



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR OCTOBER 11, 2004

Nigerian unions started a four day strike on Monday, in protest against an increase in local fuel prices. However the strike has not affected Nigeria's oil production or exports as the five major oil companies have contingency plans to keep oil flowing even under strike conditions. The strike is scheduled to continue after talks with the government achieved little. The General Secretary of Pengassan said he hoped for a resolution before Friday. The unions plan to suspend the strike on Friday for two weeks of talks with the government, after which they have threatened prolonged action that could have a greater impact on the oil market.

The Louisiana Offshore Oil Port resumed offloading cargoes late Sunday after loadings were halted due to stormy weather. However operations remained restricted due to a power failure at an onshore pump station. The power failure will limit offloading for larger ships by up to 20-25%.

Market Watch

The US Minerals Management Service stated late Friday that as much as 150,000 bpd of oil and 1 bcf/d of natural gas shut in the Gulf of Mexico could be back on line by the end of October. It said about 96% of the normal daily Gulf production should be back online within six months. It said damage to pipelines is keeping a substantial amount of oil and natural gas production that it otherwise ready to be restored to service offline. It said segments of four large oil pipelines and five large pipelines remain shut.

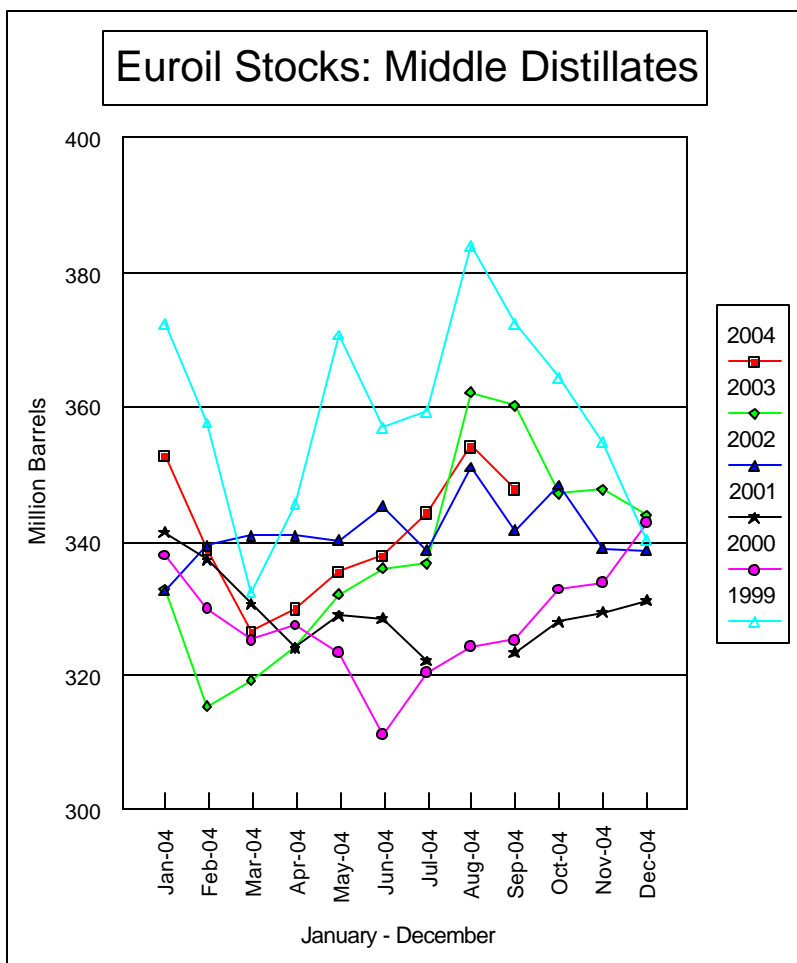
BBC News reported that Venezuela's President Hugo Chavez announced that it is increasing the royalties paid by foreign oil companies from 1% to 16.6%. He said it marked the second and true phase of the nationalization of the country's oil. The measure will affect all foreign companies offering joint ventures in Venezuela's Orinoco heavy crude belt. Analysts stated that its surprise decision to increase the royalty taxes could hurt interest in future projects.

A senior Iraqi Oil Ministry official said the Iraqi Oil Ministry has invited international oil companies to take part in a conference aimed at improving the safety of the country's oil installations which have been damaged in sabotage attacks. He said the conference would be held next month in Baghdad.

Separately, the Iraqi border patrol took over responsibility for protecting southern oil installations on Monday after insurgents carried out their latest attack aimed at hampering oil exports. At least 200 officers were deployed along a 161 kilometer stretch between the southern Iraqi cities of Nasiriyah and Basra.

An IMF official said the recent surge in oil futures weakens the world economic outlook and may require the European Central Bank to keep interest rates on hold for longer than expected. He said the IMF is continuously reviewing world growth prospects but did not say that it was ready to revise its forecasts for 4.3% GDP growth in 2005. He said the euro zone outlook will be hurt by oil.

Saudi Arabia, Iran, Kuwait and the UAE pledged to bring additional spare capacity to meet increasing demand for crude oil though the ministers asserted there was no justification for current high oil prices. Saudi Arabia's Oil Minister Ali al-Naimi said Saudi Arabia plans to maintain a cushion of spare oil production capacity of 1.5-2 million bpd for the foreseeable future. He said OPEC has enough capacity to meet the needs of its customers. He reiterated that OPEC is producing 9.5 million bpd and added that it would increase its output if customers requested extra barrels. Meanwhile, Iran's Oil Minister Bijan Namdar Zanganeh said Iran plans to increase its crude oil production capacity by about 140,000 bpd by March next year. It also plans to increase its production capacity by an additional 260,000 bpd with the commissioning of Azadegan, Darkhowein, Salman and Foruzan oil fields in the south. Kuwait's Oil Minister Sheikh Ahmad Fahad al-Ahmad al-Sabah said Kuwait will add 200,000 bpd of new crude production capacity in the third week of October. He said the new capacity will reach the market before December, when global demand is expected to increase. He also stated that most oil producers and consumers agree that an oil price between \$32/barrel and \$35/barrel is appropriate as OPEC's basket price range. The Oil Minister said Kuwait will support an increase of 1 million bpd in OPEC's output ceiling if crude prices remain at record levels. Meanwhile, UAE Oil Minister Obaid bin Saif al-Nasser said OPEC is doing all it can to lower oil prices as most members are producing at maximum capacity. He added that current high oil prices are seen falling to \$30/barrel. He said the UAE is producing almost 2.5 million bpd. It can increase output by 300,000 bpd. It is working to resolve a faring issue and thereby be able to increase its sustainable capacity by 300,000 bpd sometime in the future. The UAE hopes to increase its capacity to 3.5 million bpd by 2006.



Euroilstock reported that total oil and product stocks in Europe fell by 3.96 million barrels to 1.083 billion barrels in September after August's level was revised upwards by 3.68 million barrels. It reported that distillate stocks fell by 6.23 million barrels to 348 million barrels after the August stock level was revised upwards by 3 million barrels. It said the year on year stock deficit widened to 12.37 million barrels at the end of September from just over 8 million barrels in August. Euroilstock also reported that crude stocks built by 2.12 million barrels to 462.53 million barrels while gasoline stocks fell by 770,000 barrels to 135.32 million barrels.

The head of the IEA, Claude Mandil said the use of strategic oil reserves should be used only when supply is disrupted and not to stabilize increasing oil prices. The IEA also opposes when countries reduce the level of taxes on petroleum products because doing so does not discourage consumption and sends a message to producers that they can increase prices. He said countries that make up the IEA have strategic reserves representing more than 110 days of imports or close to 4 billion barrels, the equivalent of a year of production from Saudi Arabia.

OPEC's official news agency reported that OPEC's basket of crudes increased by 11 cents on Friday to a new all time high of \$45.19/barrel. It also reported that OPEC's basket of crudes increased 83 cents/barrel to \$43.94/barrel in the week ending October 7.

Refinery News

Premcor Inc reported that a sulfur conversion unit at its Port Arthur, Texas refinery was shut on Friday. It did not specify a restart date for the unit.

The Texas Commission for Environmental Quality reported that La Gloria Oil & Gas Co successfully restarted the fluid catalytic cracking unit at its Tyler, Texas refinery following three unsuccessful attempts. The refinery was shut on October 4 after an electrical storm caused a power failure.

According to a filing with the Texas Commission for Environmental Quality, Flint Hills Resources will complete maintenance work on a crude distillation unit at its Corpus Christi, Texas refinery on October 24. The unit was shut on October 7.

As Shell Oil Co weighs offers from companies that want to buy its oil refinery in Bakersfield, California, it is also negotiating with the federal government to keep the facility operating beyond the end of the year. The company intends to run the refinery through March 2005. If the company fails to obtain a waiver to continue to operate the refinery, it will be shut at the end of the year.

Kuwait's Mina al-Ahmadi was operating at a reduced rate of 260,000 bpd on Monday following Sunday's emergency shutdown due to a steam unit malfunction. The 460,000 bpd coastal plant is expected to return to near full capacity by Tuesday morning.

Production News

Colonial Pipeline Co said nominations for shipments on the front 29th cycle for regular conventional gasoline grades will be scheduled Monday, the back 29th cycle will be scheduled on Thursday, October 14, the front 30th on Wednesday, October 20, the back 30th was cancelled and the front 31st will be scheduled on Tuesday, October 26.

Petrologistics reported that total OPEC production in September stood at 30.5 million bpd, up from 29.84 million bpd in August. Saudi Arabia produced 9.5 million bpd in September, 250,000 below earlier estimations. The country exported a total of 7.24 million bpd in September.

Iran's Oil Ministry said the country produced 4.02 million bpd of crude in August. It exported 2.65 million bpd in August.

According to a preliminary budget drafted by the Iraqi interim government, Iraq's oil production is seen at 2.35 million in 2005, 2.7 million bpd in 2006 and 3.5 million bpd in 2007 while exports are seen reaching 1.8 million bpd in 2005, 2.1 million bpd in 2006 and 2.8 million bpd in 2007.

Norway's North Sea Gullfaks crude system plans to load 399,000 bpd in November, down from 414,000 bpd in October. Meanwhile, Norway's Ekofisk crude system scheduled 17.95 million barrels to load in November, up 450,000 barrels on the month.

Britain's North Sea Forties crude system has scheduled 567,000 bpd for November, up from October's 555,000 bpd.

Georgia's Black Sea port of Batumi cut shipments of oil and oil products in the first nine months of 2004 to 5.17 million tons from 6.922 million tons in the same period last year.

The Druzhba-Adria pipeline project, expected to connect Russian oilfields with the Mediterranean, could be further delayed by environmental concerns. The intergration of the Druzhba and Adria pipelines is a joint project of Russia, Belarus, Ukraine, Slovakia, Hungary and Croatia. However Croatia's pipeline operator chief executive

Vesna Trnokop Tanta said she was awaiting official approval of a study which should define risks and protection measures to be put in place one the Croatian pipeline undergoes reconstruction.

Market Commentary

The oil market opened slightly higher at 53.40 and traded to a high of 53.70 amid the news that Nigeria's oil unions started a four day strike in protest against the recent increase in fuel prices. The oil market was also supported by the news that while offloading operations at the LOOP restarted late Sunday, there were offloading restrictions in place due to a power failure at a pump station. The market was also supported by the strength in the heating oil market following the release of the Euroilstock report which showed distillate stocks in Europe fell by 6.23 million barrels from a revised level in September. The crude market however retraced some of its gains and traded to a low of 53.00, where it held good support. The market traded mostly sideways before it breached the 53.50 level once again and rallied to its high of 53.80 in afternoon trading. Unlike Friday's session, the market retraced some of its gains and settled up 33 cents at 53.64. Volume was light amid the Columbus Day holiday with 154,000 lots booked on the day. Open interest in the crude continued to build by a total of 4,768 lots to 729,984 as of Friday. Open interest in the November contract fell by 18,565 contracts while the December and January contracts built by 14,249 and 2,925 lots, respectively. Meanwhile, the heating oil market opened at its intraday low of 145.00 and quickly traded higher. The market was supported amid the Euroilstock report which showed a larger year on year deficit in distillate stocks. However stocks were running above its 5 year average of 344.672 million barrels. The heating oil market continued to trend higher and posted an intraday high of 147.70 ahead of the close. It settled up 1.67 cents at 147.07. However, the gasoline market settled in negative territory, down 70 points at 140.50 after it posted its intraday high of 141.30 early in the session. It retraced its gains and traded to a low of 139.50. The market later bounced off its low and retraced all its losses as it tested its upside. The gasoline market later retraced some of its gains ahead of the close. Volumes were good with 41,000 lots booked in the heating oil and 33,000 lots booked in the gasoline market.

The oil market is seen remaining supported ahead of Thursday's release of the weekly petroleum stock reports amid the news that the strike in Nigeria will continue after talks failed. Technically, the crude market is seen

finding initial resistance at its high of 53.80 followed by more distant resistance at 54.25, basis its resistance line, and 55.00. However support is seen at 52.95 followed by its remaining gap from 52.17-52.15.

Technical Analysis		
	Levels	Explanation
CL 53.64, up 33 points	Resistance 54.25, 55.00	Basis resistance lines
	Support 53.80	Monday's high
	Support 53.00 52.17-52.15	Monday's low Remaining gap
HO 147.07, up 1.67 cents	Resistance 150.00	basis trendline
	Support 147.70	Monday's high
	Support 146.90 145.00	Monday's low
HU 140.50, down 70 points	Resistance 146.30, 146.90-147.00 141.30 to 141.50	basis trendline, Previous highs (continuation chart) Intraday highs
	Support 139.50	Monday's low
	Support 137.90, 135.30	Friday's low, Previous low