



## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR OCTOBER 18, 2004**

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In OPEC's monthly oil market report, OPEC made an upward revision to oil demand growth for the year of 110,000 bpd to 2.6 million bpd due to the stronger than expected expansion in the world economy. Oil demand growth for next year was revised down by 130,000 bpd to 1.61 million bpd. OPEC also reported that it increased its production by 430,000 bpd in September to 30.12 million bpd. It also stated that industrialized countries needed to build more high tech refining capacity to process transportation and heating fuels or risk further price rises. It said high oil prices has not damped demand or spurred extra production, forcing the world to rely more on OPEC's oil. Its call on OPEC oil was revised up by 400,000 bpd in the fourth quarter to 28.51 million bpd.

Separately, OPEC's long term strategy committee agreed that the cartel should not increase its target price, as an upward adjustment would send

#### **Market Watch**

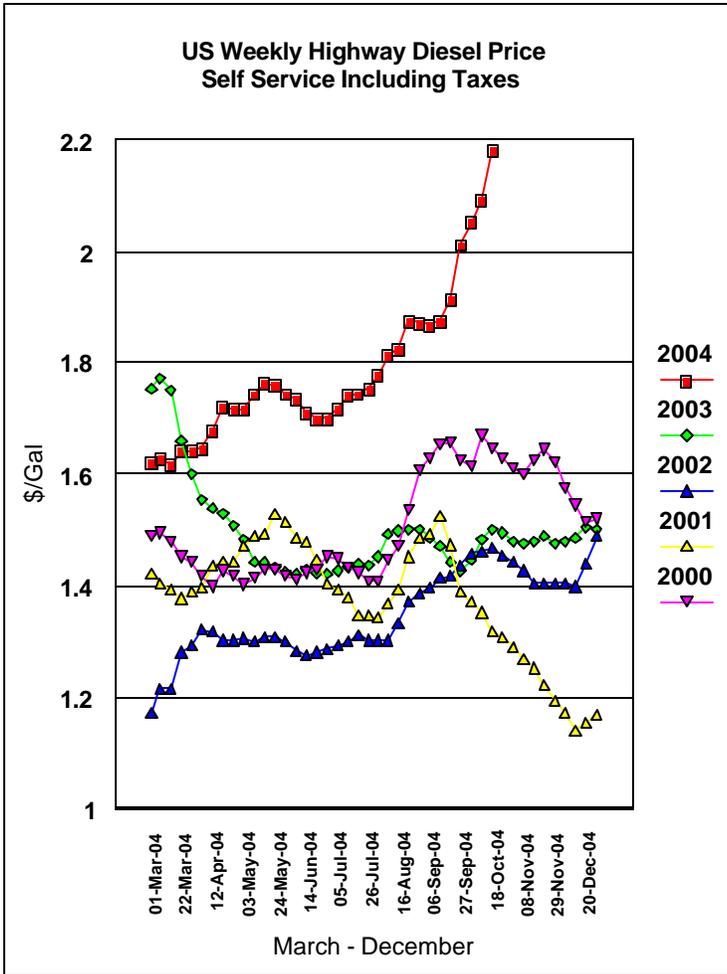
Star Gas Partners warned that it may be forced to restructure its debt under the protection of bankruptcy courts. It had advised bank lenders of a decline in earnings for the third quarter and a further projected decline in earnings for the fiscal year which will end September 30, 2005. The declines in earnings will not allow for Petro to meet borrowing conditions. It stated that high fuel prices is the main problem as Star's Petro division has not been able to pass along the record wholesale increases to customers. The company is in talks with lenders in hopes of modifying agreements so that it can have sufficient liquidity to get through the winter.

Russia's Interfax agency reported that the Federal Property Fund has set a November 22 date for the sale of assets in Yuganskneftegaz. According to a source close to the Federal Property Fund said the starting price for the Yugansk auction could match the size of Yukos' debt. Meanwhile, the head of the Federal Property Fund, Vladimir Zelentsov said foreign investors may take part in the sale of assets in Yuganskneftegaz. He said there would be at least two participants in the auction. The Russian government may set Yukos' outstanding debt of \$3.73 billion as the starting price for the planned auction of 76.8% stake in the unit.

Kinder Morgan Energy Partners LP agreed to buy nine southeastern US refined product terminals for about \$75 million. Kinder Morgan, which expects the deal to close in the fourth quarter, plans to spend an additional \$2 million to upgrade the terminals over the next two years. It said its terminal storage capacity in the Southeast will increase to 76% to 7.7 million barrels while the terminal throughput will increase by 62% to over 340,000 bpd.

Norway's Norsk Hydro said it is bidding to take part in the development of Iran's Yadavaran oilfield to strengthen its foothold in the region. Norsk Hydro's main Norwegian rival Statoil is also interested in Yadavaran, believed to eventually reach production of 300,000-400,000 bpd.

Kuwait's plan to work with oil majors to double output at its northern oilfields will be settled by parliament after it reconvenes on October 26. The \$7 billion plan, which has been under discussion for years, faces opposition from some parliamentarians who allege it amounts to handing over the national oil wealth to foreigners. Kuwait has already pre-qualified three international consortiums, led by ExxonMobil, ChevronTexaco and BP that can bid on the project.



the wrong signal to inflated oil markets. An OPEC official said it makes no economic or political sense to change the band. The group however did agree on the need to change the composition of the crude oils in the reference basket, which are now deemed too light and low sulfur to represent the dense, sulfurous crude that makes up much of the group's production.

Kuwait's Foreign Minister Sheikh Mohammed al-Sabah said Kuwait did not favor sustained high oil prices, which he blamed on the lingering impact of Hurricane Ivan and on speculators. He said oil prices cause fundamental harm to Arab Gulf producers.

According to the AAA, the average cost of regular gasoline reached \$2.005/gallon, up from Friday's \$1.997/gallon.

The EIA reported that the US average retail price of diesel increased by 8.8 cents/gallon to \$2.18/gallon in the week ending October 15<sup>th</sup>. It also reported that the average retail price of gasoline increased by 4.2 cents/gallon to \$2.035/gallon on the week.

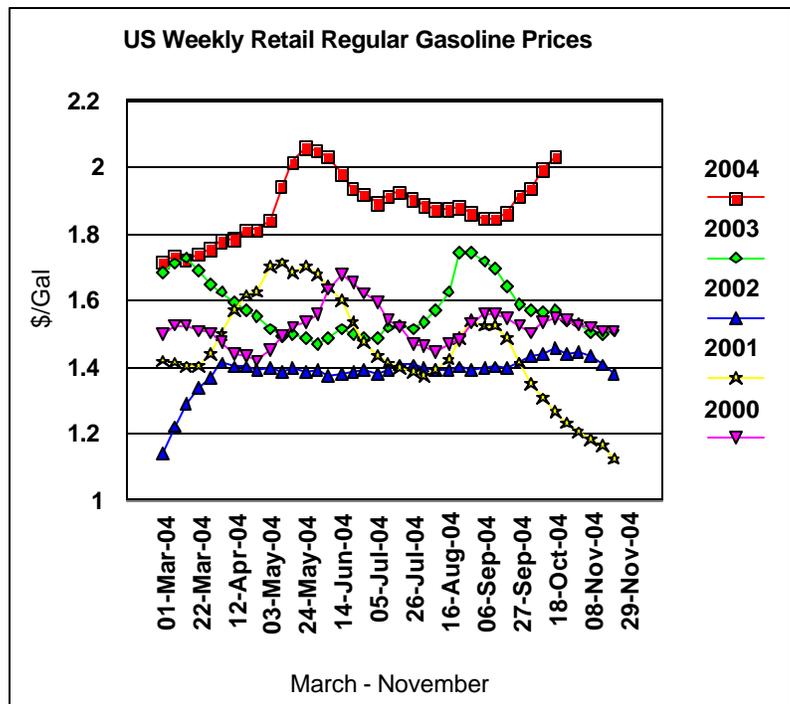
According to the EIA, US crude oil imports in August increased 480,000 bpd from a year earlier to 10.512 million bpd. It stated that Saudi Arabia was the top supplier to the US, with its exports to the US totaling 1.821 million bpd. Mexico climbed one spot to second place,

exporting 1.588 million bpd to the US in August, down 15,000 bpd from the previous month. Canada fell two spots to third place, with shipments of 1.512 million bpd, down 152,000 bpd from July. Venezuela remained the fourth largest supplier, exporting 1.194 million bpd in August, down 34,000 bpd from the previous month.

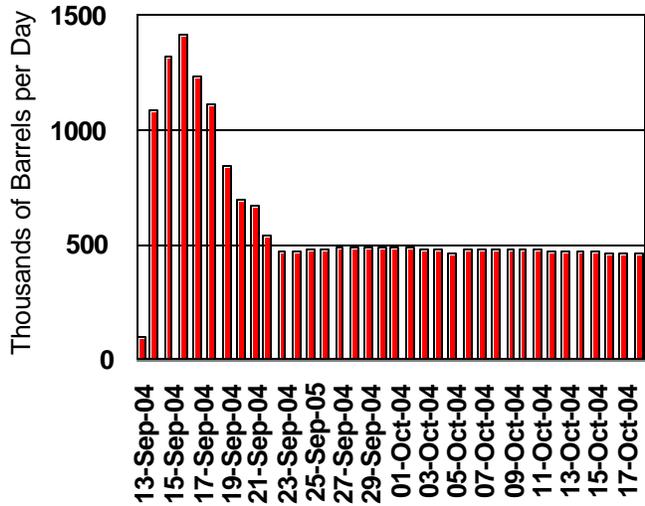
#### Refinery News

BP Plc shutdown a fluid catalytic cracking unit at its Texas City, Texas refinery on Saturday to allow for repairs to the regenerator. The Texas Commission on Environmental Quality did not indicate the duration of the repairs.

ExxonMobil Corp plans to restart a sulfur conversion unit at its Baytown, Texas refinery following repairs originally planned to start October 18. The sulfur conversion unit, was shut down to allow the diverter valve to the incinerators to be replaced.



**USG Crude Oil Production Shut In  
Basis Reports from MMS  
Combined Shut in from Ivan 21.707 MMB**



Deer Park Refining Ltd plans to shut the third stage reactor of the crude unit at its Deer Park, Texas refinery for routine maintenance on October 25.

**Production News**

The MMS reported some improvement in the amount of production in the Gulf of Mexico still shut in. It reported that 475,550 bpd of crude oil was shut in compared with 462,018 bpd reported on Friday. There was also still some 1.576 bcf of natural gas shut in. On a cumulative basis about 21.707 million bpd has been shut in while 91 bcf of natural gas production was shut in.

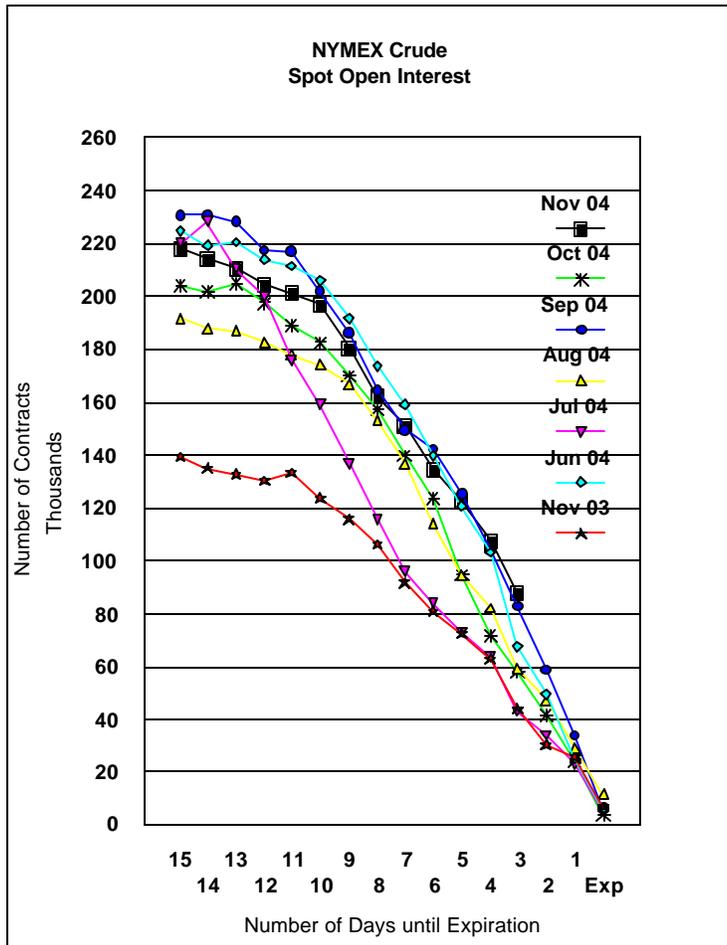
The LOOP is pumping oil to onshore storage tanks at full capacity. This is contrary to some reports stating that the LOOP's Fourchon, Louisiana pumping station had reduced output by as much as 25% and would be at reduced rates through Wednesday. The Fourchon pumping station was shut because of downed power lines for two days last week. Electrical power to the station was reduced until Saturday evening when full power was restored.

The Colonial Pipeline said it will change from 10-day to 5-day shipping cycles starting January 1, 2005. Also starting in January, there will no longer be front and back half-cycles. It hopes that any shipping allocations will be easier to manage.

According to a report by the International Monetary Fund, the Iraqi government expects to increase its production to an average of 3.3 million bpd by 2009. It estimates Iraq's average oil production at 2.1 million bpd in 2004, 2.4 million bpd in 2005, and 2.8 million bpd in 2006. In 2007, average oil production is expected at 2.9 million bpd before increasing to 3 million bpd in 2008.

Mexico's Pemex said it hopes to strike technology-sharing accords with foreign oil companies to help it access deep sea reserves. Pemex's chief Raul Munoz said that any deal will however require authorization by Congress which to date has staunchly opposed the entry of foreign companies or capital into Mexico's mainly closed energy sector.

Kazakhstan's crude oil and gas condensate output grew by 14.9% in January-September compared to the same period a year ago and stood at 43.315 million tons.



South Korean exports of spot gas oil in November are expected to fall by about a third from October following SK Corp's decision to cut exports to more normal levels. South Korea's five refiners are expected to export a combined 475,000 tons of spot gas oil next month compared with about 720,000 tons in October. SK Corp is expected to export 200,000 tons in November, down from 480,000 tons in October.

**Market Commentary**

The NYMEX oil market ended sharply lower as traders took profits after the market reached a new record high of 55.33 in overnight trading. The market opened down 23 cents at 54.70 and quickly posted its intraday high of 54.88. However the market retraced some of its move as traders took profits from its recent rally after failing to test the 55.00 level. The market held some support at 54.00 but later breached that level and traded to an intraday low of 53.12. The November crude contract later bounced off its low and retraced some of its losses ahead of the close. It settled down \$1.26 at 53.67. Volume was excellent with over 249,000 lots booked on the day, of which 137,000 lots traded via spreads. Open interest in the crude market fell by a total of 7,262 contracts on the day. Open interest in the November crude contract fell by 18,878 contracts as traders liquidated and rolled their positions to back months ahead of the November contract's expiration on Wednesday. Meanwhile, the gasoline market was the weakest of the complex. It settled down 5.90 cents at 135.04. The market opened down 1.34 cents at 139.60 and quickly posted an intraday high of 140.20. However the market, which failed to trade higher, continued to sell off on profit taking as funds rolled out of their November positions. The market extended its losses to 8.74 cents as it traded to a low of 132.20. It later erased some of its losses and traded in a range from 133.00 to 135.70 ahead of the close. Similarly, the heating oil market settled down 3.94 cents at 150.97 after the market continued to trade within last Thursday's range. The market posted an intraday high of 154.70 early in the session before it sold off to a low of 149.55 in afternoon trading. The market later settled in a range from 150.50 to 151.90 ahead of the close. Volume in the gasoline market was good with over 70,000 lots traded while volume in the heating oil was lighter with 42,000 lots booked on the day.

The crude market on Tuesday may continue to trade lower after settling sharply lower during today's session. However the market is not seen trading much lower as traders await the release of the weekly petroleum stock reports. The crude market is seen finding initial resistance at 54.00 followed by its high of 54.88. More distant

resistance is seen at 55.00 and 55.33. Meanwhile support is seen at its low of 53.12 followed by 52.00 and 51.50.

Technical Analysis		
	Levels	Explanation
<b>CL</b> 53.67, down \$1.26	<b>Resistance</b> 55.00, 55.33, 56.17 54.00, 54.88	Previous highs, Basis trendline Monday's high
	<b>Support</b> 53.12 52.00, 51.50	Monday's low Previous low
	<b>Resistance</b> 154.70, 155.00 151.90, 152.90	Monday's high, Double top
<b>HO</b> 150.97, down 3.94 cents	<b>Support</b> 149.55, 149.40 146.30, 143.50	Monday's low, Previous low Previous low
	<b>Resistance</b> 140.20, 142.00, 142.50 136.30	Monday's high, Previous highs
<b>HU</b> 135.04, down 5.90 cents	<b>Support</b> 132.20 130.00-129.90, 126.00	Monday's low Previous lows