



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR SEPTEMBER 27, 2004

Late Monday, militant leader Mujahid Dokubo-Asari said the militants will launch an "all out war on the Nigerian state" from October 1 and advised all oil companies to shut their production by then. He also advised all foreigners to leave the delta, which pumps all of Nigeria's 2.3 million bpd of production. Earlier, Royal Dutch/Shell Group has lost 30,000-40,000 bpd of Nigerian oil output due to security restrictions in the Niger Delta where militants are fighting government troops. It is still pumping almost 1 million bpd but an industry source stated that it could increase the output cuts if military operations continue. On Sunday, militant leader said he intended to extend the fighting across the whole Niger Delta to press for political reforms or gain sovereignty. Separately, Presidential Adviser on Petroleum Edmund Daukoru said Nigeria cut oil output by 250,000-300,000 bpd in August to protect its aging facilities.

Nigerian Labor Congress leader Adams Oshiomole gave the government a 14 day ultimatum to reverse a 15% fuel price hike or face an indefinite nationwide strike.

Market Watch

The Florida Department of Environmental Protection said consumers in Florida will be allowed to use fuel with sulfur content of more than 500 parts per million through October 5, extending the waiver of normal regulations by a week.

Under a plan outlined by Minnesota's Gov. Tim Pawlenty said the state would double the required ethanol content of its gasoline from 10% to 20%. He said he would propose legislation for the state's 2005 session. The new requirement would take effect when at least half of the new vehicles sold in the state have warranties covering the use of fuel with higher ethanol content.

The Federal Trade Commission conditionally approved Buckeye Partners LP's plans to acquire pipelines and terminals from Royal Dutch/Shell. It approved the deal after the companies agreed to exclude a Shell refined petroleum terminal in Niles, Michigan from the acquisition.

Russia's Interfax news agency reported that ConocoPhillips has submitted a bid to buy Russia's remaining 7.6% stake in Lukoil. Conoco would be one of three bidders at an auction on September 29, with the starting price set at almost \$2 billion.

The NYMEX is in talks with Nordic stock exchange operator OMX AB to set up a futures exchange in London. The acquisition of a European exchange would give it a solid platform from which to relaunch its defunct contract for North Sea Brent crude oil.

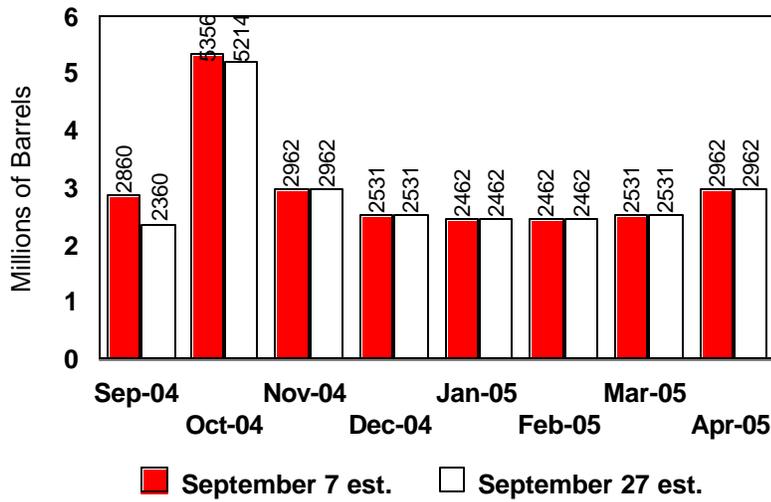
Oil tanker freight rates from the Middle East may increase a fourth consecutive week, as reduced US production forces refineries to purchase more oil from the Middle East and cause an increase in transport demand. Shipbrokers said about 40 very large crude carriers were booked for Persian Gulf cargoes last week.

Germany's Economy Minister Wolfgang Clement said that high crude oil prices posed a risk to world growth. He added that the governments needed to find ways to prevent oil costs being increased by speculators in the market. Separately, Germany's Finance Minister Hans Eichel said economic growth will be at risk if oil prices remain at current levels, blaming speculation rather than fundamental factors for the increase in crude prices. He said the German government saw no need yet to change its growth forecast for this year.

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Current Delivery Schedule to U.S. SPR

EIA Projections (as of September 27, 2004)



He said workers would strike on October 11 unless the government reversed last week's increase, which lifted the gasoline price to 54 naira/liter.

The DOE is considering granting further requests from Gulf Coast refiners to borrow crude oil from the SPR to replace supplies delayed by Hurricane Ivan. The 1.4 million barrels of crude oil that the DOE agreed to lend Shell Oil from the SPR will take almost a week to be delivered. The oil will be delivered to Shell at a rate of about 9,000 barrels per hour.

Separately, the DOE released its new crude oil delivery schedule for the SPR on Monday. It reduced the

delivery in September by 500,000 barrels to 2.36 million barrels while deliveries during October fell by 142,000 barrels to 5.214 million barrels. Meanwhile, the Bush administration said it is closely monitoring US crude oil prices as they approach the psychological threshold of \$50/barrel.

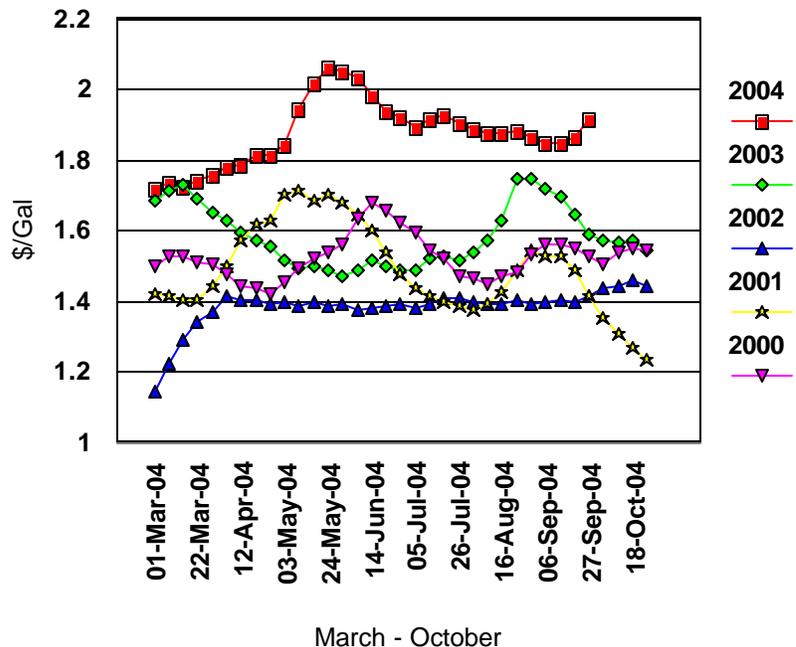
Morgan Stanley estimates that increasing crude oil prices could reach \$61/barrel before a significant sell off occurs.

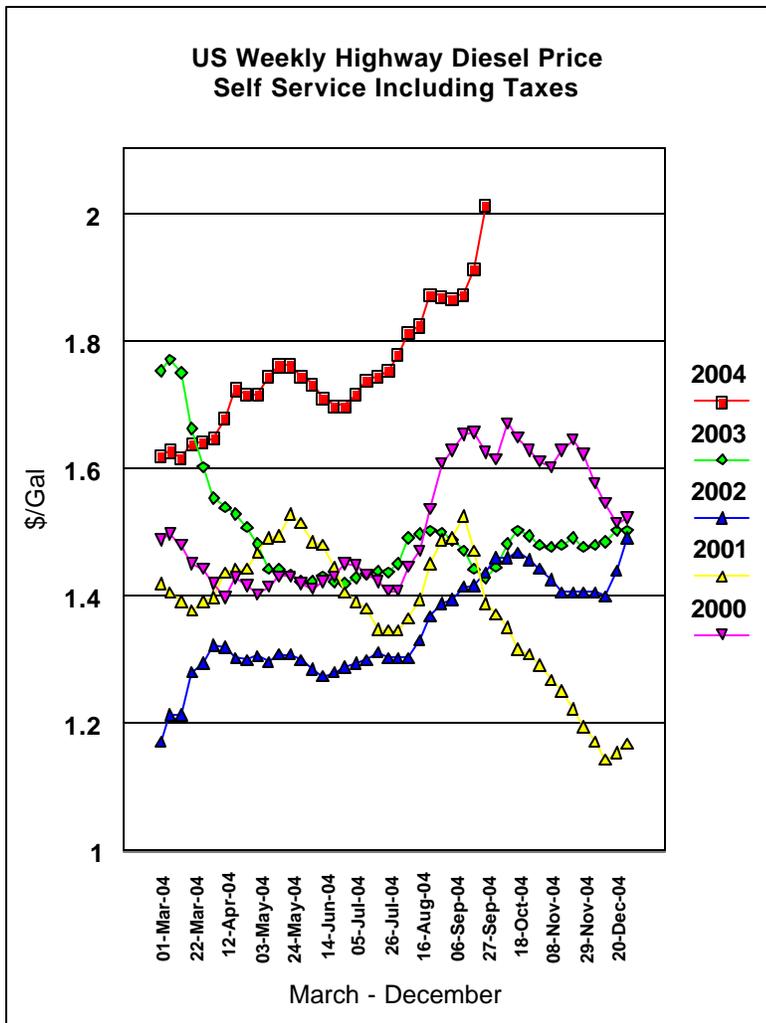
According to a North Oil Co official, Iraq has resumed oil exports to Turkey through a pipeline which has been shut in since saboteurs blew it up on September 2. He said Iraq was pumping at a rate of 400,000-500,000 bpd. Iraq was using a backup pipeline to export about 200,000-250,000 bpd from the north this month. Meanwhile a shipping source stated that Iraq's oil exports increased on Monday to 2.5 million bpd. Average September oil sales are seen at just over 1.8 million bpd.

Saudi Arabia's Oil Minister Ali al-Naimi assured US oil experts that Saudi Arabia is working to ensure market stability by providing oil supply security. Separately, Saudi Aramco said it is in the late planning stages to increase its oil production beyond the 650,000 bpd increase already earmarked for this year. It did not set a timeframe for the extra capacity going on line.

According to Petrologistics, OPEC's production in September increased by 600,000 bpd on the month to 30.5 million bpd. The ten OPEC members increased their production by 500,000 bpd to 28.6 million bpd. It estimates Saudi Arabia's production at 9.75 million bpd in September, up 500,000 bpd on the month. The head of

US Weekly Retail Regular Gasoline Prices





Petrologistics said most producers within the group are now running at or close to capacity. Saudi Arabia's increase in production put it within 750,000 bpd of capacity limits. Iraq increased its production by 100,000 bpd to 1.9 million bpd.

Separately, a Gulf source said Saudi Arabia is expected to pump 9.5 million bpd in October, mostly unchanged on the month.

OPEC's President Purnomo Yusgiantoro said OPEC can increase its production by a further 1.5 million bpd before the end of the year. However he stated that the market is currently well supplied.

The EIA reported that the US average retail price of gasoline increased by 5.1 cents/gallon to \$1.917/gallon in the week ending September 27th. It also reported that the US average retail price of diesel increased 10 cents/barrel to a record high of \$2.012/gallon on the week.

Refinery News

According to the Texas Natural Resource Conservation Commission, a fluid catalytic cracker at its Sweeny refinery will undergo start up following the completion of all maintenance work associated with the September 2004 turnaround. Its start up is expected to begin on Monday.

Valero was forced to shutdown its 90,000 bpd heavy oil cracker at its 138,000 bpd Corpus Christi, Texas refinery. Repairs are seen completed in about 48 hours. The same unit was taken out of service last Tuesday for about two days of unplanned maintenance.

Separately, Valero has signed a deal with an engineering firm to design and build a 35,000 bpd gasoline desulphurization unit at its 155,000 bpd McKee refinery in Sunray, Texas. The unit is scheduled for completion in fall 2005.

Crown shut a catcracker at its Pasadena, Texas refinery on Sunday for unplanned work.

PDVSA began restart operations of its 90,000 bpd hydrotreater unit at its Amuay refinery and hopes to have the unit operating normally as soon as Wednesday. The unit was shut two weeks ago for repairs. Product exports from the refining complex were recovering following a slowdown last week. Maritime officials said exports were delayed due to production problems at the refinery and lingering effects of Hurricane Ivan.

Venezuela's El Palito refinery is restarting a boiler unit at its 54,000 bpd catalytic cracker that was shut last week due to a rupture. The catcracker was operating at reduced rates while the boiler was repaired.

An oil official stated that a power outage briefly shut some units in Kuwaiti refineries on Monday. He said the units are being restarted and should be back onstream within hours.

Nippon Oil Corp said it restarted a 140,000 bpd crude distillation unit at its Mizushima refinery. The unit was shut on September 1 for regular maintenance.

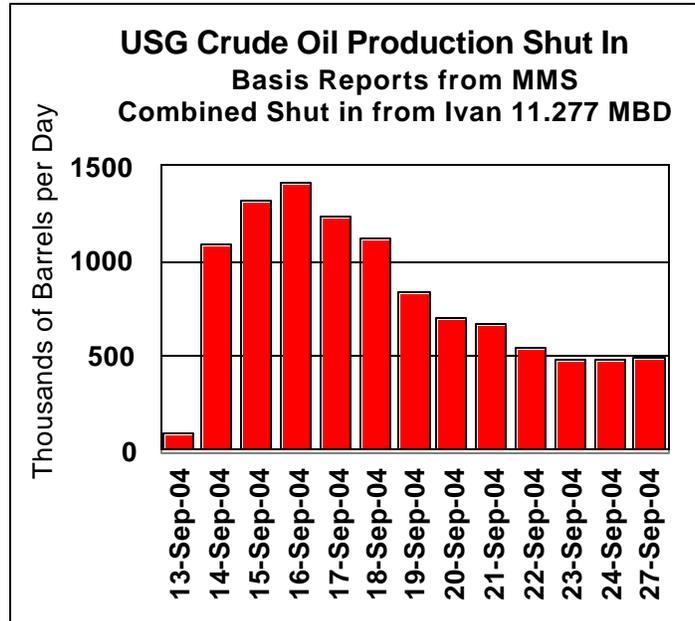
China's Lanzhou refinery stated that it will reduce crude processing in October by about 7% from record rates in September due to poor profit margins. The refinery's October crude rate is forecast at 700,000 tons or 175,000 bpd, down from about 750,000 tons in September.

Production News

The US Minerals Management Service said that 11.277 million barrels of oil and 50.042 bcf of natural gas has been shut by Hurricane Ivan. It reported that oil production is still down 491,698 bpd, while natural gas production is still down about 2.347 bcf/d.

Colonial Pipeline Co. said its operations are normal as the former Hurricane Jeanne, now a tropical storm, was not expected to impact the oil products pipeline. A spokesman said that by the time the storm reaches Georgia, where it will intersect with the pipeline, it will not likely be strong enough to influence operations.

Pipeline officials stated that the Explorer Pipeline's current 27th cycle is the first shipping cycle since April not be on proration.



Lithuania's Mazeikiu Nafta said it planned to process 2 million tons of oil between October and December, in line with its existing production targets for the full year. It has stated previously that it expects to process about 8 million tons of oil this year, up from 7.17 million tons of Urals crude processed in 2003.

Russia's Sibneft plans to ship about 279,000 tons of crude in 2004, unchanged on the year.

Russia's Economic Development and Trade Minister German Gref said duties on light oil products should be higher than those on heavy oil products. The ministry expects to call a meeting with representatives from oil companies to discuss the issue later this week. The export duty on all oil products is set at \$45.40/ton compared with the previous duty of \$69.90/ton set August 1.

Delays for oil tankers transiting the Turkish straits stood at little more than 3-4 days in both directions on Monday, though delays are expected to worsen through the winter. Last year deteriorating weather conditions through the straits increased the transiting time to over 25 days. Gulf Agency Co said waiting times through the Dardanelles and Bosphorus northbound were no more than 3 days with a day's wait to pass south again.

Market Commentary

The oil market gapped higher from 48.90 to 49.45 on the opening as the market remained well supported by concerns over oil supplies. The market traded higher in follow through buying seen in overnight trading following the news that Shell cut 30,000-40,000 bpd of its Nigerian production due to security restrictions in the Niger Delta where militants have been fighting government troops. The November crude contract traded to a record high of 49.75, where it found good resistance. The market traded off that level and started backfilling its gap after failing to test the 50.00 level. The market however traded to a low of 49.10 where it found good support, still leaving a gap from 49.10 to 48.90. The market erased its losses and traded to back to its high of 49.75 on some late buying ahead of the close. It settled up 76 cents at 49.64 after failing to breach its resistance level. Volume was light with 145,000 lots booked on the day, of which 71,000 lots traded via spreads. The heating oil market also ended in positive territory, up 1.01 cents at 136.80 after it gapped higher on the opening from 136.00 to 137.20. The market traded to a record high of 137.50 before it retraced its gains and later posted an intraday low of 135.30. Similar to the crude market, the heating oil market bounced off its low and retraced most of its losses

ahead of the close. The gasoline market also gapped higher on the opening from 135.50 to 136.30 and quickly posted its intraday high of 136.50 amid the strength in the oil market. The market however erased its gains and traded to a low of 133.30, where it held good support as it traded sideways ahead of the close. It settled down 19 points at 134.63. Volumes in the products were good with 40,000 lots traded in the heating oil and 50,000 lots traded in the gasoline market.

The crude market will remain supported in light of the news that militants in Nigeria have called on all oil companies in the Niger Delta to shut their production by October 1. The market is seen testing its overnight high

of 50.00. More distant is seen at 52.08, basis its trendline. Meanwhile support is seen at 49.50 followed by 49.10-48.90 and 47.90.

Technical Analysis		
	Levels	Explanation
CL 49.64, up 76 cents	Resistance 50.00	Monday's high
	Support 49.75	
HO 136.80, up 1.01 cents	Resistance 140.00	Monday's high
	Support 137.50	
HU 134.63, down 19 points	Resistance 138.00	Monday's high
	Support 136.50	
	49.10 to 48.90, 47.90	Remaining gap, Previous low
	135.30, 133.10	Monday's low, Previous low
	133.30	Monday's low
	131.00, 127.00	Previous lows