



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR JANUARY 30, 2007

The DOE's deputy assistant secretary for petroleum reserves, John Shages said the government may build new reserve sites west of the Rockies for the first time and heavy oils could be stockpiled along with the sweet and sour blends. President George W. Bush announced plans to double the size of the SPR from 727 million barrels to 1.5 billion barrels by 2027, with a portion of the reserve holding product stocks. Storage space for product stocks would be among the last aspects of the Bush administration expansion plan to be implemented. In the near term, the DOE is expected to focus on filling existing crude storage space.

Average daily crude purchases of about 100,000 bpd are set to begin sometime in March. Cash purchases would continue until 11 million barrels were added to the SPR. Starting July 1, the DOE would restart its royalties in kind program. Additions of 50,000 bpd would continue through the start of 2008 until crude in storage reached 727 million barrels.

A senior Saudi oil official said Saudi Arabia planned to cut its production by 158,000 bpd starting February 1, in line with agreed OPEC cuts.

Refinery News

According to a notice filed with the California emergency management office, a small fire started late Monday in a coking unit at Chevron Corp's 260,000 bpd El Segundo, California refinery.

Market Watch

PDVSA has failed to load two gasoline and one RBOB cargo for export to the US at the end of January, extending an export halt for the fourth month. One of the gasoline cargoes was scheduled to load on January 25-27 while the second gasoline cargo was scheduled to load on January 31-February 3. The RBOB cargo was scheduled to load at Amuay on January 28-30.

Ratings agency Fitch said Venezuela would be in default on \$4 billion in project financing if the government unilaterally takes over the Orinoco heavy crude projects. Venezuela severed negotiations with oil companies as part of an aggressive nationalization push to take a stake of at least 60% in the four Orinoco projects. Fitch said the loans include restrictions on ownership transfers and that violations of these covenants would trigger a default.

Iraq's SOMO denied it had asked Turkey to deal with Kurdish authorities in Northern Iraq and said it would handle all contracts itself. SOMO head Falah al-Amery said the company had extended last year's contracts for Turkish companies until the end of February to give them more time to fulfill their obligations and send the amounts of product agreed on.

Valero Energy Corp said repairs to a fluid catalytic cracking unit, a crude unit and an alkylation unit at its 214,000 bpd refinery would likely take three weeks following a fire on Sunday. The refinery's gasoline production would fall by 67,500 bpd while its distillate production would fall by 40,000 bpd. The refinery's 83,000 bpd fluid catalytic cracking unit was shut on Sunday due to the fire.

NYMEX Petroleum Options Most Active Strikes for January 30, 2007

Symbol	Month	Year	Call/Put	Strike	Exp Date	Settle	Volume	IV
LO	8	7	P	54	07/17/2007	2.68	5,000	33.97
LO	8	7	P	57	07/17/2007	3.81	5,000	33.53
LO	3	7	C	60	02/14/2007	0.71	3,381	39.02
LO	12	7	P	50	11/13/2007	1.96	3,200	31.68
LO	8	7	C	62	07/17/2007	4.31	3,100	33.04
LO	3	7	C	57	02/14/2007	1.78	2,774	39.08
LO	12	7	P	40	11/13/2007	0.43	2,753	33.06
LO	9	7	P	50	08/16/2007	1.67	2,550	33.63
LO	9	7	C	65	08/16/2007	3.68	2,501	31.96
LO	4	7	C	68	03/15/2007	0.41	2,213	37.92
LO	3	7	P	50	02/14/2007	0.12	2,162	41.77
LO	5	7	P	48	04/17/2007	0.62	2,106	38.37
LO	3	7	P	77.5	02/14/2007	20.53	2,000	73.08
LO	9	7	C	67	08/16/2007	3.08	2,000	31.92
LO	3	7	P	52.5	02/14/2007	0.38	1,925	40.64
LO	6	7	P	45	05/17/2007	0.48	1,863	38.44
LO	4	7	C	70	03/15/2007	0.27	1,808	38.33
LO	4	7	P	55.5	03/15/2007	1.94	1,800	37.19
LO	3	7	P	52	02/14/2007	0.3	1,706	40.57
LO	7	7	P	50	06/15/2007	1.41	1,700	35.86
LO	3	7	C	58	02/14/2007	1.34	1,576	39.01
LO	12	7	C	65	11/13/2007	4.75	1,536	29.98
OB	3	7	P	1.62	02/23/2007	0.1057	574	40.72
OB	5	7	C	1.72	04/25/2007	0.1061	287	34.66
OB	5	7	P	1.75	04/25/2007	0.1365	287	35.07
OB	4	7	C	1.77	03/27/2007	0.0638	200	38.49
OB	3	7	P	1.4	02/23/2007	0.0131	101	40.61
OH	6	7	C	1.7	05/25/2007	0.1074	502	34.74
OH	6	7	P	1.4	05/25/2007	0.0328	500	35.57
OH	6	7	P	1.63	05/25/2007	0.1112	325	34.61
OH	3	7	P	1.76	02/23/2007	0.1391	225	39.07
OH	5	7	C	1.7	04/25/2007	0.0907	160	35.80
OH	3	7	C	1.6	02/23/2007	0.0883	154	38.11
OH	3	7	C	1.7	02/23/2007	0.0418	152	38.34
OH	6	7	C	1.74	05/25/2007	0.0929	150	34.91
OH	6	7	C	1.63	05/25/2007	0.1381	125	34.70
OH	4	7	C	1.85	03/27/2007	0.032	104	37.80
OH	3	7	C	1.85	02/23/2007	0.0111	102	39.84
OH	3	7	C	1.75	02/23/2007	0.0276	102	38.84
OH	4	7	C	1.75	03/27/2007	0.0556	101	37.14
OH	3	7	P	1.5	02/23/2007	0.0145	100	38.61
OH	4	7	P	1.48	03/27/2007	0.0299	100	37.22
OH	11	7	P	1.55	10/26/2007	0.0793	100	30.74

PDVSA said it reduced crude runs at its 200,000 bpd Puerto La Cruz refinery following an outage at its fluid catalytic cracking unit.

Indonesia's Pertamina is expected to shut an 80,000 bpd vacuum distillation unit at its Balikpapan refinery for about 20 days at the end of February for maintenance. Pertamina is also expected to shut the 200,000 bpd crude distillation unit at its refinery in Kalimantan during the period. The unit is expected to undergo 30 days of maintenance.

Taiwan's Formosa Petrochemical Corp would reduce crude run rates in March by a third to 324,000 bpd due to regular maintenance on its crude distillation unit No. 3 and its 73,000 bpd residual fluid catalytic cracker unit No. 2. It would cut its diesel exports by a third to 300,000 tons in March and cut its jet fuel supplies by 50% to 60,000 tons.

Nippon Oil Corp said it would continue to curb its crude refining volumes through February after sharply revising down its January production. It is scheduled to refine 4.4 million kiloliters or 988,000

bpd of crude oil in February, down 6% on the year. It estimated its January crude refining volume at 4.8 million kl or 974,000 bpd, down from its initial plan to refine 5.2 million kl or 1.06 million bpd.

Indian Oil Corp is expected to shutdown two refineries for nearly a month each for maintenance between May and September. IOC is scheduled to its 8 million tons/year or 160,000 bpd Mathura refinery for 30 days from May 26. It is scheduled to shut its Haldia refinery for 25 days in August-September, instead of June as planned earlier.

Russia's Kuibyshev refinery is expected to undergo a \$102 million upgrade in 2007 to meet higher fuel standards. The refinery said it planned to start production of Euro-4 diesel in the third quarter of the year and launch a hydrogen producing unit sometime in 2007. It would also continue work on a catalytic cracking unit, which is due to be launched in 2009 and would replace three existing units.

The Shetland Islands Council stated that the Sullom Voe terminal suspended loading operations due to strong winds. Separately, the Shetland Island Council reported that Brent crude oil exports in the week ending January 29 increased to 350,106 tons, up from 338,341 tons in the previous week.

Germany's energy industry's AGEBA working group reported that the country's total primary energy use in 2006 increased by 1.2% to 493.6 million tons of coal equivalents, up from 487.5 million tons in 2005.

Turkey's Bosphorus Strait reopened to tankers longer than 200 meters or 656 feet on Tuesday as weather conditions improved. Tanker traffic was suspended on Monday due to stormy weather.

Syria's imports of gas oil are expected to increase by 23% this year to 4.2 million tons. Syria's demand for gas oil is forecast at 7.7 million tons this year compared with 7.5 million tons in 2006. Meanwhile, Syria's crude oil production fell to 404,000 bpd in 2006 from 414,000 bpd in 2005.

Production News

The Texas Petro Index, which includes oil and gas price data, rig counts, employment and other factors, increased by more than 11% in 2006. However during the last four months, the index has flattened out. Rig counts and the number of drilling permits issued has stayed constant or dropped. The average price of oil throughput in 2006 was \$62.73, up 17.8% on the year. The number of drilling rigs in operation has increased steadily since 2002 to just below 800 and remained there for several months while new drilling permits peaked in August at more than 1,800 and have since dropped.

Norway's Statoil said that more oil was found in block 31 off Angola with a confirmed flow capacity of 5,000 bpd.

Russia's Energy and Industries Ministry is expected to propose limiting foreign involvement in 40 industries at a cabinet debate of a draft law. The draft law would limit foreign involvement in developing strategic deposits and ability to enter the markets of natural monopolies. There are no limits at present but the government uses informal ways of putting pressure on foreign companies.

China's CNOOC Ltd is expected to hold its oil and gas production steady in 2007 after increasing its production by 8% last year. China's CNOOC is expected to produce 162-170 million barrels of oil and gas equivalent this year.

OPEC's news agency reported that OPEC's basket price increased by 25 cents/barrel to \$51.20/barrel on Monday.

Libya kept its February official selling price of its Essider crude steady at dated BFO minus \$1.60/barrel, unchanged from January.

Market Commentary

The oil market opened 49 cents higher at 54.50 as it retraced Monday's losses. The market posted a low of 54.45 and quickly bounced off that level amid the weather forecasts calling for colder weather. The market was also well supported amid reports that the DOE was considering changes to the makeup of the SPR, including devoting some of the planned expansion to oil products. The crude market breached the 55.00 level and rallied to 56.30, where it held some resistance. However the market extended its gains even further to \$3.04 as it rallied to a high of 57.05, ahead of the close. The crude market settled up \$2.96 at 56.97, a level not seen since earlier this month. Volume in the crude market was good with 294,207 lots booked on Globex during the open outcry session. The heating oil market also posted a low of 156.35 early in the session before it rallied higher on the weather forecasts and the strength in the natural gas market. The market extended its gains to 9.11 cents as it rallied to a high of 164.00 ahead of the close. It settled up 8.91 cents at 163.80. The market was also supported ahead of Wednesday's release of the weekly petroleum stock reports, which are expected to show draws of over 2 million barrels in distillate stocks. The RBOB market opened 2.6 cents higher at 146.70

and quickly posted a low of 144.75. The market however bounced off its low and rallied 8.4 cents to a high of 152.50 ahead of the close. It settled up 8.03 cents at

Technical levels		
	Levels	Explanation
CL 56.97, up \$2.96	Resistance 58.45 to 59.30	Remaining gap (January 8)
	57.05	Double top
	Support 56.30, 55.00, 54.45	Tuesday's low
	53.75, 53.70, 53.05	Previous lows
HO 163.80, up 8.91 cents	Resistance 166.50, 167.50, 172.30	Previous highs
	164.00	Tuesday's high
	Support 162.00, 158.00, 156.35	Tuesday's low
	154.70, 154.20, 153.00	Previous lows
RB 152.13, up 8.03 cents	Resistance 152.70 to 154.50, 159.50	Gap (January 4th), Previous high
	152.50	Tuesday's high
	Support 150.00, 148.00, 144.75	Tuesday's low
	144.00, 143.10, 141.00	Previous lows

152.13 amid the strength in the rest of the complex. Volumes in the product markets were good with 49,105 lots booked in the heating oil market and 34,010 lots in the gasoline market.

The oil market is seen retracing some of its gains after the market traded higher on the report that the DOE was considering including oil products in the SPR. The market's rally was overdone as it ignored the fact that storage space for product stocks would be among the last aspects of the reserve expansion plan to be implemented if the plan is approved. Also storing products would be more complicated as the government would be faced with the task of turning over stocks. The market may also be pressured as the weekly petroleum stock reports are expected to show builds in crude and gasoline stocks of about 1.5 million barrels each while distillate stocks are expected to fall by 2 million barrels. The market is seen testing its support at 56.30, 55.00 and its low of 54.45. Meanwhile more distant support is seen at 53.75, 53.70 and 53.05. Meanwhile resistance is seen at 57.05 followed by a gap from 58.45 to 59.30.