



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR SEPTEMBER 19, 2005

OPEC's Secretary General Adnan Shihab-Eldin said OPEC ministers did not make a decision on their output policy at the closed session on Monday, as they focused on their long term strategy instead. OPEC officials were considering a proposal for OPEC to leave its formal production limits unchanged but offer its 2 million bpd spare capacity to the market if there is demand for more crude. It was also considering increasing its production from 28 to 28.5 million bpd, which has less support from OPEC members. OPEC's President Sheikh Ahmed Fahed al-Sabah said he believed a move to offer OPEC's current spare capacity to the market would be a better way to stabilize world oil prices than a simple increase of 500,000 bpd in the formal production ceiling. He later stated that OPEC is expected to agree on a resolution that would promise to release 2 million bpd should it be required, after most OPEC members supported the proposal. OPEC's President also stated that healthy stockpiles, the release of government held stocks and assurances by OPEC over supply had averted a major

Market Watch

An analyst at the EIA said Tropical Storm Rita has the potential to push oil prices higher if it leads to production and refinery outages in addition to shutdowns brought about by Hurricane Katrina. Chevron Corp, BP Plc and Royal Dutch/Shell have said they are evacuating staff from offshore facilities ahead of Rita. The EIA analyst said that even if Tropical Storm Rita misses the oil industry's operations in the Gulf and the industry manages to restore operations to pre-Katrina levels, the market will still remain tight. It said if Tropical Storm Rita develops into a hurricane and stays on its current central track towards Texas, it may not cause that much damage to underground pipelines that carry oil and natural gas onshore.

Petroleum Helicopter Inc confirmed it has started airlifting some oil companies' personnel from the Gulf of Mexico drilling rigs and platforms ahead of Tropical Storm Rita. The storm is anticipated to move through the central Gulf of Mexico toward Texas and Louisiana.

Murphy Oil Corp said it could start evacuating workers from the Gulf of Mexico starting on Tuesday ahead of Tropical Storm Rita.

According to an official at Kuwait Petroleum Corp, the world oil market will see further spikes in crude oil prices despite the prospects of increasing supply. He said benchmark light sweet crude prices will increase further even as lower quality heavy and sour crude barrels accumulate in storage and sell for steeper discounts. He said this is due to chronic problems of limited refining capacity.

The International Monetary Fund warned that world investment in production and refining capacity will not be sufficient to stop oil and other fuel prices from rising further over the next five years. It said production capacity is unlikely to increase enough to outpace future growth in consumption and create adequate spare capacity.

According to an SEC filing, a former NYMEX chairman, Michel Marks, has formed a company to seek an equity interest in the exchange. The company called 816 Partners LLC, is seeking an unspecified stake in the NYMEX.

Standard & Poor's Ratings Services placed its BB- corporate credit rating on retail propane and fuel oil distributor Suburban Propane Partners LP. It said the rating action reflects Suburban's weak operating and financial performance, primarily due to sustained high commodity prices and an ineffective hedging strategy for the partnership's fuel oil customer Ceiling Program.

energy crisis in the wake of Hurricane Katrina. Saudi Arabia's Oil Minister Ali al-Naimi said OPEC's meeting on Monday was aimed at reassuring consumer nations that their oil supply needs would be met. He said Saudi Arabia has the capacity to increase its crude production to 11 million bpd if the market needs it. He said Tropical Storm Rita was a concern. Meanwhile, Qatar's Energy Minister Abdullah al-Attiyah said the proposed increase in the production ceiling was unlikely to ease prices and urged consuming states to make it easier to build new refineries to produce more products. Libya's Energy Minister Fathi Omar Bin Shatwan said most OPEC ministers want to keep the group's official output ceiling unchanged at 28 million bpd. He however stated that OPEC could help with additional crude barrels for the US if Tropical Storm Rita evolves into a hurricane on the scale of Katrina.

Separately, Saudi Arabia's Crown Prince Sultan blamed the spike in oil prices on a world shortage of refining capacity, not crude. He also blamed high prices on natural disasters, security concerns in some producing countries and speculation on oil markets.

A senior EIA analyst said OPEC's latest offer to bring on spare oil production capacity is not likely to be accepted by the market unless OPEC sells its crude at a discount. However he said there is already plenty of oil in the US market, in particular, after the government released crude from its emergency petroleum stockpile. He said refineries would not take more OPEC oil unless it was priced lower.

Refinery News

Chevron Corp said part of its Pascagoula refinery would begin operations in mid-October and expects to be fully operational in mid-November.

Motiva Enterprises' 240,000 bpd Norco, Louisiana refinery is operating normally. Motiva's 225,000 bpd Convent refinery also continues to operate at normal rates.

A gas oil hydrotreater at Deer Park Refining's Texas refinery was shut on September 15 following a fire in a reactor. No restart date was indicated in a report filed with the Texas Commission on Environmental Quality.

Shell Oil Co's 100,000 bpd refinery in Wilmington, California resumed production on Saturday after being hit by a blackout on September 12.

BP Products said the electrostatic precipitator stack may trip as electrical lines to the unit are rerouted due to the installation of a wet gas scrubber at fluid catalytic cracking unit 3. The maintenance is expected to begin on September 19 and end on October 3.

The US Department of Energy said it approved a loan to Total Petrochemicals for 600,000 barrels of crude oil from the government's SPR to replace oil supplies disrupted by Hurricane Katrina.

Venezuela's 140,000 bpd El Palito refinery has been running at full production capacity since Saturday. Gasoline output from the refinery's catalytic cracking unit increased to 54,000 bpd on Saturday after a power failure forced a production slowdown last week.

BP Plc said its 172,000 bpd Coryton refinery will resume full operations soon after a power failure Thursday triggered a partial shutdown.

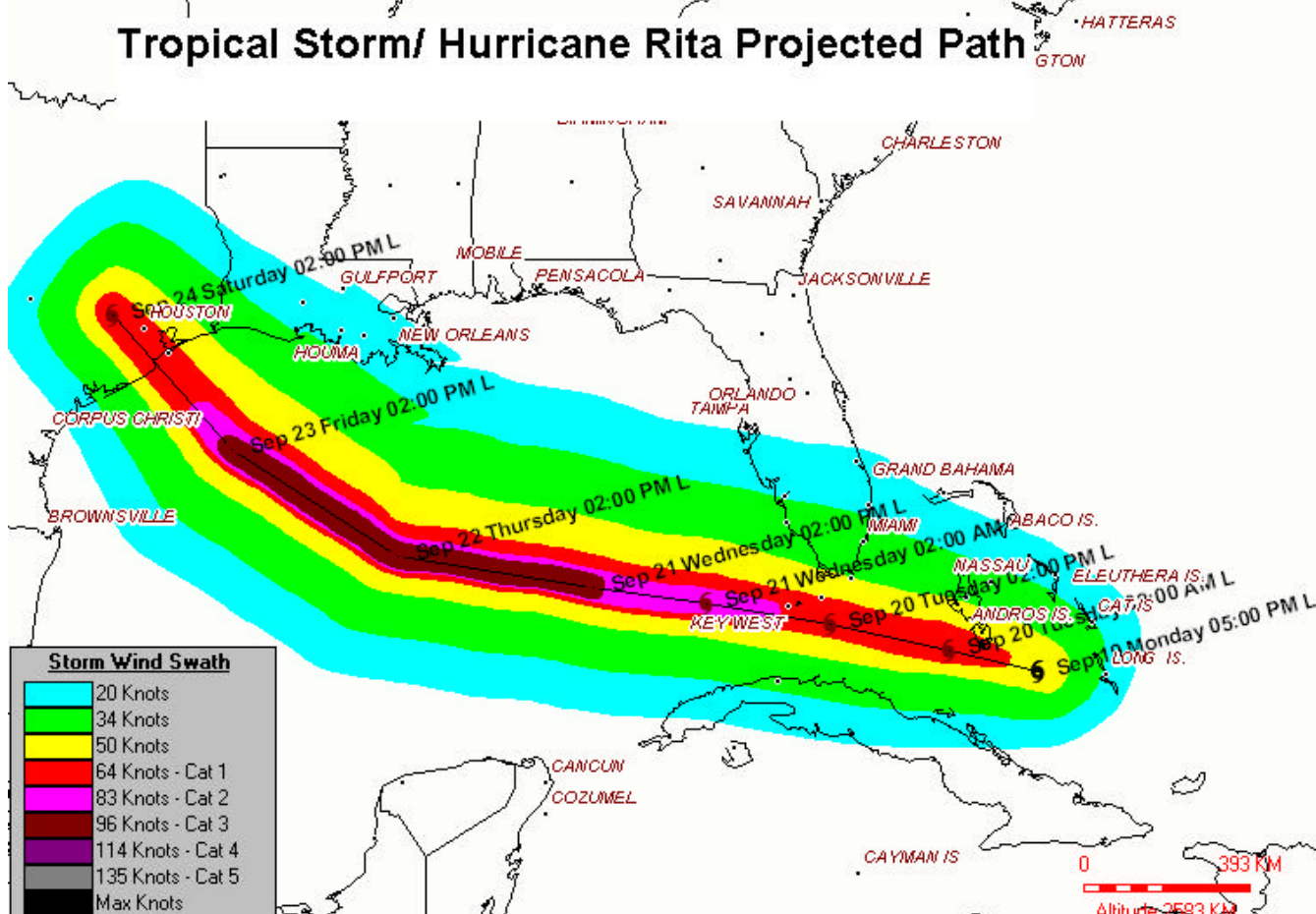
Kuwait is in talks with the Bush administration to build an oil refinery in the US, seeking to construct the country's first new refinery in 30 years. Kuwait's Oil Minister Sheik Ahmed Fahd al-Ahmed al-Sabah

said he is seeking a joint venture partner in the project and White House assistance in gaining the necessary permits.

Qatar is considering building a new refinery to process up to 200,000 bpd of heavy crude oil into more valuable products such as diesel and gasoline. He said the proposed refinery, which would help satisfy strong oil-products demand that is driving prices higher, is still under study.

Production News

According to the MMS, US crude oil and natural gas production posted another modest amount of recovery on Monday. It said the percentage of oil output shut was 55.84%, down from 56.06% on Friday. It reported that 837,648 bpd of crude oil production remained shut on Monday, down from 840,921 bpd reported on Friday.



Louisiana’s Department of Natural Resources said at least 79,179 bpd of crude oil production in state waters in Louisiana remain shut in following Hurricane Katrina. The figure is up slightly from Friday’s figure of 77,305 bpd as more information regarding the status of operations became available.

The IEA has forecast that the world’s dependency on OPEC oil will increase as non-OPEC production was expected to reach a ceiling just after 2010. It said OPEC will be the main contributor to any growth in world oil production, mainly from countries in the Middle East and Africa. It said output from non-OPEC countries, like Norway, Mexico, Russia and the US, could fall just after 2010.

OPEC's news agency reported that OPEC's basket of crudes fell by 91 cents to \$56.62/barrel on Friday. It also reported that OPEC's basket of crudes fell by \$2.19/barrel to \$56.79/barrel in the week ending September 15.

Kazakhstan's crude oil and gas condensate output totaled 40.62 million tons or 1.27 million bpd in January-August, up 5.4% on the year.

Thailand's Commerce Ministry said Thailand's crude oil imports fell nearly 15% in August from a year earlier to 4.121 billion liters.

An Indian state run oil exploration firm has shut down 30 oil wells in Assam after a fire engulfed one of its wells. Firefighters have been battling the fire at the well for the past six days. It is still not clear what caused the fire to break out at the oil field.

Oil exports and transit via Ukraine's seaports fell by 46.4% on the year to 5.149 million tons in January-June. In January-June, oil product exports fell by 5.1% on the year to 2.371 million tons. Of the total, oil product exports via the Odessa seaport amounted to 2.129 million tons.

Market Commentary

The energy complex rallied as OPEC was leaning towards a proposal that would leave its output ceiling unchanged and offer to release 2 million bpd of crude production if needed. Also, unlike Friday's session, when the market continued to sell off despite the tropical storm forecasts, the market was well supported amid concerns that Tropical Storm Rita would target the production and refining region in the Gulf. The oil market opened well above where it ended in overnight trading and gapped higher from 64.40 to 64.60, its intraday low. The market immediately rallied over \$3 as it posted a high of 66.85 and held some resistance at that level. The market however later found further buying ahead of the close, which pushed it to a high of 67.60. It retraced almost 62% of its move from a high of 70.85 to a low of 62.55. The oil market settled up \$4.39 at 67.39. Volume in the crude was excellent with over 265,000 lots booked on the day. Meanwhile, the product markets rallied amid the concerns over Tropical Storm Rita, with the gasoline market settling up 25.76 cents at 204.27 and the heating oil market settling up 20.14 cents at 203.84. The gasoline market gapped higher from 186.00 to 188.00 and continued to surge throughout the session. The market rallied over 26 cents as it rallied to a high of 204.90 ahead of the close. Similarly, the heating oil market also gapped higher from 188.50 to 192.00 and rallied to a high of 205.00 as it re traced Friday's losses amid the concerns over the storm. Volumes in the product markets were excellent with over 80,000 lots booked in the gasoline and over 56,000 lots booked in the heating oil market.

The oil market this week is seen remaining supported amid the concerns over Tropical Storm Rita, which is expected to strengthen and become a hurricane before it makes it way into the Gulf of Mexico. The storm is forecast to move into the Gulf of Mexico and head anywhere between the Louisiana and the Texas coastline. The market is seen finding support at 67.00, 66.25 and 65.10.

More distant support is seen at its gap from 64.60 to 64.40. Meanwhile resistance is seen at its high of

| Technical Analysis | | |
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| | Levels | Explanation |
| CL 67.39, up 4.39 cents | Resistance 68.60, 69.60 | Previous highs |
| | 67.60, 67.68 | Monday's high, 62% retracement (70.85 and 62.55) |
| | Support 67.00, 66.25, 65.10 64.60 to 64.40 | Opening gap |
| HO 203.84, up 20.14 cents | Resistance 207.20, 209.50 205.00, 205.34 | Previous highs |
| | 201.00, 195.00 | Monday's high, 62% retracement (221 and 180) |
| | Support 192.00 to 188.50 | Opening gap |
| HU 204.27, up 25.76 cents | Resistance 207.00, 211.50 204.90 | Previous high, 50% retracement (245 and 178) |
| | Support 200.10, 195.75, 192.00 | Monday's high |

67.60 and 67.68, its 62% retracement level. More distant resistance is seen at 68.60 and 69.60.