



## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR SEPTEMBER 12, 2005**

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The Energy Department is reviewing bids it received from companies interested in buying crude oil from the SPR to help replace supplies disrupted by Hurricane Katrina. Last Friday was the deadline for companies to submit bids for the 30 million barrels of crude oil the Bush administration offered to sell from the SPR.

OPEC denied a report that it had decided to increase its crude oil production at its September meeting. It said a German magazine incorrectly quoted Secretary General Adnan Shihab-Eldin as saying that OPEC had already decided to increase its production.

According to the Lundberg Survey, damage to the Gulf coast refineries and pipelines pushed average retail gasoline

#### Market Watch

Merrill Lynch said oil prices will remain above \$65/barrel through next year due to a supply shock brought by Hurricane Katrina. It raised its forecast by 14% to \$65.50/barrel in 2006. It said that as more expensive sources of oil are developed and supplies improve, prices will fall to about \$45/barrel within the next two to four years. It said high prices will encourage companies and oil producing countries to invest in drilling and refining while discouraging the use of oil as consumers switch to cheaper fuels.

The US EPA has extended a waiver of air pollution rules to allow Virginia to continue to sell conventional gasoline in place of cleaner burning gasoline through September 23. In addition, the EPA extended a waiver for counties in the Atlanta area through October 5.

Stolt-Nielsen and Odfjell, the world's two largest chemical tanker operators, are among shipowners switching more of their vessels to carry gasoline to the US to meet surging demand as the IEA releases fuel from its inventory. The conversions will avert a shortage of tankers to carry additional oil supplied by the agency.

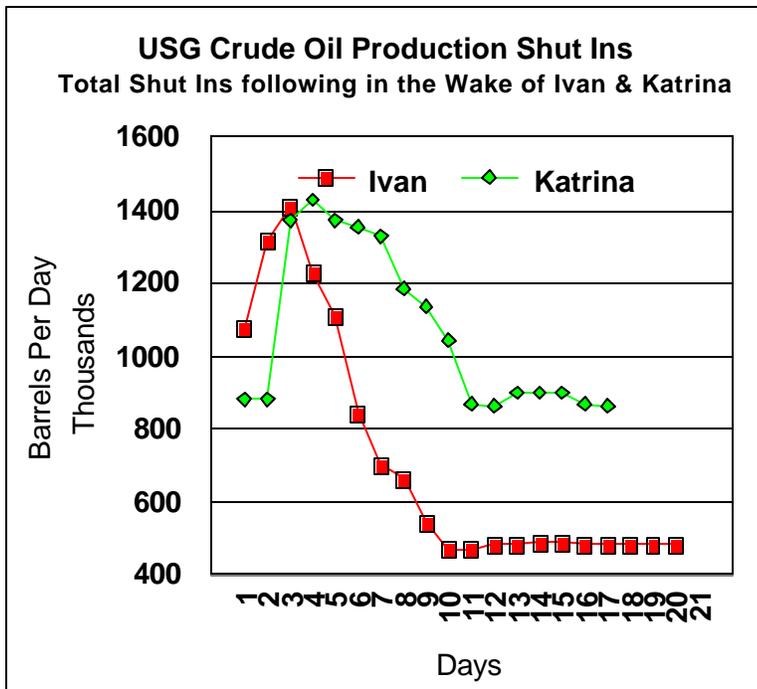
Group of 10 chairman Jean-Claude Trichet said surging commodity prices are slowing the pace of global growth and central bankers should be vigilant of inflationary risks.

The American Trucking Associations' seasonally adjusted truck tonnage index fell 0.5% in July, following a revised 0.1% fall in June. The unadjusted index also fell in July, which erased May and June's gains of 1.9% and 3.3%, respectively. July's reduction lowered the unadjusted index to 111.1. The slowdown in shipments of manufactured durable goods is one of the reasons freight volumes declined.

The oil price increase felt by families and companies in the US and Europe are especially catastrophic in the poorest countries. High prices can push small businesses into bankruptcy, families into poverty while straining fragile economies to the point of near collapse. Presidents in Central America have for months pleaded with Venezuela and Mexico to help bring down gas prices. There have been frequent calls to rework the San Jose Accord, under which Mexico and Venezuela provide subsidized oil to 11 Caribbean and Central American nations.

Brent crude futures open outcry trading returned to London on Monday as the NYMEX launched its rival to the IPE's electronically traded contract. It hopes the move to London would increase volumes, which have been lagging the IPE's Brent contract.





power generator started running at Port Fourchon, Louisiana. LOOP was operating at about 75% of capacity since September 4 and said last week that it expected full capacity to be restored once the Fourchon station was back on line.

Shell Pipeline Co LP confirmed damage to its pipeline and two oil spills in Louisiana as a result of Hurricane Katrina. In one incident, about 250 barrels of crude was found leaking from a 20 inch pipeline in Nairn. In the second incident, crude was found leaking from an above ground storage tank and into a tank dike and the surrounding area at a company tank farm in Pilottown. Of about 10,000 barrels estimated to have been leaked in Pilottown, more than 6,200 barrels have been recovered as of Friday. The assessment of the Delta

pipeline system has been slowed by heavy flooding in the area of Shell’s facilities in Nairn.

Saudi Arabia’s crude exports to the US are expected to remain steady for October as refiners turn down the country’s offer of incremental barrels after securing alternatives closer to the US. Saudi Arabia has notified its European customers that it will keep crude oil supplies steady in October from September. European refiners have been receiving about 70-75% of contract volumes in recent months.

SG Securities estimated crude production losses at 32.6 million barrels due to Hurricane Katrina. It also estimated gasoline losses at 39.8 million barrels and distillate losses at 26.1 million barrels.

The North Sea loading plan for the Brent, Forties and Oseberg crude oil systems show daily loadings at 1.04 million barrels for October, up from 980,000 bpd in September. The October loading program for North Sea Forties crude scheduled the loading of 16.6 million barrels, up from 15.3 million barrels in September.

An Iraqi oil official said Iraq has cut the October official selling of its Basra Light crude bound for the US, Europe and Asia. It has set the October price of Basra Light to the US by \$1.90/barrel to a discount of \$10.25/barrel to the second month of WTI. It set the October price of Basra Light to European outlets at a discount of \$9.35 to Dated BFO prices. It also lowered its October Basra Light price for Asia by 55 cents to the average of Oman/Dubai minus \$2.65/barrel.

Oman’s oil production fell by 1.2% to 774,200 bpd in the first half of the year. Total crude and condensate production fell by 1.7% to 140.13 million barrels in the first six months of the year. Its total crude exports in the first half of the year fell by 1% to 129.59 million barrels.

Russian oil company Tatneft’s oil production increased by 1.2% on the year to 16.981 million tons in January-August. In August, Tatneft’s production fell to 2.145 million tons of oil from 2.151 million tons last year.

China's crude oil imports fell to their lowest level in eight months in August to stand 6.1% below last year. Analysts stated that the sharp fall shows the revaluation of the yuan currency and a late July increase in domestic prices failed to increase refiners' balance sheets to encourage maximum operations. Its imports in August stood at 8.76 million tons or 2.06 million bpd. The fall brought January-August cumulative imports to 83.12 million tons or 2.5 million bpd, up only 3.9% on the year.

Kazakhstan's crude oil and gas condensate output increased to 40.62 million tons or 1.27 million bpd in January-August from 38.5 million tons or 1.2 million bpd last year.

The government of President Susilo Bambang Yudhoyono is expected to cut Indonesia's fuel subsidies and increase fuel prices early next month. A senior government official however did not say how much the prices would be raised by.

OPEC's news agency reported that OPEC's basket of crudes increased 10 cents/barrel to \$57.58/barrel on Friday.

### Market Commentary

The oil market continued to trend lower as it gave up more of the Hurricane Katrina premium. The market was weighed down by the heavy losses seen in the product markets and the concerns that high prices have eroded demand. The market was pressured by a few developments including reports that the LOOP was resuming full operations while reports of a fall in China's oil and oil product imports in August supported expectations of a fall in oil demand growth. The market opened down 48 cents at 63.60 and immediately posted an intraday high of 63.85. The oil market however sold off more than \$1.50 as it posted a low of 62.55 amid the losses in the product markets. The market bounced off its low and retraced some of its losses as it traded back towards the 63.50 level ahead of the close. It settled down 74 cents at 63.34. Volume in the crude market was good with 215,000 lots booked on the day. The product markets ended the session down more than 8 cents, with the gasoline market settling down 8.6 cents at 187.37 and the heating oil market settling down 8.22 cents at 181.43. The gasoline market gapped lower from 193.50 to 192.50 and partially backfilled it as it posted a high of 190.00. However the market extended its losses to over 8 cents as it sold off to a low of 186.00. The market later settled in a sideways trading pattern as it bounced off its low. The heating oil market posted an intraday high of 190.00 early in the session before it sold off on some Oct/Nov spread selling. The market posted an intraday low of 180.40 and settled in a sideways trading pattern ahead of the close. Volumes in the product markets were good with 62,000 lots booked in the gasoline market and 63,000 lots booked in the heating oil market.

The oil market may continue to trade lower as it is pressured by the losses in the product markets. It is continuing to trade within its downward trending

Technical Analysis		
	Levels	Explanation
CL 63.34, down 74 cents	<b>Resistance</b>	63.85, 65.10, 65.15
		63.50
	<b>Support</b>	62.55
		Monday's high, Previous highs
		Monday's low
		62% retracement level (57.20 and 70.85), Previous low
HO 181.43, down 8.22 cents	<b>Resistance</b>	190.00, 193.00
		182.90, 184.50
	<b>Support</b>	180.40
		Monday's high
		Monday's low
		Previous low, Gap (August 8th)
HU 187.37, down 8.60 cents	<b>Resistance</b>	193.00
		190.00, 192.25
	<b>Support</b>	186.00
		Monday's high
		Monday's low
		Double bottom

channel. The market however may find some support amid the reports of power outages at some California refineries following the blackout that affected parts of Los Angeles. It is seen finding support at its low of 62.55 followed by 62.41 and 61.98. Its resistance is seen at 63.50, 63.85 followed by 65.10 and 65.15.