

ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR MAY 23, 2005

Total SA said it is restarting its 231,000 bpd Donges refinery. A company spokeswoman said it may take several days for the facility to reach normal output. Total's four other refineries, the 155,000 bpd La Mede, the 328,000 bpd Gronfreveille, the 119,000 bpd Feyzin refinery and its 99,000 bpd Grandpuits refinery were also restarting operations, easing concerns over oil product supplies. The three trade unions behind the strike, the CFDT, the CGT and the Force Ouvriere, agreed to end industrial action after Total accepted demands to freeze a measure scrapping the Pentecost holiday. Total agreed to give an extra day's leave

Market Watch

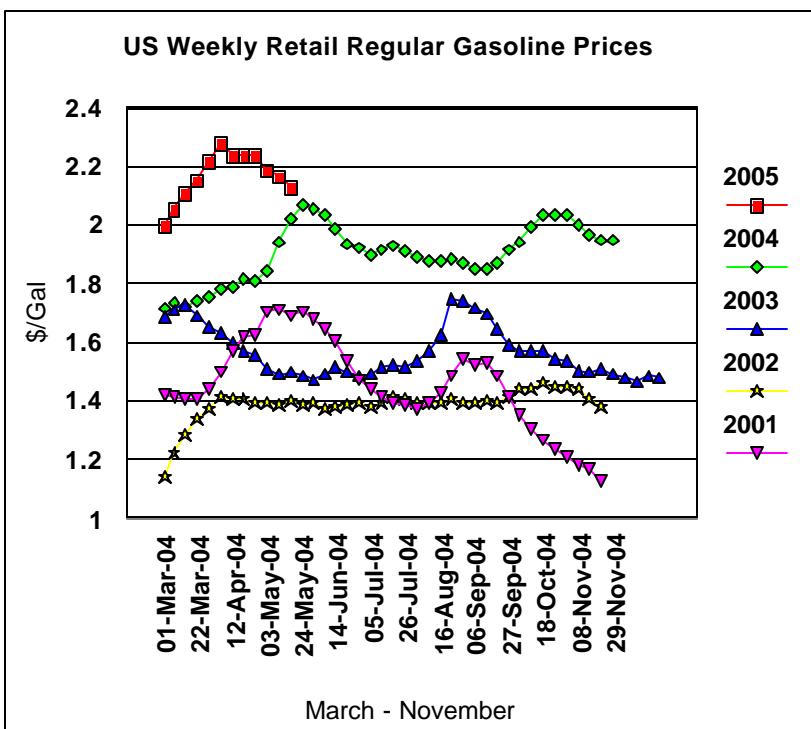
The EIA stated that US demand for gasoline is coming in weaker than expected. It added that high gasoline prices may be taking its toll. While the EIA has not officially made a decision to revise downwards its near term demand outlook for gasoline, it is considering it. The EIA last predicted that gasoline demand would increase about 1.7% for the summer and about 1.6% for the year, short of the usual 2% on average.

Traders stated that about 1.4-1.6 million tons of northwest European gasoline is heading for the US in May. At 1.4-1.6 million tons, exports would be flat to higher on April's estimated 1.3-1.4 million tons. Traders also estimated that 350,000-400,000 tons of gasoline has been exported to the US from the Mediterranean. An open arbitrage window during the middle of the month prompted a flood of prompt fixtures. Most bookings were for New York Harbor but some had options to the US Gulf.

A senior economist at Goldman Sachs, James Gutman said energy is an important component of commodity fund indices since it has the highest long term returns among commodities and does well as a hedge against inflation. He said energy provides the most significant backwardation benefits. He said since the inception of NYMEX WTI crude futures in March 1983 to April 30, 2005, the contract has been in backwardation 65% of the time, delivering an average yield of 0.74% per month.

Royal Dutch/Shell Group chief executive Jeroen van der Veer said the company would invest more in Venezuela if the investment climate was right. He said Shell representatives will talk with the Venezuelan government about recent tax policy changes that could force international oil companies operating in Venezuela to pay large back taxes.

Bloomberg reported that hedge funds including Quadriga Capital Management Inc and Bailey Coates Asset Management LLP posted large losses. The Quadriga Superfund C was down 28.6% this year as of May 17 and its Superfund B was down 23.2%. The Bailey Coates Cromwell Fund fell by 20.1% in the first four months of the year. This was while credit rating downgrades for US GM and Ford Motor Co spurred declines in financial markets.



producers and consumers. The cabinet statement also called on all oil producers to help fulfill demand requirements. Meanwhile Saudi Arabia's Oil Minister Ali al-Naimi said oil markets are well supplied and added that it saw no need to cut back production. He also stated that the world is not running out of oil. He said Saudi Arabia will continue to expand its production to address rising demand. He added that Saudi Arabia is implementing a massive investment program that encompasses both upstream and downstream sectors.

OPEC's President Sheik Ahmed Fahd al-Sabah has promised that OPEC will respond to new forces in the oil market by the end of the year. He said factors like the environment, geopolitics, higher economic growth and inventories are now playing a major role. He said OPEC will change its culture and reformulate its price band of \$22-\$28/barrel. He said world oil demand grew by 2.6 million bpd to 82.5 million bpd in 2004 and by the fourth quarter this year demand is expected to increase to 85 million bpd.

Qatar's Oil Minister Abdullah al-Attiyah warned that world oil inventories were building too quickly and urged OPEC producers to act with caution. He however stopped short of saying that OPEC would have to cut excess supply above its formal output ceiling. Separately, Venezuela's Oil Minister Rafael Ramirez said OPEC could discuss a possible cut in oil production at its June meeting as crude prices have declined recently. He said Venezuela would support a cut in production to avoid a possible price collapse. He said it is difficult to say what is a fair price for oil but Venezuela wants prices for the OPEC basket to remain close to \$40/barrel.

Petrologistics reported that OPEC is producing 30.05 million bpd in May, up 450,000 bpd on the month. The ten OPEC members are producing 28.2 million bpd, up from 27.8 million bpd in April. Saudi Arabia is producing about 9.4 million bpd in May, up from a revised output of about 9.1 million bpd in April. Iran is producing about 3.85 million bpd in May, unchanged on the month.

after last Monday's Pentecost holiday.

An Iraqi oil official stated that Iraq's northern oil exports are expected to reach 400,000 bpd in the next few days compared to the sporadic flows seen last week. Iraq pumped about 250,000 bpd intermittently in the last week through its northern export pipeline, raising storage levels at Turkey's Ceyhan port to about 2 million barrels.

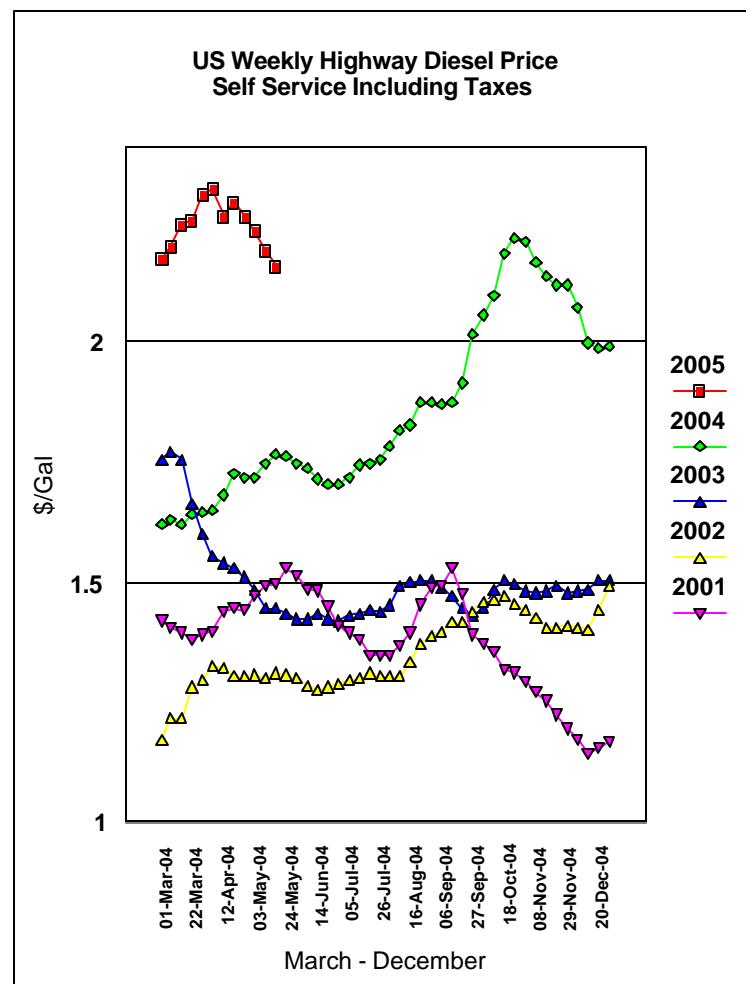
Saudi Arabia promised to pump enough crude oil to keep world markets supplied. According to a statement issued after a weekly cabinet meeting, Saudi Arabia said it would increase its production by the amount required by supply and demand factors in world oil markets in a way that meets the interests of both

The EIA reported that the average retail price of gasoline fell by 3.8 cents/gallon to \$2.125/gallon in the week ending May 23rd. It also reported that the average retail price of diesel fell by 3.3 cents/gallon to \$2.156/gallon on the week.

According to the Lundberg survey, the average gasoline price fell by 6.37 cents/gallon to \$2.18 in the past two weeks ending May 20.

OPEC's news agency reported that OPEC's basket of crudes increased to \$45.27/barrel on Friday, up from Thursday's \$44.65/barrel. It also reported that OPEC's basket fell by \$2.14/barrel to \$45.20/barrel.

Iraqi officials said Wael Rubaie, head of operations at the Ministry for National Security and his driver were killed on Monday. Maj Gen Rubaie was appointed to command a special operations room recently set up to coordinate the fight against insurgents across all Iraqi ministries and with the US led multinational force. Meanwhile, US and Iraqi troops carrying out searches said they arrested nearly 300 insurgents. Elsewhere, car and suicide bombings killed at least 10 people and injured dozens more.



Refinery News

Valero's hydrocracker at its 95,000 bpd Three Rivers, Texas refinery remained down on Monday after it was closed last Thursday due to a leak. Valero said the outage had no effect on production. Meanwhile, Valero will begin to restart its hydrotreater and hydrogen refinery on May 26 at the West plant of its 148,000 bpd refinery in Corpus Christi, Texas following a maintenance outage. The units should be back on line by May 31.

Tesoro Refining and Marketing Co's 35,000 bpd hydrocracker unit at its Martinez, California refinery resumed planned operating rates. The unit was shut a week ago for unplanned maintenance. Prices of unleaded gasoline in the LA spot market fell 5 cents amid reports of the refinery restarts.

BP also plans to restart a crude distillation unit, a hydrocracker and a coker unit at the Cherry Point, Washington refinery this week.

Shell's Deer Park refinery in Texas will undergo scheduled maintenance on its olefins 2 unit from May 23 to June 12. Flaring around the columns in the cold fractionation section of the unit is expected to occur.

Japan's Idemitsu Kosan Co said it expected to shut a crude distillation unit at its Hokkaido refinery in early June for planned maintenance.

Production News

Magellan Pipeline Co. LP said it shut a gasoline pipeline running between El Dorado and Kansas City after an early morning leak that forced evacuations and shutdown a nearby power plant. A company spokesman said about 20,000 gallons of gasoline leaked. The cause of the leak is under investigation. It is unclear when the pipeline will be restarted.

Russia's oil production is not expected to increase much over the next three years, which will allow OPEC to increase its world market share and keep upward pressure on prices. Raymond James said while production growth in Russia averaged 9% from 2001 through 2004, a 1-3% average growth over the next three years will be difficult. It recently lowered its forecast for the growth in Russian oil production this year to 230,000 bpd or 2.6% increase from 370,000 bpd or 4% rise. It said Russia's oil production is slower as the government's legal fight with Yukos raised concerns about the rule of law and property rights, affecting foreign investment in the oil sector, the Russian government has approved high oil revenue and export taxes. The Russian government has created an uncertain legal climate when it proposed to ban foreign firms from bidding on large important minerals and petroleum licenses and pipeline bottlenecks over the last 18 months have hindered Russian oil exports.

Venezuela's Energy Minister Rafael Ramirez accused world oil companies working in the country's Orinoco heavy oil fields of violating their contracts. He would not name the companies he said were violating contracts, but ExxonMobil, Chevron, ConocoPhillips and Total were among those partnered with PDVSA in four projects in the Orinoco belt. He accused one contractor of producing 100,000 barrels more than its agreed output, failing to pay as much as \$1 billion in royalty fees and illegally doubling its drilling area. He said other companies had failed to carry out obligatory investment, mixed heavy oil with other crudes without permission and illegally used gas associated with crude exploration. He said foreign firms owed around \$ billion in back taxes and royalties.

Nigeria's Central Bank reported that the country produced an average of 2.32 million bpd of crude in March. It exported 1.8 million bpd or 57.97 million barrels in March.

Russia's Industry and Energy Ministry reported that the country's diesel fuel exports increased by 4.3% on the year to 1.321 million tons between May 1 and May 18. Russia's diesel fuel output increased by 8.6% on the year to 2.809 million tons. Its diesel fuel supplies to the domestic market increased by 7.4% on the year to 1.394 million tons. Meanwhile its fuel oil exports increased by 10.4% on the year to 1.85 million tons between May 1 and May 18. Its fuel oil production increased by 14.4% to 2.557 million tons in the period. Its gasoline exports fell by 19.7% on the year to 174,400 tons. Its gasoline production increased by 5.5% on the year to 1.556 million tons in the May 1-18 period.

Separately, traders said the traditional summer increase in Russian fuel oil exports has been slowed this month as high river water levels delay barge movements to major Baltic export ports such as St. Petersburg. The melting ice and snow raised water levels to such an extent that barge movements near Nizhenekamsk in central Russia were restricted for a week in the middle of the month before normal operations resumed on May 20.

Kazakhstan wants to almost double its crude production to over 2 million bpd by 2010 due to rising output from fields led by ENI, Chevron and BG. Kazakhstan is currently producing 1.33 million bpd of oil and gas condensate.

The Uzbek State Statistics Committee reported that oil and natural gas condensate output in Uzbekistan fell by 16.7% on the year to 1.948 million tons in January-April. Oil refining fell by 8.6% on the year to 1.603 billion tons.

Azerbaijan is scheduled to open the Baku-Tbilisi-Ceyhan pipeline on Wednesday. Azerbaijan's oil exports are set to soar, with the opening of the pipeline. However the sudden inflow of oil dollars will create new challenges for the country. One of the challenges is how to spend the money, laying the foundations for sustainable growth that does not depend on oil alone and spreads the benefits across the population. It has established a State Oil Fund, which will take a portion of annual oil revenues and invest it for the future.

Korea National Oil Corp reported that petroleum exports by South Korea fell to 15.8 million barrels in April, down 22% from a year ago and down 18% from March. It said exports fell sharply as refiners gave priority to meeting a sharp rise in domestic products demand and as plant maintenance cut supply. It imported 62.9 million barrels of crude in April, down 1.5% on the year. South Korea's demand for refined products increased 6.1% in the year through April to 2.08 million bpd. Meanwhile, private oil inventories jumped 23% to 2.3 million bpd as of the end of April. Its crude imports fell by 1.5% to 2.1 million bpd in April. Its five refiners produced 72.3 million barrels of oil products or 2.4 million bpd in April. The country's crude processing rate fell to an average of 81.3% in April from 93.4% a year ago and 89.2% in March.

According to Taiwan's Bureau of Foreign Trade, Taiwan's imports of crude oil increased by 69.1% in March over the same period last year to 5.47 million tons or 38.3 million barrels. In March, Taiwan exported 323,425 tons or 2.26 million barrels of gasoline, up 47.8% on the year. Its jet fuel exports increased 22.8% to 247,901 tons or 1.74 million barrels.

Market Commentary

The oil market opened 40 cents lower at 48.25 in follow through selling seen in overnight trading. The market traded lower following reports that Total's refineries in France were restarting after the unions agreed to halt its strike in light of Total's agreement to freeze a measure scrapping the Pentecost holiday. Also, an Iraqi oil official said Iraq's northern oil exports should return to 400,000 bpd in a few days barring any further sabotage attacks while OPEC's President said he saw no reason to cut production. The July crude contract quickly sold off to a low of 48.05. However the market bounced off that level and traded to 48.80 where it was holding some resistance. The market later breached that level

and rallied to a high of 49.50 despite the lack of any news. The oil market held good resistance at that level and settled in a range as it traded between 49.50 and

Technical Analysis			
		Levels	Explanation
CL 49.16, up 51 cents	Resistance	50.42, 50.98, 51.00, 51.15 49.50, 49.85	38%(54.25 and 48.20), Previous highs, 50% retracement Monday's high, Previous high
	Support	48.50, 48.05 47.57	Monday's low Basis trendline support
HO 136.65, down 8 points	Resistance	141.65 & 143.60 138.20, 140.00, 141.20	Retracements of the down move from 14990-13340 Monday's high, Previous highs
	Support	134.35 133.40	Monday's low Previous low
HU 139.85, down 2.06 cents	Resistance	145.60, 145.70 to 146.30 141.50, 144.50, 145.40	50% (153.50 and 137.70), Remaining gap (May 12th) Monday's high, Previous highs
	Support	138.15 137.70, 133.95	Monday's low Previous lows, basis support trendline

48.50 ahead of the close. It settled up 51 cents at 49.16. Volume in the crude was light with 185,000 lots booked on the day. Meanwhile, the gasoline market settled down 2.06 cents at 139.85 following the news that the strike at Total's five refineries in France had ended. There were also reports of some refineries returning their units to service following maintenance turnarounds. The gasoline market traded to a low of 138.15 early in the session before the market rallied to a high of 141.50. It traded mostly sideways between 140.00 and 141.50 before it breached its support at 140.00 once again and attempted to test its low ahead of the close. The heating oil market ended relatively unchanged, down just 8 points at 136.65. The market posted an intraday of 134.35 and quickly rallied to a high of 138.20. However similar to gasoline market, the heating oil market retraced some of its gains and settled in its earlier trading range. Volumes in the product markets were light with 47,000 lots booked in the gasoline market and 33,000 lots in the heating oil market.

The oil market on Tuesday is seen remaining range bound ahead of Wednesday's release of the weekly petroleum stock reports. The market may retrace some of its late gains and test its lows once again amid the comments made by OPEC members that there is no need to cut its production. The market is seen finding support at 48.50 followed by its low of 48.05. More distant support is seen at 47.57, basis its support line. Meanwhile resistance is seen at its high of 49.50 followed by 49.85. More distant resistance is seen at 50.42, 50.98, 51.00 and 51.15.

Kinder Morgan Inc allowed only 350 mmcfd of gas flow through its Northeast Texas mainline. A force majeure remains in effect due to a pipeline explosion and rupture. The affected line continues to be isolated and investigators are continuing to probe into the cause of the failure.