



## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR SEPTEMBER 30, 2004**

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Talks between Nigeria's President Olusegun Obasanjo and militants fighting for autonomy in the Niger Delta started on Thursday. An aide to Nigerian rebel leader, Mujahid Dokubo-Asari, said talks with the President started in advance of the expected arrival of three state governors and a paramilitary leader. The rebel leader believes only armed struggle can deliver justice for the impoverished people of the Niger Delta. Meanwhile, Royal Dutch/Shell Group said that the situation in Nigeria's Niger Delta, where a local militia has threatened oil producers, remains tense. It removed 73 of its workers from a houseboat residence in the delta. It said two oil flow stations which pump 30,000 bpd remain offline after the stations were shut earlier this week.

Venezuela's Energy Minister Rafael Ramirez said oil prices will remain near recent highs at least through early 2005

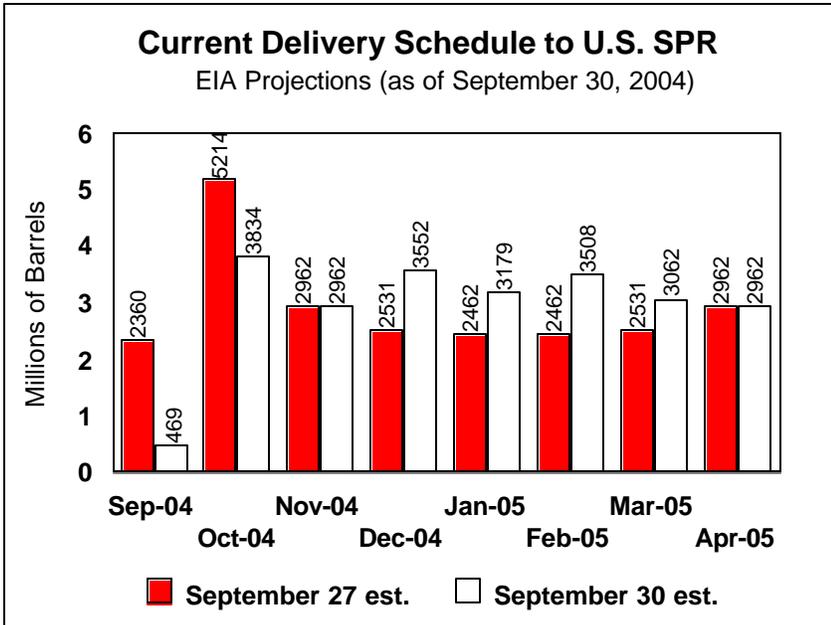
#### **Market Watch**

The DOE announced that it cut its scheduled deliveries of crude oil to the SPR. During the past week, the DOE loaned a total of 3.2 million barrels of SPR oil to ConocoPhillips, Placid Refining Co and Royal Dutch/Shell. It reported that crude delivery to the SPR fell by 1.891 million barrels to 469,000 barrels in September and by 1.38 million barrels to 3.834 million barrels in October. It however increased the delivery for December by 1.021 million barrels to 3.552 million barrels, by 717,000 barrels to 3.179 million barrels in January, by 1.046 million barrels to 3.508 million barrels in February and by 531,000 barrels to 3.062 million barrels in March.

Iraqi oil officials said an alliance between ConocoPhillips and OAO Lukoil would not help either company's chances in securing oil rights in Iraq. The officials stated that there will not be any decision on outstanding contracts signed under the previous regime until the new government finishes mapping out a national oil strategy.

A German government official said Germany and Britain plan to present a joint initiative aimed at increasing transparency on the oil markets in Friday's meeting of G7 finance ministers in Washington. Separately, Japan's vice finance minister also said the G7 will likely discuss oil prices at the meeting on Friday. However he added that it would be difficult for finance ministers to take specific steps in curbing continued price increases.

The NYMEX announced that it will introduce 16 energy calendar swap futures contracts on NYMEX Clearport for refined products in Europe, Asia and the US Gulf Coast starting on October 3 from the October 4 trading session. The new contracts include, European naphtha, Northwest Europe jet kerosene, Rotterdam jet kerosene, Northwest Europe gasoil, Rotterdam gasoil, European Mediterranean gasoil, Northwest Europe ultra low sulfur diesel, Rotterdam ultra low sulfur diesel, Northwest Europe 1% fuel oil, Rotterdam 1% fuel oil, Rotterdam 3.5% fuel oil, European Mediterranean 3.5% fuel oil, Singapore fuel oil 180 centistokes, Gulf Coast gasoline, Gulf Coast heating oil and Gulf Coast jet fuel. The contracts will trade from 7 pm Sundays through 2:30 pm Fridays, with a break between 2:30 and 3:15 pm. The contracts will be available for 36 months forward and will cease trading on the last business day of the contract month.



despite efforts by OPEC to calm the market. He said OPEC can do little to calm market concerns. He said oil the market was well supplied and blamed high prices in part on a lack of refining capacity in the US and instability in Iraq. He also mentioned the falling production capacity in the North Sea and ongoing problems with Russia's Yukos.

Russia's OAO Yukos has paid for river borne oil shipments until the end of October through its largest barge operating shipper, OAO Volgotanker. Yukos ships just over 100,000 bpd of crude oil and refined products through Volgotanker. Meanwhile, the head of Russia's state railways said Yukos will resume full deliveries of oil to China by October 20. Separately, Russia's

Natural Resources Ministry postponed discussions of whether the main unit of Yukos has breached any license agreements. Resources Minister Yuri Trutnev said in early September that licenses held by Yuganskneftegaz unit could be withdrawn within two weeks and awarded to another operator.

According to Oil Movements, OPEC crude oil shipments increased by 260,000 bpd in the four week period ending October 9<sup>th</sup>. Ship chartering shows OPEC's crude oil exports increased to 24.02 million bpd, up from 23.76 million bpd in the four weeks to September 11. Shipments from OPEC producers in the Gulf increased by 430,000 bpd in the same time period to 17.63 million bpd. Seaborne exports to Asian refiners fell by 130,000 bpd to 11.67 million bpd while sailings to western refiners increased by 510,000 bpd to 5.96 million bpd.

OPEC's news agency reported that OPEC's basket of crudes fell to \$43.13/barrel on Wednesday from \$43.54/barrel on Tuesday.

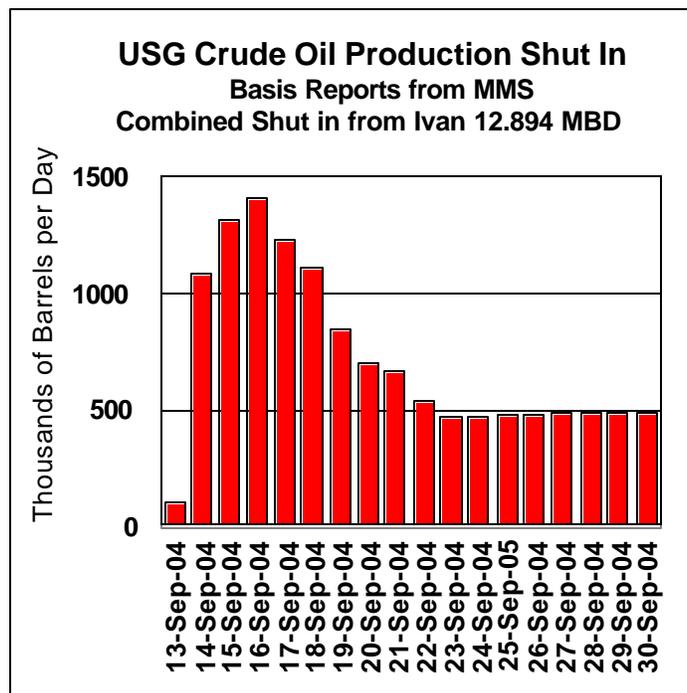
#### Refinery News

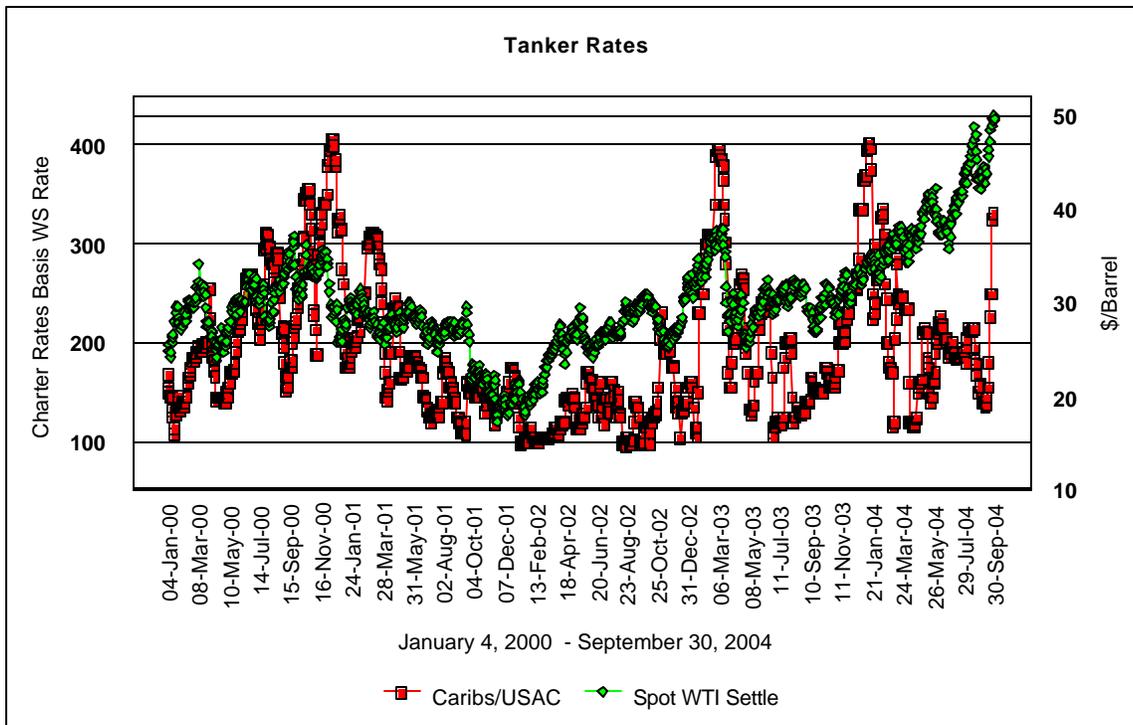
Oil refineries in central California were not affected by a second earthquake to hit the Bakersfield region this week. The earthquake did not damage or affect in any way operations at Shell's 66,000 bpd refinery in Bakersfield. Also no damage was reported at San Joaquin Refining Co's 25,000 bpd refinery or at Kern Oil Refining's 25,000 bpd refinery.

China's Jinling refinery is keeping its October crude processing rate steady from levels in the two earlier months at about 700,000 tons.

#### Production News

There was little improvement in the amount of oil and gas production shut in the Gulf of Mexico. According to the US Minerals Management Service, 484,458 bpd or 28.5% of crude production was still shut in compared with 485,128 bpd on Wednesday while 2.321 bcf/d or 18.88% of natural gas production was still shut in compared





with 2.322 bcf on Wednesday. The cumulative loss since September 13 is 12.894 million barrels of crude oil and 57.86 bcf of natural gas.

ChevronTexaco Corp said Hurricane Ivan shut in about 28% or 80,000 boe/d of its oil and natural gas production in

the Gulf of Mexico for September and added that some of the volume will remain off line beyond the third quarter. Royal Dutch/Shell Group also stated that 135,000 boe/d of its Gulf of Mexico crude and natural gas production remains offline. It hopes to restart production from the installations in mid to late October, bringing them back to full output through the rest of the year. It said it expects to have one of three Gulf of Mexico platforms shut in by Hurricane Ivan producing again by mid-to late October. BP stated that about 200,000 boe/d of its Gulf of Mexico oil and natural gas production remains offline. It is producing about 150,000 boe/d out of the normal 300,000 boe/d.

Separately, PDVSA announced that Hurricane Ivan caused shipping delays at its Paraguana refining complex in September. It has shipped 2.15 million barrels of gasoline to the US this month and 219,000 barrels to Ecuador. It said the congestion at the refinery's ports was caused by delayed arrival of some tankers.

The Explorer Pipeline said it is resuming flow on its Texas-Oklahoma oil products pipeline after a two day shutdown due to a leak. The flow is expected to be at about 90% of normal by the afternoon.

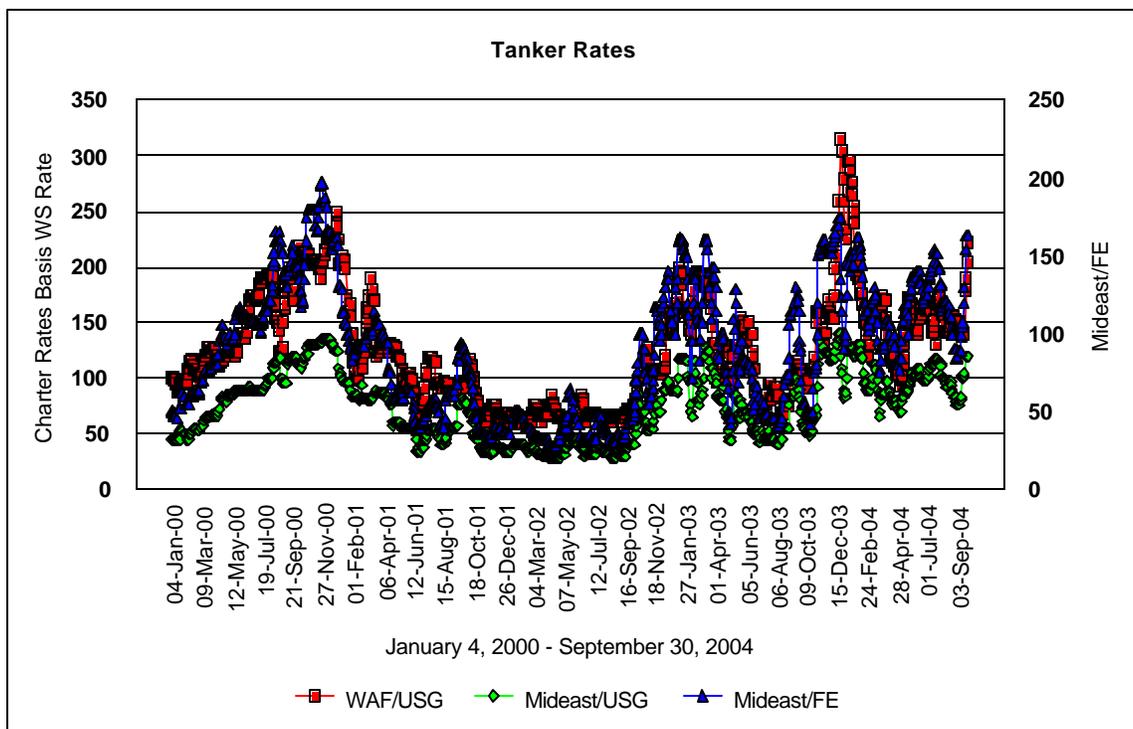
A senior Iranian oil official said Iran's spare oil capacity will increase to about 200,000 bpd within the next few months. It currently has the capacity to produce about 4.1 million bpd and is now pumping close to that figure. The majority of the increased capacity will come from the Soroush and Nowrooz oil fields under development by a Royal Dutch/Shell consortium.

According to the Shetland Islands Council, Brent crude oil liftings from the Sullom Voe terminal fell to 267,991 tons in the week ending September 28<sup>th</sup> from 403,311 tons during the previous week.

An analyst stated that gas oil inventories in the Amsterdam-Rotterdam-Antwerp storage tanks fell sharply this week to 1.45 million tons in the week ending September 30 from 1.6 million tons the previous week. Traders and wholesalers have been actively seeking barge and cargo volumes to build up very low inland stocks, especially in Germany. Gasoline stocks fell by 100,000 tons to 575,000 tons on the week while naphtha stocks increased by 10,000 tons to 100,000 tons. Fuel oil stocks increased by 50,000 tons to 350,000 tons while jet fuel stocks increased by 50,000 tons to 250,000 tons on the week.

Lukoil plans to invest \$3 billion in the Timan-Pechora oilfield and estimated that production will peak at 700,000 bpd. The first commercial oil from the field will come in 2010 with production expected to average 200,000 bpd.

Singapore's International Enterprise reported that the country's residual fuel stocks increased by 1.305 million barrels in the week ending September 29 to 10.138 million barrels. It also reported that light distillate stocks increased by 491,000 barrels to 9.524 million barrels while middle distillate stocks fell by 889,000 barrels to 7.392 million barrels.



Japan's Ministry of Economy, Trade and Industry reported that Japan's crude oil imports increased 1.6% in August from a year earlier to 19.52 million kiloliters or 122.78 million barrels. Its kerosene inventories totaled 3.196 million kl or 20.10 million barrels at the end of the August, down 25.3% on the year. It stated that refiners processed 21.22 million kl or 4.31 million bpd of crude in August, up 10.1% from a year earlier.

An Oil Ministry official in India stated that the country imported 51 million tons or about 2 million bpd of crude oil in the first half of the fiscal year to March 2005. He said the country was likely to import about 100 million tons or 2 million bpd in 2004/2005, about 11% more than the previous year.

**Market Commentary**

The oil market opened 9 cents higher at 49.60 as the market remained supported amid concerns over the security of Nigerian crude supplies. Even though Nigerian militants and the government agreed to a ceasefire, talks were still ongoing on other demands made by the militants. The crude market, which posted an inside trading day, traded from a low of 49.54 to its intraday high of 50.10 within the first hour of trading before it settled in a range from 49.80 to 50.05 for most of the session. The market remained supported in light of the news that little progress has been made to bring back the shut in crude and natural gas production in the Gulf of Mexico. The October crude market retraced some of its gains ahead of the close and settled up 13 cents at 49.64. Volume in the crude market was good with over 180,000 lots booked on the day, of which 98,000 lots traded via spreads. The expiring October heating oil contract opened up 42 points at 137.80 and quickly posted its intraday low of 137.35. However the market bounced off that level and traded to 138.90 where it held some resistance. It later breached that level and gradually traded to a high of 139.60 ahead of the close as traders liquidated their positions ahead of its expiration. It settled up 1.79 cents at 139.17. The November heating oil contract also settled up 1 cent at 138.61 after it traded to a high of 139.80 ahead of the close. Meanwhile, the October gasoline contract settled up 84 points at 134.44 after posting an inside trading day. It opened slightly higher at 133.10 and traded in a range from 133.60 to 135.10 for most of the session. It later traded to a high of 135.50, before it retraced some of its gains ahead of its expiration. The November gasoline contract also posted an inside trading day as it traded in a range from 132.50 to 135.00 and settled down 23 points at 132.76. Volumes in the products were lighter today despite the expiration, with 43,000 lots booked in the heating oil market and 39,000 lots booked in the gasoline market.

The crude market on Friday will retrace some more of its upmove as it has failed to remain above the 50.00 level. However the market's losses will be limited as long as traders remain concerned about supplies, given the situation in Nigeria. The market will also hold its support as the Gulf of Mexico production takes longer to return

to normal. The crude market is seen holding support at 49.54 followed by more distant support at 48.40. Meanwhile resistance is seen at its highs of 50.10, 50.20-50.25. More distant resistance is seen at 50.47.

<b>Technical Analysis</b>		
	<b>Levels</b>	<b>Explanation</b>
<b>CL</b> 49.64, up 13 cents	<b>Resistance</b> 50.10, 50.20, 50.25	Overnight high Thursday's high, Double top
	<b>Support</b> 49.54 48.40, 47.90	Thursday's low Wednesday's low, Previous low
<b>HO</b> 138.61, up 1 cent	<b>Resistance</b> 143.01 139.80	basis trendline Thursday's high
	<b>Support</b> 137.50 134.70	Thursday's low Wednesday's low
<b>HU</b> 132.76, down 23 points	<b>Resistance</b> 135.80 135.00	Previous high Thursday's high
	<b>Support</b> 132.50 132.00, 130.00	Thursday's low Wednesday's low