



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR OCTOBER 6, 2004

The EIA reported in its Short-Term Energy Outlook that world petroleum demand growth for 2004 has been revised upwards to 2.6 million bpd, reflecting 3.3% growth over 2003, up 200,000 bpd from its previous estimate. It cited higher expected consumption in China for the increase in demand. However in 2005, world oil demand is expected to slow to 2.6% as high oil prices begin to slow the pace of world economic growth. It stated that US petroleum demand in 2004 is still estimated to average 20.4 million bpd, up 1.9% from last year. However its US petroleum demand estimate for 2005 was revised downwards by 100,000 bpd from its previous estimate to 20.7 million bpd. It stated that its gasoline demand for 2004 was still 9.08 million bpd while its 2005 estimate was revised downwards by 600,000 bpd to 9.22 million bpd. Distillate demand for 2004 was however revised downwards by 300,000 bpd to 4.05 million bpd while its 2005 estimate

Market Watch

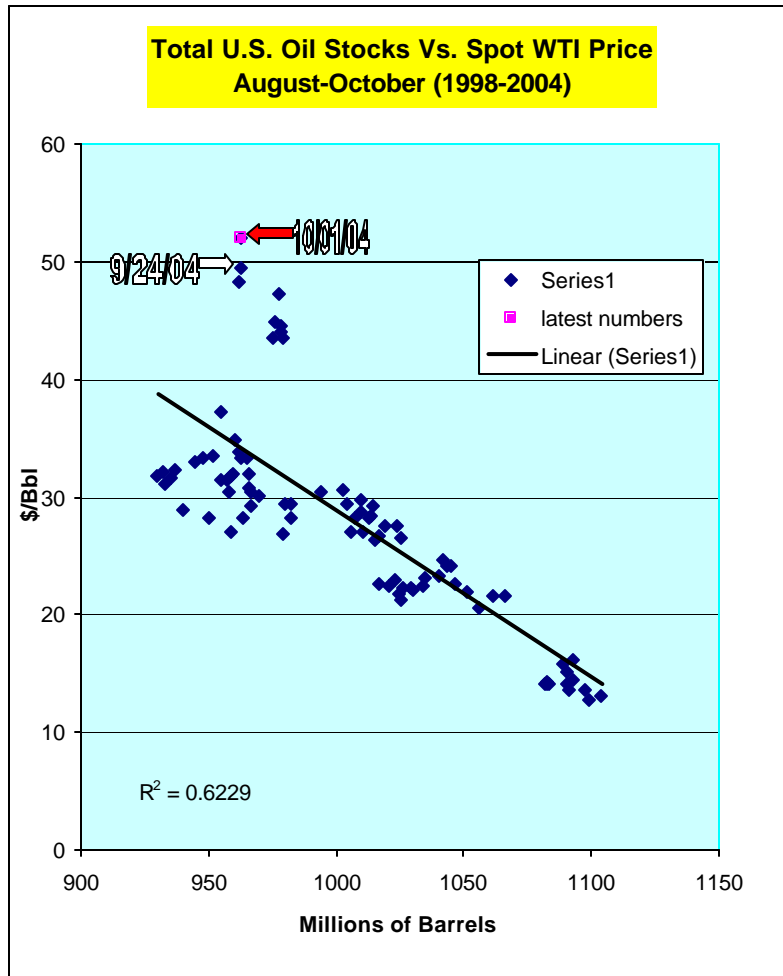
The National Oceanic and Atmospheric Administration said warmer than normal temperatures are forecast for the western US and Plains states this winter but added that it was unclear whether the Northeast and Midwest will face warmer, colder or normal winter weather. It said that a weak to moderate weather anomaly known as El Nino would affect the US through early 2005.

The DOE agreed to lend 500,000 barrels of light, sweet crude oil from the SPR to Premcor Inc to replace supply disrupted by Hurricane Ivan. The crude will be delivered this month to Premcor's Memphis, Tenn refinery via the Capline pipeline. The DOE has loaned a total of 4.7 million barrels of crude. Separately, it stated that crude oil inventories failed to build sufficiently this summer for the winter heating season, leaving stocks in many major consuming countries below average levels. Barring major shifts to either supply or demand, the EIA suggests only an increase in the world's spare production capacity could lower prices.

According to shipping brokers, Saudi Arabia has booked two very large crude carriers to the US for loading in early November. It has provisionally booked the Mayfair to carry 285,000 tons of crude oil to the US for loading on November 11 while the Courtney Bay was booked to lift a similar load on November 1. Saudi Arabia booked 8 spot VLCCs carrying 16 million barrels of crude for delivery to the US in October.

The fate of Yukos' main unit Yuganskneftegaz will be decided on Friday when managers meet resource ministry officials to discuss a challenge to key production licenses. The withdrawal of licenses would complete the demise of the company as it struggles to pay off its tax debts. Meanwhile, Russia's Justice Ministry reported that the two month period set by the Russian legislature for selling the seized shares of Yukos' Yuganskneftegaz expired on Wednesday. However the company could still be sold at a future date due to objective causes or the need for the completion of a valuation of the company's assets. Separately, the deputy head of the federal bailiffs' service said Yukos has paid 75 billion rubles of its 99 billion rubles tax debt for 2000.

A CGT spokesman said French electricity and gas workers will not strike on October 21 to protest against the partial privatization of state utilities.



was also revised down by 600,000 bpd to 4.08 million bpd. In regards to petroleum stocks, it stated that stocks in the US and the rest of the industrialized world remain below normal, due largely to the production lost in the Gulf of Mexico following the hurricanes. Industry officials stated that the resumption of normal operations could take about 45-90 days. It reported that total world petroleum supply in 2004 is estimated at 83.1 million bpd compared with its previous estimate of 82.7 million bpd. Its 2005 estimate is 84.5 million bpd, up from its previous estimate of 84.2 million bpd. Meanwhile total oil production in September averaged 5.03 million bpd, the lowest level since 1950. The EIA also reported that OPEC's production reached 30 million bpd in September, up 400,000 bpd on the month. In regards to prices, its projected average WTI price for the fourth quarter of 2004 is \$46.40/barrel, about \$5/barrel higher than in the previous report.

In its Winter Fuels Outlook for October 2004-March 2005, the EIA stated that US consumers can expect to pay higher home heating bills this winter amid higher crude prices and below normal oil and refined products stocks. Increases in residential heating fuel prices are likely to generate higher bills even in regions

where demand for fuel is expected to fall. Heating oil prices are expected to increase 28.8% on the year while propane prices are also expected to increase by 17.3% on the year. It stated that distillate stocks at the beginning of the season are 126.4 million barrels, within the normal range of 120.1-141.4 million barrels. Total end of season stocks are projected to be 102.1 million barrels, slightly lower than the 104 million barrels seen last year. In the normal weather projections, end of season inventories are expected to remain above normal and above the levels seen last year, assuming no disruptions in refinery operations or imports. However if heating degree days deviate from those in the base case by 10%, demand for heating will fall by 10% in a warmer than projected winter with prices falling by 4.7% while in a colder than projected winter, consumption will increase by 10% and prices will increase by 5.5%. The average price for heating oil in the Northeast is estimated at \$1.75/gallon. The EIA said that compared with last year, net imports of distillate are expected to play a slightly smaller role in meeting the winter demand. Net imports are expected to average 240,000 bpd, down from last year's 269,000 bpd. In regards to propane, propane prices will fall by 4% in a warmer than projected winter while in a colder than projected winter prices will increase by 4.8%. The average propane price is estimated at \$1.53/gallon compared with last year's \$1.30/gallon.

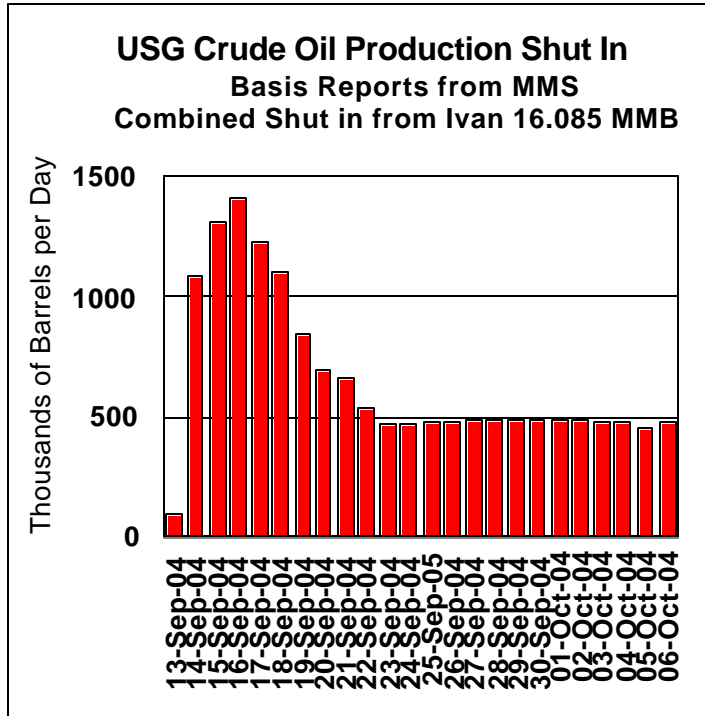
Nigeria's oil union, NUPENG, has threatened to shut down the oil industry on Sunday night ahead of a general strike scheduled for Monday unless the government cut the fuel prices or starts talks. The Nigeria Labour Congress has called strikes four times this year over increasing fuel prices. However none of the strikes have affected the country's oil production. Union leaders declined to hold talks with a government delegation on Wednesday.

Separately, a Royal Dutch/Shell spokesman said the security situation in the areas of the Niger Delta from which the company withdrew 300 workers last month has improved sufficiently to allow the company to return the

workers. It expects to return 30,000 bpd of its output shut in by the evacuation once workers have returned to the sites.

The head of Iraq's SOMO, Dhia al-Bakka said Iraq exported an average of 1.72 million bpd of oil during September from its southern and northern oil fields. He said that out of that amount, about 154,000 bpd were exported from the north via the Turkish port of Ceyhan. He said SOMO's export target is 2 million bpd by the end of the year. Separately, port agents stated that oil exports from the southern Iraqi offshore oil terminal of Basra are flowing at full capacity of 2 million bpd.

Qatar's Minister of Energy and Industry Abdullah bin Hamad al-Attiyah said OPEC is pumping more than 30 million bpd and added that there is no shortage in the market. Meanwhile OPEC's Secretary General Maizar Rahman said OPEC may consider cutting its crude production ceiling if OECD stocks continue to increase from the current levels of between 2.5-2.6 billion to 2.7 billion barrels in November 2004.



The DOE reported that US inventories of propane totaled 68.345 million barrels in the week ending October 1, up 1.078 million barrels on the week. It reported that propane stocks in the East coast fell by 224,000 barrels to 5.385 million barrels while propane stocks in the Midwest increased by 451,000 barrels to 24.399 million barrels. It reported that propane stocks in the Gulf coast increased by 717,000 barrels to 35.078 million barrels.

Refinery News

ExxonMobil Corp shut a hydrocracker at its Beaumont, Texas refinery on Tuesday after the unit's recycle compressor was shut down.

ConocoPhillips shut a hydrogen unit on Sunday to repair a reformer at its Borger, Texas refinery. The unit is expected to resume operations on Wednesday afternoon.

La Gloria Oil and Gas Co shut its Tyler, Texas refinery on Monday due to a power failure. According to a report filed with the Texas Commission for Environmental Quality, an electrical storm caused the power failure.

ExxonMobil Corp plans to shut a sulfur conversion unit and several others at its Baytown, Texas refinery for two days of repairs starting October 18.

Algeria's Energy Ministry reported that a small explosion at the Arzew oil refinery, currently under maintenance, did not cause any damage.

Production News

The Minerals Management Service reported this afternoon that 478,126 b/d of crude production remained shut in as of this morning, some 25,034 b/d worse than yesterday. On the natural gas side some 1.801 bcf was shut in some 64 mmcf worse than yesterday's levels.

Norway's oil production is forecast to increase to 3.3 million bpd next year from this year's estimated production of 3.2 million bpd. Norway's Energy Ministry reported that oil and gas production is forecast to increase by about 3% to 271 million cubic meters of oil equivalent in 2005 from 263 million cubic meters this year.

The Danish Energy Authority said oil output from Denmark's part of the North Sea fell 9.5% year on year in August to a daily average of 336,028 barrels. It stated that production of natural gas increased 5.6% in August from a year earlier to an average of 950 million standard cubic feet.

Russia's October seaborne crude export schedule indicates that a total of 2.348 million bpd will be exported in October, up from September's level of 2.162 million bpd. Loading at the port of Novorossiisk are estimated at 928,000 bpd, while loadings at Tuapse is estimated at 93,000 bpd. Meanwhile, loadings at Primorsk is estimated at 993,000 bpd while loadings at Butinge, Gdansk and Yuzhny are estimated at 72,000 bpd, 167,000 bpd and 95,000 bpd, respectively.

BP has discovered significant oil and gas reserves after drilling its first exploration well at the Sakhalin-5 block. The Sakhalin-5 project has estimated reserves of 4.4 billion barrels of oil and a maximum expected oil and oil condensate output of 700,000 bpd.

Total's Usan deepwater oil project off the Nigerian coast may come on stream in 2008, two years behind its planned start up. It said studies were continuing and added that it was difficult to say when exactly Usan would start up.

The Petroleum Association of Japan reported that Japan's kerosene stocks increased to 4.04 million kl in the week ending October 2, up from 3.74 million kl in the previous week. It stated that the total product stocks increased by 62,764 kl to 11.986 million kl. The average operating rate was 79.5% in the week, down from 81.1% in the previous week. Japanese refiners processed 4.22 million kl of crude oil.

South Korea's Energy Minister Lee Hee-Beom said that South Korea's oil consumption is expected to fall due to high crude oil prices.

Market Commentary

The NYMEX oil market settled at yet another record level, up 93 cents at 52.02 in light of the weekly petroleum stocks reports, which showed draws in product stocks. The market opened down 9 cents at 51.00 and traded to a low of 50.75 ahead of the reports. However the market immediately bounced off its low following the release of the weekly petroleum stock reports and breached its overnight high of 51.48 as it traded to 51.85, where it held some resistance. The market retraced some of its gains and settled in a range before it once again breached its earlier high in afternoon trading. It rallied to a record high of 52.15 ahead of the close as the market remained concerned over supplies. The supportive weekly petroleum stock reports combined with the MMS report which stated that the amount of oil shut in the Gulf of Mexico did not fall but actually increased from Tuesday's level by about 25,000 bpd pushed the market to its high. Volume in the crude was excellent with over 223,000 lots booked on the day, of which 118,000 lots traded via spreads. Meanwhile, the gasoline market also settled up 2.09 cents at 138.75. It opened down 66 points at 136.00 and posted an intraday low of 135.35 ahead of the weekly

petroleum stock reports. However the market immediately bounced off that level in light of the draws reported in product stocks. Similar to the crude, the market traded to a high of 137.70 and settled in a range before it

Technical Analysis		
	Levels	Explanation
CL 52.02, up 93 cents	Resistance	52.31 Basis resistance line
		52.15 Wednesday's high
	Support	51.35
		50.75, 50.50-49.97 Wednesday's low, Opening Gap (October 5th)
HO 142.09, up 1.41 cents	Resistance	142.77, 147.16 basis trendlines
		142.20 Wednesday's high
	Support	140.20
		138.85, 138.80 Double bottom
HU 138.75, up 2.09 cents	Resistance	140.30, 143.60 basis trendlines
		139.00 Wednesday's high
	Support	136.40, 135.35
		135.30-134.50, 132.80 Wednesday's low Remaining gap, Monday's low

bounced back into positive territory and rallied to its high of 139.00 ahead of the close. The heating oil market also bounced off its low of 138.85 and traded to 142.00 in light of the larger than expected draw in distillate stocks. The market later rallied to a new high of 142.20 ahead of the close and settled up 1.41 cents at 142.09. Volumes in the product markets were good with 39,000 lots booked in the gasoline market and 38,000 lots booked in the heating oil market.

The crude market may retrace some of its gains early on Thursday, however the market is still seen trending higher as it stochastics have yet to cross to the downside. Even though the market looks overbought, there seems to be nothing stopping the market from trading higher amid reports stating the crude production remains shut in the Gulf. The market is seen testing its high of 52.15 followed by further resistance at 52.31, basis its resistance line. Meanwhile, support is seen at 51.35 followed by 50.75, and its gap from 50.50-49.97.