

**W** The  
Windham Group



## ***ENERGY RISK MANAGEMENT***

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

**www.e-windham.com**

---

### **ENERGY MARKET REPORT FOR DECEMBER 15, 2004**

---

Saboteurs in Iraq blew up a section of a domestic crude oil feeder pipeline Tuesday night. The pipeline carries oil from the Baiji crude oil depots to the al-Doura refinery. A source stated that the pipeline was damaged by six blasts. Meanwhile, Iraq's Oil Minister Thamer al-Ghadhban said police had foiled an attempt to attack the Baiji refinery. Separately he stated that technicians from the North Oil Co were able to extinguish one of six oil wells set ablaze in a sabotage attack on the al-Khabbas oil field. Separately, Iraq's southern oil exports were running normally for the second day on Wednesday.

Iran's Deputy Foreign Minister for Economic Affairs Ali Majedi said that Iran will comply with a decision by OPEC to abide by the group's output quotas. He however declined to give specifics on any possible plans to adjust Iran's crude

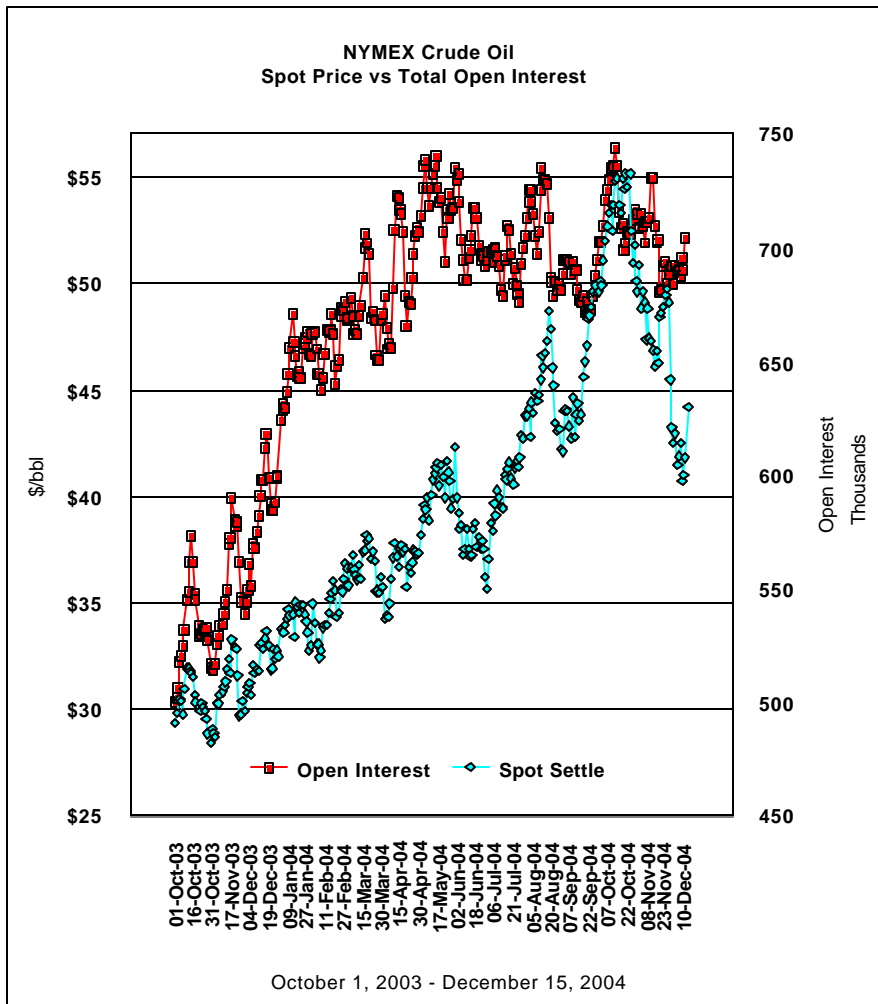
#### **Market Watch**

The EIA said builds in US heating oil inventories will likely be scarce this winter due to strong demand and colder weather. An oil analyst at the EIA said unless warmer than normal weather returns for a significant period of time, the market has likely seen the last of any significant heating oil builds this winter. He also stated that demand for distillates appears poised to increase further this winter.

Russia's Yukos has filed for bankruptcy protection in a US court and will seek an injunction to stop Russia from auctioning off its main production unit on December 19. Yukos also asked the court to order Russia to arbitration so that it can seek billions of dollars in damages over an unprecedented campaign of illegal, discriminatory and disproportionate tax claims. Russia's State Property Fund said preparations for Sunday's auction were going ahead as planned. If the court grants the restraining order, either the Russian authorities will ignore it or they and the bidders will petition the court to overturn it. If the court upholds the order, then bidders for Yugansk and their financiers could be sued in the US courts to prevent the sale from completing.

Nigerian government officials and Kula community leaders continue their talks to end an impasse that has forced oil companies to shut in about 120,000 bpd of crude production.

Brokers stated that shipping rates on export routes from the Gulf and West Africa sustained their largest fall of the year in 24 hours on Wednesday due to a lack of January enquiry and post-OPEC sentiment. Brokers said Very Large Crude Carriers from the Gulf to Taiwan fell to W227.50 while the cost from the Gulf to Japan was W220, down 23% since early Tuesday. Long haul voyages to the US fell to W165-W170, down at least 24 points. Meanwhile voyages from West Africa to the US fell to W140, down 77 points or 35% on the day.



production. Iran's Oil Minister Bijan Zanganeh said a price of between \$32/barrel and \$35/barrel for OPEC's basket of crudes would be a favorable price. Separately, a Kuwaiti official stated that the country will limit its output on lower refinery runs. He said Kuwait will meet its cut by lowering its oil product sales by 190,000 bpd during first quarter refinery maintenance.

OPEC's news agency reported that its basket of crudes increased by \$0.73/barrel to \$34.72/barrel on Tuesday from \$33.99/barrel on Monday.

**Refinery News**

Shell Oil said it has not reached terms with the leading bid for its crude oil refinery in Bakersfield, California. It said discussions would continue with other companies but did not disclose which companies were bidding for the refinery.

Venezuela has shipped 240,000 barrels of Jet A-1 aviation fuel from its 140,000 bpd El Palito refinery to Rotterdam.

**Production News**

Colonial Pipeline said it has allocated shipments on its main distillate and gasoline lines from Collins, Mississippi to Greensboro, North Carolina for the 36<sup>th</sup> cycle because of too many nominations for the pipeline to meet.

Shell Exploration and Production stated that Brent blend crude throughput is forecast to average 298,000 bpd in January.

According to the Royal Bank of Scotland, British North Sea oil production fell in September to lowest monthly average since May 1991. It said oil production fell by 22.1% on the year and 5.5% on the month to 1.533 million bpd in September. Its combined oil and gas production was 3.120 million barrels of oil equivalent/day in September, down 14.5% on the year.

Norway's Norsk Hydro updated its 2004 production estimate for oil and gas to 570,000 barrels of oil equivalent/day. It set its 2005 production target for oil and gas at 575,000 boe/d. It forecast that 2008 oil and gas production increased to above 700,000 boe/d from 570,000 boe/d in 2004.

Mexico's three Gulf of Mexico crude oil loading ports were closed on Wednesday due to adverse weather conditions.

Saudi Aramco is scheduled to start a project December 26 which will increase its crude production capacity by 800,000 bpd from the Qatif and offshore Abu-Sa'fah field.

Algeria has increased its January official selling price on its Saharan Blend crude by \$1.14/barrel compared with December on strong US demand for the crude. It set the price at Dated Brent plus 17 cents, up from a discount of 97 cents in December.

Trading sources stated that gas oil exports from the former Soviet Union via Baltic and Black Sea ports fell in November amid an increase in domestic demand and transport delays that hampered loadings. Gas oil shipments fell to 2.23 million tons in November, down from 2.39 million tons the previous month. The arbitrage from Europe to the US is still closed while occasional shipments continue to be made in the opposite direction. Meanwhile, fuel oil exports increased by 170,000 tons on the month to 4.15 million tons in November. Separately, exports of heating oil and diesel from the former Soviet Union to Europe are expected to fall in December and January.

Kazakhstan's oil and gas condensate production increased by 15% in the January-November period to 53.9 million metric tons from 51.4 million tons a year earlier. Natural gas production increased by 53% in the period to 10.31 billion cubic meters.

Royal Dutch/Shell's Salym joint venture said it pumped the first oil from a major Siberian field a year ahead of schedule and expects total output to exceed 1 million barrels in 2005.

China's National Bureau of Statistics reported that crude throughput at China's refineries increased by 11.8% in November from a year earlier to 23.54 million tons. Throughput in the first 11 months of 2004 increased by 13.9% year on year to 248.6 million tons.

Ecuador's central bank reported that Ecuador exported 11.71 million barrels of crude in October, up 12% on the year. Its export revenues totaled \$430.85 million in October, up 70% from the \$253.36 million registered in the same month of 2003.

Petro-Canada said it has restarted production at its terra Nova oil field off the coast of Newfoundland. Production has been shut down more than three weeks ago due to an oil spill. Production is expected to return to its normal 160,000 b/d production level within a few days.

### **Market Commentary**

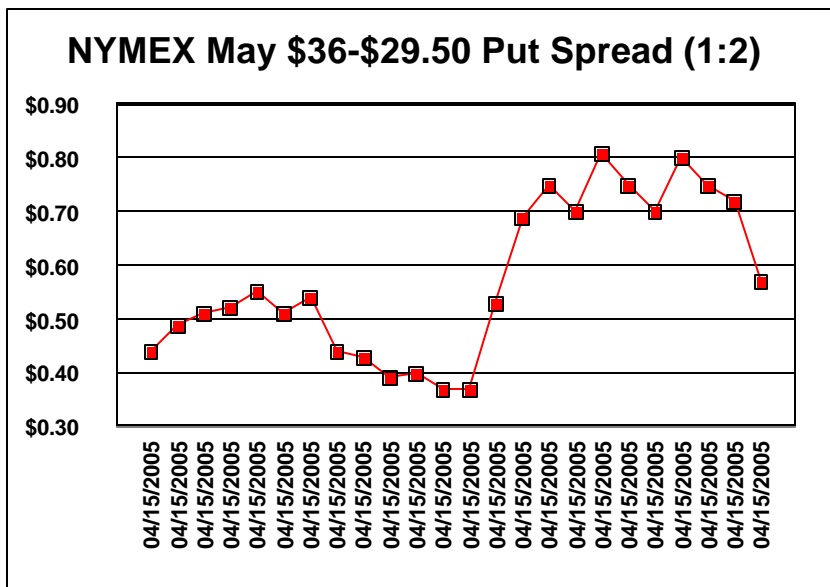
The NYMEX oil market opened 30 cents higher at 42.12 as the market remained buoyed by the weather forecasts ahead of the release of the weekly petroleum stock reports. It traded from 42.35 to 41.80 early in the session before the market bounced off that level in light of the strength seen in the heating oil market. The energy complex was well supported by the DOE, which showed distillate stocks unchanged while the API also showed an unexpected draw of 2.2 million barrels in distillate stocks. The market rallied to 44.00 where it held good resistance. However further buying extended the market's gains to over 2.6 cents as it surged to an intraday high of 44.45 before it retraced some of its gains ahead of the close. The January crude contract settled up \$2.37 at 44.19. Volume in the crude was excellent with over 274,000 lots booked on the day. Open interest in the crude market built by a total of 13,340 contracts as of Tuesday's session. Open interest in the January contract fell by 9,707 contracts while open interest in the February contract built by 11,341 contracts amid spread rolling. The heating oil market, which once again lent support to the energy complex settled sharply higher at 138.84, up 8.39 cents on the day after posting almost a 9 cent trading range on the day. The

heating oil market posted an intraday low of 130.05 ahead of the DOE and API reports. However it quickly bounced off that level and rallied to 137.50, where it held some resistance. The market later breached

that level and continued to rally to a high of 139.00 amid the weather forecasts and the supportive inventory reports. The EIA also made some comments that the market has

Technical Analysis		
	Levels	Explanation
CL Resistance 44.19, up \$2.37 Support	46.50	62% retracement level (50.40 and 40.25)
	44.45, 45.35	Wednesday's high, Backfills gap (Dec 2)
HO Resistance 138.84, up 8.39 cents Support	42.85, 42.35	38% and 50% retracement (40.25 and 44.45)
	41.80	Wednesday's low
HU Resistance 116.17, up 5.18 cents Support	140.23, 141.25, 144.96	50% retracement (160.30 and 120.15), Previous high, 62%
	139.00	Wednesday's high
HU Resistance 116.17, up 5.18 cents Support	134.70	Wednesday's low
	130.05	Wednesday's low
HU Resistance 116.17, up 5.18 cents Support	118.00 to 119.60	Gap (Dec 2)
	117.15	Wednesday's high
HU Resistance 116.17, up 5.18 cents Support	115.30, 113.00	38% retracement (106.50 to 117.15)
	111.83, 110.50	50% retracement, Wednesday's low

most likely seen the last of any significant build in distillate stocks this winter. Meanwhile, the gasoline market settled up 5.18 cents at 116.17. It traded off its low of 110.50 early in the session amid the strength in the heating oil market. It extended its gains to over 6 cents as it traded to a high of 117.15. Volumes in the product markets were good with 63,000 lots booked in the heating oil and 55,000 lots booked in the gasoline market.



The January crude options expired today. While there appeared little drive to pin the futures settlement price up against a particular options strike, it is interesting to note that basis the open interest report released this afternoon, that the open interest in the \$43.00 calls Tuesday spike higher by nearly 1,000 contracts, in what could possibly have been short selling, which in turn these traders were forced to cover today as prices breached the \$43.00 barrier after 11 am this morning. But one options spread outpaced all other activity today and that was the May

\$36-\$29.50 1:2 put spread which between the two strikes traded over 12,000 contracts.

The crude market is seen retracing some of its sharp gains on Thursday. However the market is seen remaining supported amid the weather forecasts calling for colder than normal temperatures. Technically, the oil market still has some more upside as its stochastics are still trending upwards. It is seen finding initial resistance at its high of 44.45 followed by 45.35, where it would backfill its gap. Meanwhile support is seen at 42.85 followed by 42.35 and 41.80.