



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR AUGUST 4, 2006

Iran's Deputy Oil Minister Mohammad Hadi Nejad-Hosseinian said world oil prices could reach \$100/barrel due to geopolitical problems and increasing winter demand. He did not see the possibility of Iran withdrawing crude supplies from world markets in case of US military action against Tehran.

Armed insurgents battled US and Iraqi troops in the northern city of Mosul on Friday. The violence came a day after the head of the US Central Command said Iraq was caught in the worst sectarian violence it had yet seen and faced the threat of civil war. The US recently announced it was moving more than 3,500 troops in Mosul to Baghdad to help rein in worsening sectarian violence there. Shi'ite Prime Minister Nuri Al-Maliki's government has struggled to contain the violence, which has halted slowed efforts by Washington to hand over more control to Iraqi forces and ultimately withdraw troops. Meanwhile, in Baghdad tens of thousands of supporters of radical Shi'ite cleric Moqtada al-Sadr rallied against Israel's offensive in Lebanon.

Market Watch

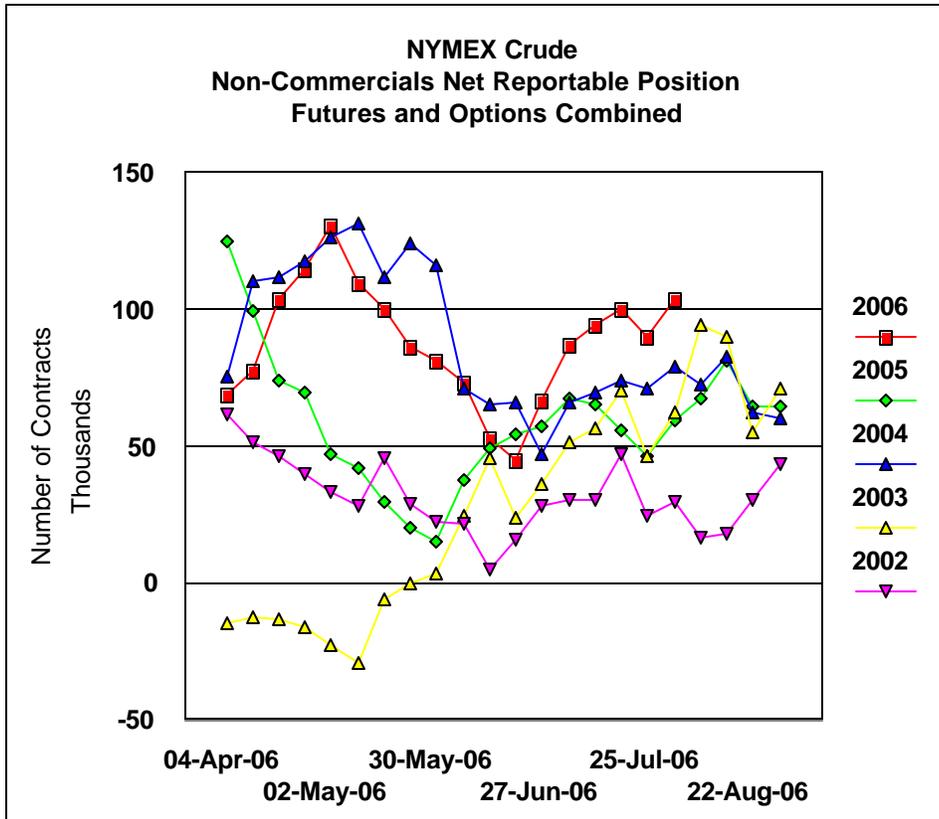
Mexico's government said security has been increased at Mexico City's airport so leftists challenging a tight presidential election cannot block flights as part of their protests. Extra safeguards have also been put into place at power plants, refineries and other Pemex installations. Mexico's Energy Minister Fernando Canales said security has been reinforced as a preventive measure to safeguard the operations of installations. Claiming vote fraud, supporters of Andres Manuel Lopez Obrador have blockaded traffic on Mexico City's Reforma Boulevard forcing hundreds of businesses to shutdown. He has promised to increase the protests and prevent Felipe Calderon from taking power if the country's electoral court does not order a vote by vote recount.

Platts reported that the rally in US ethanol prices this summer is unlikely to occur again because the rally was part of the initial switch from MTBE to ethanol. The price of ethanol traded as high as \$3.59/gallon over NY Harbor spot reformulated blendstock for oxygenate blending on July 20. Typically, the premium for ethanol to regular unleaded gasoline should equate to the ethanol tax break at the pump, the equivalent of 50 cents/gallon.

Refinery News

Alon USA Energy Inc replaced some equipment on Wednesday at its 70,000 bpd refinery's crude unit in Big Spring, Texas. According to a report filed with the Texas Commission on Environmental Quality, the crude unit was not shut during the work.

The restart of Syncrude Canada Ltd's oil sands expansion has again been delayed as it repairs a unit released odors over nearby communities. It said the start up of the new coker unit would be delayed until later this month. It had been expected to begin operating in early August.



Norway's Statoil plans to start four weeks of maintenance work at its 110,000 bpd Kalundborg refinery in the beginning of September. About a third of the refinery would be taken off line during the maintenance.

Japan's Idemitsu Kosan Co Ltd is scheduled to shut its 120,000 bpd crude distillation unit in Tokuyama, western Japan, for scheduled maintenance from September 28 to November 4.

Shipments of Nigeria's Bonny crude are delayed at least 3 days in August. A leak on a pipeline forced producers to shut in 210,000 bpd of Bonny

crude output on July 21. Shell declared a force majeure on exports on July 26. In the two weeks since the pipeline has been shut, over 3 million barrels of crude has been lost.

A Transneft shipping schedule showed Ukraine's Odessa would get 970,000 tons instead of the initial plan of 570,000 tons.

Russia is expected to lift a 5% import duty on high octane gasoline to increase competition and stabilize prices.

Production News

A militant group, the Movement for the Emancipation of the Niger Delta said it was not involved in the kidnapping of a German oil worker on Thursday. However it said it would renew attacks on oil installations across the Niger Delta this month. Separately, three Filipino gas workers were kidnapped by unidentified gunmen on Friday on their way to work at the Nigeria Liquefied Natural Gas complex in Bonny.

Shell Nigeria Exploration and Production Co said operations at the 115,000 bpd E.A. field would only restart when security conditions improve. It has a total of 675,000 bpd of production shut in.

Colombia's Ecopetrol stated that a 24 hour strike involving less than half the employees had no effect on operations or production. The strike was in protest of last month's announcement that up to 20% of the company would be sold. The union, which has stated that selling the 20% stake would be a step toward Ecopetrol's total privatization, threatened to call more strikes to protest the move.

Pemex stated that a recent fall in output at its Cantarell oil field was temporary and it could hold total crude output at between 3.3 million and 3.4 million bpd in coming years.

PDVSA said it hoped to nearly double its oil production at its eastern fields over the next six years to 2.3 million bpd from its current production of 1.2 million bpd.

An official of Sao Paulo's Cane Agroindustry Union said Brazil could double its sugar cane based ethanol production to 31 billion liters in 2014. He said \$10 billion in investment was planned for 92 greenfield cane mills. He also stated that Brazilian ethanol shipments to the US have increased sharply over the past three months, despite a 54 cent/gallon import tariff. The US is importing 103.5 million gallons of ethanol a year.

OPEC's news agency reported that OPEC's basket of crudes fell to \$71.08/barrel on Thursday from \$71.20/barrel on Wednesday.

Market Commentary

The crude market opened down 16 cents at 75.30 as Tropical Storm Chris was downgraded to a tropical depression. The weather system, which is expected to enter the Gulf of Mexico early next week, is unlikely to regain strength and threaten oil facilities in the Gulf. The crude market posted its high of 75.40 early in the session and continued to sell off. The market extended its losses to over \$1.30 as it posted a low of 74.15 late in the session. The market later bounced off its low and retraced some of its losses ahead of the close. It settled down 70 cents at 74.76. Volume in the crude market remained light with 163,000 lots booked on the day. The product markets also settled in negative territory, with the gasoline market settling down 6.19 cents at 223.15 and the heating oil market settling down 2.39 cents at 208.96. The gasoline market opened down 1.34 cents at 228.00 and quickly posted its high of 228.50. However the market extended its losses to 8.84 cents as backfilled its previous gap and posted a low of 220.50. It erased some of its losses ahead of the close. Similarly, the heating oil market posted its high of 211.50 on the opening and continued to retrace its recent gains. The market breached its previous low and sold off to a low of 207.10. The heating oil market later erased some of its losses and traded back to 209.50 ahead of the close. Volumes in the product markets were also light with 34,000 lots booked in the gasoline market and 41,000 lots booked in the heating oil market.

The Commitment of Traders report showed that non-commercials in the crude market increased their net long positions by 5,810 contracts to 66,095 contracts in the week ending August 1. The combined futures and options report also showed that non-commercials increased their net long positions by 13,979

contracts to 104,116 contracts on the week. The non-commercials have likely continued to increase their net long positions as open interest

Technical Analysis		
	Levels	Explanation
CL 74.76, down 70 cents	Resistance 76.50, 76.91, 78.15, 78.50, 79.45 75.40, 75.60	Previous high, 62% retracement (79.45 and 72.80), Previous highs Friday's high, Thursday's high
	Support 74.15 72.95, 72.80, 72.55-72.50	Friday's low Previous lows
	Resistance 213.30, 215.25, 216.25, 218.40 211.50, 211.80	Previous highs Friday's high, Thursday's high
HO 208.96, down 2.39 cents	Support 207.10 205.00 to 204.80, 200.00	Friday's low Remaining gap (August 1), Previous low
	Resistance 230.25-230.50, 234.75 224.00, 228.50	Remaining gap (August 3rd), Previous high Friday's high
HU 223.15, down 6.19 cents	Support 222.00, 220.50 218.25, 218.00, 216.00	Friday's low Previous lows

continued to increase in recent days. Non-commercials in the gasoline market however continued to cut their net long positions by 5,064 contracts to 19,138 contracts on the week. Meanwhile, non-commercials in the heating oil market increased their net long positions by 5,315 contracts to 15,436 contracts on the week.

The oil market on Monday is seen remaining pressured barring any bullish headlines over the weekend as concerns over the possible threat to production in the Gulf of Mexico has dissipated. The market is finding support at its low of 74.15 followed by 72.95, 72.80 and 72.55-72.50. Meanwhile resistance is seen at its highs of 75.40, 75.60 and 76.50. More distant resistance is seen at its high of 78.15, 78.50 and 79.45.

NYMEX Most Active Petroleum Options for August 4, 2006									
Contract	Month	Year	Call/Put	Strike	Exp Date	Settle	Prev Settle	Volume	IV
GO	9	6	P	2.1	08/28/2006	0.0337	0.0228	1,038	37.80
GO	9	6	C	2.28	08/28/2006	0.0659	0.0978	304	38.30
GO	9	6	C	2.32	08/28/2006	0.0524	0.0798	250	38.72
GO	9	6	C	2.27	08/28/2006	0.0697	0.1029	250	38.22
GO	9	6	C	2.5	08/28/2006	0.017	0.0294	163	40.53
LO	12	7	P	60	11/13/2007	2.49	2.27	4,200	29.85
LO	12	6	P	72.5	11/14/2006	2.41	2.21	3,250	28.84
LO	4	7	P	55	03/15/2007	0.45	0.44	3,000	30.91
LO	10	6	P	65	09/15/2006	0.14	0.12	2,479	28.39
LO	9	6	C	80	08/17/2006	0.23	0.35	2,456	29.41
LO	12	6	C	150	11/14/2006	0.08	0.08	2,450	52.12
LO	9	6	C	100	08/17/2006	0.02	0.04	2,213	61.64
LO	12	6	P	70	11/14/2006	1.55	1.49	2,150	28.10
LO	10	6	P	70	09/15/2006	0.73	0.65	2,080	28.38
LO	11	6	C	95	10/17/2006	0.59	0.65	1,860	35.51
OH	10	6	P	2	09/26/2006	0.0399	0.035	290	30.61
OH	12	6	C	2.32	11/27/2006	0.1234	0.1341	210	31.99
OH	12	6	C	2.38	11/27/2006	0.1041	0.1135	210	32.38
OH	9	6	C	2.3	08/28/2006	0.0097	0.0136	200	31.07
OH	12	6	C	2.4	11/27/2006	0.0983	0.1074	111	32.49