



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR JULY 30, 2008

President George W. Bush said he had done his part by calling for offshore drilling in areas where it is now banned and criticized the Democrat led Congress for not allowing a vote on the matter before its August recess. On Tuesday he called on Congress to pass legislation that would give energy companies access to billions of barrels of oil in US waters where energy exploration is now banned. He said the US needs to develop more of its oil resources, particularly those located offshore. Earlier this month, President Bush lifted a presidential moratorium on drilling in closed areas of the Outer Continental Shelf, putting the onus on Congress to lift its own annually

Market Watch

Goldman Sachs said there is open interest concentrated around the \$120/barrel, \$110/barrel and \$100/barrel levels, underscoring if prices fall below \$120/barrel, a further correction to \$110/barrel cannot be ruled out. However it stated that the majority of the puts are likely held by active financial players such as hedge funds, as opposed to producers. It said such specs are more likely to sell back the option as they get closer to being in the money, decreasing the need to sell oil futures to hedge their positions.

Malaysia's Domestic Trade and Consumer Affairs Minister, Shahrir Samad said the government may subsidize gasoline for another decade in an attempt to regain public support, limiting its ability to cut its budget deficit. While countries from India to Indonesia have raised fuel prices, Malaysia's Prime Minister Abdullah Ahmad Badawi, has backed off from a plan to allow local fuel prices to track international prices since announcing a 41% increase in gasoline costs in June. Malaysia's Domestic Trade and Consumer Affairs Minister said the government may cut gasoline prices should crude oil fall below \$125/barrel for at least three weeks and said such a reduction may come as early as this year to enable the government to keep its pledge of maintaining a 30 sen or 9 cent subsidy on every liter of gasoline. Malaysia spent 8.8 billion ringgit keeping gasoline, diesel and liquefied petroleum gas below market prices in 2007.

The chief executive of BP's Russian oil venture TNK-BP may face a court case over labor violations that could ultimately see him barred from running a Russian company for three years. BP's partners in the TNK-BP venture have demanded the ousting of its chief executive, Robert Dudley, who left Russia last week after failing to receive a visa and is managing the company from an undisclosed location abroad.

Brazil's Petrobras raised its profit sharing proposal to oil workers to 16% of the value received by Petrobras shareholders in dividends. It was up from Petrobras' previous proposal which called for oil workers to receive 12.82%. Under Brazilian law, workers can receive a profit sharing payment of as much as 25% of shareholder dividends. The Brazilian Oil Workers Federation, or FUP, is seeking the full profit sharing payment of 25%.

renewed moratorium. Meanwhile, US Secretary of the Interior ordered the agency to start preparing a new five year oil and natural gas lease sale program that will include areas currently under a congressional moratorium.

DOE Stocks

Crude – down 100,000 barrels
Distillate – up 2.4 million barrels
Gasoline – down 3.5 million barrels
Refinery runs – up 0.1%, at 87.2%

Interior Secretary Dirk Kempthorne said if Congress were to lift the moratorium, the program would allow the agency to start a lease sales program in the Outer Continental Shelf areas currently closed to exploration within three years. Later on Wednesday, the US House of Representatives defeated a bill to prevent excessive speculation on oil and other futures

trading on Wednesday in a dispute over offshore drilling and developing oil shale reserves. Republicans said Congress should encourage domestic energy production, not just revise US market regulations.

Iran's Supreme Leader Ayatollah Ali Khamenei said Iran will pursue its nuclear path and will not step back. Western powers gave Iran two weeks from July 19 to respond to their offer to hold off on imposing more UN sanctions on Iran if the country halted its nuclear program. Meanwhile, an EU diplomat said EU nations are keen to apply existing UN sanctions against Iran. The EU is willing to take a tougher line over Iran sanctions.

The chairman of Libya's National Oil Corp, Shokri Ghanem said the sharp decline in prices is probably temporary. He however said if prices continued to fall, it would be a matter of concern. He also stated that Libya's oil production would be down by 145,000 bpd for at least another month, longer than previously estimated due to maintenance on a pipeline and work at the al-Jurf field. Work on the pipeline from Waha will take another month at least, lowering output by 100,000 bpd while repairs continue at the 45,000 bpd al-Jurf offshore field.

Nigerian security officials said rival militant factions in Nigeria's Niger Delta have clashed in an apparent battle for territorial control and sea routes.

Israeli Prime Minister Ehud Olmert said he would step down in September after a party leadership vote. Meanwhile a Palestinian official said Israeli and Palestinian negotiators plan to continue talks toward a peace deal despite the announcement by Israeli Prime Minister Ehud Olmer.

Refinery News

Colonial Pipeline allocated shipments of distillates on its main line north of Collins, Mississippi as demand for space outweighs capacity. It said nominations on Line 2 for Cycle 44 exceed Colonial's ability to meet its 5-day lifting cycle.

Tesoro Corp said it was restarting units after an electrical power disruption at its 100,000 bpd Los Angeles refinery on Wednesday.

BP Plc cut rates on the No. 1 fluid catalytic cracking unit on Tuesday following a problem on an associated electrostatic precipitator.

Shell Oil Co's 165,000 bpd refinery in Martinez, California shut an alkylation unit on Monday for unplanned work.

California's State Board of Equalization said the state's gasoline consumption fell by 2.2% in April compared to the same month in the previous year. It diesel consumption fell by 7.8% on the year in April 2008.

July Calendar Averages

CL – 133.93
HO – 379.80
RB – 329.49

Irving Oil said its 300,000 bpd refinery in Saint John, New Brunswick was operating at reduced rates on Wednesday following a fire on Tuesday night. The fire was caused by a lightning strike. The refinery is expected to return to normal operation over the next 24 hours.

China's PetroChina has finished the first stage of work on a new 200,000 bpd refinery in the southern Guangxi region.

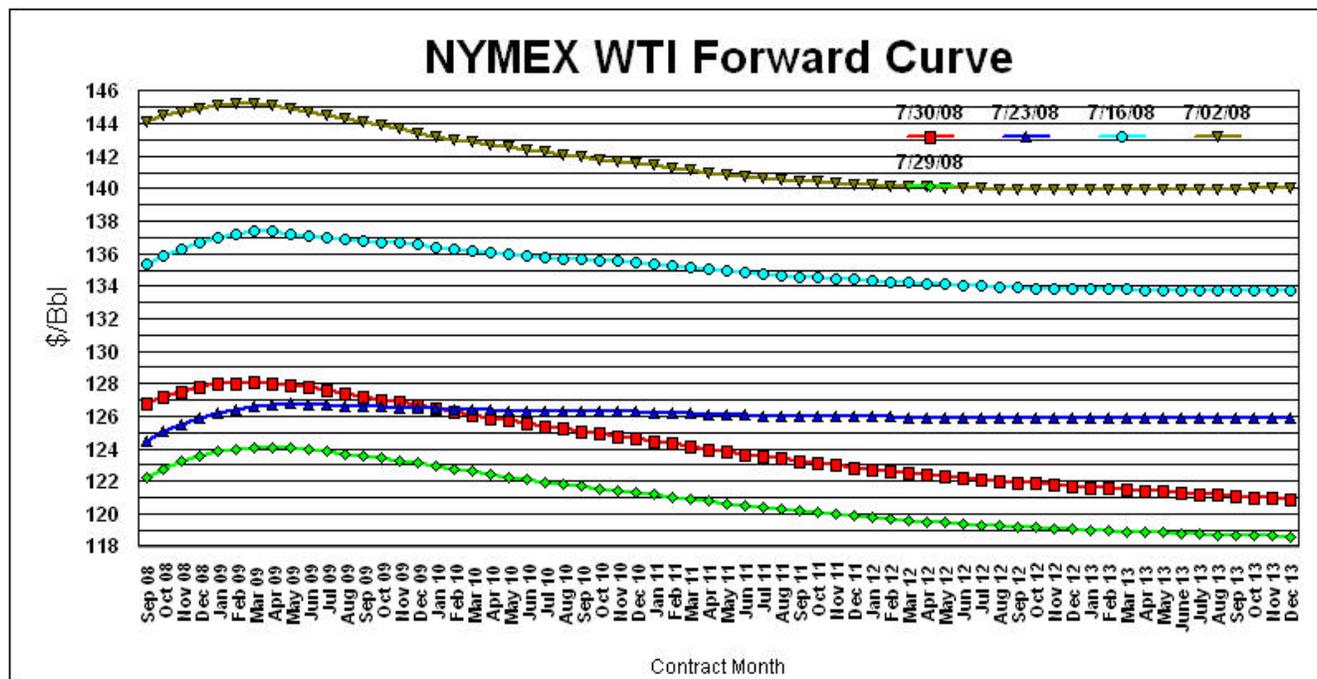
SK Energy said a fire at its crude tank had been extinguished and added that the fire did not disrupt production.

Indian Oil Corp said Indian state refiners are likely to import 3-3.5 million tons of diesel in the fiscal year to March 2009 to meet surging demand. There has been an increase in diesel demand as industrial users are encouraged to switch from fuel oil in light of the subsidized prices of diesel.

The Petroleum Association of Japan reported that crude oil inventories fell by 2.93 million barrels on the week and by 12.8 million barrels on the year to 106.29 million barrels in the week ending July 26. It reported that gasoline stocks fell by 250,000 barrels on the week but increased by 730,000 barrels on the year to 13.02 million barrels. It reported that stocks fell for the sixth consecutive week despite a rise in production. Domestic gasoline sales totaled 1.11 million kl or 997,000 bpd, up 3.2% on the week but down 3.5% on the year. It reported that kerosene stocks increased by 1.06 million barrels on the week but fell by 4.89 million barrels on the year to 14.44 million barrels. Refinery utilization stood at 84.1% of total capacity of 4.9 million bpd, up 0.3% on the week.

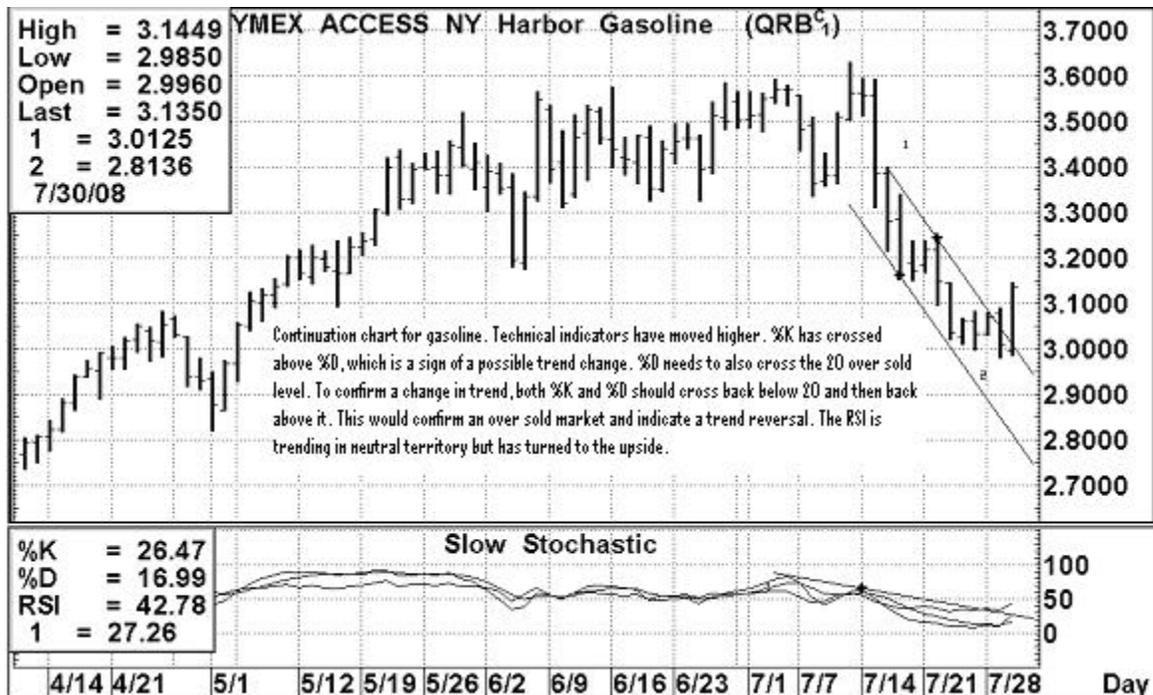
Production News

Lifters said Abu Dhabi will supply full term crude volumes for September, steady from August levels. It has notified at least eight Asian term lifters, including four in Japan, that it would supply full contracted volumes of crude for September. Three lifters said they declined offers of additional cargoes, prompting traders to say ADNOC may store the oil instead to ensure full supplies in October when some fields undergo routine maintenance. ADNOC will reduce output by 150,000 to 200,000 bpd for 40 days in October and November for maintenance, with the offshore Lower Zakum and Umm Shaif



fields being partially shut down.

Nigeria's ThisDay newspaper reported that the country cannot meet its OPEC quota of 2.1 million bpd and is now producing less than 1 million bpd due to militant attacks.



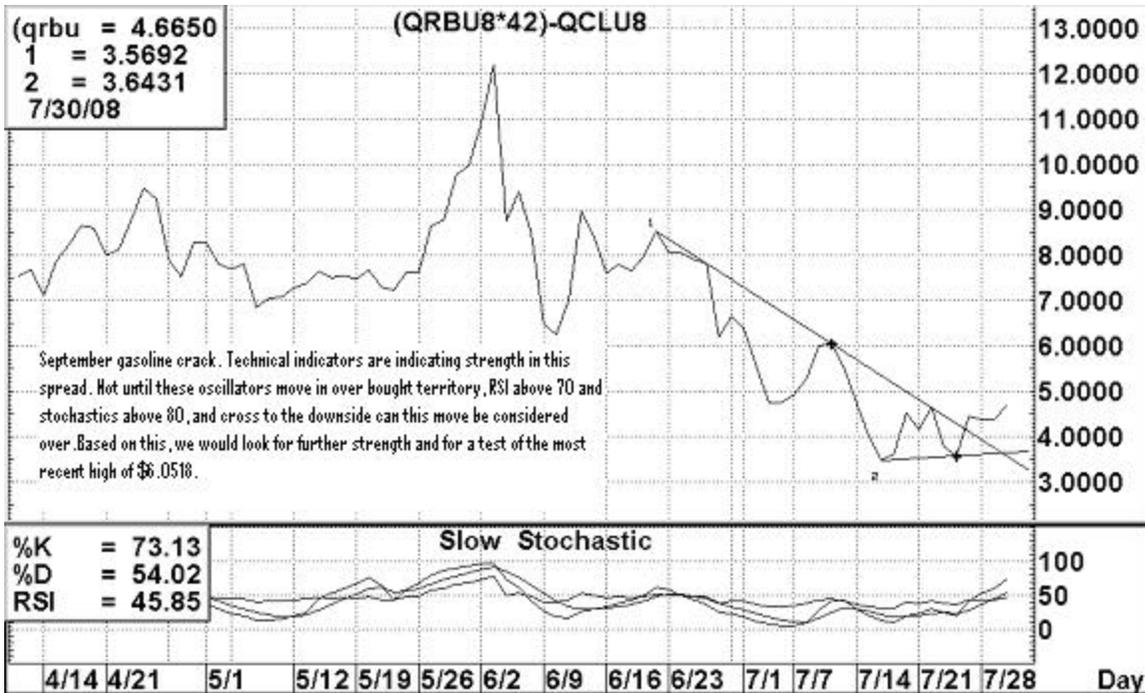
Nigeria's new deepwater Agbami project is expected to export the first oil in September after a small delay of its production start up. The loading programs suggest the production level of Agbami is around 65,000 bpd. Its output is expected to peak at 250,000 bpd in 2010, making it the largest deepwater project in Nigeria.

According to a Pentagon audit, Iraq's daily oil production is at its highest level since the March 2003 US invasion at 2.43 million bpd. The Defense Department's inspector general for Iraq reconstruction said a \$34 million security system of ditches, fences and concertina wire has stopped attacks since July 2007 on the pipeline from Kirkuk to its Baiji refinery, resulting in a rise in crude oil exports from the north. He said Iraq's oil windfall, which has yielded more than \$33 billion in revenues to date in 2008 may result in another \$7 billion that could be spent on reconstruction. Iraq's increased production between July 2007 and May was especially noticeable in the north, where exports increased by about 91.3 million barrels or about \$8.2 billion. It also stated that the uninterrupted growth in supplies of refined petroleum products has contributed to the increase in electricity production and improved living conditions for Iraqis.

Germany's producers association WEG said the country's oil production fell by 10.8% to 1.55 million tons or about 62,000 bpd in January through June, down from 1.73 million tons in the same period a year earlier.

A Pemex official said it plans to close 2008 with oil output stabilized at 2.8 million bpd. Its new production target is in line with output during the first half of this year but nearly 200,000 bpd below average 2007 levels. Pemex pumped 2.8 million bpd in the second quarter of this year, down 11.5% from the year ago period. For the first six months of the year, Pemex pumped an average of 2.86 million bpd.

Hess reported that record oil prices drove its second quarter earnings up 62% to \$900 million from \$557 million last year. Its profits from exploration and production nearly doubled to \$1 billion. However it suffered losses of \$52 million from its refining and marketing business.



OPEC's news agency reported that OPEC's basket of crudes fell to \$121.73/barrel on Tuesday from Monday's \$123.19/barrel.

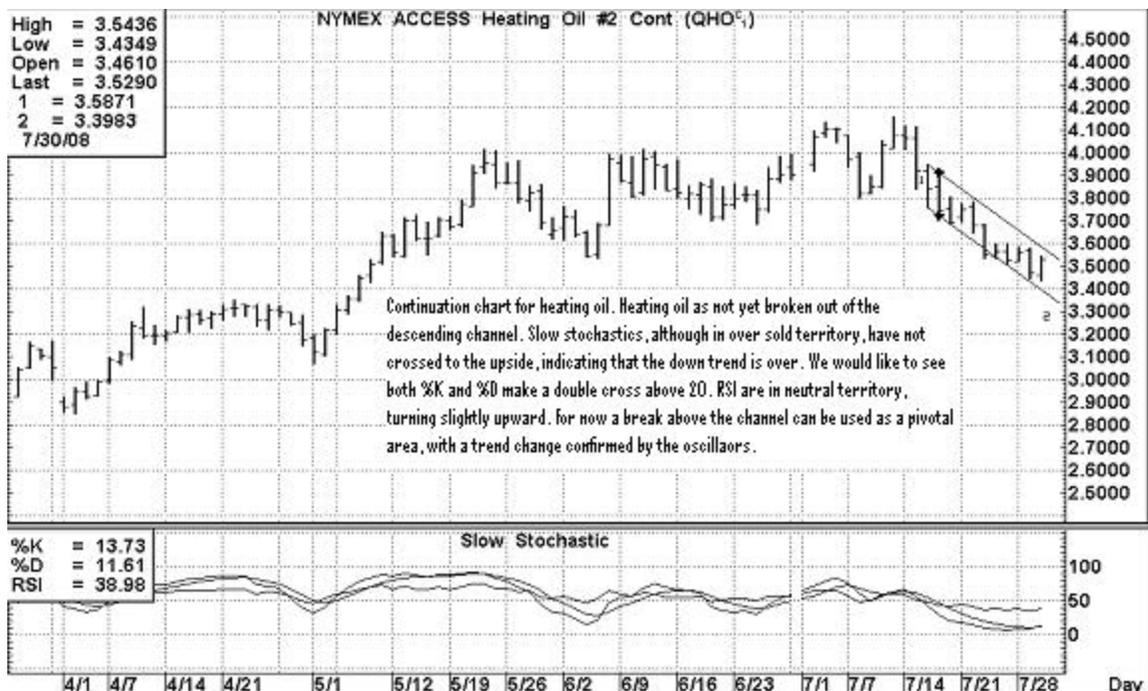
Noble Energy Inc posted its first

quarterly loss in two years because of a drop in the value of contracts that lock in prices on future petroleum sales. The loss totaled \$144 million compared with a profit of \$209 million a year earlier. The company produced the equivalent of 218,000 bpd of oil during the quarter, up 9% on the year.

Market Commentary

It's all about the gasoline. Expectations for gasoline were calling for a slight build of 350,000 barrels but inventories decreased by 3.5 million barrels for the week ending July 25th. Without this unexpected draw, the report would have been bearish. Despite the fact that gasoline inventories drew, demand for this product increased, and is unseasonably low for this time of year. Set at 9.4 million barrels per day, demand is running 2.4% below the same four-week period last year. Although this draw may seem significant, half of the U.S. driving season is over and it appears that refiners are already ramping up for winter with a build in distillates of 2.4 million barrels.

Statements by the Iranian president that Iran will continue



with its uranium enrichment program added to the rally, but this is no different than what he had said before. At this point we would view this move higher as short covering and wait for the technicals to confirm this move. Open interest for crude oil is 1,220,537 up 6,507, September08 29,679 down 818, October 114,699 up 1,416 and December 08 171,101 up 486. Total open interest for heating oil is 226,852 down 2,718, August08, 13,190 down 5,862 and September 08, 69,292 up 1,176. Total open interest for gasoline is, 222,794 down 2,701, August08 11,744, down 4,617 and September, 82,240 up 1,812.

Crude Support	Crude Resistance
115.55, 108.40, 85.40	132.90, 134.85, 140.60, 144.00, 147.90,
Heat support	Heat resistance
3.3500 3.1680 3.0980	3.6135, 3.8215, 4.0210, 4.0765, 4.1200, 4.3614
Gasoline support	Gasoline resistance
2.9255	3.1680, 3.1760, 3.6021, 3.755, 3.4655