



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR JULY 21, 2006

US Secretary of State Condoleezza Rice made an unannounced visit to Beirut on Monday to seek a sustainable ceasefire in Lebanon. She met with Lebanon's Prime Minister Fouad Siniora. Rice had no plans to meet Hezbollah leaders but was due to see Shi'ite Muslim Parliament Speaker Nabih Berri, a pro-Syrian politician who has acted as a link between Hezbollah's leaders and Lebanon's Prime Minister. Lebanon's parliament speaker, Hezbollah's de facto negotiator, rejected proposals brought by US Secretary of State, insisting a cease fire should precede any talks about resolving Hezbollah's presence in the south. US Secretary of State is scheduled to meet Israeli Prime Minister Ehud Olmert and Palestinian President Mahmoud Abbas before discussing the crisis with European and Arab officials in Rome on Wednesday. The US wants any ceasefire deal to remove the threat to Israel posed by the Shi'ite group. White House spokesman Tony Snow said there was no reason to believe an immediate cease-fire would stop the violence. His comments came as he announced that US President George W. Bush ordered helicopters and ships to Lebanon to provide humanitarian aid. Israel has stated that it would be willing for an international force to dislodge Hezbollah from south Lebanon and take control of Lebanon's border with Syria to stop the guerillas re-arming. Meanwhile, EU foreign policy Javier Solana said several European Union

Market Watch

The US National Hurricane Center said a tropical disturbance in the Gulf of Mexico may become a tropical depression. It said the disturbance was right on the coastline and the circulation center does not remain over the water, it would not become a depression. It said there was a possibility the disturbance could move up into southern Texas as a tropical depression. Earlier weather models forecast that the storm would move north along the Mexican coast to the south Texas coast near Corpus Christi.

Iran's government said it would try to avoid rationing gasoline from September 23 by seeking to dip into its dollar reserves to pay for fuel imports. Parliament has cut the budget for gasoline imports in the year to March 2007, prompting the oil minister to say Iran would have to stop buying gasoline shipments and start petrol rationing on September 23. The head of Iran's parliament's energy commission said the government would submit a bill to parliament seeking \$4 billion to \$4.5 billion to pay for extra imports as a way of sidestepping rationing that could spark social discontent.

Libya's Muammar Gaddafi said he wanted to limit the role of foreigners in the economy to ensure as much of the country's wealth remained in the country. His comments represent a hardening of existing government policy to promote economic self-reliance.

Gazprom has halted all gas exports from Turkmenistan in order to carry out maintenance work on a pipeline. The move, which would take Turkmenistan offline for eight days, comes amid a price dispute between Turkmenistan and Gazprom. Turkmenistan warned Russia last month that it could halt all gas shipments to Russia starting in September if Gazprom does not pay \$100 per 1,000 cubic meters instead of the current \$65.

The Washington Post reported that fighting linked to next year's elections in Nigeria has killed at least nine people in two southern states. Gangs sponsored by two rival politicians from the town of Bodo have been attacking each other over the past few days.

countries are ready to contribute to a peace force for Lebanon but problems remain in ensuring it could fulfill its mission. Separately, UK Foreign Office Minister Kim Howells said Hezbollah must be disarmed and added that a stabilization force should be set up for Lebanon to end hostilities with Israel. Syria said it was willing to work with the US and others to press for an end to the violence. Egypt and Saudi Arabia were also pushing Syria to end its support for Hezbollah.

Hezbollah's representative in Iran, Hossein Safiadeen reinforced earlier threats by Hezbollah leader Sheik Hassan Nasrallah to widen the scope of attacks, which have included unprecedented missile strikes deep into northern Israel.

Meanwhile, Iran's President Mahmoud Ahmadinejad was quoted as saying that "Israel pushed the button of its own destruction by attacking Lebanon." He did not give further information but suggested Islamic countries and others could isolate Israel and its supporters.

A senior member of Muqtada al-Sadr's Iraqi Shi'ite militia said the group was forming a squadron of up to 1,500 elite fighters to go to Lebanon. The plan reflects the potential of the fighting between Israel and Hezbollah to strengthen radical elements in Iraq and neighboring countries and to draw other regional players into the Lebanon conflict.

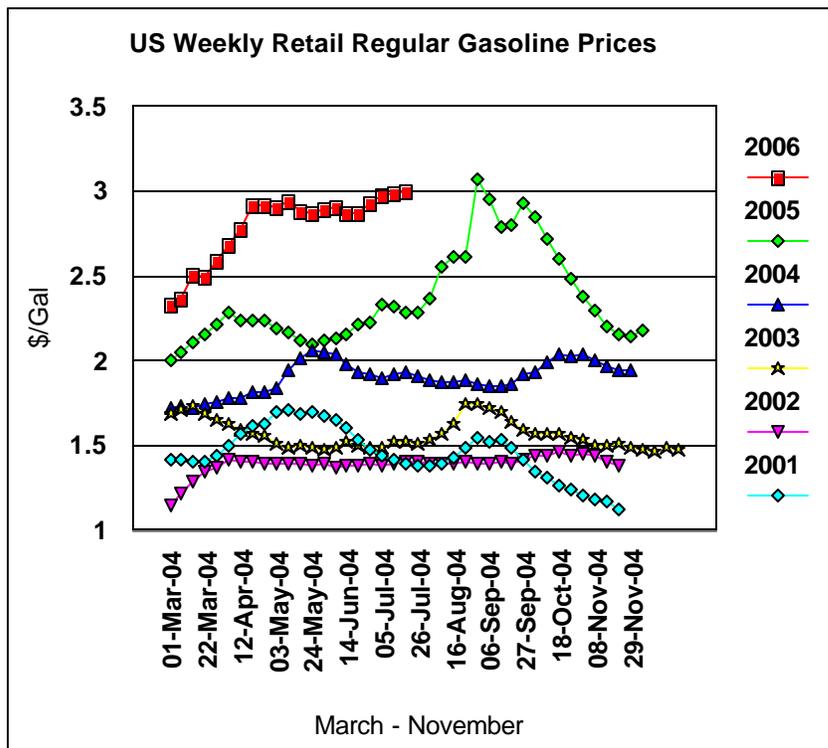
Saudi Arabia's Oil Minister, Ali al-Naimi said OPEC was working to avoid high oil prices that could affect world economic growth. He said OPEC was also working to avoid fluctuations in the price of oil. He made his comments following a meeting with OPEC President and Nigeria's Oil Minister Edmund Daukoru. OPEC's President stated that the latest rally in oil prices to near \$80/barrel was hurting the world economy. He stated that OPEC would do its best to ensure adequate oil supplies to energy markets that have been affected by geopolitical problems and a downstream capacity problem. They discussed the oil market situation and OPEC's effort to stabilize the market as well as bilateral energy cooperation. Separately, a senior Iran Oil Ministry official said there were no indications OPEC would agree to lower its output limit in their next meeting.

According to the Lundberg Survey, the average retail price of gasoline increased 2 cents/gallon to \$3.015/gallon in the two weeks ending July 21.

The EIA reported that the US average retail price of gasoline increased by 1.4 cents/gallon to \$3.003/gallon in the week ending July 24th. It was the first week gasoline prices averaged over \$3 since the week ending September 5, 2005. It reported that average retail price of diesel increased by 2 cents to \$2.946/gallon on the week.

Refinery News

Valero Energy Corp has started required maintenance on a sulfur recovery unit at its 95,000 bpd Diamond Shamrock refinery in Three



Rivers, Texas. The work started on Sunday and is expected to last until Saturday. Meanwhile, according to a report filed with the Texas Commission on Environmental Quality, two vacuum off-gas compressors at Valero's 260,000 bpd Port Arthur, Texas refinery were restarted after the units tripped offline on Friday afternoon. Also, Valero Energy Corp shut a distillate hydrotreater at its 180,000 bpd Memphis, Tennessee oil refinery for repairs. The unit is expected to be shut for nine days. During the outage, distillate production is expected to fall by 15,000 bpd while gasoline output is expected to fall by 10,000 bpd.

BP's No. 3A crude unit at its Texas City, Texas refinery was operating at planned rates following a lightning strike on an associated wet gas compressor on Sunday. It said the unit was operating at 220,000 bpd and is expected to reach 300,000 bpd by the end of the month. Its efforts to resume operations on crude unit No. 3B continue.

ConocoPhillips shutdown a unit at its 76,000 bpd refinery in Rodeo, California on Sunday after it malfunctioned. According to a notice filed with the Texas Commission on Environmental Quality, ConocoPhillips' 146,000 bpd Borger, Texas refinery suffered an equipment malfunction on Saturday. Separately, ConocoPhillips' 306,000 bpd Wood River refinery received an expedited permit to install portable cooling towers in an effort to resume production. The refinery has been shut since last Wednesday due to storms in the St. Louis area, which caused a power outage.

A processing unit at ExxonMobil's 155,000 bpd Torrance refinery suffered equipment failure on Saturday.

Total Petrochemical USA is undergoing maintenance work on its unit 813 at its 232,000 bpd refinery in Port Arthur, Texas through Sunday.

Marathon Oil Corp is expected to build a biodiesel fuel storage and distribution facility at its Kramer's Lane terminal in Louisville, Kentucky. The facility would store about 30,000 gallons.

Venezuela's fire damaged crude distillation unit at its Amuay refinery is expected to remain shut for five to seven months. Meanwhile, PDVSA has delayed the delivery of a July naphtha cargo by one month to August due to a fire and operational problems at the Amuay refinery. A fire broke out at the refinery last week. The delay is expected to have a significant impact on the well supplied US naphtha market. The Amuay refinery problems were also likely to have an impact on PDVSA's oil supply to Citgo.

Italy's Saras said output of ultra low sulfur diesel and high octane gasoline at its Sarroch refinery in Sardinia would be cut by about 10% in the next 30 days due to a problem with its catalytic reformer unit. The unit itself would be shutdown for about 10 days.

Oman Trading International shipped 5,000 cubic meters of refined products from trial runs at the new Sohar oil refinery. An official at Oman Refining Co did not state what type of products were exported but Omani state media said Sunday's shipment was of fuel oil.

The Trans-Alaska oil pipeline is expected to shut down for about 36 hours of scheduled maintenance this weekend. No interruptions in oil shipments are expected as a result of the shutdown.

Thailand's crude oil imports fell by 35.84% on the year to 3.88 billion liters or 812,839 bpd in June.

India's June domestic oil product sales fell by 1.7% on the year to 9.22 million tons. India's diesel sales fell by 2.9% on the year to 3.28 million tons. Official data showed that petrol sales fell by 1.6% on the year while naphtha sales increased by 2.5% on the year.

Production News

Iraq's Oil Minister Hussain al-Shahristani said Iraq has completed repairs to one of two sabotaged oil pipelines that export crude from its northern fields to Turkey. He said the flow from Kirkuk would start Tuesday to the Beiji refinery and added that one week is needed to fill the tanks of the refinery before the flow could be diverted to Ceyhan.

According to Petrologistics, OPEC's oil production is expected to fall by 200,000 bpd to 29.9 million bpd in July, mainly due to lower production from Saudi Arabia and Venezuela. It estimated Saudi Arabia's production at 9 million bpd while Venezuela's oil production is forecast to fall about 250,000 bpd to 2.3 million bpd in July due to maintenance at its synthetic crude plants. Meanwhile, Iran is expected to pump 4 million bpd in July, up from 3.8 million bpd in June. Iraq is expected to pump 2.3 million bpd in July, up from 2.16 million bpd in June.

Output at Shell-operated Bonny oilfield has been reduced due to maintenance. It said a pipeline leak cut its Bonny Light crude output by 180,000 bpd. However its exports have been unaffected.

OPEC's news agency reported that OPEC's basket of crudes increased by just 1 cent to \$68.46/barrel on Friday.

Oil service members in a Norwegian union have reached an agreement with the Norwegian oil industry association following several weeks of strikes, which delayed oil and gas development projects.

Market Commentary

The oil market opened 68 cents lower at 73.75 in light of the diplomatic efforts to end the conflict in the Middle East. US Secretary of State Condoleezza Rice made an unannounced visit to Beirut seeking a sustainable ceasefire in Lebanon. The crude market sold off to a low of 73.55 early in the session as it breached its previous support levels. The market however bounced off its support and never looked back amid reports that a tropical depression could form in the Gulf of Mexico within the next day or so. The market was also well supported by the news of several refinery problems, including the Amuay refinery. The crude market rallied to a high of 75.20 ahead of the close and settled in a sideways trading pattern ahead of the close. It settled up 62 cents at 75.05. Volume in the crude market was better with 144,000 lots booked on the day. Meanwhile, the gasoline market also opened down 1.69 cents at

227.25 and posted a low of 226.50. However the market retraced its losses and breached its earlier high as it rallied to a high of 233.00 amid the refinery news. The

Technical Analysis		
	Levels	Explanation
CL 75.05, up 62 cents	Resistance 75.30, 75.55, 78.15	Previous highs
	Support 75.20	Double top
	Resistance 74.75, 74.50	
	Support 73.55, 73.51, 72.55	Monday's low, Previous low
HO 196.99, up 1.19 cents	Resistance 198.50, 198.99, 201.30, 203.61	Previous high, 38% (211.10 and 191.50), 50% and 62%
	Support 197.60	Monday's high
	Resistance 196.60, 194.80	
	Support 193.30, 192.80, 191.50	Monday's low, Previous lows
HU 231.42, up 2.48 cents	Resistance 234.60, 235.00	Previous highs
	Support 233.00	Monday's high
	Resistance 230.00, 226.50	
	Support 225.00, 223.25, 219.75	Monday's low Previous lows

market retraced some of its gains and sold off to a low of 230.00 ahead of the close. It settled up 2.48 cents at 231.42. The heating oil market continued to trade in a sideways pattern as it held Wednesday's trading range. The heating oil market posted a low of 193.30 but quickly retraced its losses. The market rallied to a high of 197.60 ahead of the close. It settled up 1.19 cents at 196.99. Volumes in the product markets were light with 35,000 lots booked in the gasoline market and 41,000 lots booked in the heating oil market.

The oil market Tuesday will remain headline driven as the conflict between Israel and Hezbollah. There is no immediate end to the conflict as the US Secretary of State's proposals were rejected. The market will also remain concerned over the possibility that a tropical depression may form in the Gulf of Mexico. There are also several refinery problems that will support the market. The market is seen finding support at 74.75, 74.50 followed by its low of 73.55 and 73.51. Meanwhile resistance is seen at its high of 75.20 followed by 75.30 and 75.55. More distant resistance is seen at 78.15.