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ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR SEPTEMBER 6, 2006

Talks between Iran's chief nuclear negotiator, Ali Larijani and EU's foreign policy chief, Javier Solana, over Iran's nuclear program were postponed on Wednesday until Thursday in Spain. The talks were tentatively set for Wednesday as a final attempt to see if there was common ground to start negotiations between Iran and the UN Security Council members that have been trying to persuade Iran to limit its nuclear program. A procedural matter led to the delay. Iran has insisted that it has the right to enrich uranium. In a further sign Iran was ready to defy the international community, its parliament took the first step Tuesday toward blocking international inspection of the country's nuclear facilities in case UN sanctions are imposed against the country.

Market Watch

The deputy assistant energy secretary for the SPR, John Shages said that while some crude oil loaned from the SPR is scheduled to be returned in October, the majority of the 2.5 million barrels of current outstanding crude loans would not be paid back until the second quarter of 2007. He said the Energy Department still did not have a firm plan to replace an additional 11 million barrels of SPR oil sold last year in the wake of Hurricane Katrina.

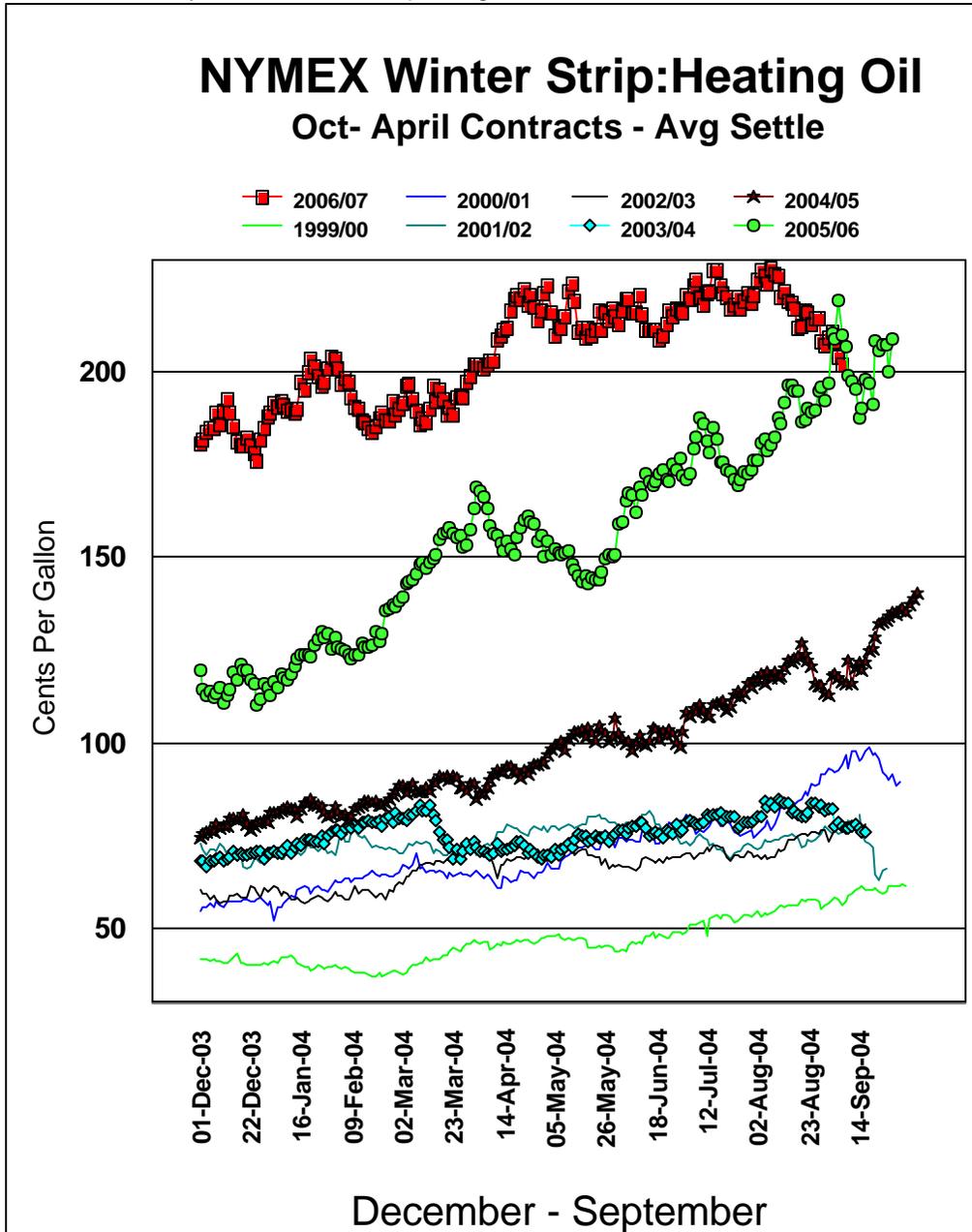
Iraq's Parliament has reconvened and renewed the country's state of emergency. The parliament's speaker, Mahmud Mashhadani, opened the session by calling for national unity in an attempt to curb the increasing violence. A spokesman for the largest Shia bloc predicted that parliament would discuss the law for the formation of provinces in the next few sessions. The Kurdish North is united behind demands to divide power in Iraq. Many Shia leaders have been seeking to split away areas in central and south Iraq which hold Shia shrines and pilgrimage sites as well as oilfields. However Sunnis generally favor a strongly centralized Iraq that would guarantee their rights as a minority. Iraq's parliament speaker said Iraq leaders have just three to four months to mend their differences and avert a civil war.

Former Iranian President Mohammed Khatami warned that US military action in the Middle East backfired, producing greater terrorism and damaging US long term interests. He stated the danger of greater instability in the region would ultimately prevent the US from launching military strikes against Iran over disputes about its nuclear intentions. He also stated that Iran has not rejected the incentive package. In a wide-ranging interview, he also stated that Iran was not intent on eliminating Israel and accepts a two state solution that includes Israel and a new Palestine. In regards to Iraq, he said all countries should strive to prevent a civil war. However he wanted that Iraq reflected the failure of US policy.

Venezuela's Seniat tax authority said it had demanded tax payments from China's CNPC America Ltd and Sincor. It informed CNPC it owed about \$10.9 million in taxes while Sincor was ordered to pay \$693,000 in unpaid taxes.

The Dubai Multi Commodities Center expects to launch its gasoline futures contract in the first half of 2007.

Meanwhile, Russia's Foreign Minister Sergei Lavrov said Russia was considering supporting economic sanctions against Iran for defying the UN deadline. However he said any sanctions would be governed by the UN charter, which states unequivocally that economic measures exclude the use of force. Germany's Chancellor Angela Merkel stated that Iran could not be allowed to harm the UN by pursuing its nuclear program. However she said that military action against Iran was not an option. German Foreign Minister Frank-Walter Steinmeier said that Germany and its allies would refer Iran's nuclear dossier back to the Security Council if the EU does not persuade Iran to change its behavior. An Iranian military official however stated that Iran was ready to retaliate against military strikes. Later the Bush Administration said Iran was seeking more time but added that it would not be able to stop the UN Security Council from imposing sanctions.



Iran's President Mahmoud Ahmadinejad urged the West to follow God's path and said the failure to do so would tempt fate. He again rebuffed accusations that Iranian policy constitutes a threat to the US and again challenged US President George W. Bush to a live television debate.

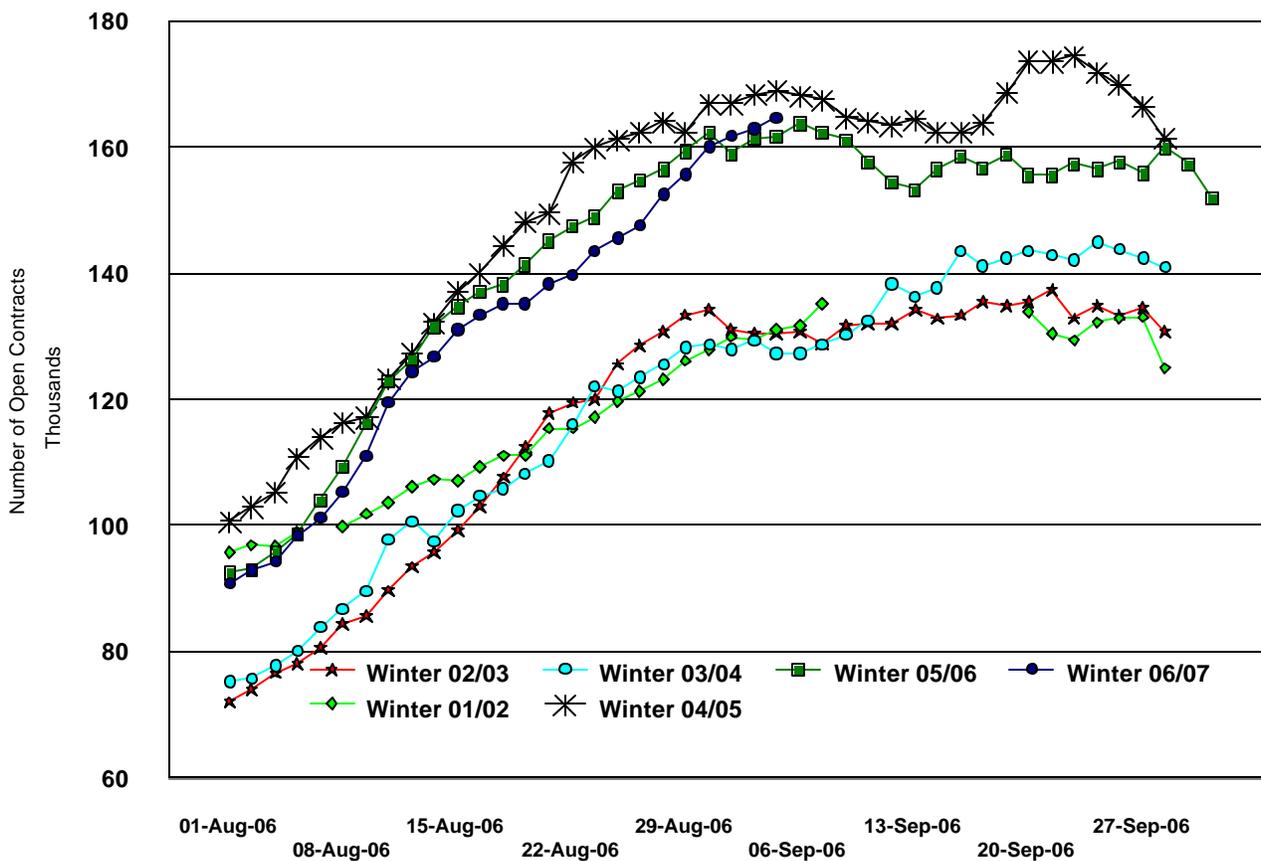
Iran's Deputy Oil Minister, Nejad Hosseini said Iran would continue exporting oil in the event that sanctions are imposed against Iran, unless the UN bans its oil trade.

UN Secretary General Kofi Annan said Lebanon must reach a consensus on disarming Hezbollah militants. He also stated that Israel's withdrawal from Lebanon was crucial to the deployment of peacekeeping troops.

there. He added that he hoped Israel would lift its blockade on Lebanon within days. In regards to Iran, he urged Iran to do everything it could to convince the international community that its nuclear

NYMEX Winter Strip: Heat Oil

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program is peaceful. He said diplomatic efforts could still prevent an escalation of tensions.

Israel's Prime Minister's Office said it would lift its sea and air blockade of Lebanon on Thursday evening. It said international forces would replace the Israelis at command positions over Lebanese seaports and airports. The Israeli government said the blockade was necessary to prevent new arms shipments from reaching Hezbollah guerillas. US Secretary of State Condoleeza Rice and UN Secretary General Kofi Annan informed Israel's Prime Minister Ehud Olmert that the international troops were ready to move in.

Algeria's Energy and Mines Minister Chakib Khelil said there is a consensus among OPEC oil ministers to maintain their current oil production levels during OPEC's meeting on Monday, September

11. He also stated that he believed oil prices would remain high, above \$50/barrel, for the remainder of the year.

Refinery News

Citgo cut runs at its 425,000 bpd Lake Charles, Louisiana refinery by 15%-20% after a small fire started at its gasoline hydrotreater unit on Sunday.

Alon USA said a 23,000 bpd diesel hydrotreater at its 70,000 bpd Big Spring, Texas refinery resumed operations following a brief outage on Tuesday for repairs. There was no impact to production.

Total Petrochemicals USA reported the restart of units associated with sulfur recovery operations at its 233,000 bpd Port Arthur, Texas refinery following about five days of maintenance.

Marathon Oil Corp said 170 workers at its St. Paul Park, Minnesota refinery ended a seven week strike on Tuesday after a three year labor contract was ratified.

EnCana Corp said it was considering construction of a heavy oil upgrader in Western Canada. It expects production from its properties in the northern Alberta oil sands to increase to 500,000 bpd by 2015.

Major oil refineries in Japan and South Korea have curbed operations in an effort to increase refining margins by limited their fuel output. Japan's Nippon Oil is expected to cut its operations by 23,000 bpd to 816,000 bpd this month. GS Caltex Corp has also cut its planned refinery runs this month by 20,000 bpd to 600,000 bpd. Hyundai Oilbank Corp is also expected to cut its runs to 300,000 bpd in September from its original of 320,000 bpd.

The Shetland Island Council said Brent crude liftings from Sullom Voe fell to 80,213 tons in the week ending September 5, down from 373,986 tons the previous week.

A senior Jordanian official said crude oil from Iraq's northern oil fields is seen flowing to Jordan within the next 10 days. The official said about 50 trucks would transport Kirkuk crude from Iraq's Baiji refinery to Jordan's al-Zarqa refinery.

Iraq's Finance Minister Bayan Jabour said the country planned to invest \$4 billion to build oil refineries and improve ageing infrastructure. He said the investment would come from a planned budget bill for 2007 of about \$33 billion. However he did not say if the investments were aimed at increasing export levels or improving domestic supplies of oil. Separately, an Oil Ministry official said the ministry hoped to increase domestic production of petrol in its refineries at Basra, Shueyba, Doura and Baiji to 11 million liter/day by the end of the year. It currently refines 8 million liters/day of petrol, short of its domestic demand of 22-23 million liters/day.

China's new refinery in southern Hainan province is processing nearly 110,000 bpd of crude this month or 68% of its capacity.

The Petroleum Association of Japan reported that Japan's kerosene stocks increased by 213,093 kiloliters to 4.43 million kl or 27.86 million barrels in the week ending September 6. It reported that crude runs at the country's refiners fell by 21,000 bpd to 4.18 million bpd. Refiners ran their facilities at an average 87.4% of total capacity of 4.78 million bpd in the week ending September 2 compared with 87.8% the previous week. It reported that gasoline stocks totaled 1.94 million kl or 12.2 million barrels, down 1.41% on the week. Crude stocks stood at 17.4 million kl or 109.44 million barrels, down 1.39% on the week.

A senior Saudi Aramco official said that Saudi Arabia would regain its position as the largest crude supplier to China once refineries in China are upgraded. He said China increased its imports of Angolan heavy sweet crude, which suits its plants better but added that Saudi Arabia would reclaim its role as the main supplier in the long term. Saudi Arabia's crude exports to China in the first seven months of the year increased by 2.5% to 465,00 bpd while Angola's crude exports to China increased by 46% on the year to 525,000 bpd. Chinese oil companies plan to build or upgrade more than 12 refineries before the end of this decade, adding over 2.6 million bpd to the country's capacity.

Indonesia's Pertamina is expected to buy 450,000 barrels/month of Chinese Wenchang crude oil and 600,000 barrels of Sudanese Nile Blend grade in the fourth quarter under term contracts. The new term purchases would compensate for the loss of 1 million barrels/month of Libyan Sarir crude after Pertamina decided to terminate its contract by the end of the third quarter.

India's Essar Oil Ltd is scheduled to start initial activity to commission its new refinery in October and complete the project in April 2007. It is expected to initially process 150,000 bpd and increase to 210,000 bpd in the first part of next year.

Production News

BP stated that workers inspecting the oil transit pipeline on the eastern side of the Prudhoe Bay oilfield have not found any more sites with potential corrosion problems. Workers have inspected 4,200 feet of the eastern oil transit pipeline, up from 2,500 feet on August 29. Alaska regulators have set a hearing for September 26 to consider any plans BP may have for using alternative pipelines to ship crude from Prudhoe Bay.

ConocoPhillips Inc shutdown its 130,000 bpd Alpine oilfield in Alaska for one day over the weekend while workers replaced a pipeline that had worn thin. ConocoPhillips said it intends to carry out a permanent repair next year during a planned maintenance shutdown of the field.

Shell said its Mars Tension Leg Platform, which was heavily damaged during Hurricane Katrina, is currently producing 190,000 boe/d, up 20% from pre-Katrina rates. Production resumed in May.

An OPEC delegate said Saudi Arabia's oil production stood at 9.1 million bpd in August. The delegate said he believed OPEC was unlikely to change its official oil production when it meets on Monday in Vienna. OPEC ministers are more likely to maintain their countries' current production. Separately, a senior Saudi Aramco official said Saudi Arabia was pumping about 9 million bpd of crude.

According to the Joint Oil Data Initiative, JODI, Saudi Arabia produced 9.4 million bpd of crude in June, up 500,000 bpd from May's level. JODI data also showed a decline in Kuwait's oil production in June to 2.55 million bpd from 2.65 million bpd in the first quarter. Production in Iran, which pumped 4.1 million bpd in the first quarter, fell to 4.01 million bpd in May but recovered to 4.056 million bpd in June.

Nigeria's Bayelsa state government has ordered Agip to reopen two oil wells following a resolution of a conflict with two local communities.

Senior government officials in Norway said the country's oil production was peaking at about 3 million bpd and would remain at that level for the next 4-5 years before the country switches focus to natural gas production. The government estimates gas production would increase in 2006 to 87 billion cubic meters and increase to 121 bcm per year in 2010.

Norsk Hydro said oil production was restarted overnight at the Oseberg South platform in the North Sea after it was halted early on Tuesday due to a fire risk. The overheating of a transformer connected to the gas injection compressor triggered an alarm.

Danish Underground Consortium's North Sea oil production could fall to about 220,000 bpd on average in September from 284,300 bpd in July. Its oil and gas production from its 14 fields has been shut since September 4 for a week of planned maintenance.

France's Total SA reiterated that average annual production growth would be close to 4% over 2005 to 2010, largely due to an average 9% per annum rise in production output from six West African projects expected to begin production between the end of 2006 and 2010.

ExxonMobil said it would not have to drill any new wells until 2008 at its Cerro Negro extra heavy oil project in Venezuela due to an aggressive drilling campaign it completed last year. It said it could continue to pump at its contracted limit of 120,000 bpd until 2008 with the 150 existing wells at the project.

OPEC's news agency reported that OPEC's basket of crudes fell further to \$63.54/barrel on Tuesday from a revised level of \$64.13/barrel on Monday.

Market Commentary

The oil market ended the session in negative territory for the third consecutive session as traders squared their positions ahead of the weekly petroleum stock reports due out on Thursday. The market was pressured as concerns over supplies continued to ease with the end of the peak summer driving season and as traders awaited for further developments on Iran's dispute with the West over its nuclear program. The market opened 40 cents lower at 68.20 and erased its early losses as it posted a high of 68.85. The market was supported by the news that Citgo's Lake Charles, Louisiana refinery cut its operations following a fire, which helped push the gasoline market to its high. The crude market however quickly erased its gains and held some support at the 68.00, which it later breached amid a late bout of selling. The market sold off to a low of 67.45 and settled down \$1.10 at 67.50. Volume in the crude market was better today with 194,000 lots booked on the day. Meanwhile, the gasoline market posted an inside trading day as it failed to breach Tuesday's trading range. The market traded to a high of 168.00 early in the session amid the refinery news. However it retraced some of its gains and settled in a sideways trading range for much of the day. It later sold off and posted a double bottom at 163.50 ahead of the close. It settled down 65 points at 164.00. The heating oil market also settled in negative territory, down 2.53 cents at 191.10. The market posted high of 194.40 early in the session

before it erased its gains. The market extended its losses to over 2.8 cents as it posted a low of 190.80 ahead of the close. Volume in the product

Technical Analysis		
	Levels	Explanation
CL 67.50, down \$1.10	Resistance	69.05, 70.40
	Support	68.00, 68.35, 68.85
		67.45
HO 191.10, down 2.53 cents	Resistance	197.00, 200.50, 201.40
	Support	192.60, 194.40
		190.80
HU 164.00, down 65 points	Resistance	173.50, 177.80, 180.00
	Support	168.00
		163.50
		189.10, 188.70, 188.35, 185.75
		Previous lows, 50% (159.70 and 217.00 continuation chart), Previous low
		Previous highs
		Wednesday's high
		Wednesday's low
		Previous low
		Previous highs
		Wednesday's high
		Wednesday's low
		Double bottom
		Previous lows

markets remained light with 20,000 lots booked in the gasoline market and 38,000 lots booked in the heating oil market.

The oil market on Thursday is seen retracing some of its sharp losses. It will be driven by weekly petroleum stock reports, which are expected to show draws in crude stocks of 1 million barrels, draws in gasoline stocks of less than 1 million barrels and builds in distillate stocks of about 1 million barrels. The market will also be driven by talks between Iran and the EU and the talks between the permanent members of the UN Security Council and Germany over imposing sanctions on Iran. Technically, the market is seen finding support at its low of 67.45 followed by more distant support at 66.65. Resistance is however seen at 68.00, 68.35 and its high of 68.85. More distant resistance is seen at 69.05 and 70.40.