



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR FEBRUARY 6, 2006

The IAEA voted on Saturday to report Iran to the UN Security Council, which has the power to impose economic and political sanctions. On Monday, Iran said there is no room for negotiations with the US over its nuclear program after it was reported to the Security Council. In response the IAEA's decision, Iran also said it ended all voluntary cooperation with the UN's IAEA. It said it would start uranium enrichment and bar surprise inspections of its facilities. Iran's top nuclear negotiator, Ali Larijani was quoted as saying that "the west was using the referral to the Security Council as a psychological operation against Iran." The IAEA said it was told by Iran to remove surveillance cameras and agency seals from sites and nuclear equipment that go beyond minimal commitment under the Nuclear Nonproliferation Treaty by mid-February. Meanwhile, a Russian diplomat said it would be possible to create

Market Watch

The US National Weather Service said US demand for heating fuels is expected to be about 4.7% below normal this week, as temperatures in most of the main heating regions of the country return to more seasonal levels. Demand for heating oil in the week ending February 11 is expected to be about 8.7% below normal. In the Northeast region, demand for heating oil is expected to be 12% below normal from 35% below normal seen last week.

Despite the energy legislation signed into law last year requiring the increase in capacity of the SPR to 1 billion barrels from its current 727 million barrels, the White House did not seek money to buy the crude in its proposed budget for the 2007 spending year sent to Congress. Energy Secretary Samuel Bodman said the oil to expand the reserves would come from royalty in kind oil. Under the royalty in kind program, energy companies turn over to the government a portion of oil they drill on federal leases in lieu of paying cash royalties. The DOE said it on track to select by this August the new storage sites for expanding the emergency reserve. It is expected to take 12 years to increase the stockpile to 1 billion barrels.

The NYMEX announced that it is planning to offer side by side floor and computerized screen trading during daytime hours. A NYMEX executive said on Friday that the plan would likely be carried out within the next 30 days.

According to Credit Suisse, US refining margins fell in the Northeast and Gulf Coast last week due to builds in distillate stocks. The average margins in the US Northeast fell by 81 cents to \$4.44/barrel while margins in the Gulf Coast fell 10 cents to \$5.35/barrel.

According to a Reuters survey, analysts forecast the average price for WTI crude in 2006 at \$58.88/barrel while the Brent price is forecast to average \$56.67/barrel.

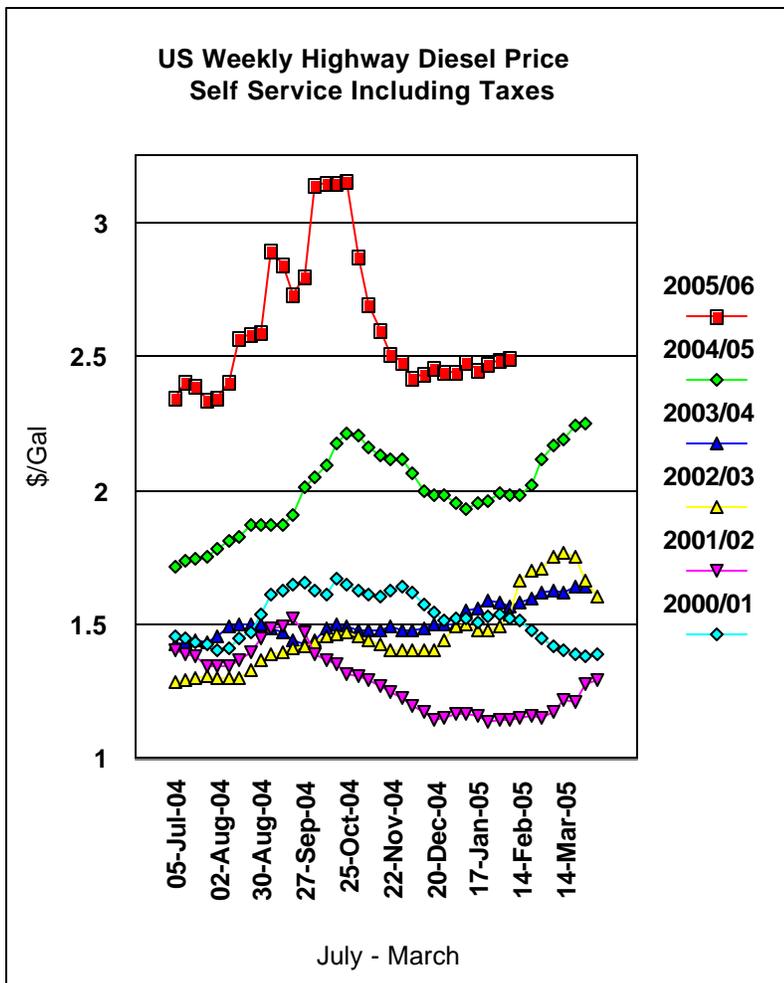
The oil companies in Venezuela that are being forced to migrate 3 operating contracts into mixed companies with PDVSA are struggling to continue booking reserves on their assets. PDVSA is demanding 60% to 80% stake in each field under the mixed company framework.

The IntercontinentalExchange Inc said it plans to defend itself against an antitrust lawsuit brought last week by NYMEX clearing firm MBF Clearing Corp. The suit alleges ICE is attempting to monopolize the market for European Brent blend crude futures, along with the markets for US oil futures and natural gas.

a joint venture to enrich uranium for Iran in Russia only if Iran resumed its moratorium on enrichment activities. Russia's Foreign Minister Sergey Lavrov warned the international community against threatening Iran over its nuclear program. His comments were in response to a request for his reaction to US Defense Secretary Donald Rumsfeld's statement that a military option for dealing with Iran should be kept open. Separately, a senior US State Department official said imposing economic sanctions on Iran without UN support would be legitimate if other efforts failed to convince Iran to halt uranium enrichment.

According to a shipping agent and an oil official, Iraq has resumed crude oil exports from its southern terminal on Monday after exports were suspended on Sunday due to bad weather and a lack of tugs escorting oil tankers into and out of the terminal. The agent said that before Sunday's halt in exports, the rate of exports from the south stood at 1.6 million bpd.

The executive director of the IEA, Claude Mandil expects no downturn in world demand for OPEC's crude oil in the April-June period despite forecasts suggesting otherwise. He also stated that US President George W. Bush's goal to cut US dependency on Middle East oil would do little to persuade OPEC to make the massive investment needed to meet future oil demand. He said oil prices would skyrocket if OPEC failed to make the investment of about \$500 billion needed to meet demand of 115 million bpd in 2030.



The EIA reported that the US average retail price of diesel increased by 1 cent to \$2.499/gallon in the week ending February 6, 2006. It also reported that the US average retail price of gasoline fell by 1.5 cents/gallon to \$2.342/gallon.

Refinery News

The Texas Natural Resource Conservation Commission reported that maintenance would be conducted on the speed probes for the recycle compressor on the selective hydrocracking unit at its Deer Park, Texas refinery on Monday.

According to filings with the Texas Commission on Environmental Quality, ConocoPhillips' Sweeny refinery in Texas shut a coker and two compressor units for several hours on Friday due to the installation of new controls. The upset also tripped the electrostatic precipitators on the fluid catalytic cracker, causing a brief interruption.

Pasadena Refining Systems' Pasadena, Texas refinery is mostly operational following a weekend fire.

The fire occurred in the naphtha hydrotreater.

ExxonMobil Corp is scheduled to perform planned maintenance at its 245,000 bpd refinery in Joliet, Illinois from April 10 to May 20. It was not clear if the entire refinery would be affected.

Nigeria shut its 125,000 bpd Warri oil refinery after a pipeline was ruptured by suspected vandals. The supply pipeline was attacked at the end of December and the plant was shut in January after it exhausted its stocks of crude oil. A spokesman for Nigerian National Petroleum Corp said repair of the pipeline, which feeds the refinery from oilfields around the Escravos area, was delayed by local community gangs as they blocked access to the area. The refinery was operating at 70% of capacity before it was shut.

Royal Dutch Shell said it expects to restart a fluid catalytic cracking unit at its Pernis refinery in Rotterdam by the end of the week. The unit was shut due to a steam leak.

Morocco's Samir has shut one of three topping units at its main 136,000 bpd refinery in Mohammedia. The unplanned shutdown forced the refiner to cancel a buy tender for a cargo of up to 140,000 tons of heavy crude for delivery at the beginning of March.

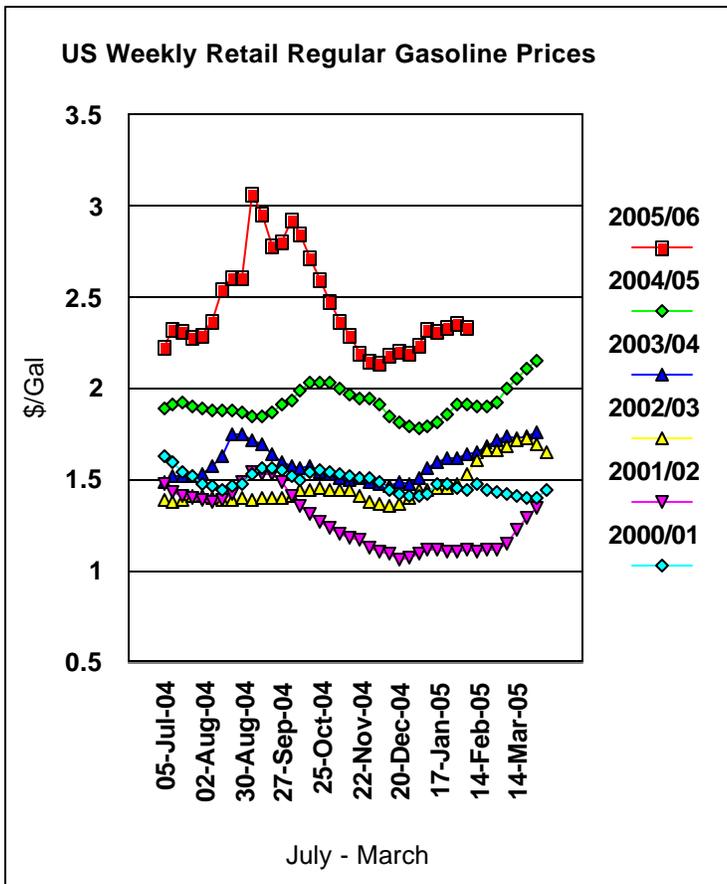
Kuwait National Petroleum Co official said Kuwait plans to shut its 200,000 bpd Shuaiba refinery from the end of March until May 17 for maintenance. Its Mina Abdullah refinery is also scheduled for shutdown in the fourth quarter of 2006 for maintenance.

Turkey's Tupras said it would carry out a feasibility study on investing in a new refinery and increasing capacity.

Production News

Colonial Pipeline will proceed with its phase out of gasoline additive MTBE from the Line 3 and Line 4 pipelines beginning with the 16th cycle. The phase out will eliminate transit of A and D grade reformulated gasolines, which contain MTBE and replace them with reformulated gasoline blendstock for oxygenate blending for 10% ethanol blending grades F and H. Shipment of A grade regular reformulated 87 octane gasoline will stop with the 19th cycle while shipments of F grade will start with the 16th cycle. D grade reformulated 93 octane gasoline will stop with the 16th cycle and shipments of H grade will start with the 15th cycle.

Norway's Statoil ASA, Norsk Hydro ASA and DNO said they had no indication from Middle East governments that contracts in the region were at risk following an escalating dispute over cartoons



published. Government officials in Iran, Yemen and Iraq have said they will review contracts with Norwegian and Danish companies. Government officials are reacting to the publication of caricatures of the prophet Muhammad.

Russia's main Black Sea port of Novorossiisk was shut due to strong winds.

On Monday, Venezuela refloated a tanker that ran aground in late January carrying 1.1 million barrels of crude oil. Engineers finished transferring part of the tanker's cargo to two smaller vessels as part of the refloat operation on Sunday.

ExxonMobil Corp expects output at its deep water Nigerian oilfield Erha to increase to about 200,000 bpd by the end of the year. The Erha field is due to start production in March and initial output is expected to be 150,000 bpd.

An Iraqi official said Iraq would gradually increase state controlled domestic fuel prices tenfold in 2006 to meet International Monetary Fund demands. Iraq already increased prices by 200% in December, igniting protests and creating a rift between the oil ministry and the government over external political pressure.

OPEC's news agency reported that OPEC's basket of crudes fell by \$1.03/barrel to \$58.46/barrel on Friday. It also reported that OPEC's basket of crudes increased by 13 cents/barrel to \$60.25/barrel in the week ending February 2.

Russia is scheduled to cut export duty on oil products to \$120.70/ton for light products and \$65.00/ton for heavy products in March. The duties are currently set at \$133.50 and \$71.90/ton for light products and heavy products, respectively.

Russia's gas supplies to Europe began to fall once again on Monday. However Russia's Gazprom declined to say whether the fall in supplies was caused by a new cold snap in Russia or increased gas offtake in Ukraine. Bosnia and Romania said their gas supplies were down by as much as 20% while Europe's second largest Russian gas importer, Italy, said its supplies were expected to be 8.1% short of demand on Monday.

Royal Dutch Shell Group and Algeria's Sonatrach will consider building a liquefied natural gas complex under a memorandum of understanding signed on Monday. The memorandum also envisages the two companies studying ways to improve the performance of Sonatrach in the LNG and liquefied petroleum gas sectors.

Saudi Aramco raised most of its March official selling prices for crude destined for Europe. Its Arab Extra Light was set at BWAVE minus \$2.20, up 75 cents, its Arab Light was set at BWAVE minus \$5.35, up 70 cents, its Arab Medium was set at BWAVE minus \$7.65, up \$1.00 and its Arab Heavy was set at BWAVE minus \$10.30, up \$1.00. Its Arab Extra Light bound for the US was set at WTI minus \$5.25, down 75 cents, its Arab Light was set at WTI minus \$8.35, down 35 cents, its Arab Medium was set at WTI minus \$10.35, down 30 cents and its Arab Heavy was set at WTI minus \$13.10. Meanwhile its Arab Super Light bound for Asia was set at the Oman/Dubai average plus \$6.05, up 30 cents, its Arab Extra Light was set at the Oman/Dubai average plus \$3.10, up 15 cents, its Arab Light was set at the Oman/Dubai average plus 40 cents, up 15 cents, its Arab Medium was set at the Oman/Dubai average minus \$1.75, up 20 cents and its Arab Heavy was set at the Oman/Dubai average minus \$4.40, up 25 cents.

Qatar increased its January retroactive official selling prices for Qatar Land crude by \$5.27/barrel from December to \$61.83/barrel. The January Qatar Marine crude official selling price was set at \$59.24/barrel, up \$5.36/barrel.

Abu Dhabi National Oil Co increased the January retroactive selling price for its Murban crude by \$5.25/barrel to \$62.15/barrel.

Market Commentary

The oil market gapped higher from 65.40 to 65.80 and held some resistance just below the 66.00 level as it started to backfill its gap. The market held support at 65.50 and erased its losses as it rallied to a high of 66.20. The market was supported amid the reports that the IAEA voted to report Iran to the Security Council over the weekend. The crude market however failed to test its previous high and held resistance at 66.20. It settled in a sideways trading range before further selling helped push the market lower ahead of the close. The market sold off to a low of 64.90 and settled down 26 cents at 65.11. Volume in the crude market was light with 185,000 lots booked on the day. The oil market was pressured amid the losses seen in the product markets. The natural gas market also saw some sharp losses as this week's forecast was mostly normal. The heating oil market gapped higher from 178.80 to 179.00 but quickly backfilled the gap as it traded to slightly below the 178.00 level. The market later bounced off its low and posted a high of 181.00 before it settled in a sideways trading range. However the market erased its gains and sold off sharply ahead of the close to a low of 175.80 amid the losses in the natural gas market. The heating oil market settled down 1.88 cents at 176.28. Meanwhile, the gasoline market posted a high of 169.00 in follow through buying seen in overnight trading. However it sold off sharply to a low of 164.10 ahead of the close and settled down 3.75 cents at 164.42. Volumes in the product markets were good with 45,000 lots booked in the heating oil and 43,000 lots booked in the gasoline market.

The crude market will likely continue to trade lower following today's sharp losses ahead of the close. Its stochastics are also still trending lower. The market may also remain pressured amid the expected builds in oil inventories. However it will remain concerned over the Iranian standoff after the IAEA voted to report it to the Security Council. Technically, the crude market is seen holding resistance at 65.50 and 66.20 followed by 66.40, 66.47 and 67.07. Meanwhile, support is seen at 64.90 followed by 63.95, 63.90 and 63.25.

Technical Analysis		
	Levels	Explanation
CL 65.11, down 26 cents	Resistance 66.40, 66.47, 67.07 65.50, 66.20	Previous high, 50% (63.95 and 69.00), 62% Monday's high
	Support 64.90 63.95, 63.90, 63.25	Monday's low Previous lows
HO 178.16, up 1.08 cents	Resistance 182.70 178.00, 180.00, 181.00	62% retracement (172.50 and 189.00) Monday's high
	Support 175.80 172.50, 169.00	Monday's low Friday's low, Previous low
HU 168.17, up 1.61 cents	Resistance 171.50-172.50, 174.35, 176.98 167.00, 169.00	Remaining gap, 50% and 62% (163.20 and 185.50) Monday's high
	Support 164.10 163.20, 160.10	Monday's low Previous lows