a low of 63.90 ahead of the close. It settled down \$1.59 at 64.37. Volume was excellent with over 228,000 lots booked on the day. The product markets ended sharply lower with the gasoline market settling down 3.28 cents at 202.22 and the heating oil market settling down 9.20 cents at 196.23. The gasoline market posted an intraday high of 212.00

early in the session on news of a strike in Total's refineries in France. It retraced its early gains and traded to a low of 206.00 where it held some support. The market however breached that level and sold off even further amid reports that workers agreed to end the strike. It sold off to a low of 197.50 before it retraced some of its losses ahead of the close. The heating oil market extended its losses to over 11 cents at it traded to a low of 194.10 late in the session as it continued to retrace its previous gains. Volumes in the product markets were good with 50,000 lots booked in the gasoline market and 45,000 lots booked in the heating oil market.

The oil market on Thursday will be driven by the weekly petroleum stock reports. The DOE and API

reports are expected to show draws in crude stocks of close to 7 million barrels, draws in gasoline stocks of 6 million barrels and draws in distillate stocks of 2.5 million

Technical Analysis		
	Levels	Explanation
CL 64.37, down \$1.59	<b>Resistance</b> 66.50, 67.30 65.00, 65.50	Wednesday's high, Previous high
	<b>Support</b> 63.90 62.75, 62.41	Wednesday's low Previous low, 62% retracement level (57.20 and 70.85)
	<b>Resistance</b> 197.00, 199.95, 202.50, 204.25	Wednesday's high
HO 196.23, down 9.20 cents	<b>Support</b> 194.10 191.75, 189.50, 186.80	Wednesday's low 50% (162.50 and 221.00), Previous lows
	<b>Resistance</b> 203.50, 205.00, 208.50	Wednesday's high
HU 202.22, down 3.28 cents	<b>Support</b> 197.50 191.00 to 188.70	Wednesday's low Opening gap (August 29th)
	<b>Resistance</b> 212.00	Wednesday's high

barrels on the week. If the market does see these draws in stocks after refineries shutdown due to Hurricane Katrina, the market will reverse its recent retracement. The market is seen supported amid continuing reports that four refineries still shut following Hurricane Katrina will not return to normal operations for months. The market will also watch for further developments on Tropical Storm Ophelia as some forecasts are calling for it to track across Florida and into the Gulf of Mexico. The market is seen finding support at its low of 63.90 followed by 62.75 and 62.41. Meanwhile resistance is seen at 65.00, 65.50 and its highs of 66.50 and 67.30.