



## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR SEPTEMBER 29, 2005**

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According to the EIA, US oil demand in August averaged 21.375 million bpd, up 1.65% on the year. Gasoline demand increased 0.3% on the year to 9.358 million bpd, but it was down from July's level of 9.451 million bpd. Demand for distillate was a record for August at 4.009 million bpd, up 3% from a year ago. Meanwhile jet fuel demand was estimated at 1.656 million bpd in August, down 4.3% on the year.

According to Oil Movements, OPEC's oil exports are expected to increase by 90,000 bpd to 24.43 million bpd in the four weeks ending October 15.

#### **Refinery News**

The damage to Entergy Corp's power grid, which supplies seven refineries may delay output for a month. Operating refineries are straining to replenish gasoline stocks while meeting heating fuel needs. The average US retail gasoline price on Wednesday was little changed at \$2.815/gallon from \$2.811/gallon on Tuesday, according to the AAA. Barclays Capital stated that hurricane related output cuts at US refineries may total 140 million barrels. At least half of that is gasoline production, amounting to about nine days of US consumption.

According to the Energy Department two sites in Texas and Louisiana that store the government's emergency oil

#### **Market Watch**

The EPA has decided to allow Houston, Galveston, Dallas and Ft. Worth, Texas and Richmond, Virginia to continue using conventional gasoline instead of cleaner burning reformulated gasoline through October 20. St. Louis was also issued a waiver from the reformulated gasoline requirements until October 7. It also extended Atlanta's waiver from certain clear air rules. It can continue to sell diesel with a higher sulfur content through October 25.

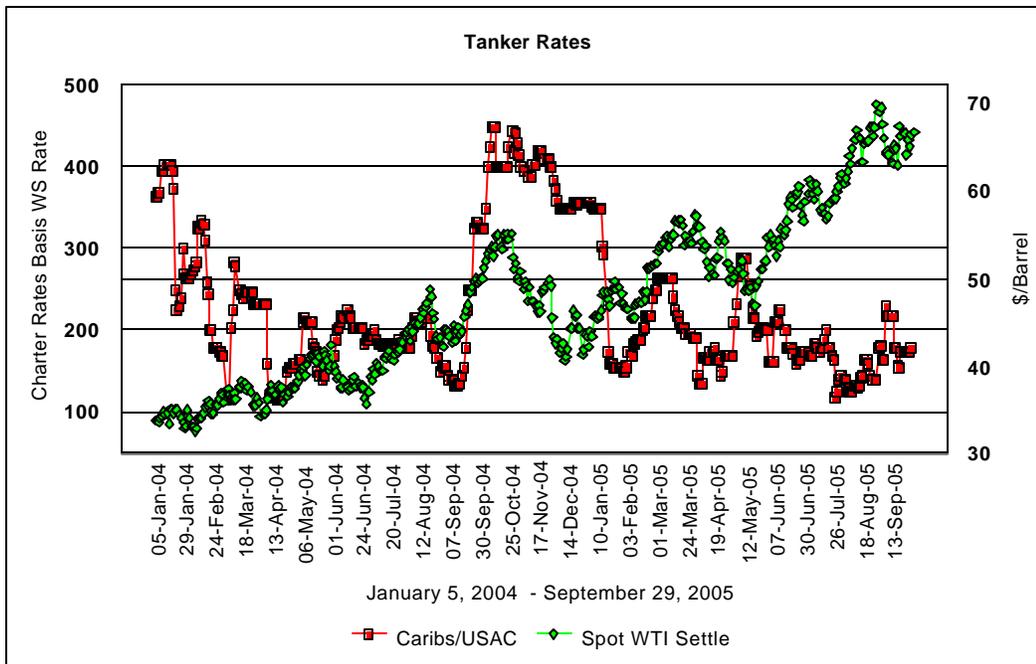
According to shipbrokers and traders, Europe has provisionally booked up to 14 cargoes of gasoline to the US this week. Shipbrokers also reported strong activity and bookings from the Baltic to the US of gas oil cargoes.

Suppliers have fixed up to 300,000 tons of Russian gas oil to the US by mid-October as they take advantage of an open arbitrage.

Royal Dutch Shell chief executive, Jeroen van der Veer said refining investment will increase with higher margins.

According to the Commerce Department, the US economy grew at a 3.3% annual rate in the second quarter, fueled by homebuilding and consumer spending. The personal consumption expenditures price index increased 3.4% compared with 3.2% estimated last month and 2.3% in the first quarter.

Venezuela's tax agency stated that foreign oil companies with pending tax bills would not be able to convert their operating contracts into joint venture deals with the government. It noted that it could shut down the actual oil production operations of companies that fail to pay what they owe but it has not chosen to do so yet.



inventory could be without electricity for up to 10 days due to Hurricane Rita and will not be able to release crude. The West Hackberry site in Louisiana and the Big Hill site in Texas are two of four storage sites that make up the SPR. It does not appear that the temporary shutdown of the two sites will interfere with the government's

previous schedule to deliver 12.1 million barrels of reserve crude to refineries during October.

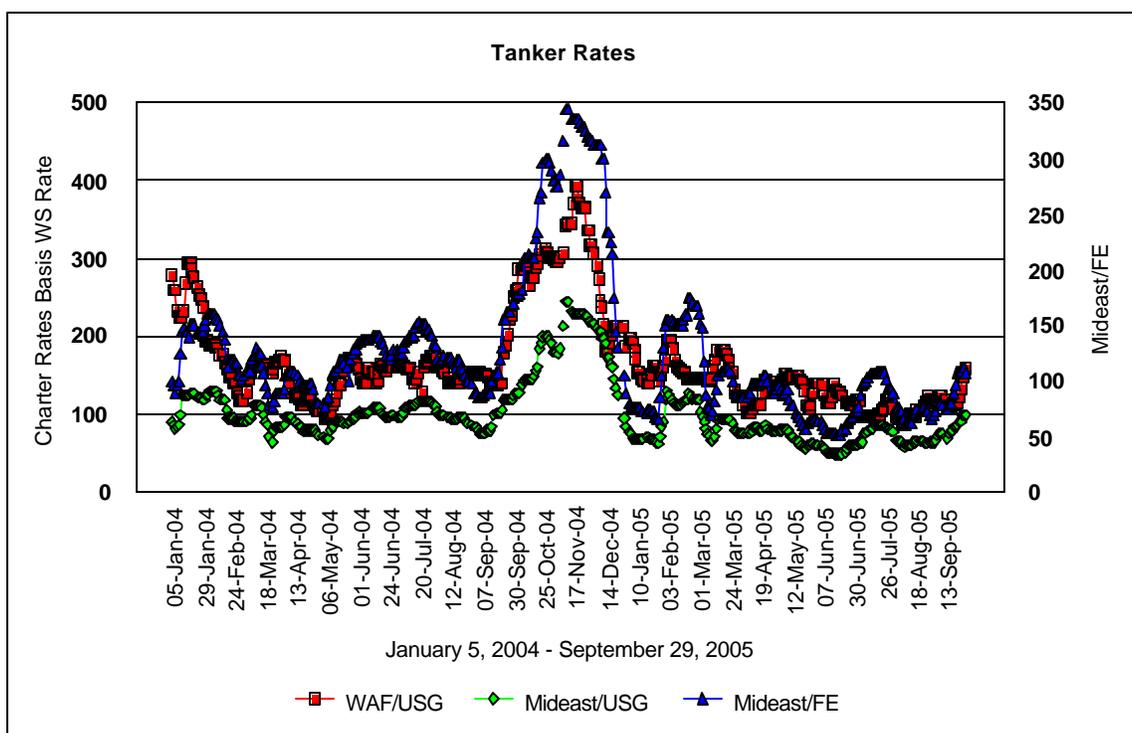
Mexico's Pemex said it expects shipments of 10 million barrels in crude oil exports to be canceled, as refineries in the US Gulf Coast remain shut. Despite the disruption, a Pemex official said the company would maintain its crude production of about 3.4 million bpd, since the company has been able to store the crude or find new buyers in Europe, Asia and parts of the US. Exxon Mobil Corp has reportedly declared force majeure on 6 cargoes of Mexican Maya crude. It has contracts to send 65,000 bpd to Exxon's 557,000 bpd Baytown refinery, which is still restarting. The most affected of Pemex's clients is Valero Energy Corp's 255,000 bpd Port Arthur refinery. Valero hopes the refinery will resume operations by late October. Pemex also sends 90,000 bpd to Valero's Texas City refinery. Valero expects that its 210,000 bpd facility will resume operations by the end of the week. Meanwhile, officials with Royal Dutch Shell said they expect the restart process at its 340,000 bpd Deer Park refinery to continue into next week. Pemex normally ships 50,000 bpd of its heavy Maya crude to the Deer Park facility. The shipment disruption is in addition to the 130,000 bpd in crude deliveries Pemex has had to divert from Chevron Corp's Pascagoula, Mississippi refinery. Chevron plans to partially restart the 325,000 bpd Pascagoula refinery in mid-October and have it fully operating by mid-November.

BP is looking to produce gasoline from its Texas City, Texas refinery as soon as possible but production is likely still several weeks away. The 557,000 bpd refinery has electrical power and employees are reporting back to work but insulation damage continues to be assessed and repaired.

Shell Oil's president John Hofmeister said its oil refinery production in the Gulf Coast was still weeks away from resuming full capacity. It is still pumping out water and restoring electrical lines at its gulf region refinery facilities. He said Motiva is still weeks away from restarting its 275,000 bpd refinery in Port Arthur, Texas.

Murphy Oil Corp said it will likely take several months to restart operations at its 120,000 bpd Meraux, Louisiana refinery. Damage assessments are still underway with the aid of generators. Full power to the plant would likely be restored in a week. Murphy has been buying gasoline in the physical markets in order to make up for the gasoline production lost at the refinery.

Chevron Corp is working to restart a compressor that went off line on Wednesday and led to the shutdown of feed to a 90,000 bpd fluid catalytic cracking unit at its 243,000 bpd refinery in Richmond, California. A source said the unit was scheduled



for turnaround from October 10-November 10 and would likely remain down until the scheduled maintenance is completed.

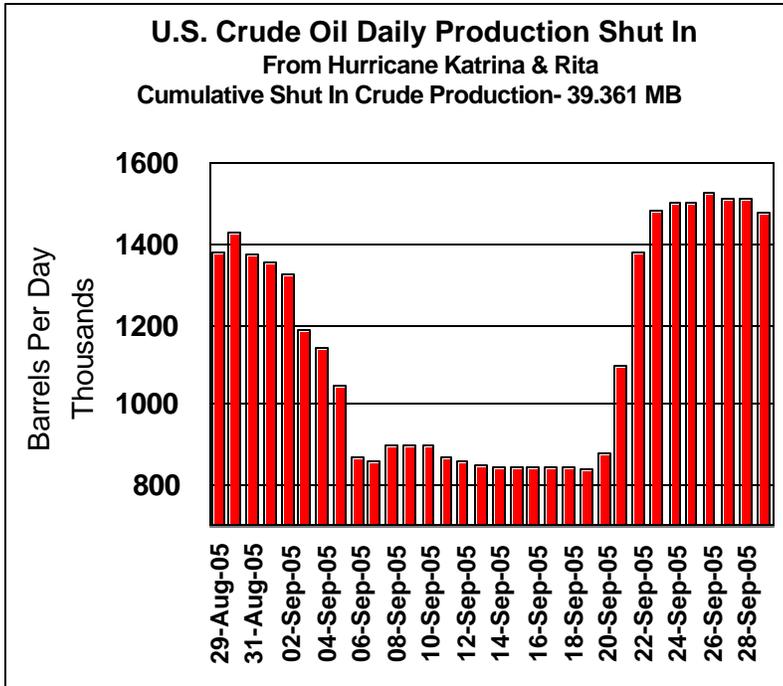
A strike by port workers in southern France, which blocking access to the Lavera and Fos port was extended to a third day. However the refineries are operating normally. Separately workers at Total's 328,000 bpd Gonfreville refinery voted on Wednesday to extend their nine-day strike until Friday. UFIP and Royal Dutch Shell warned that there could be an impact on the plant's operations if the strike continues until the end of the week.

Meanwhile, France's CGT union said workers aim to cut operating rates but not shut down Total's refineries as part of a general strike on October 4. It said next week's action by France's five main unions was not an extension of a nine day strike that has shut Total's 328,000 bpd Gonfreville refinery in Normandy.

Indian Oil Corp has started commissioning a diesel hydrotreating unit at its Panipat refinery. The new unit will help IOC meet its requirement for low sulphur diesel from its own plants instead of importing the fuel.

### **Production News**

The US MMS reported a slight improvement in the amount of crude oil production shut in by the hurricanes. It reported a total of 1.479 million bpd of crude production shut in or 98.59% of the daily oil production in the Gulf of Mexico. The cumulative shut in oil production is 39.361 million barrels. Separately, the MMS issued two rules related the impacts of hurricanes Katrina and Rita. It is providing an extension for the payment of royalties owed on federal oil and gas leases and to provide the corresponding royalty and production reports.



Chevron said its Typhoon platform was capsized in the storm. A company spokesman said tugboats have secured the upside-down platform and Chevron is investigating what caused it to topple. Chevron would not comment on whether it could salvage Typhoon, which had a capacity to pump 40,000 barrels of oil and 60 mmcf/d of natural gas. Meanwhile, GlobalSantaFe found two severely damaged rigs that had been lost and Diamond Offshore said two of its rigs that broke loose and were swept 100 miles from their sties had run aground. Separately, ConocoPhillips said its Magnolia project has minimal damage and should restart shortly. Initial assessments to its three smaller fields show only minor damage. Shell Oil did not provide additional information about its deepwater production facilities but did

say it plans to ship oil from a few fields by barge.

BP's chief executive John Browne said oil and gas facilities were impacted more by Hurricane Katrina than from Hurricane Rita. He said its Thunder Horse platform would be service in 2006, instead of the fourth quarter of this year.

The Louisiana Department of Natural Resources said about 200,000 bpd of crude production in 38 Louisiana parishes remains shut in the aftermath of Hurricane Katrina and Rita. It has restored 4,759 bpd or 2.3% of output capacity.

Analysts stated that OPEC is set to bring some 200,000 bpd of new capacity online from October to the end of the year. It is on track to build more than one million bpd of new output capacity in 2006, much of which is light sweet crude.

Devon Energy Corp said Hurricane Katrina and Rita will cut its production for the third quarter by 1.4 million barrels of oil equivalent.

According to analysts, gas oil inventories in independent ARA storage increased by 75,000 tons to 1.95 million tons in the week ending September 29<sup>th</sup> as German households continued to keep their pre-winter purchases to a minimum. Gasoline stocks fell by 25,000 tons to 575,000 tons on the week while naphtha stocks remained unchanged at 75,000 tons. Fuel oil stocks fell by 230,000 tons to 420,000 tons while jet fuel stocks increased by 60,000 tons to 495,000 tons on the week.

Production from Venezuela's Sincor extra heavy oil upgrading project has not been disrupted by union protests. Operational activities are normal, with production at planned levels of 180,000 bpd. A group of workers blocked the entrance of the project.

France's Energy Ministry reported that the country's total oil product demand increased by 9.5% on the year to 8.147 million tons. Gasoline demand fell by 1.8% on the year to 1.038 million tons while

heating oil demand increased by 37.1% to 1.481 million tons. Fuel oil demand by utilities increased by 11.8% to 98,000 tons while fuel oil demand by industry fell by 6.1% to 126,000 tons.

Russia's Transneft said it will begin building the Northern oil pipeline in Russia only after it receives supply guarantees from Russian oil companies. The pipeline is expected to link Kharyaga in the Timano-Pechora oil and gas province with the port of Indiga on the Barents Sea. The pipeline is expected to export oil produced in West Siberia to Europe and the US.

Russia's Lukoil plans to increase its oil production outside Russia to 15% from 5% of its total output by 2014.

Indonesia's President Susilo Bambang Yudhoyono announced plans to cut government subsidies and increase the prices for kerosene and fuel oil Saturday by as much as 50%. Analysts said President Yudhoyono faces the choice of bankrupting the country due to the subsidies or pushed through the price increases that can topple governments. The subsidies account for about one-third of the government spending.

Iraqi oil officials confirmed that it signed a deal with the UAE based Crescent Petroleum to conduct an exploration study in a southern Iraqi field.

OPEC's news agency reported that OPEC's basket of crudes fell by 5 cents/barrel to \$57.65/barrel on Wednesday.

Saudi Aramco has set its October contract price for propane at \$505/ton, up \$80/ton on the month. It also raised its October price for butane by \$78/ton to \$525/ton. Separately, Kuwait Petroleum Corp has set its December term naphtha at a premium of \$14.50/ton over Persian Gulf mean prices.

### **Market Commentary**

The spot crude contract posted an inside trading day and settled in positive territory, while the product markets posted outside trading days and settled in negative territory in choppy trading. The November crude contract settled up 44 cents at 66.79, the highest settlement seen in the past several days. It posted a 50 cent premium to the December contract, the steepest backwardation seen since October 20, 2004. The oil market opened up 60 cents at 66.95 and quickly posted a high of 67.20. However as it failed to test its resistance at its previous high of 67.40, the market erased its gains and sold off to a low of 65.52. The market bounced off its low and erased most of its losses as it traded back towards the 67.00 level ahead of the close. Volume in the crude was excellent with over 246,000 lots booked on the day. Meanwhile, the gasoline market, which helped

<b>Technical Analysis</b>		
	<b>Levels</b>	<b>Explanation</b>
<b>CL</b> 66.79, up 44 cents	<b>Resistance</b> 67.90, 68.10	Previous highs
	<b>Support</b> 67.20, 67.40	Thursday's high, Wednesday's high
<b>HO</b> 212.47, down 1.64 cents	<b>Resistance</b> 66.00, 65.52	Thursday's low
	<b>Support</b> 64.70, 64.60	Double bottom
<b>HU</b> 225.16, down 8.77 cents	<b>Resistance</b> 221.00	Previous high
	<b>Support</b> 213.00, 216.00, 217.00	Thursday's high
<b>HU</b> 225.16, down 8.77 cents	<b>Resistance</b> 210.00	Thursday's low, Previous low
	<b>Support</b> 205.00, 203.75	Thursday's low, Previous low
<b>HU</b> 225.16, down 8.77 cents	<b>Resistance</b> 245.00	Previous high
	<b>Support</b> 228.00, 231.00, 237.00	Thursday's high
	<b>Support</b> 220.00	Thursday's low, Opening gap (September 27th)
	<b>Support</b> 216.50, 215.00 to 213.50	

pressured the complex, settled down 8.77 cents at 225.16. The market gapped higher from 235.00 to 236.00 in follow through strength seen during Wednesday's session. It traded to a high of 237.00 but quickly started retracing its gains. The market extended its losses to more than 17 cents as it posted a low of 216.50 on good selling ahead of its expiration on Friday. The market erased some of its losses late in the session but still remained in negative territory. Similarly, the heating oil market gapped higher from 216.00 to 217.00, its intraday high before it retraced its gains. The market sold off to a low of 205.00 as traders liquidated their positions. It however erased some of its losses ahead of the close and settled down 1.64 cents at 212.47. Volumes in the product markets were good with 59,000 lots booked in the gasoline market and 50,000 lots in the heating oil market.

The oil market on Friday will be driven by further liquidation ahead the expiration of the October product contracts and the end of the third quarter. Technically, the market is seen find support at 66.00 followed by 65.52, 64.70 and 64.60. Meanwhile resistance is seen at 67.20, 67.40, 67.90 and 68.10.