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Energy Futures Brokerage

ENERGY RISK MANAGEMENT

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

www.e-windham.com

ENERGY MARKET REPORT FOR DECEMBER 2, 2004

OPEC is likely to leave its output policy unchanged during its upcoming meeting on December 10. Nigeria's Presidential Adviser on Petroleum Affairs, Edmund Daukoru, reiterated that Nigeria did not believe OPEC producers needed to cut their overproduction, even though high crude inventories are pressuring oil prices. He said cutting production would give the wrong signal. Meanwhile, OPEC's President Purnomo Yusgiantoro said OPEC will allow members to continue pumping above official quotas in the first quarter of next year if oil prices remain high. He said OPEC will likely decide at its meeting to maintain its current output ceiling of 27 million bpd. He also stated that OPEC is scheduled to meet again in March to anticipate oil demand in the second quarter of next year. Algeria's Oil Minister Chakib Khelil said a cut in

Market Watch

An ExxonMobil official said world energy demand will grow 1.7 million bpd of oil equivalent annually, mainly due to increasing income levels in Asia. It said world energy demand will reach 335 million bpd by 2030, up from 220 million bpd.

Russia's Yukos has received claims for a further 8.5 billion roubles or $303.7 million in back taxes, this time from Samaraneftegaz. Yukos is already facing $25 billion in back tax bills, expected to be paid by a forced sale of its Yuganskneftegaz unit on December 19.

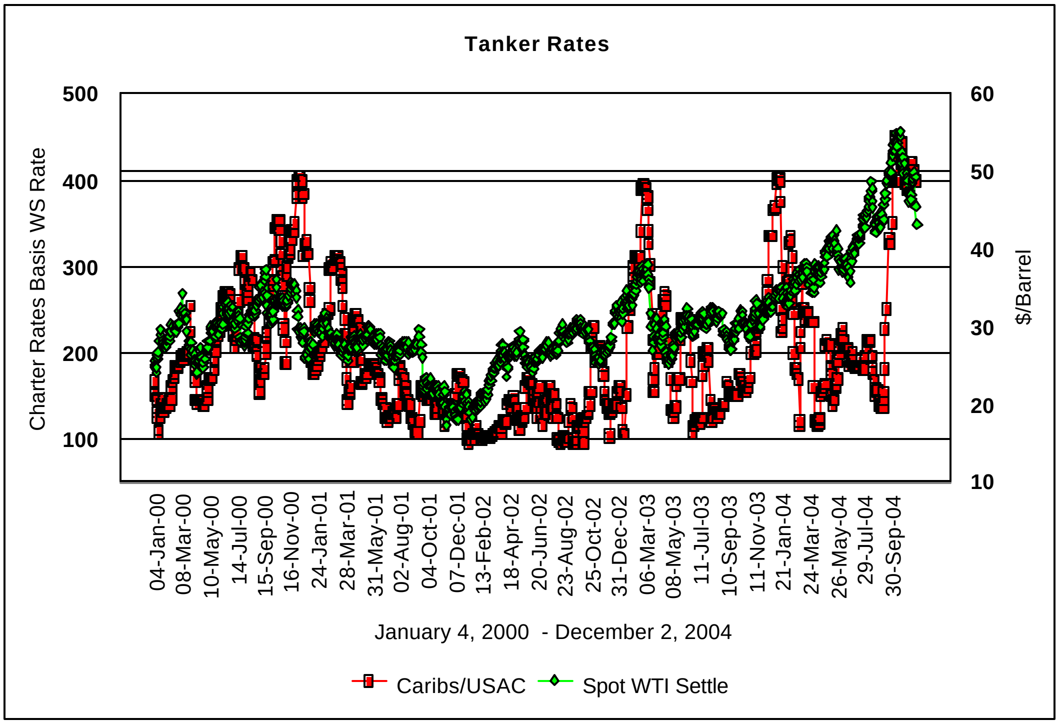
A senior oil analyst at Deutsche Bank, Paul Sankey, expects oil prices to fall further as demand slows. He said he sees oil prices at $40/barrel through next year.

Shell Petroleum Development Co in Nigeria stated that militants are preventing it from repairing an 18 inch pipeline in the Niger Delta, which has been leaking since November 29. It said it has not been able to send teams to repair or assess the size or cause of the leak because militants are blocking access to the area.

Separately, Nigeria's authorities said local government elections were under way in the ethnically divided city of Warri. However sources stated that there were no ballots at polling stations. Leaders of the Ijaw ethnic group accused the ruling People's Democratic Party of rigging the vote in the three local councils in favor of the Itsekiri.

Nigerian Petroleum Corp said the local oil industry will incur additional costs from Nigeria's new cabotage law. The government passed a law regarding trade or transport in coastal waters or air between two points within a country. Under the new law, all vessels covered by it will pay a 2% surcharge on the value of the goods they carry, whether or not goods have commercial value.

China Aviation Oil Corp Ltd said it would continue trading after seeking court protection from creditors this week. Late Tuesday, CAO said it had no chance of meeting short term cash flow liabilities after trading losses reached $550 million in October.



OPEC production would be premature. In contrast, Iran has stated that OPEC should cut its overproduction to avoid a winter stockbuild. A Saudi oil source also stated that OPEC has not ruled out making production cuts at its next meeting. Separately, Acting Secretary General, Maizar Rahman, said there is little chance of cutting OPEC's production at its upcoming meeting. He expects OPEC's production to average 28 million bpd next year. He also said OPEC expects oil demand in 2005 to fall due to an anticipated weakening of the world economy.

Venezuela's Deputy Oil Minister Luis Vierma said Venezuela is not yet worried about this week's fall in crude oil prices.

The head of the IEA, Claude Mandil, hopes OPEC will exercise caution on its output policy at its upcoming meeting on December 10 and allow world oil stocks to continue building. He called on OPEC not to cut its production to help prevent any further undermining of economic growth. Separately, the IEA urged its member governments to work towards more cost effective climate change and coherent energy policies. The head of the IEA said world energy security is no longer a major concern as a result of more efficient use of oil and increasing utilization of alternative energy sources. It also stated that government can improve their ability to fend off a major oil supply disruption by adopting a more flexible approach to the handling of strategic oil reserves. The agency said it would put proposals forward to its members and added that under any new approach, government would still be required to stock oil reserves equivalent to at least 90 days of net imports and refrain from using them to influence prices.

Shipping sources stated that continued sabotage attacks have cut Iraq's crude exports to 1.3 million bpd in November, the lowest level in the past year. They stated that just over 35 million barrels had been loaded from the southern ports of Basra and Khor al-Amaya compared with 50 million barrels in each October and September.

Iraq's SOMO has started renewing Basra Light crude oil contract sales for the first half of 2005 at 1.75 million bpd. It expects Iraq to maintain an export level of 250,000 bpd from the north. However continued sabotage on northern oil facilities has been preventing SOMO from signing term contracts for Kirkuk crude.

According to Oil Movements, OPEC oil shipments fell in the four weeks ending December 18 by 470,000 barrels to 24.06 million bpd from 24.53 million bpd in the four weeks to November 20. Last week, it reported total OPEC shipments fell by 540,000 bpd in the four weeks ending December 11. Forward spot bookings from the Gulf increased by 626,000 bpd to 8.802 million bpd in mid-December compared with the same period in November.

According to traders, European gasoline exports to the US in December are expected to be steady to higher from November as refineries restart exports after maintenance and as stock changes to new clean fuels are completed. They estimate 1.2-1.4 million tons of gasoline would be fixed for export from Europe to the US during December, relatively unchanged from November's 1.1-1.3 million tons. Traders stated that an open arbitrage for exports from the spot market to the US resulted in at least 370,000 tons of fixtures for export late last week.

OPEC's news agency reported that OPEC's basket of crudes fell to $38.03/barrel on Wednesday, down from Tuesday's $39.77/barrel.

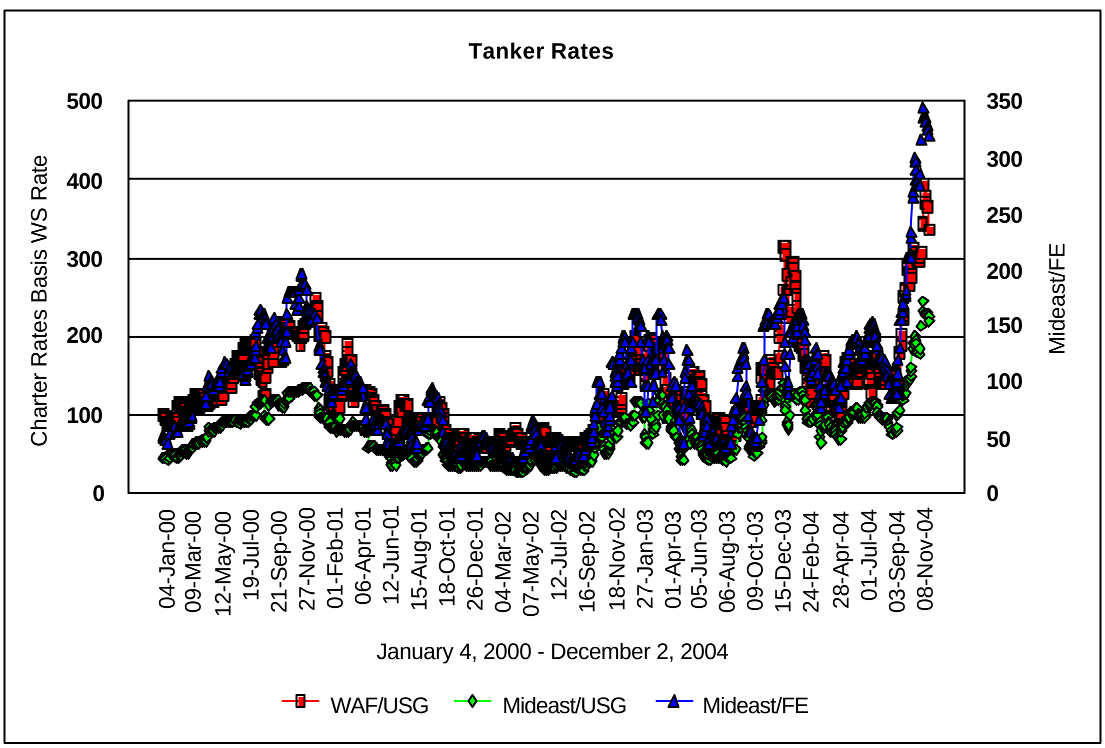
Refinery News

Sunoco Corp continues to run its Philadelphia refinery at 50% of its normal rate as it struggles to reestablish crude oil supply in the face of traffic restrictions on the Delaware River. The 330,000 bpd refinery took in less than a full shipment of crude on Wednesday. However there are still concerns about adequate crude oil supply. Oil tankers with crude oil resupply are restricted in their movement up and down the river but there are even problems with lightering crude deliveries.

A diesel unit at Alon USA's refinery in Big Springs, Texas was shut on Wednesday to allow repairs associated with a malfunctioning off gas compressor.

Production News

The US MMS announced that there was moderate improvement since Monday in the amount of oil and gas production still shut in the Gulf of Mexico. The percentage of oil production that is offline fell to 10.68% from 11.54% while the percentage of gas offline fell to 5.17% compared with 5.52% reported on Monday. The amount of oil shut in is now 181,601 bpd while the amount of natural gas shut in is 635.8 mmcf/d.



Statoil said the 130,000 bpd Snorre

field and the 75,000 bpd Vigdis field remained shut on Thursday for repairs following a gas leak over the weekend. Statoil said it poured 50 cubic meters of cement into the well at the Snorre A platform early on Thursday to isolate the gas bearing formation and help secure the well. It still did not have a production restart date. Meanwhile, the Safety Authority said it had withdrawn a production permit from Snorre until Statoil could demonstrate it was safe to restart. They said it could be days before they allow a restart.

Statistics Norway reported that investment in Norway's oil and gas sector is expected to increase to a record 89.5 billion Norwegian crowns or $14.65 billion in 2005 from an estimated 71.9 billion crowns in 2004. The increase is mainly due to expenditure on the big Ormen Lange gas field due on stream in 2007.

According to the Shetland Islands Council, Brent crude liftings from the Sullom Voe terminal increased to 277,976 tons in the week ending December 1 from 233,132 tons in the previous week. It stated that 199,465 tons was bound for the US Gulf.

An oil industry analyst said gas oil inventories in the Amsterdam-Rotterdam-Antwerp storage tanks increased by 25,000 tons to 1.375 million tons in the week ending December 2nd. Fuel oil stocks fell by 100,000 tons to 400,000 tons while gasoline stocks remained unchanged at 700,000 tons. Naphtha stocks fell by 25,000 tons to 100,000 tons while jet fuel stocks fell by 50,000 tons to 175,000 tons.

Alaska is expected to loosen restrictions on energy exploration and drilling around the state's Arctic region this season, based on a new study finding the drilling season can be extended without harming the environment. The study was requested by oil and gas companies that have seen increasingly warmer Arctic temperatures during the past three decades halve the time they can explore in the region due to restrictions traveling over unfrozen ground.

Mexico's port of Dos Bocas and Cayo Arcas were reopened on Thursday following their closure on Wednesday. The port of Pajaritos however remained closed due to adverse weather conditions.

Oil production in Russia increased by 9.1% to 419.365 million metric tons from January to November. Oil production in November increased by 6.9% on the year to 38.442 million tons. Russia's crude oil exports via Transneft fell by 1.1% on the month to 4.05 million bpd in November. Meanwhile, Russia's Energy Ministry reported that Russia's crude exports increased by 28% year on year in January-November to 106.08 million tons or 2.32 million bpd. It said oil exports through the Druzhba pipeline to central Europe also increased by about 5% to 59.92 million tons or 1.31 million bpd from 56.86 million tons or 1.25 million bpd in January-November 2003.

Azerbaijan's SOCAR said that it shipped 139,700 metric tons of crude to the Russian port of Novorossisk in November, down 35% on the year. Overall shipments through the first 11 months of the year totaled 2.26 million tons, down 3.9% on the year.

China's gasoline exports in December are expected to fall to the lowest level this year. It is expected to export 310,000 tons of gasoline in December, down from about 400,000 tons in November. China exported 4.5 million tons of gasoline in the first 10 months, down 30% from the year earlier period.

Singapore's International Enterprise reported that the country's fuel oil inventories increased by 758,000 barrels in the week ending December 1st to 12.721 million barrels. Its middle distillate inventories fell by 373,000 barrels to 7.072 million barrels in the same period while light distillate stocks fell by 85,000 barrels to 9.426 million barrels.

India's Oil Minister Mani Shankar Aiyar said India's crude oil import bill in the year to March 2005 is expected to increase to $24 billion from $18 billion in the previous year. India's crude oil imports increased by 9.4% to 1.98 million bpd in April-October due to rising domestic sales and a 6.2% growth in exports of refined products. Separately, he stated that India's existing crude oil reserves will be depleted by 2016 if there are no new discoveries. As of April 1, 2004, the balance of recoverable oil and oil equivalent gas in the country stood at about 1.66 billion metric tons.

Market Commentary

The energy complex continued on its downward slide, in an astonishing move that has taken out close to $6.00 from the crude market in the last two trading sessions. The oil market, which retraced some of Wednesday's losses on Access as it traded about 50 cents higher to 45.90 erased its gains and continued its downward trend ahead of today's opening. The January crude contract gapped sharply lower from 45.35 to 44.30 as it opened down $1.19. It partially backfilled its gap as it posted an intraday high of 44.60 before the market tumbled once again. The market sold off to a low of 42.50 early in the session, where it found good support. The oil market was pressured amid the sell off in the natural gas market following the release of the EIA natural gas storage report showing a draw of 15 bcf and an upwards revision to last week's draw in stocks, easing concerns over tight winter supplies. The January crude contract bounced off its low and erased some of its losses as it traded to 43.65 and later settled in a range from 42.80 to 43.50 during the remainder of the session. It settled down $2.24 at 43.25, the lowest settlement seen since mid-September. Volume in the crude was excellent with over 285,000 lots booked on the day. The product markets also sold off sharply, with the heating oil market settling down 7.21 cents at 125.72 and the gasoline market settling down 5.98 cents at 114.14. The heating oil market also gapped lower from 132.20 to 130.00 and partially backfilled its gap as it traded to a high of 130.50. The market's downward momentum however kept the market pressured. It sold off to a low of 124.75 early in the session before it bounced off that level and traded towards the 128.00 level. However the market once again retraced its small gains and traded towards its lows as it settled in a range from 126.90 to 125.00. The gasoline market also gapped down from 119.60 to 117.30 on the opening before it partially backfilled its gap as it traded to a high of 118.00. The market however sold off to a low of 112.75 in follow through selling seen in the rest of the complex. Volumes in the product markets were good with 65,000 lots booked in the heating oil market and 46,000 lots booked in the gasoline market.

The oil market is seen retracing some of its sharp sell off ahead of the weekend. However, the market technically is seen trading lower as its stochastics are still trending lower. The market is seen finding some support at its low of 42.50 followed by 41.95, 41.65 and 40.60. Meanwhile, resistance is seen at 43.50 followed by its gap from 44.60 to 45.35.

Technical Analysis			
		Levels	**Explanation**
		44.60 to 45.35	Backfills gap
	Resistance	43.50	
CL	43.25, down $2.24		
	Support	42.50	Thursday's low
		41.95, 41.65, 40.60	Previous lows, Basis trendline
		130.50 to 132.20	Backfills gap
	Resistance	127.70, 128.20	
HO	125.72, down 7.21 cents		
	Support	124.75	Thursday's low
		120.00	Previous low
		118.00 to 119.60	Backfills gap
	Resistance	115.90	
HU	114.14, down 5.98 cents		
	Support	112.75	Thursday's low
		111.98, 110.40	Basis trendline, Previous low

Cinergy supports federal action on an air pollution bill that includes greenhouse gas limits to remove uncertainty from the country's environmental policy. It said the uncertainty over greenhouse gas regulations has made it difficult to plan the capital expenditures needed to comply with the environmental rules while continuing to serve customers. Cinergy said it wants the government to invest in and allow a reasonable amount of time for the development of carbon sequestration programs and alternative energy technologies. It wants the government to enact a national cap and trade program to reduce emissions that would apply to multiple industries.

The California Public Utilities Commission approved revenue requirements for 2004 for two units of Sempra energy. It authorized about $1.46 billion in natural gas distribution revenues for Southern California Gas and $754.8 million in electric revenues and $204.7 million in gas revenues for San Diego Gas & Electric.

The California Public Utilities Commission divided the costs of long term electricity contracts signed during the 2000-2001 power crisis. It decided to shift $733 million in costs to Sempra Energy's San Diego Gas & Electric Co from two other utilities. The decision reduced Pacific Gas & Electric's share by $418 million to $3.31 billion and cut $733 million from Edison International's Southern California Edison to $3.34 billion.