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ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR DECEMBER 21, 2004

Saboteurs have set oil pipelines ablaze in northern Iraq but exports on the line had already been halted by a separate attack at the weekend. An explosion ripped through the Baiji complex on Monday night, according to officials. The complex includes the main pipeline to the northern export terminal at Turkey's Ceyhan port and links from refineries to power plants.

The chairman of Pengassan said workers started an indefinite strike and had abandoned posts at Nigeria's export terminals, halting all crude liftings. However a shipping agent in Port Harcourt said liftings continued as normal. A spokesman for Royal Dutch/Shell Group said its Nigerian loadings continued. Union leaders are expected to meet with government representatives later on Tuesday to discuss salary and pension issues. Workers' at Nigeria's Department of Petroleum

Market Watch

The EIA said its web site was not working on Tuesday. It will issue a statement later on Tuesday to discuss the problems with its web site and what steps it will take if necessary to ensure public access to its oil stocks report and other energy data. It said it is experiencing problems with access to its internet site due to a problem with the DOE's internet service provider.

UK Prime Minister Tony Blair traveled to Iraq's Basra on Tuesday after holding talks with Interim Prime Minister Ayad Allawi in a surprise visit to lend support to the national elections next month.

A rocket and mortar attack killed at least 22 people and wounded 50 at a US military base in the northern Iraqi city of Mosul on Tuesday. An official at the Pentagon said it was unclear how many US troops were among the fatalities in the midday attack on Forward Operating Base Marez.

According to a central bank director, Venezuela's economy should grow between 14% and 16% in 2004. Venezuela's economy contracted by 9.2% in 2003.

The Fedepetrol oil union and PDVSA management continued to struggle as PDVSA management insisted on stripping the unions of the right to assign workers to projects contracted with private oil firms. A Fedepetrol representative ruled out a strike for the time being.

Separately, Venezuela's President Hugo Chavez called on PDVSA and the Central Bank to refill a \$2 billion development fund with excess oil revenues. He said the fund should be replenished in order to guarantee investments in infrastructure projects and restrain the excessive growth of Venezuela's foreign reserves. Most of the money from deposits this year was paid out to infrastructure programs.

Resources were locked out of some of their offices early Tuesday. DPR offices in the regional oil centers of Warri, Port Harcourt and Kaduna have also been blockaded. A trader however said it was unlikely the strike would impact crude loadings, despite union claims.

Norway's Prime Minister said that the non-OPEC producer would like to see stable and predictable oil prices. Kjell Magne Bondevik said high oil prices strengthened the country's economy and increased the state petroleum fund. However lasting high oil prices would contribute to a stronger crown which does not benefit the competitiveness of Norwegian companies.

Russia's President Vladimir Putin said an auction of Yukos' Yuganskneftegaz to an obscure firm conformed with Russian law. The sale of the oil production unit to Baikal Finance Group was ordered to raise funds to help pay Yukos' \$27.5 billion back tax bill. Putin said that as far as he knew the shareholders of the group that bought the unit were individuals who had been involved in the energy business. Russian Industry and Energy Minister Viktor Khristenko said there was no need for Western investors to lose confidence over the government's handling of the crisis over Yukos. Investors voiced concern that the auction lacked transparency and has placed some 10% of Russian oil production in hands of the previously unknown Baikal Finance Group. Meanwhile, Yukos threatened to escalate its legal battle abroad on Tuesday as the mystery surrounding the buyer of its unit began to lift with newspapers linking it to Russia's Surgutneftegaz. Yukos said the auction violated a US bankruptcy stay. It threatened legal action for \$20 billion in damages against third parties participating in the sale. Separately, the Bush administration protested Russia's auction of Yukos' main oil production unit and warned it could affect foreign investment in Russia.

OPEC's news agency reported that OPEC's basket of crudes increased by \$0.47/barrel to \$38.34/barrel on Monday compared with Friday's \$37.87/barrel.

Refinery News

BP is restarting its 200,000 bpd crude distillation unit at the Nerefco refinery in Rotterdam.

A reformer at Preem Holding AB's Scanraff refinery remained shut after developing a technical fault last week. The source said it is unclear when the reformer will resume operations. Meanwhile Preem declared force majeure on gasoline and diesel cargoes after a reformer was shut at its 210,000 bpd Lysekil refinery. The 32,000 bpd reformer is not expected to resume operation until early January. It has no gasoline in stock and it was short of low sulphur diesel.

Belarus' 239,000 bpd Naftan oil refinery has started a new motor fuel producing hydrocracker. The 18,000 bpd hydrocracking complex, which is operating at about 55% capacity, should increase to about 70% by the end of the week.

Production News

Statoil ASA said it is planning to restart Snorre A platform in the North Sea towards the end of the week. It also stated that its Vigdis satellite is also to resume production at the same time. It said the startup depends in part on maintaining the schedule for the remaining work. It said it expects normal output at the North Sea fields around the end of the year.

Petro-Canada reported that three days after resuming production, there was another oil spill at the Terra Nova site off Newfoundland. The company said two barrels of oil were discharged before the system was shut down. While an investigation is underway, production will be limited to wells that contain no water, with rates of up to 100,000 bpd.

Qatar Petroleum has cut allocations for Qatar Land crude for January liftings by 45% against full contractual volumes. Energy Minister Abdullah bin Hamad al-Attiyah said last week that Qatar would cut supplies to its customers by 40,000 bpd from January 1.

Separately, Qatar's Al Shaheen oilfield is fully operational again after production problems reduced output at the start of December. It has a capacity of 240,000 bpd.

The head of BP's TNK-BP said it could start shipping crude through the Baku-Ceyhan pipeline from 2006. He said two firms were in negotiations about shipping Russian crude via the pipeline, which is led by BP and runs from the Caspian Sea to the Turkish port of Ceyhan. The Baku-Ceyhan pipeline will mainly ship oil from the Azeri-Chirag-Guneshli fields, which currently produce 130,000 bpd and export via the Georgian port of Supsa.

An oversupply of Boscan crude worsened as PDVSA failed in its second attempt to sell off a 1.8 million barrel cargo of crude last week. It is now seeking other storage facilities to relieve storage problems. PDVSA is producing 60,000-90,000 bpd of Boscan crude, down from 115,000 bpd in October as seasonal demand from US asphalt producers has declined.

China's General Administration of Customs said the country's crude oil imports increased by 45.6% on the year to 11.12 million tons or 2.7 million bpd in November as government measures to slow the economy failed to cut fuel demand growth. Its fuel oil imports in November increased by 82.5% on year to 3.22 million tons. Imports of diesel increased by 285.5% on year to 35,552 tons while import of liquefied petroleum gas increased by 22.7% on year to 531,484 tons.

South Korea's Korea National Oil Corp said the country's crude oil imports increased by 12% in November from a year ago, as refiners stocked up for winter and on buying ahead of an increase in fuel import surcharge. Despite weak demand, analysts said December imports may remain strong due to firm regional demand for Korean oil products and a buying rush ahead of a 6 won increase in import surcharge in January. Imports in November stood at 88.7 million barrels, up from 79.1 million barrels a year ago.

Ecuador's Central Bank reported that the country's oil product export revenues between January and October to \$282.87 million, a 48.5% increase from the \$190.53 million registered in the same period of 2003. It exported 11.55 million barrels in the first ten months of 2004, up 21% from the 9.5 million barrels during

the same period last year.

Market Commentary
The oil market posted another inside trading day amid the light volume trading ahead of the holidays. It failed to test

Technical Analysis			
		Levels	Explanation
CL	Resistance	46.65, 46.86	Previous high, 62% retracement (50.55 and 40.90) Tuesday's high, Monday's high
	45.76, down 2 cents	46.15, 46.20	
	Support	45.36, 45.10, 45.05	Tuesday's low, Previous lows
HO		44.85, 43.03	Backfills gap (Dec 17th), Previous low
	Resistance	146.80, 146.95, 148.50	Previous highs
	139.94, up 6 points	141.00, 142.00	Tuesday's high, Monday's high
HU	Support	138.30	Tuesday's high
		136.00	Previous low
	Resistance	122.82	62% retracement (132.90 and 106.50)
116.69, up 1.47 cents	117.80, 118.00, 119.90	Tuesday's high, Previous high	
	114.05	Tuesday's low	
	111.60	Previous low	

its previous trading range, despite the mostly supportive news on continuing problems in Iraq and the indefinite strike in Nigeria. The February crude contract opened down about 23 cents at 45.76 and traded to its high of 46.15. However as the market failed to test its previous high of 46.20, the market erased its gains and traded to a low of 45.36. It later traded mostly in a range as traders were reluctant to take a position ahead of Wednesday's release of the weekly petroleum stock reports. The market traded in a range from 45.50 to 46.00 during most of the afternoon. It settled down just 2 cents at 45.76. Volume in the crude market was light with only 127,000 lots booked on the day, of which 50% traded via spreads. The heating oil market settled up just 6 points at 139.94 as the natural gas market remained pressured amid the moderating weather forecasts. The January heating oil contract posted an intraday high of 141.00. However as the market failed to test its previous high of 142.00, the market sold off to a low of 138.30. The market later bounced off that level and retraced its earlier losses amid expectations that the DOE and API reports will show draws in distillate stocks. Unlike the crude and heating oil markets, the gasoline market traded to a high of 116.70 early in the session before it sold off to a low of 114.05. However the market bounced off that level and erased its previous losses as it traded to a high of 120.50 on good buying ahead of the close. It settled up 1.47 cents at 116.69. Volumes in the product markets were light with 40,000 lots traded in each the heating oil and gasoline market.

Wednesday's session will likely continue to see light volume trading throughout the session ahead of the shortened trading session on Thursday. The market which has been driven by the weather forecasts and has mostly ignored any bullish news will be driven by the DOE and API reports. The reports are expected to show draws in crude stocks of less than 500,000 barrels while distillate stocks are expected build by more than 1 million barrels and gasoline stocks are expected to fall by about 500,000 barrels. If the reports do not show the expected builds in stocks, the market will remain supported. It is likely to find some support amid the news of the problems in Iraq and the indefinite strike in Nigeria. The market is seen finding support at its low of 45.36 followed by 45.10 and 45.05. More distant support is seen at 44.85 followed by 43.03. Meanwhile resistance is seen at its highs of 46.15, 46.20 followed by 46.65 and 46.86.