



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR DECEMBER 15, 2006

US Energy Secretary Sam Bodman said he was disappointed by OPEC's decision on Thursday to cut production further.

Royal Dutch Shell stated that gunmen invaded the Nun River logistics base and associated flow station in Nigeria's Bayelsa state in the Niger Delta late Thursday and were holding three Nigerians hostage. A Shell source said the facility was an oilfield control station pumping 12,000 bpd, which was shut as a precaution. He said the state government was in talks with the invaders. It was the second attack on

Western oil interests in Bayelsa in eight days after militants attempted to destroy a major oil export terminal and kidnapped four foreign workers on December 7.

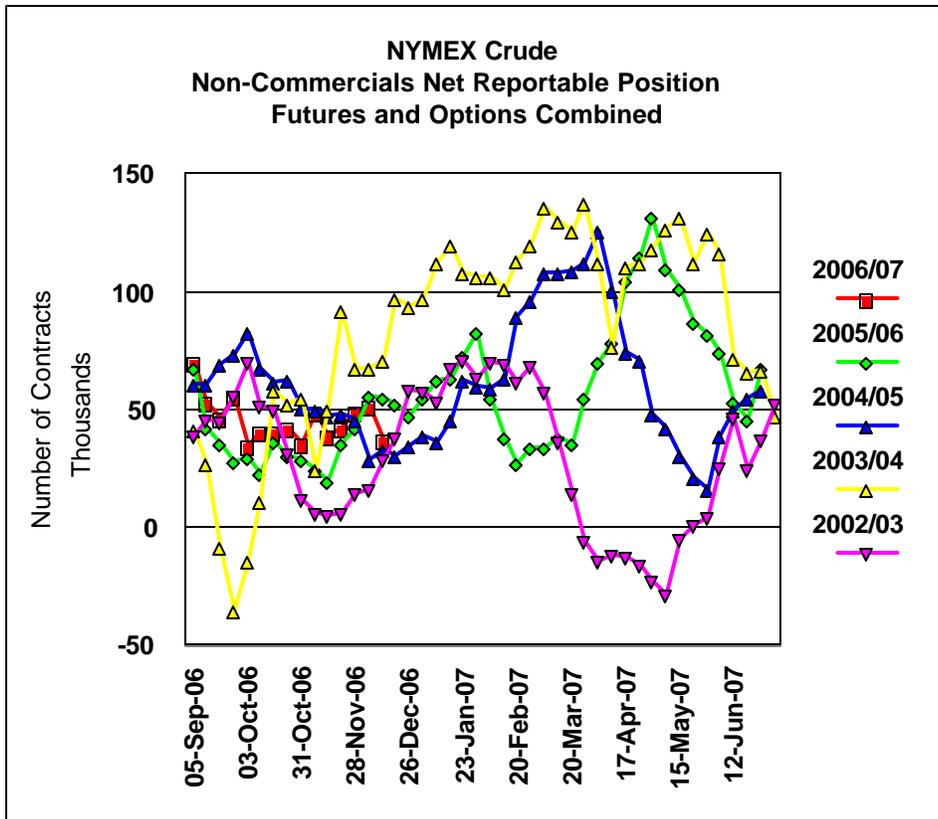
Market Watch

Japan's Minister of Economy, Trade and Industry Akira Amari said Japan would seek a consensus among the world's top oil consuming countries to cut their oil demand to counter what appeared to be efforts by OPEC to keep crude prices at high levels. He is scheduled to attend a Five Party Energy Ministerial meeting in Beijing this weekend, where he would meet with top energy policy makers from the US, China, South Korea and India.

The European Parliament called for a European strategy on transport energy with the aim of phasing out fossil fuel, cutting oil dependency and the widespread introduction of renewable energies. It said the majority of EU energy needs should be met by carbon free sources by 2050.

Iran's chief nuclear negotiator, Ali Larijani warned of a painful revenge on countries opposed to its nuclear program if the UN Security Council imposed sanctions against Iran. He said imposing sanctions would not help resolve the issue. Iran has previously stated that its retaliation against a punitive UN resolution could range from reviewing cooperation with the UN's IAEA to restricting its crude oil exports. Following weeks of talks, the US, Britain, China, France, Russia plus Germany are close to agreement on a draft UN resolution against Iran.

The Washington Post reported that US Secretary of State Condoleezza Rice has rejected the Iraq Study Group's recommendation that the Bush Administration engage Syria and Iran in efforts to stabilize Iraq. She said she did not want to trade away Lebanese sovereignty to Syria or allow Iran to obtain a nuclear weapon as a price for peace in Iraq. She also argued that neither Syria nor Iran should need incentives to help achieve stability in Iraq. The Washington Post said the US Secretary of State acknowledged that violence may not have ended before the administration leaves office in about two years but said she hoped Iraqis would get to a place that is sustainable by the end of 2008. She



said the administration would not retreat from its push to promote democracy in the Middle East and reiterated her commitment to pursuing peace between Palestinians and Israelis.

Refinery News

The US Coast Guard said the Houston Ship Channel was closed to shipping traffic once again due to fog after it reopened for three hours late Friday morning. The resumption was expected to be brief as current weather forecasts predict the fog would return and persist for the next several days. As many as 77 ships had been waiting for the dense fog to clear, with 45 ships

waiting to enter the channel and 32 waiting to leave it. The US Coast Guard also said shipping along the Calcasieu channel, connects the Lake Charles, Louisiana refining hub to the Gulf of Mexico, was also halted Friday morning due to fog. A prolonged delay in crude shipments could force some Gulf Coast refineries to cut production.

The US Department of Energy said the SPR was available should the Houston Ship Channel remain impassable and lead to a severe disruption of supply.

Crude oil tankers were offloading on Friday at the Louisiana Offshore Oil Port's facilities and were not affected by fog that has affected tanker traffic along the Gulf Coast.

According to a notice filed with the Texas Commission on Environmental Quality, sulfur recovery unit No. 6 at Shell's 334,000 bpd refinery in Deer Park, Texas was shut on Thursday. The malfunction occurred while the refinery was making process adjustments on the SRUs at the refinery. Meanwhile, Shell said its Deer Park refinery has less than a week's worth of crude oil supply on site and would probably have to cut output if the shipping disruptions last for several days.

A reformer unit at BP's refinery in Texas City, Texas is expected to restart over the weekend following repairs. An ultracracker unit at its 460,000 bpd refinery was on track to restart by the middle or end of next week following the completion of work that started December 7.

Imperial Oil Ltd said it did not expect any shortages of refined products following a fire at its Sarnia, Ontario refinery. The company said it started to investigate the cause of the fire and was assessing damage to a hydrocracker unit. The rest of the 121,000 bpd refinery was operating normally.

Customs data showed that China's diesel imports in November totaled 150,000 tons, the highest level this year. The country's diesel imports in the January-November period totaled 520,000 tons, up 15.8% on the year. Customs data also showed that gasoline imports totaled 20,000 tons in November while kerosene stocks totaled 560,000 tons.

Turkey's Energy Minister Hilmi Guler said Turkey and Israel have agreed to build a pipeline linking the Black and Red Seas. The pipeline project would involve transportation of oil, natural gas, electricity, water and fiber optics cables. A pipeline is currently under construction linking Turkey's Black Sea port of Samsun and Ceyhan. It is expected to have an annual capacity of 60 million to 70 million tons of crude. The pipeline project would be an extension of the Samsun-Ceyhan pipeline.

Production News

According to Petrologistics, OPEC has continued to produce about 1 million bpd above its output target of 26.3 million bpd so far in December. The ten OPEC members, excluding Iraq, are expected to produce 27.3 million bpd in December, down 100,000 bpd from November's production level. Including Iraq, OPEC is expected to produce 29.3 million bpd in December, up 200,000 bpd on the month.

The head of Mexico's delegation attending the OPEC meeting, Raul Cardoso said declining output from the Cantarell field would cut Mexico's output of Mayan Heavy crude oil by 50,000 bpd from early January to 1.8 million bpd. However he said new projects under development should restore the shortfall in the second half of 2007. Mexico's Energy Ministry said it would not make any adjustment to oil production in line with OPEC's decision to cut its production by 500,000 bpd from February 1.

The Dalia oilfield off Angola began producing on December 13. According to Total, the oilfield's recoverable reserves are estimated to be 1 billion barrels of oil equivalent. It is expected to reach plateau production of 240,000 bpd during the first half of 2007.

An Azeri oil official said Azerbaijan's crude oil production increased by 46.7% year on year to 29.2 million tons or 641,000 bpd in January-November. The BP led group said its own output from the Chirag and Azeri oilfields increased to 20.96 million tons or 460,000 bpd in the first eleven months of the year from 11.7 million tons or 257,000 bpd last year while Socar said its production increased to 8.24 million tons or 181,000 bpd from 8.21 million tons or 180,000 bpd last year. Azerbaijan exported 19.82 million tons or 435,000 bpd in January-November, up from 11.68 million tons or 256,000 bpd last year.

Indonesia's BPMIGAS said the country's oil and condensate production is likely to fall to 1.01 million bpd this year from 1.06 million bpd in 2005. It also stated that the country's oil and condensate production is expected to increase 4% on the year to 1.05 million bpd. The government has stated that it aimed to increase its oil and condensate production to 1.3 million bpd in 2010.

Indonesia's Pertamina bought 3.45 million barrels of sweet crude in its tender for February arrival. It bought 1.6 million barrels of Azeri Light crude and 650,000 bpd of Algerian Saharan Blend crude in the tender. It also purchased 600,000 barrels each of Brunei's Bebatik and Champion crude. Indonesia is expected to import 2.4 million barrels through term contracts for the first quarter of next year, down from 4.65 million term barrels for December. Separately, sources stated that Indonesia would import 10.6 million barrels of oil products in January, down 3% on the month. Gasoline imports are expected to increase about 5% to 4 million barrels in January. Fuel oil import volumes are expected to fall to 600,000 barrels while gas oil imports are expected to remain at 6 million barrels.

Azerbaijan's Socar said Glencore won a tender for 1 million barrels of Azeri Light crude, loading at the Mediterranean port of Ceyhan on January 6-8. Addax won a tender for 600,000 barrels of Azeri Light crude, loading at the port of Batumi in January.

Brazil's Petrobras said it produced an average of over 1.81 million bpd in November, down from 1.82 million bpd in October. It pumped about 128,700 bpd of crude abroad in November, down 6.6% on the month.

OPEC's news agency reported that OPEC's basket of crudes increased to \$57.43/barrel on Thursday from \$57.00/barrel on Wednesday.

Market Commentary

The oil market opened relatively unchanged at 62.50 and quickly posted a low of 62.30. However the market bounced off its low and rallied above the 63.00 level amid the reports that shipping traffic on the Houston Ship Channel remained halted due to fog. The market was also supported amid reports that Nigerian gunmen invaded Shell's Nun River logistics base and associated flow station late Thursday, causing the shut in of 12,000 bpd of crude production. The market's gains were however limited in light of reports that shipping traffic on the Houston Ship Channel briefly resumed and statements by the DOE that the SPR was available should the Houston Ship Channel remain impassable and lead to a severe disruption of supply. The market, which settled in a sideways trading pattern, later breached its early high as it was once again headline driven. The market rallied to a high of 63.50 ahead of the close after the US Coast Guard stated that Houston Ship Channel was again closed to shipping traffic after the fog returned to the area. The crude market settled up 92 cents at 63.43. Volume in the crude market light with 84,000 lots booked on the day. The heating oil market posted a low of 175.90 early in the session before it rallied to its high of 179.20 within the first hour of trading. The heating oil market was well supported amid the strength in the crude market. The market however erased its gains and settled in a sideways trading pattern in afternoon trading. It settled up 52 points at 178.17. Meanwhile, the RBOB market opened about 1 cent higher at 168.00 and quickly posted a low of 167.00. The market however bounced off its low and rallied to a high of 170.90. It erased some of its gains as it traded to 169.00 and settled in a sideways trading pattern ahead of the close. It settled up 3.38 cents at 170.39. Volumes in the product markets were light with 24,500 lots booked in the heating oil market and 22,900 lots booked in the RBOB market.

The Commitment of Traders' report showed that non-commercials in the crude market cut their net long positions by 6,553 contracts to 12,458 contracts in the week ending December 12th. The combined futures and options report also showed that non-commercials in the crude market cut their net long position by 14,856 contracts to 36,379 contracts as the market erased its gains early this week. Meanwhile non-commercials in the heating oil

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Technical levels		
	Levels	Explanation
CL	Resistance	63.65, 63.75, 64.70
		Previous highs
	Support	63.50
HO	Resistance	62.60, 62.30
		Friday's low
	Support	62.05 to 61.85, 60.80, 60.65
		Remaining gap (December 14), Previous lows
RB	Resistance	181.04, 181.90
		62%(187.25 and 171.00), Previous high
	Support	179.20
		Friday's high
RB	Resistance	177.35, 175.90
		Friday's low
	Support	175.30 to 175.20, 171.60
		Opening gap (December 14), Previous low
RB	Resistance	171.00, 172.00
		Double top, Previous high
	Support	170.90
		Friday's high
RB	Resistance	169.00, 167.00
		Friday's low
	Support	165.00 to 163.25, 160.00
		Opening gap (December 14), Previous low

market switched from a net long position of 906 contracts to a net short position of 2,534 contracts on the week. However non-commercials in the RBOB market increased their net longs by 1,102 contracts to 13,397 contracts on the week.

The oil market next week is seen remaining headline driven following reports that Houston Ship Channel is expected to remain closed amid the forecasts that the fog would persist for the next several days. The market will also remain concerned over the renewed attack on western oil interests in Nigeria. The market is seen finding support at 62.60, 62.30 followed by its gap from 62.05 and 61.85. More distant support is seen at 60.80 to 60.65. Meanwhile resistance is seen at 63.50 followed by 63.65 and 63.75. More distant resistance is seen at 64.70.