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ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR JULY 20, 2006

Iran's chief nuclear negotiator, Ali Larijani said he was surprised that the UN Security Council had resumed deliberations on the Iranian nuclear case. He said Iran was determined to produce nuclear fuel in Iran in defiance of international calls to halt the work and accused the US of trying to prevent a negotiated solution to its dispute with the West. He said Iran was still reviewing nuclear proposals and wanted talks to solve the dispute. However he said the US has been trying to create obstacles in the way of talks and a diplomatic solution. Iran's Supreme National Security Council said that it would reply to the package of incentives by August 22. It also stated that it would reconsider its nuclear policies if sanctions were imposed. Meanwhile, Russia is prepared to support a UN Security Council resolution that would set a deadline on Iran's response to incentives over its nuclear program. A draft under consideration in the UN would make it mandatory for Iran to suspend its uranium enrichment and includes threats of sanctions if it does not comply.

Market Watch

Federal Reserve Chairman Ben Bernanke said that current core inflation rates were a good guide to where overall inflation rates were heading, as long as oil prices flatten out between \$75 and \$80/barrel.

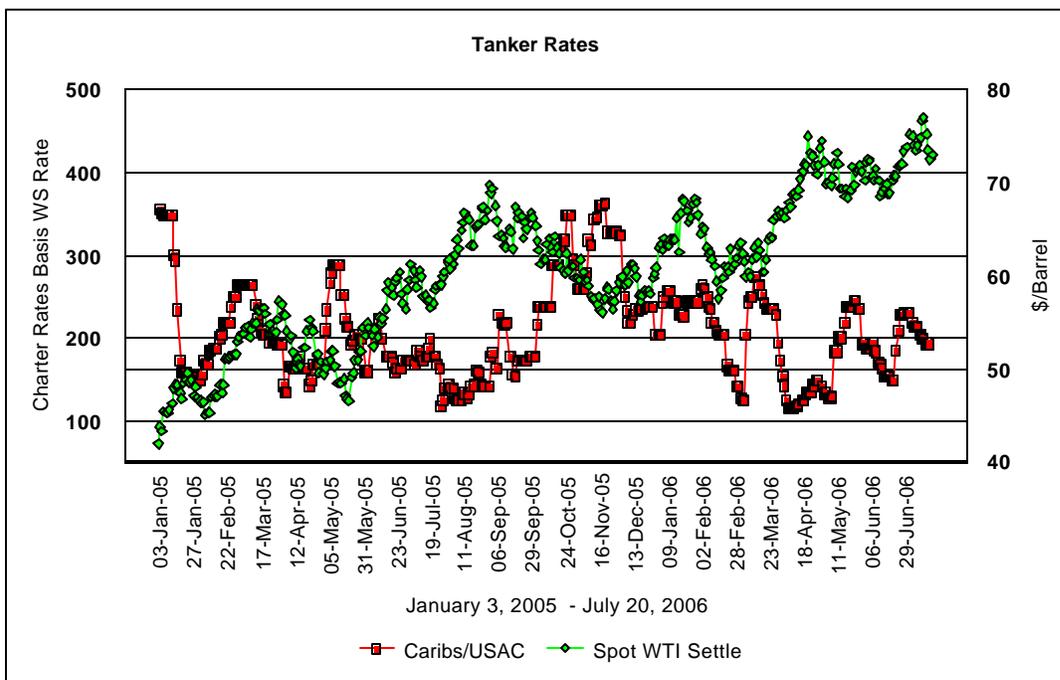
The Inter American Press Association said that President Hugo Chavez was using the courts and legal reforms to weaken journalists critical of his leftist government. It expressed concern that threats to press freedom under Chavez could increase as Venezuela prepares for presidential elections in December. The head of the IAPA said the most serious threats were new laws allowing the government to close media outlets that violate strict broadcasting norms and reforms increasing prison sentences for libel and slander.

Official data showed that tens of thousands more Iraqis fled their homes as sectarian violence looked more like civil war. Iraq's most powerful religious authority, Shi'ite Grand Ayatollah Ali al-Sistani, joined the UN and US officials in raising the alarm that an increase in violence threatened Iraq's future. The Migration Ministry said more than 30,000 people have registered as refugees this month.

Israeli warplanes launched new airstrikes on Beirut's suburbs, a Hezbollah stronghold. Israeli troops also met resistance from Hezbollah guerillas as they crossed into Lebanon to seek tunnels and weapons for a second consecutive day. Meanwhile, Lebanon's Prime Minister Fuad Saniora said Hezbollah created a state within a state and added that it must be disarmed. An Israeli army spokesman refused to rule out the possibility of a full scale invasion. Israel broadcast warnings into south Lebanon telling civilians to leave the region, a possible prelude to a larger Israeli ground operation.

US Secretary of State Condoleezza Rice is expected to travel as early as next week to the Middle East. The State Department said the timing and itinerary for her trip was yet to be determined.

According to Oil Movements, OPEC's oil exports fell by 80,000 bpd to 24.98 million bpd in the four weeks ending August 5 due to lower demand from Asian refiners. It was the first time that it estimated a fall in exports since mid-June.



Refinery News

ConocoPhillips shut its 306,000 bpd Wood River refinery in Illinois

on Wednesday due to a utility outage following severe storms. The refinery was safely shutdown and efforts were underway to restore power to the facility and repair storm damage. A time frame for a restart was being assessed on Thursday morning.

Valero Energy Corp shut a fluid catalytic cracking unit at its St. Charles, Louisiana refinery for 20 days for unplanned repairs. It estimated lost gasoline production at about 65,000 bpd.

The FERC announced that Colonial Pipeline Co could recover from its customers costs associated with a proposed \$1 billion expansion plan. FERC did not expressly approve any shipping costs but said it gave certain assurances that Colonial could recover costs from building a new pipeline between Baton Rouge, Louisiana and Atlanta, Georgia. The project would begin service by 2010. The planned pipeline would add about 800,000 bpd of capacity to Colonial, an increase of about 30%. The expansion would increase gasoline supplies in mid-Atlantic and Southeast states.

The 700,000 bpd Explorer Pipeline was shut for four hours on Wednesday night following a power failure. However the shutdown had no impact on deliveries due to slack in the pipeline's schedule. Meanwhile Kinder Morgan's 150,000 bpd Platte crude oil pipeline that connects oil producers in Canada and the US Midwest with the oil refining and shipping hub of Wood River, Illinois restarted following a power failure on Wednesday. The pipeline was shut for about nine hours.

The US Pipeline and Hazardous Materials Safety Administration ordered BP Plc to drain an oil pipeline in Alaska that leaked crude last March. It also called for testing on the company's other pipelines in the state. It has ordered BP to submit a plan within 30 days to replace, repair or abandon the pipeline that leaked.

Lyondell Chemical Co said it and Citgo Petroleum Corp have abandoned plans to sell their joint venture refinery in Houston. The refinery attracted offers over \$5 billion. However the companies felt that it was not enough to overcome the benefit of retaining a stake in the 268,000 bpd operation.

A government controlled oil refinery in Haifa was operating at near full capacity on Thursday following rocket attacks by Hezbollah forces on Wednesday. Meanwhile, the Jerusalem Post reported that the refinery was reducing gasoline stockpiles to avoid blazes arising from any future rocket attacks.

Gas oil stocks held in Amsterdam-Rotterdam-Antwerp storage tanks increased for the sixth week as the price contango in the futures market encouraged traders to store the product. Gas oil inventories increased by 20,000 tons to 1.82 million tons in the week ending July 20. Gasoline stocks fell by 10,000 tons to 785,000 tons while fuel oil stocks fell by 15,000 tons to 640,000 tons on the week. It reported that jet fuel stocks increased by 5,000 tons to 315,000 tons while naphtha stocks fell by 15,000 tons to 70,000 tons.

Singapore's International Enterprise reported that the country's light distillate stocks fell by 398,000 barrels to 6.908 million barrels in the week ending July 19. It reported that Singapore's middle distillate stocks increased by 958,000 barrels to 7.851 million barrels while residual fuel stocks increased by 716,000 barrels to 13.24 million barrels on the week.

The Petroleum Association of Japan reported that gasoline stocks fell by 107,148 kiloliters or 674,000 barrels to 1.9 million kl or 11.95 million barrels in the week ending July 15. It reported a fall in gasoline stocks as refinery maintenance extended into the third quarter. It also reported that commercial crude stocks fell by 1.93% to 18.09 million kiloliters or 113.78 million barrels on the week while kerosene stocks increased by 5.02% to 2.54 million kl or 15.97 million barrels.

Korea National Oil Corp said South Korea's crude oil imports increased by 2.9% on the year to 67.88 million barrels in June. It said domestic oil product demand in June fell by 0.8% on the year to 58.95 million barrels.

Production News

Chevron has recovered 50-60% of production lost to ethnic fighting in the Niger Delta in 2003. The company has been gradually returning to oilfields in the western delta where it lost about 140,000 bpd in production. Chevron's current production stood at about 400,000 bpd. It said sabotage, pressure decline and continued insecurity had prevented the company from restoring production at all its fields. Chevron said operations were unaffected by an attack last week on military boats protecting a convoy of 11 Chevron barges.

Separately, Nigeria's central bank stated that the country's oil production recovered to 2.29 million bpd in May, up 6.1% from an upwardly revised figure of 2.15 million bpd reported in April. It said its production totaled 70.99 million barrels in May compared with 64.5 million barrels in April.

Statoil shut its 36,000 bpd North Sea platform Statfjord B for about four hours early on Thursday after a gas leak was detected.

The loading dates for North Sea Forties crude cargoes in August have been delayed by two to five days due to maintenance. The delays would mean further cuts to an already reduced export plan for the crude in August as two cargoes with a total of 1.3 million barrels may be deferred to September. BP said earlier this week that it would shut the North Sea Forties oil pipeline for a week from July 29 for work, coinciding with work on fields that feed oil to the pipeline.

PDVSA stated that ConocoPhillips started a full drilling campaign at the Corocoro offshore oil field under a risk reward contract. The project is expected to see initial production in early 2007.

Ecuador's central bank reported that the country's average oil production stood at 546,581 bpd in May, up from 526,226 bpd in May of last year. Petroecuador said its production averaged 248,548 bpd in May while private companies' oil production averaged 298,033 bpd.

India's Ministry of Petroleum and Natural Gas reported that India's refineries processed 11.75 million metric tons of crude in June, up from 10.64 million tons in the same month last year. Refinery runs in June were 2.3% above the government's target of 11.49 million tons. India produced 2.83 million metric tons of crude in June, up from last year's level of 2.79 million tons.

The Association for the Study of Peak Oil said worldwide production was likely to peak in 2010. It said net increases of oil production were possible for a few more years.

Market Commentary

The expiring August crude contract, which posted an inside trading day, ended the session in positive territory. The market opened up 34 cents at 73.00 amid the continuing conflict between Israel and Hezbollah guerrillas. The market was also supported by the news that Iran stated it would continue enriching uranium in its territory and warned the UN against a confrontation. The market quickly traded to 73.15 but later erased its gains and sold off to a low of 72.05 as traders liquidated their August positions. The market however bounced off its low and rallied to a high of 73.50 ahead of expiration. The market was also supported by the rally in the gasoline market following the news of several refinery problems. The August crude contract expired up 42 cents at 73.08. The September contract however settled down 50 cents at 74.27. Volume in the crude market was light with 184,000 lots booked on the day. The gasoline market opened 1.52 cents higher at 224.50 and posted a low of 223.25. It later traded to 227.50 early in the session amid the news that Valero shut a catcracker at its St. Charles, Louisiana refinery for 20 days of unplanned repairs while ConocoPhillips shut its 306,000 bpd Wood River refinery following a power outage. The market however retraced its gains and settled in a sideways trading pattern before further buying late in the session pushed the market to a high of 228.00. It retraced some of its gains on the close but settled up 1.79 cents at 224.77. The heating oil market also posted an inside trading day as it failed to breach its Wednesday's trading range. It posted a high of 197.50 early in the session and sold off to a low of 193.00 ahead of the close. It settled down 3.11 cents at 193.40. Volumes in the product markets were light with 31,000 lots booked in the gasoline and 42,000 lots booked in the heating oil.

The oil market on Friday is seen remaining in its range amid the concerns over the situation in the Middle East. Also, if the refinery problems continue the gasoline market will remain supported. Even if the market retraces some of its late gains, the losses are seen limited ahead of the weekend. The crude market is seen finding support at 74.10 followed by its previous lows of 73.51 and 72.55.

Meanwhile resistance is seen at 75.30 followed by 75.55 and more distant resistance at 78.15.

Technical Analysis		
	Levels	Explanation
CL 74.27, down 50 cents	Resistance	75.55, 78.15
		75.30
		Sep
	Support	74.10
		Thursday's low
		Previous lows
HO 193.40, down 3.11 cents	Resistance	198.50, 207.00
		196.25, 197.50
	Support	193.00, 191.50
		190.60, 189.50
		Thursday's low, Wednesday's low
		Previous lows
HU 224.77, up 1.79 cents	Resistance	234.60, 235.00
		228.00
	Support	224.25, 223.25
		219.75, 218.00, 216.25
		Thursday's low
		Previous lows