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ENERGY RISK MANAGEMENT

Howard Rennell & Pat Shigueta
(212) 624-1132 (888) 885-6100

www.e-windham.com

ENERGY MARKET REPORT FOR OCTOBER 8, 2004

The two day strike by Nigerian oil workers at Shell's facilities ended on Friday. Nigeria's Nupeng oil union said that strike against Shell was called off on Friday after Shell agreed to discuss employment matters with union leaders next Friday. Shell said the strike had not affected production or exports of oil and gas. However Nigeria is facing a strike on Monday after government and labor union officials failed to reach an agreement on fuel prices. President Olusegun Obasanjo's envoys refused to roll back recent fuel price increases opposed by labor unions. Fuel prices increased 20% last month, the latest in a series of increases as Nigeria's government cuts subsidies in a bid to deregulate the fuel market.

Norway's OFS union leader Terje Nustad said a planned widening of a three month long strike by Norwegian oil rig workers, set to impact an additional 25,000 bpd of oil will be delayed until Monday

Market Watch

The Louisiana Offshore Oil Port halted oil tanker offloadings early Friday due to stormy weather and high seas as an area of low pressure sits in the Western Gulf of Mexico, which can form into a tropical depression. The LOOP will resume offloading when conditions permit, possibly Sunday. Crude oil deliveries to refineries via pipeline from the LOOP's underground storage caverns was not affected by the bad weather and continued on Friday. The latest halt has added to delays resulting from the port's closure during Hurricane Ivan.

Several pipelines damaged during Hurricane Ivan has slowed the return of oil production in the Gulf of Mexico. Hurricane Ivan destroyed seven platforms, ripped loose several drilling units and caused 13 leaks in pipelines. Repairs have since been slowed by bad weather. Stormy weather in the Gulf has halted some post Hurricane Ivan repairs aboard damaged oil drilling platforms on Friday and work could be interrupted until Monday. Pipeline problems are the main reasons why production at NaKika, a major source of Heavy Louisiana Sweet crude, remains shut in. It can produce as much as 110,000 bpd of crude. Shell which owns a 50% interest in the facility confirmed that three pipeline segments are damaged and are not operating. The time consuming process of finding leaks and repairing them could mean that pipeline companies are months away from being able to resume operations. Some damaged platforms will also take months to return to pre-hurricane operating levels. Partial production at Shell's Cognac is expected to return between mid-and end-October. Output at the Ram Powell field is seen reaching 70% of its pre-hurricane levels by early December and return to full operating levels during the first quarter of 2005. Production at the Main Pass 252 field is seen returning partially by early 2005.

Federal Reserve Governor Ben Bernanke said Federal Reserve credibility for keeping inflation low has helped cushion the economy from the shock of record oil prices. He said the high oil prices has not translated into a rise in core inflation.

The EIA and the API will release their weekly petroleum stocks reports on Thursday, October 14 instead of Wednesday due to Monday's Columbus Day holiday.

from Saturday. He said the union agreed to keep 80 workers that it had planned to pull off the Varg field on Saturday until Monday to make sure the machinery is shut down safely. The shutdown of the Varg field will increase the amount of oil supply directly affected to 55,000 bpd.

The US Deputy Energy Secretary Kyle McSlarrow said refiners that borrowed crude from the SPR will return most of the oil loaned in addition to a premium by the end of the year. The Energy Department has loaned a total of 4.7 million bpd to refiners, with terms that require oil to be paid back over the next two to three months. He said he did not think that oil companies taking crude oil off the market to repay the loans would have any effect on the US heating oil market.

OPEC's news agency reported that OPEC's basket of crudes increased by 82 cents/barrel to \$45.08/barrel on Thursday from \$44.26/barrel on Wednesday.

Refinery News

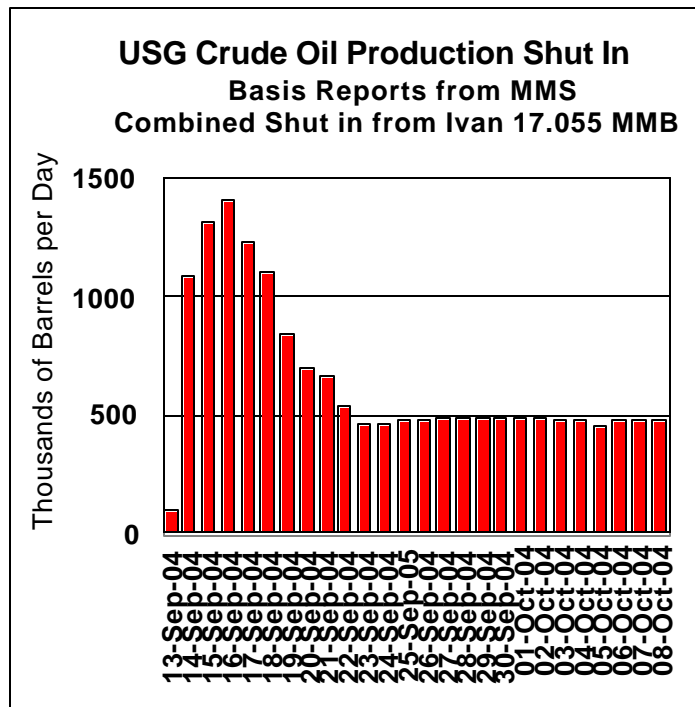
Marathon Ashland Petroleum, LLC said that power was briefly interrupted earlier at its 70,000 bpd St. Paul Park, Minnesota refinery. However power was quickly restored.

Flint Hills Resources LP plans to restart a sulfur recovery unit at the West Plant of its Corpus Christi, Texas refinery between October 24 and October 29. The startup follows a maintenance turnaround on crude unit No. 4 which started earlier this month.

The US EPA expects to conclude an agreement this month to keep Shell Oil's 70,000 bpd refinery in Bakersfield, California open past the end of the year. Shell in mid-August stated it would keep the refinery open until March if it could work out an agreement with the EPA on company wide emission levels.

Italy's ERG said it will shut its 230,000 bpd Isab Sud refinery in Melilli, Sicily on October 15 for a month of scheduled maintenance. The shutdown at Melilli, an export oriented refinery, is the most significant in the round of autumn turnarounds in the Mediterranean. It will cut diesel and gasoline out of the regional market ahead of the January 1 European Union mandated switch to ultra low sulfur petrol and diesel.

Taiwan's Formosa Petrochemical Corp will shut a 70,000 bpd desulphurizer unit for planned maintenance next month and will cut crude processing rates by about 17%. The refinery's operations will fall to 350,000 bpd from the current 420,000 bpd during the maintenance work.



Production News

The Minerals Management Service said there was no improvement in Gulf of Mexico oil and natural gas production since Thursday. As of Friday there was still 475,176 bpd of crude shut in and 1.775 bcf of natural gas shut in. The cumulative amount of crude shut in stood at 17.036 million barrels.

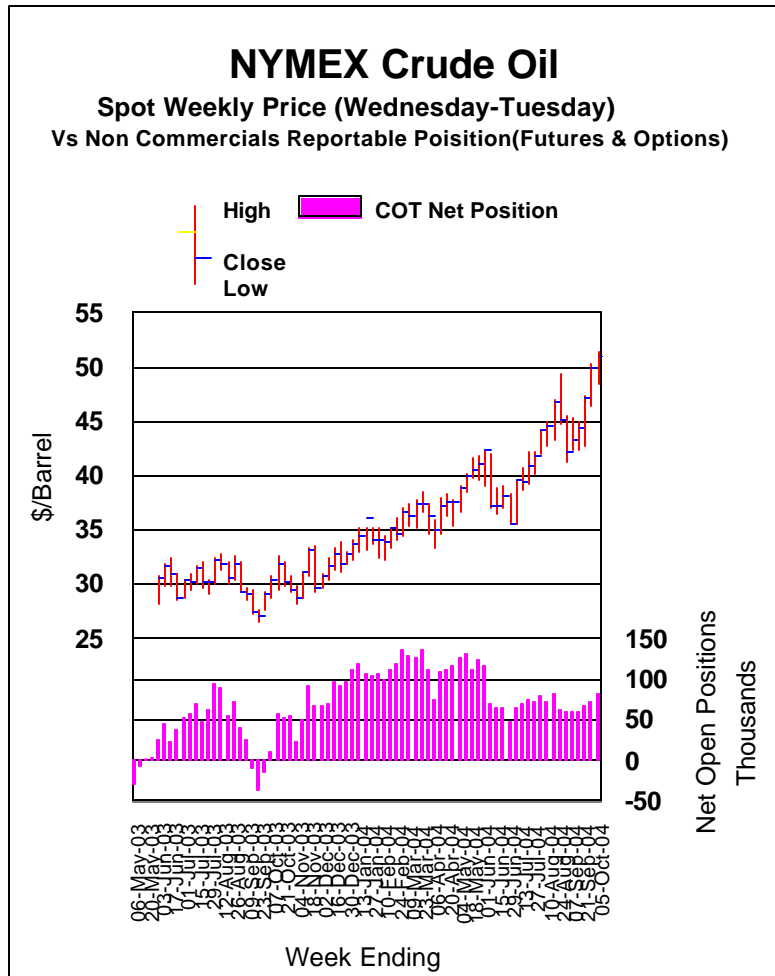
The Colonial Pipeline on Friday canceled its back 30th five day gasoline shipping cycle to adjust its calendar after Hurricane Ivan caused shipping delays. The amount of supply along the line from Texas to the New York City area will not be diminished by the move.

Baker Hughes reported that the number of rigs searching for oil and natural gas in the US fell by 13 to 1,230 in the week ending October 8. The number of rigs searching for oil in the US increased by 8 to 169, while the number of rigs searching for natural gas fell by 21 to 1,060.

The North Sea Brent crude system will load at an average rate of 227,000 bpd in November, down from 266,000 bpd planned for October.

The North Sea Ekofisk crude oil system has scheduled about 598,000 bpd to load in November compared with about 565,000 bpd in October. Meanwhile, Norway's Asgard and Norne crude oil systems planned slightly lower loadings in November from October. The Asgard crude system has scheduled to load about 172,000 bpd in November compared with 178,000 bpd in October while the Norne crude system has scheduled to load about 119,000 bpd in November compared with 142,000 bpd in October.

PDVSA's President Ali Rodriguez said Venezuela does not have the ability to significantly increase oil production at this time due to lingering problems from its oil strike last year. He said Venezuela is producing oil near capacity and has no plans to add large volumes of production this year despite proposals to increase capacity in 2005. He added that OPEC would not be able to increase production this year since only Saudi Arabia and the UAE has spare capacity. His comments came after Venezuela's Finance Minister announced plans to increase production to 3.6 million bpd on average next year from about 3.1 million bpd. Separately, he stated that the IEA may be predicting a sharp increase in oil demand to pressure oil producing nations to increase its output.



Algeria's Oil Minister Chakib Khelil said the country needs to increase its refining capacity due to the increasing demand on refined products. He said Algeria will increase its refining capacity to 50% of its oil production. It will produce 1.5 million bpd in 2005 while its production capacity is expected to reach 2 million bpd by 2010.

A senior Nigerian government official said Nigeria's aging oil fields have not adversely affected the country's oil output. He denied reported that Nigeria had been forced to cut its output due to the impact of aging oil fields. He said Nigeria's crude production has averaged 2.5 million bpd and added that the country's output will increase significantly when new deep offshore field currently being developed come into production.

Russia postponed a decision on whether to revoke Yukos' Siberian licenses by three months on Friday. The resources ministry's commission notified Yukos that the firm was not fully complying with the licenses terms for 21 Siberian fields and that breaches should be rectified within three months. It will meet on five more licenses later this month. Resource Minister Yuri Trutnev said the revocation of licenses is possible only in three months and only if the company does not rectify breaches in license conditions. Dresdner Kleinwort Wasserstein has previously valued Yukos' Yugansk unit at \$16 billion. However it has stated that the value could fall to under \$2 billion if the unit loses its licenses.

Russia's main Black Sea port of Novorossiisk reopened on Friday after authorities lifted a gale warning that kept the port shut for three days.

Ukraine's port of Odessa said oil and oil product shipments fell to 13.514 million tons or 361,500 bpd in January to September compared with 15.576 million tons in the same period of 2003.

Russia's Transneftproduct started building a new diesel pipeline and terminal at the Baltic port of Primorsk on Friday. The pipeline will have a final capacity of 24.6 million tons a year. Officials hope to launch the first phase with a capacity of 17 million tons in 2007. The new pipeline is part of efforts to reroute oil exports to its own ports to avoid paying transit fees to other countries.

Market Commentary

The crude market opened lower amid reports that Nigeria's two day strike at Shell's facilities was called off while late minute efforts were being made to avert a general strike to protest against the recent increase in fuel prices. The market opened at 52.55 and traded to an early high of 52.70. The market failed to test its overnight high of 52.85 and traded to its intraday low of 52.17 as it almost completely backfilled Thursday's opening gap. However the market bounced off its low amid earlier reports that the LOOP halted offloadings due to stormy weather as an area of low pressure sits in the western Gulf of Mexico. The market rallied to Thursday's high of 53.00 and held some resistance at that level. However the market quickly breached that level and traded to a high of 53.40 on good buying ahead of the weekend following the news that the talks between the Nigerian government and labor unions failed to avert a strike scheduled for Monday. The crude market settled at a new record of 53.31, up 64 cents. Volumes were excellent with over 262,000 lots booked on the day, of which 170,000 lots traded via spreads. The heating oil market also settled sharply higher at 146.02, up 2.46 cents amid the strength in the crude market. The market traded to a high of 144.00 early in the session before it sold off to its low of 142.00. However the market erased its losses and traded to a high of 145.00, where it held some resistance. The heating oil market later breached that level and rallied to its new high of 145.95 on good buying ahead of the close. Similarly, the gasoline market rallied to a high of 141.50 ahead of the close after it bounced off a low at 137.90 earlier in the session. It settled up 1.01 cents at 141.20. Volumes in the product markets were good with over 40,000 lots booked in the heating oil market and 43,000 lots booked in the gasoline market.

According the latest Commitment of Traders report, non-commercials in the oil market have continued to increase their net long positions amid the market's rally. Non-commercials in the crude increased their net long positions by 3,917 contracts to 37,179 contracts in the week ending October 5th. The combined futures and options report showed that non-commercials increased their net long positions by 9,120 contracts on the week to 82,078 contracts as they liquidated 6,368 short positions. The report next will continue to show an increase in net longs as open interest has continued to increase since Tuesday's session by a total of 15,896 contracts. Non-commercials in the gasoline market saw yet another increase in their net long positions, this week by 4,883 to 22,141 contracts while non-commercials in the heating oil market increased their net long positions by 1,126 contracts to 12,182 contracts.

The crude market on Monday will be driven higher amid reports that the strike in Nigeria scheduled for Monday was not averted during talks held earlier Friday. It will also continue to be supported as oil production in the Gulf of Mexico remain

Technical Analysis			
		Levels	Explanation
CL	Resistance	56.02	Basis resistance line
	53.31, up 64 cents	53.40	Friday's high
	Support	52.95	
		52.17-52.15, 50.75	Remaining gap, Previous low
HO	Resistance	149.23	basis trendline
	145.95, up 2.86 cents	145.95	Friday's high
	Support	144.80	
		142.00, 141.70	Friday's low, Thursday's low
HU	Resistance	145.40, 146.90-147.00	basis trendline, Previous highs (continuation chart)
	141.20, up 1.01 cents	141.50	Double top
	Support	140.10	
		137.90, 135.30	Friday's low, Previous low

shut in following reports that repairs have been halted due to the stormy weather caused by the low pressure system sitting in the Gulf of Mexico. The market is seen finding initial resistance at its high of 53.40 followed by more distant resistance at 56.02 basis a resistance line. Meanwhile, support is seen at 52.95 followed by its remaining gap at 52.17-52.15. More distant support is seen at its previous low of 50.75.