



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR MAY 15, 2008

The White House dropped its resistance to halting deliveries of crude to the SPR, saying President George W. Bush would not veto a final bill from Congress that suspends oil deliveries.

Supporters of the legislation said the average 70,000 bpd going into the reserve should instead be put into the market to help lower record oil prices. However some energy experts have stated that 70,000 barrels would be a drop in the bucket of the 20.5 million bpd consumed in the US.

The US Senate on Thursday passed a

bill that includes a measure giving federal regulators greater oversight of energy markets, closing the Enron loophole. The provision that gives regulators greater oversight was approved as part of the Farm Bill, which would go to the President for approval. The provision puts all significant energy trades on electronic platforms within the regulatory confines of the Commodity Futures Trading Commission and would impose limits on the size of the traders' positions to prevent excessive speculation. It would also require traders to maintain audit trails by supplying reports on any large trades to the CFTC, imposes record keeping requirements and force electronic exchanges to monitor trading behavior and prevent manipulation.

Market Watch

ExxonMobil's chief executive Rex Tillerson said the price of gasoline in the US is at or near the level where consumers begin to curb their usage.

UBS sharply raised its oil price forecast to \$115/barrel from \$86.96/barrel on Thursday. It also raised its oil price estimate for 2009 to \$120/barrel, up from its previous estimate of \$78/barrel. It also stated that inflation risks from rising crude costs would put a world economic recovery in 2009-2010 at risk.

Japan's Tokyo Electric Power Co more than doubled its purchases of crude oil and fuel oil in April from a year earlier. Its fuel oil purchases increased to 651,000 kiloliters or 4.1 million barrels in April from 303,000 kl a year ago. Its crude oil purchases increased to 318,000 kiloliters from 121,000 kl last year.

Indonesia's Information Minister Muhammad Nuh said the government would increase subsidized fuel prices by as much as 30%. He also stated that Indonesia planned to introduce smart cards to ration fuel consumption in September.

The National Oceanic and Atmospheric Administration predicted that for June-August, above normal temperatures are predicted for the Northeast and Mid-Atlantic states. The Southwest and Alaska would continue to experience above normal temperatures from June through August while the other regions have equal chances of normal, above-normal or below normal temperatures. The NOAA said La Nina is expected to have negligible impact on US temperatures and precipitation in June.

May Calendar Averages

CL – 122.02

HO – 346.26

RB – 310.64

In its Monthly Oil Market Report, OPEC cut its forecast for global growth in oil demand in 2008 by 40,000 bpd from its previous forecast to 1.16 million bpd. OPEC also cut its estimate for supply from non-OPEC countries, leading to a slight increase in the call for OPEC oil to balance the market. It estimated non-OPEC supply to average 50.18 million bpd this year, about 100,000 bpd less than previous forecast in part due to lower output estimates from Russia, Mexico and Norway. Demand for OPEC oil is seen averaging 31.84 million bpd in 2008, up 90,000 bpd from its previous estimate.

According to Oil Movements, OPEC's crude oil shipments are expected to fall by 100,000 bpd in the four weeks ending May 31 to 24.43 million bpd. Deliveries from core OPEC producers in the Middle East are expected to fall by 120,000 bpd to 17.57 million bpd in the four week period.

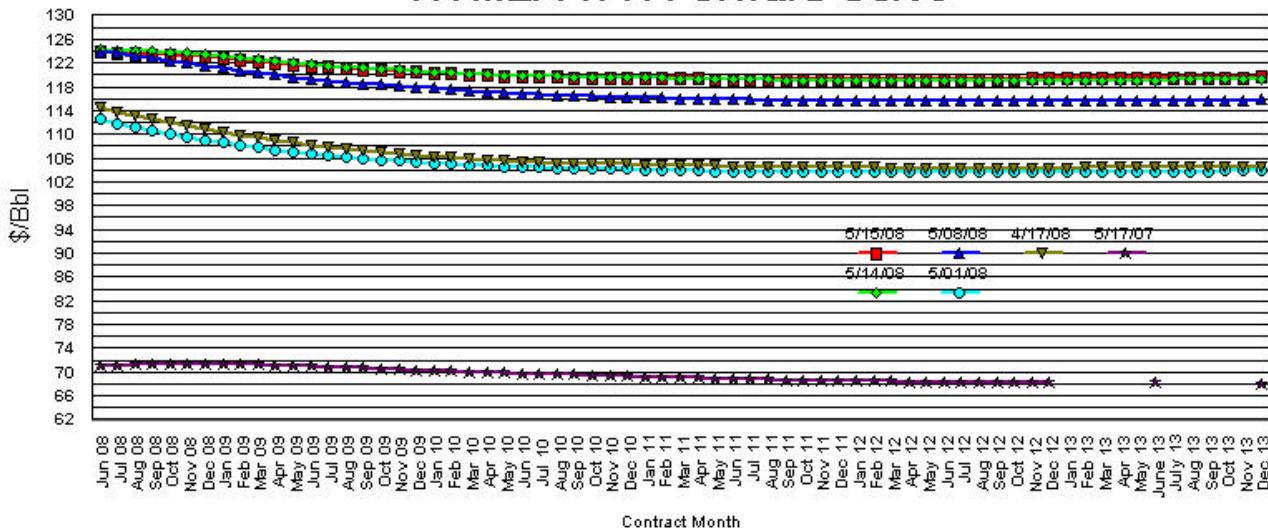
In a letter to UN Secretary General Ban Ki-moon, Iran said the UN Security Council sanctions imposed against it were illegal. According to a proposal given to the Secretary General and senior European Union envoy Javier Solana, Iran suggests broad international talks on topics of wide concern such as terrorism, energy and economic issues. However the proposal falls short of meeting demands to halt its nuclear program.

The Pentagon said the US was not trying to create incentives to bring Iran to the negotiating table but rather was seeking ways to intensify pressure to force it to change its ways. It said it did not currently plan an increase in US military presence in the Gulf as a form of pressure on Iran.

A shipbroker said one of the Very Large Crude Carriers Iran was using to store its crude off the coast of Kharg Island in the Persian Gulf has become available to charter. While the reappearance of the tanker indicated National Iranian Oil Co had emptied the vessel and was shifting its stockpiled crude, it would have little impact on Persian Gulf freight costs. Tanker freight rates have increased in recent weeks on a surge in demand for tankers to transport crude to China and Japan.

The AAA reported that the US average price of gasoline increased by 2 cents to \$3.78/gallon. The cost of gasoline has increased 22% on the year from \$3.10/gallon reported last year and 11.5% on the month from \$3.39/gallon.

A pipeline explosion killed at least 10 people Thursday in Lagos, Nigeria. A Red Cross official said the

NYMEX WTI Forward Curve

explosion was caused by a piece of heavy machinery working on a road construction site that accidentally burst the pipeline, causing an explosion and a fire.

Refinery News

Chevron Corp said a coking unit at its 260,000 bpd refinery in El Segundo, California was returning to planned rates on Wednesday night after an afternoon upset. The coker unit's throughput was reduced after a controller problem developed on the unit.

ExxonMobil Corp said a coking unit at its 150,000 bpd refinery in Torrance, California resumed operations on Thursday following an upset Wednesday night.

Valero Energy Corp said it restarted a 40,000 bpd crude distillation unit at its 340,000 bpd Corpus Christi, Texas refinery after a two week turnaround.

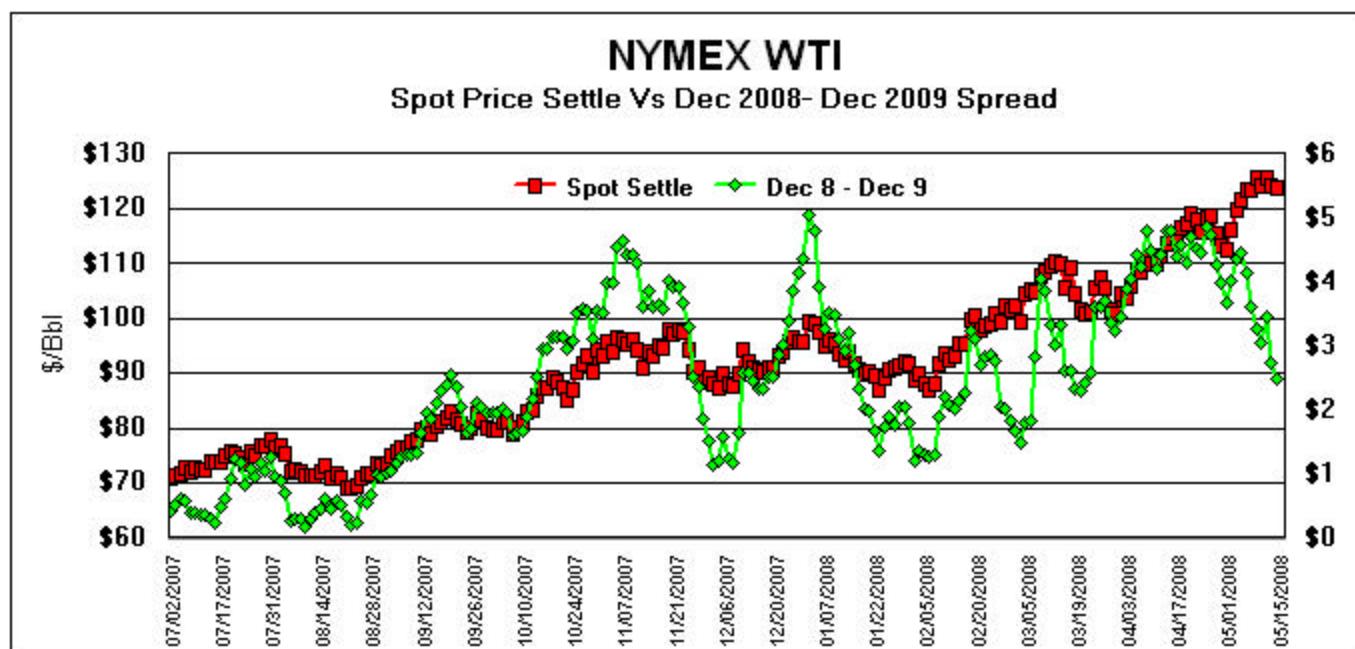
Syn crude Canada Ltd has nearly completed a 45 day scheduled maintenance shutdown, with the 100,000 bpd unit scheduled to be restarted on Friday. The unit has been shut since early April.

Royal Dutch Shell said it was increasing production at its 72,000 bpd Sarnia, Ontario refinery after a week of unplanned maintenance on one of the units. The refinery should resume full production soon.

France's Port of Marseille said that staff have started a 24 hour strike that has affected port operations. Four tankers of refined oil products and two chemical ships were docked at Fos-Lavera while six crude tankers, two refined oil product tankers and two refueling ships were waiting. Port workers have been striking to protest government plans to privatize parts of France's autonomous ports.

Vitol has booked 90,000 tons of ultra-low sulfur diesel bound for Europe either from India or Singapore for loading in late May.

China increased its gasoline imports to 139,099 tons in April and barely remained a net exporter as oil companies continued to build stocks. China exported 150,000 tons of gasoline in April. Diesel imports totaled 520,000 tons while its fuel oil imports totaled 2.18 million tons.



PetroChina said that gasoline stocks in Sichuan province could only last five days while diesel stocks could last three day after the 7.9 magnitude earthquake hit the region on Monday. PetroChina said the main oil pipeline that supplies the southwest was running under capacity after a one-day stoppage. Separately, PetroChina said it was reconsidering its plan to build a \$5.7 billion refinery and petrochemical complex in Sichuan province. PetroChina had planned to complete the complex, which would be able to refine 200,000 bpd of crude and produce 800,000 tons of ethylene a year, by 2010.

Singapore's International Enterprise reported that the country's residual fuel stocks built by 2.091 million barrels to 19.684 million barrels in the week ending May 14. It also reported that Singapore's light distillate stocks fell by 498,000 barrels to 8.722 million barrels while its middle distillate stocks built by 1.48 million barrels to 8.32 million barrels on the week.

Taiwan's Formosa Petrochemical Corp said it planned to shut its 180,000 bpd No. 2 crude distillation unit, its 80,000 bpd vacuum diesel unit and its 36,000 bpd delayed coker unit for maintenance starting November 20 to December 31. It is scheduled to shut an 80,000 bpd residual desulphurization unit from September 1 for about 30-38 days of maintenance.

Production News

According to Norway's revised budget for 2008, Norway's government cut its 2008 oil production forecast to 2.4 million bpd from a previous projection of 2.5 million bpd. It also cut its projection for 2008 gas sales to 100 billion cubic meters from 108 bcm estimated in October. The revised budget increased the average price of Norwegian crude in 2008 to 500 Norwegian crowns of \$98.70/barrel from a previous forecast of 360 crowns.

Ukraine's Fuel and Energy Ministry reported that the country's oil and gas refineries processed 3.053 million tons of crude oil and gas condensate in January-April, down 37.5% on the year. In April, refineries processed 1.025 million tons of crude oil.

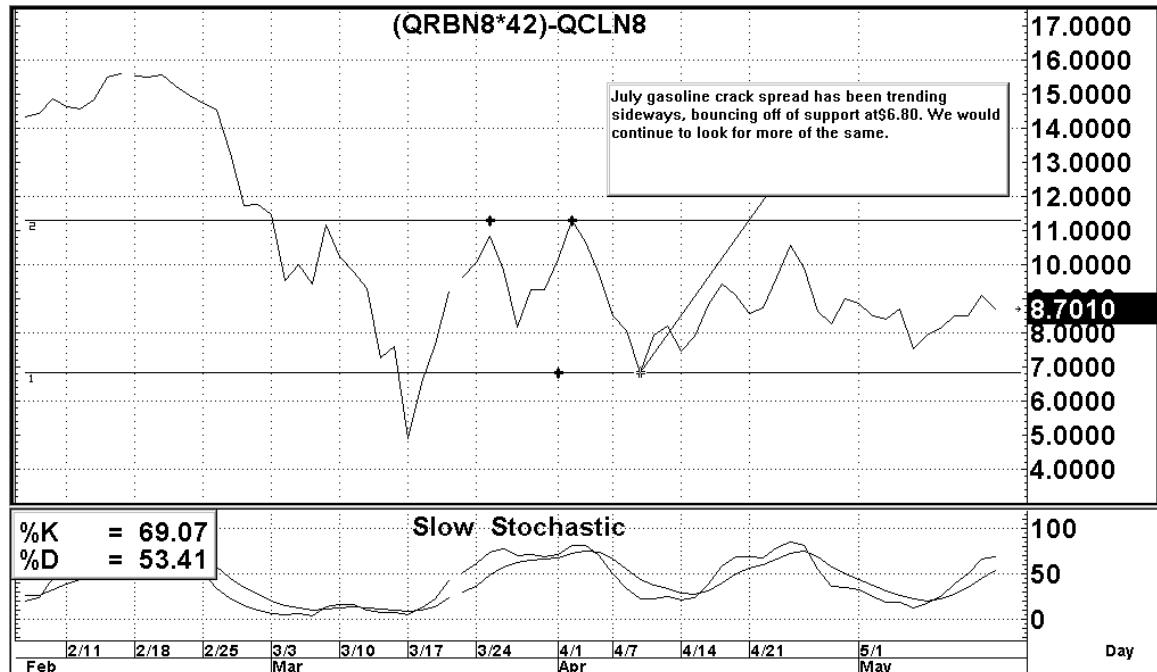
ExxonMobil is scheduled to load its first shipment of Angola's Saxi crude blend in July. Angola's export programs showed the first cargo of Saxi crude to be loaded on July 4-5.

OPEC's news agency reported that OPEC's basket of crudes increased by 2 cents to \$118.78/barrel on Wednesday.

Market Commentary:

Expectations natural gas storage were calling for a build of 88 billion cubic feet but the actual number was 93 billion cubic feet, prompting a large sell off in the natural gas that spilled over to the rest of the energy complex. An announcement that Congress approved legislation that strengthens oversight of electronic energy trading is thought to have scared large speculators out of the market. This legislation gives the CFTC allowance to regulate contract trades that, have large volume, are used to help determine prices or are linked to regulated contracts. It requires audit trail and record keeping for electronic exchanges, imposes limits on speculation, calls for market monitoring and increases penalties the commission can levy to 1 million dollars. After rallying more than \$2.00 on the day, the June crude oil contract posted a low of \$120.75. We were looking for this sell off in prices today based on technicals and would continue to sell this market with any approach towards \$127.00, looking for a test of the \$115.78 channel bottom. The forward curve continues to take on a bearish tinge, as the front end continues to give up premium to the deferred. Gasoline experienced an outside day after posting a higher high and lower low than that of the previous session. Like the crude oil, we would look to sell against the listed resistance numbers, looking for this market to retreat. Gasoline crack spreads have been trending sideways since the beginning of April and so far have been unable to pick up any seasonal momentum, but have been bouncing off of previous lows. Although demand is expected to

decrease due to economic conditions, the fact that these spreads have been trending sideways, a breakout appears due. We still feel more comfortable buying down around support, looking for a pop. For the second time



in ten sessions, the spot month heating oil failed to make a new high but also held above the top of the ascending channel on the spot continuation chart settling higher on the day. The December 08/June09 spread traded unchanged today and appears to be getting ready to turn back up. Should this spread get up to the .2385 resistance level and hold, we would look to be sellers. This spread in the past two years has been unable to reach current levels, even up and until expiration of the December contract for that year. Previously, we had mentioned that industry sources are seeing heating oil customers stocking up early in hopes of beating winter prices. This coupled with the thought that Chinese demand may slacken as the Olympics near, should leave stockpiles quite healthy, thereby pushing down prices. For these reasons, selling the December 08 contract and buying the June09 contract looks appealing. Total open interest for crude oil 1,475,402 down 1,605, June08 197,081 down 20,252, July08 348,686 up 18,630 and December 08 209,995 down 1,617. Total open interest for heating oil 230,802 down 4,747, June08 54,733 down 4,977 and July 55,435 down 1,171. Total open interest for gasoline, 265,627 up 3,064, June 63,473 down 2,115 and July 75,453 up 2,894.

June Crude Support	June Crude Resistance
120.36, 116.05, 110.30, 85.40	130.25
Heating oil support	Heating oil resistance
3.5425, 3.5100, 3.3500, 3.1680, 3.1070	37400, 3.8535, 3.8760
Gasoline support	Gasoline resistance
3.0730, 3.0400, 3.0250, 2.9255	3.2600, 3.2855, 3.3755, 3.4655