



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR OCTOBER 31, 2005

OPEC's Secretary General Adnan Shihab-Eldin said OPEC expects world oil prices to stabilize in a range of \$45-\$55/barrel next year and has enough spare capacity to meet demand. He said the market should be reassured about crude supplies, since OPEC has spare production capacity of 2 million bpd, more than enough to cover extra winter demand and is planning to bring more on stream next year. He however stated that refining bottlenecks will continue in 2006 and even 2007 in terms of certain light products.

Market Watch

According to the American Trucking Association, its advanced seasonally adjusted for-hire Truck Tonnage Index increased 0.4% in September. The latest increased followed a 0.8% contraction in August. On a seasonally adjusted basis, the tonnage index increased to 113.9 from 113.5 in August. It said for the entire third quarter tonnage index slipped 0.8% from the second quarter.

Exxon Mobil Corp dismissed a bid by a Chinese company King Win Laurel Ltd to acquire it for \$450 billion in cash. An Exxon spokesman said the company was not aware of any communication from King Win Laurel Limited that has been delivered by the corporation. It does not believe that King Win Laurel Limited is financially capable of making such a tender offer.

China's foreign exchange regulator said China had a current account surplus of \$67.264 billion in the first half of the year, up \$59.799 billion from the same period a year earlier.

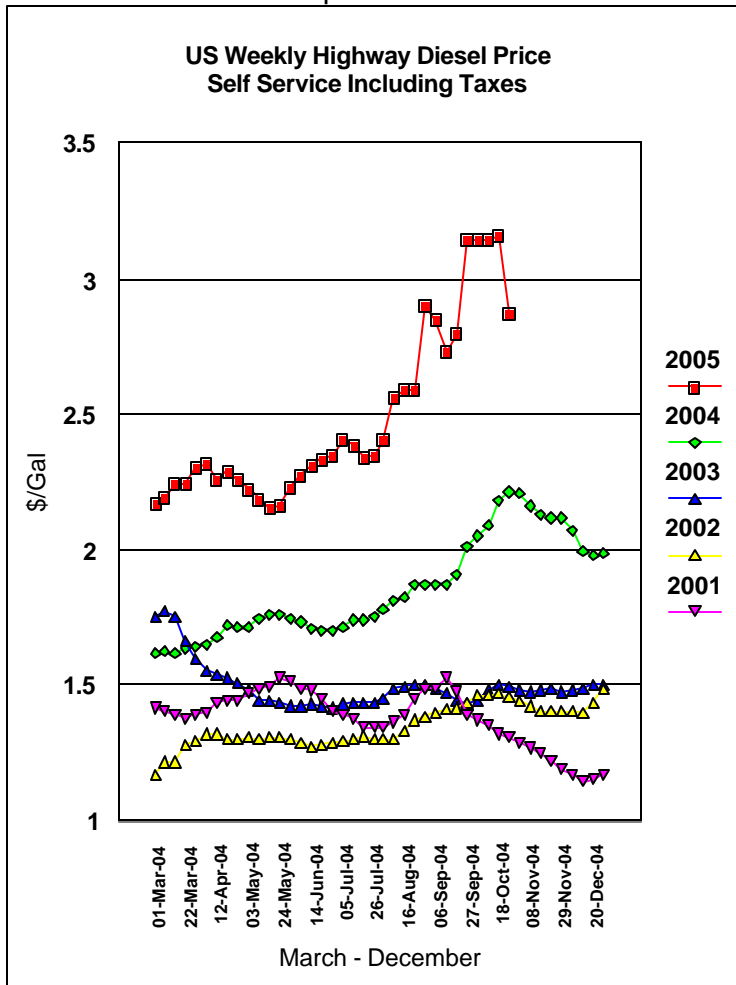
The Climate Prediction Center this morning reported that it sees the current week ending November 5th, will have some 87 heating degree days on an oil home heating customer weighted basis. This would be some 32% less than normal and 17.3% less than the same week a year ago

The EIA reported that US retail diesel prices fell by 28.1 cents/gallon to \$2.876/gallon in the week ending October 31st. The fall follows its record high of \$3.157/gallon reported last week. The EIA also reported that gasoline prices fell by 12.3 cents/gallon to \$2.48/gallon on the week.

Refinery News

Workers at Europe's largest refinery, the Shell Pernis 418,000 b/d facility, launched a strike Monday in protest over pensions plans which the company is seeking to change. As a result, production at the facility has started to be scaled down at some of the facility's units. The union though said it would not completely shutdown the facility for more than two weeks due to safety concerns. Meanwhile workers at Shell's 900,000 ton per year Dutch petrochemical cracker in Moerdijk also started a strike. Traders stated that the disruption to the refinery's operations would not immediately create a fuel shortage, but if it drags on it could cut stocks and hit supplies of winter heating oil and gasoline.

Valero Energy Corp said it plans on processing at least 3 million bpd of oil at its 17 refineries during the fourth quarter of 2005. It plans to process between 1.6 million and 1.65 million bpd at its eight Gulf Coast refineries. It also plans for its two West Coast refineries to operate between 300,000 bpd and 310,000 bpd in the fourth quarter while its four mid-continent refineries run between 550,000 bpd and 575,000 bpd. It expects its three northeast refineries to run between 575,000 bpd and 600,000 bpd.



Valero Energy Corp said maintenance work is planned on units at six of its refineries in the first half of 2006. Valero is planning an expansion project on a crude processing unit for 20 days at its 275,000 Aruba refinery. A 100,000 bpd crude processing unit and an 18,000 bpd coking unit will be shut at the east plant of Valero's 147,000 bpd Corpus Christi, Texas refinery for 28 days. Also a 20,000 bpd catalytic cracking unit will be overhauled for 21 days at the Corpus Christi, Texas refinery. At the 80,000 bpd Krotz Springs, Louisiana refinery, the 80,000 bpd crude unit will be shut for 18 days. In March, a 40,000 bpd catalytic cracking unit and 23,000 bpd coking unit will be shut at the 158,000 bpd Lima, Ohio refinery. Its 180,000 bpd Memphis, Tennessee refinery will also be shut in March for 21 days of maintenance. Valero also reported that during the first quarter 130,000 bpd of the 210,000 bpd Texas City, Texas crude capacity will be shut for maintenance work on hydrotreating capacity.

Separately, Valero plans to conclude an expansion project at its Port Arthur, Texas refinery by mid-2006. Work on the 250,000 bpd refinery newly acquired from Premcor Inc would add 75,000 bpd of capacity to the crude unit.

PetroChina plans to start up a new 200,000 bpd crude distillation unit in late November at its refinery in the northeast city of Dalian. Its primary production capacity would double to 400,000 bpd.

China's Maoming Petrochemical Corp is expected to increase its November crude throughput by 5% 1 million tons or 243,000 bpd from October due to better refining margins. However its operations still stand 10% below the refiner's second quarter peak level of 270,000 bpd.

China's Zhenhai Refining & Chemical Co Ltd plans to keep November crude throughput at near peak rates to capture improving margins. It will process about 1.45 million tons of crude or 353,000 bpd in November.

Meanwhile, China's Jinxi Petrochemical Corp plans to increase its November crude runs by 72% from October after it completes maintenance at a crude unit. It is expected to restart the 3.5 million ton per

year or 70,000 bpd crude distillation unit after a 45 day maintenance turnaround. Its crude throughput in November is expected to be 500,000 tons or 121,670 bpd, up from 300,000 tons or 70,650 bpd in October.

Production News

According to the MMS, the recovery of oil and natural gas production from the Gulf of Mexico remained slow. It said about 1.016 million bpd or 67.72% of the Gulf's production remains shut. It is down from 1.018 million bpd reported on Friday.

Louisiana's Department of Natural Resources reported that onshore crude oil production in southern Louisiana has reached 88,769 bpd or 43.7% of the region's capacity. Meanwhile natural gas production has reached 929.3 mmcf or 41.6% of daily capacity in 38 southern Louisiana parishes.

Japan's Ministry of Economy, Trade and Industry reported that Japan's crude imports in September fell 3% on the year. It imported 19.95 million kiloliters or 4.18 million bpd in September. Japan's commercial crude oil stocks totaled 18.21 million kl at the end of September, up 1.7% year on year. Japan's METI reported that crude throughput at Japanese refineries in September increased by 9.6% year on year to 19.98 million kl. It also stated that kerosene inventories increased by 23.9% to 4.58 million kl at the end of September.

Separately, Japan's Ministry of Economy, Trade and Industry reported that Japan may increase its minimum requirement for commercial oil stocks to the original level, ending a temporary cut since September aimed at freeing fuel from private tanks as part of the IEA effort to ease US shortages caused by hurricanes. Japan is likely to increase the minimum stocks level to 70 days' worth of consumption as of Sunday.

India's Oil Minister Mani Shankar Aiyar said Indian state run oil firms have imported enough cargoes of liquefied petroleum gas to make up for the shortage of cooking fuel. India faced a shortage of LPG this month because of the unplanned shutdown of some refineries because of floods and the planned maintenance of Reliance Industries' 660,000 bpd Jamnagar refinery.

Royal Dutch Shell said its Bonga oil project in Nigeria is due to start up in November. The start up of the 200,000 bpd project has been delayed several times.

Russia's Energy Minister Viktor Khristenko said Russian oil production is expected to peak at 530 million tons or 10.64 million bpd annually by 2015. Oil production in 2004 stood at 458.8 million tons or 9.19 million bpd while in September, production stood at 9.53 million bpd. Separately, the head of the Federal Energy Agency reported that Russia's oil output growth was forecast to slow in 2006. It forecast an oil output increase of about 2% in 2006 following this year's estimated 2.5% growth.

OPEC's news agency reported that OPEC's reference crude basket price stood at \$53.73/barrel on Friday, little changed from Thursday's \$53.79/barrel.

Saudi Aramco has set its November contract price for propane at \$535/ton, up \$30/ton in October. It also increased its November price for butane by \$30 to \$555/ton.

Market Commentary

The oil market gapped lower this morning from 60.55 to 60.35 in follow through selling seen in overnight trading. The oil complex sold off amid the losses seen in the natural gas market in light of the unseasonably warm autumn weather. The crude market partially backfilled its gap as it posted a high of 60.50. It continued to extend its losses to over \$1.50 as it traded to 59.65 and settled into a

sideways trading pattern for much of the remainder of the morning and early afternoon. However further selling pushed the market below the 59.50 level to a low of 59.27 ahead of the close, as traders late in the session pushed the market lower to retest lows from 7-10 days ago. It settled down \$1.46 at 59.76. Volume in the crude market was light with 169,000 lots booked on the day.

This market looks set to retest the support levels at \$59.30-\$59.15, as the bearish trend appears to remain in place until at least inventory numbers point to a tightening supply picture or the intermediate term weather forecast dramatically changes and points to the start of a prolonged colder than normal period setting up across the northeastern U.S. Further support we see at \$58.50, \$57.60 and \$55.60. Resistance we see \$60.50-\$60.55, \$61.40, \$62.95 and \$63.22.

While the gasoline market has been the weakest market out of the three oil markets over the last month, this may be ready to change. The strike at the Shell Pernis refinery if it lasts for an extended period of time could help to lend support to this market and allow gasoline cracks spreads an opportunity to rebound by \$2-\$3 over the next couple of weeks.