



## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR DECEMBER 1, 2004**

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The EIA reported that US crude oil prices are likely to average between \$45 and \$50/barrel this winter, even though oil inventories have been increasing lately. It said capacity constraints should keep prices from falling much below current levels over the next few months. It added that with little spare capacity available worldwide to respond to potential supply disruptions, the markets will continue to factor this in, putting upward pressure on prices. Separately, the EIA said retail heating oil prices increased over the past week to an average of \$2.03/gallon.

The Coast Guard stated that amount of crude oil spilled on Friday on the Delaware River as the oil tanker Athos I attempted to berth at the New Jersey terminal near

#### **Market Watch**

The DOE's Deputy assistant secretary for petroleum reserves, John Shages, said the DOE plans to discuss increasing the SPR fill level to its 727 million barrel capacity. He believes discussions will take place between DOE and the US Department of Interior as well as the White House and the Office of Management and Budget.

The National Petroleum Council said the move to ultra low sulfur diesel has the potential for significant supply disruptions in the US. NPC said it believes the transition period for ULSD is likely to be more difficult and longer than historically associated with major product specification changes. The US will reduce the maximum sulfur specifications in diesel to 15 parts per million starting in 2006. It also stated that the stockpiles of refined oil products are impractical to manage and could create more market uncertainty. While the council said it was supportive of the US SPR, it opposes federal products reserves, including the existing Northeast Heating Oil reserve.

NYMEX President James Newsome said the exchange is considering moving its Brent contract trading to London from its current location in Dublin. NYMEX is looking at real estate space in London to open a trading facility and is in talks with the UK's Financial Services Authority on opening an exchange.

Nigeria deployed troops on Wednesday to the city of Warri ahead of local government polls on Thursday, amid fears vote rigging in favor of one ethnic group could provoke violence. The poll in three Warri local government areas was postponed in March and again last week because of fears of violence by members of the Ijaw ethnic group.

China Aviation Oil Corp's losses of \$550 million in speculative oil trades are equal to its market capitalization of \$549 million. In a statement, CAO said its chief executive officer, Chen Jiulin, was suspended pending an independent audit of the company's losses by PriceWaterhouseCoopers. It also stated that it sought help from Singapore's High Court to work out a repayment scheme with its creditors while its parent company, China Aviation Oil Holding Co had established a task force to oversee its daily operations.

Philadelphia is considerably more than the 30,000 gallons previously estimated. The tanker was carrying a total cargo of 1.2 million gallons. Delays in ship traffic along the Delaware River may continue for several days during the initial cleanup phase. However total cleanup operations could take several weeks.

Algeria's Oil Minister Chakib Khelil said OPEC will not worry about Wednesday's heavy fall in oil prices because crude values remain high. He added that OPEC is likely to keep oil output limits unchanged when it meets next week.

Petrologistics reported that OPEC crude production increased by 200,000 bpd in November as Saudi Arabia and other members of OPEC pumped more than their official output ceiling in a bid to lower near record prices. OPEC's total production reached 30.5 million bpd, up from 30.3 million bpd in October. The ten OPEC members produced 28.3 million bpd in November, 1.3 million bpd above their quota.

Saudi Prince Abdullah Waleed Bin Talal, chairman of Kingdom Holding Co said Saudi Arabia's plan to increase its oil output by 14% over the next few years to more than 13 million bpd should lower prices significantly.

US heating oil retailers urged US DOE officials to consider ways to prevent heating oil price spikes that occur when industrial customers switch to the fuel when it becomes less expensive than natural gas. The head of the New England Fuel Institute said that because there are few requirements for interruptibles to keep spare heating oil on site, the ensuing demand can increase prices by as much as 15 cents/gallon. He asked the DOE to consider requiring interruptibles to keep modest supplies of heating oil on site. However a DOE spokesman said there are questions as to how worthwhile requirements to store heating oil would be because such rules could increase demand for product that may or may not be used.

US Energy Secretary Spencer Abraham criticized OPEC for cutting its production quotas too aggressively early this year and cautioned the group against using production policy to try to set oil prices.

Platts reported that Iraq's SOMO has started to renew long term contracts with Basrah Light customers. A source stated that SOMO is expected to renew contracts with most existing customers, though some changes could occur.

OPEC's news agency reported that OPEC's basket of crudes increased by 31 cents to \$39.77/barrel on Tuesday from \$39.46/barrel on Monday.

### **Refinery News**

Sunoco Corp has cut the amount of crude oil processed at its Philadelphia refinery and is running short of crude oil due to the oil spill on the Delaware River that has restricted marine traffic in the region.

Alon USA will conduct planned maintenance on the crude unit at its 61,000 bpd refinery in Big Spring, Texas within two weeks.

PDVSA said a catalytic cracker unit at its 320,000 bpd La Isla refinery in Curacao will return to full capacity on December 8 following a brief power failure last month.

Kuwait's 460,000 bpd Mina Ahmadi refinery has shut a 33,000 bpd atmospheric residue desulphurizer for scheduled maintenance. It will be followed with the shutdown of the refinery's second ARD. The

entire maintenance work will likely last two to three weeks and will not affect crude processing capacity.

Japan's Kashima Oil Co said it would restart a 30,000 bpd fuel oil desulphurization unit at its Kashima refinery on December 11. Operations at the 190,000 bpd refinery were halted after the fuel desulphurization unit caught fire on April 21. The company restarted its crude distillation unit on May 17 and operations of all units except the desulphurizer resume on May 23.

Venezuela's Deputy Oil Minister Luis Vierma said the country is planning a major overhaul of its refining capabilities that will include the construction of at least two new refineries and upgrade work on existing plants. He said possible projects include a new deep conversion refinery with a capacity of 400,000 bpd. Other proposals include the reopening of the 50,000 bpd El Toreno refinery in the southwestern state of Barinas and a 200,000 bpd plant in the northeast at Caripito. Upgrade work will be carried out at the 940,000 bpd Paraguana refining complex. There are also plans to invest in the 140,000 bpd El Palito refinery and the 195,000 bpd Puerto La Cruz refinery.

### **Production News**

Statoil said work to restore output of 205,000 bpd from the Snorre A and Vigdis North Sea fields is proceeding as planned. However it said it was too early to say when production can be restarted. Meanwhile, Norway's Petroleum Safety Authority said it may take days or months to repair Snorre A. Separately, Marathon stated that two offshore platforms in the North Sea's Brae oil and gas complex restarted overnight. However a third platform remained offline.

Delays for daylight restricted tankers traveling through the Turkish Straits were unchanged at about 12 days. The Black Sea port of Novorossisk, however reopened following a closure due to bad weather.

Russia's Gazprom said it will cut its borrowing to 110 billion roubles or \$3.91 billion in 2005 from 150 billion in 2004 but will need to increase more funds to buy Yukos' Yuganskneftegaz.

High oil prices may slow China's build up of oil inventory next year. Ten million barrels of storage capacity in the east coast city of Ningbo is due to be ready for use in August next year, the first phase of a strategic petroleum reserve of 150 million barrels planned for completion in three to five years. However with crude prices near its recent highs, analysts say China may take its time to fill its inventory. China has not publicly commented on the price it is willing to pay to secure emergency reserves as its dependence on imported oil increases but a top energy official hinted that \$40/barrel may be the upper limit.

According to the Petroleum Association of Japan, oil stocks in Japan fell by 386,639 kl in the week ending November 27 to 18.729 million kl. Japan's total product stocks built by 221,027 kl to 13.435 million kl on the week. Commercial stocks of kerosene in Japan increased by 0.8% to 4.759 million kl. It reported that refiners processed a total of 4.78 million kl of crude, down from 4.8 million kl in the previous week.

France's Energy Ministry reported that the country's energy consumption in October fell by 3.5% year on year to 21.9 million tons of oil equivalent. Its oil demand fell by 4.4% on the year to 8.034 million tons of oil equivalent.

Colombia's Ecopetrol is scheduled to load 2.75 million barrels of sour crude Vasconia for export in January.

### **Market Commentary**

The oil complex tumbled and settled sharply lower following the larger than expected builds in product stocks reported by the DOE and API. The crude market opened down 23 cents at 48.90 and posted a high of 49.00. However the market quickly sold off following the release of the weekly petroleum stock reports, which showed large builds in product stocks. Total petroleum stocks, according to the DOE, also saw a build of 6.4 million barrels on the week, further pressuring the market. The crude market breached its support levels and tumbled to a low of 45.35 ahead of the close. The December crude contract settled at 45.49, down 3.64. It is the largest drop in prices seen since September 24, 2001 when prices settled down 3.96 on the day. The product markets settled more than 8 cents lower, with the heating oil market settling down 8.9 cents at 132.93 and the gasoline market settling down 8.34 cents at 120.12. The heating oil market opened down 83 points at 141.00 in follow through selling seen in overnight trading. It traded to a high of 141.25 but quickly came off following the DOE and API reports, showing builds in distillate stocks of 2.3 million barrels and 4.4 million barrels, respectively. The market breached its support levels and plummeted to a low of 132.20 ahead of the close as it extended its losses to over 9.6 cents on the day. The gasoline market also opened down about 45 points at 128.05 and posted a high of 128.60 ahead of the weekly petroleum stock reports. However the market quickly sold off in light of the builds in stocks. Similar to the rest of the complex, the gasoline market breached its support level and traded to a low of 119.60 ahead of the close. Volumes were good with over 230,000 lots traded in the crude, 64,000 lots traded in the heating oil and 62,000 lots traded in the gasoline market.

The oil market on Thursday is seen retracing some of today's sharp losses. However the market technically looks bearish after it breached its support levels and remained pressured ahead of the close. Its daily stochastics have also crossed to the downside. The crude market is seen finding support at its low of 45.30 followed by 45.25. More distant support is seen at a previous low of 44.25. Meanwhile resistance is seen at 46.74, 47.18, and 47.61. More distant resistance is seen at today's high of 49.00.

Technical Analysis		
	Levels	Explanation
<b>CL</b> 45.49, down \$3.64	Resistance 49.00 46.74, 47.18, 47.61	Wednesday's high 38%, 50% and 62% retracement (49.00 and 45.35)
	Support 45.30, 45.25 44.25	Wednesday's low, Previous low Previous low
<b>HO</b> 132.93, down 8.9 cents	Resistance 141.25 135.66, 136.73, 137.79	Wednesday's high 38%, 50% and 62% retracement (141.25 and 132.20)
	Support 132.20 131.75	Wednesday's low Previous low
<b>HU</b> 120.12, down 8.34 cents	Resistance 128.60 121.50, 123.00, 125.50	Wednesday's high
	Support 119.60 116.63	Wednesday's low Previous low