



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR SEPTEMBER 11, 2006

The US said it still aimed to seek UN sanctions against Iran despite reports of Iran's readiness to compromise in talks with Europe. EU foreign policy chief Javier Solana and Iran's chief nuclear negotiator, Ali Larijani, reported progress in weekend talks to try to launch negotiations. Iran's chief nuclear negotiator offered a two month uranium enrichment freeze during talks. An Iranian official denied that he had discussed a suspension. The EU's Solana and Iran's Larijani said they hoped to hold another round of talks, possibly on Thursday, calling into question a US timetable to start drafting punitive trade and financial sanctions in the Security Council this week. US envoy to the IAEA, Gregory Schulte, said Washington was pleased by the result of the EU-Iran meeting but still felt a need to deter Iran from stringing out any talks while perfecting enrichment technology. Meanwhile, US Secretary of State Condoleeza Rice did not rule out an informal Iranian offer to suspend uranium enrichment during talks. However she stated that UN sanctions would follow if the latest offer failed.

Market Watch

Nigeria's oil unions, Pengassan and Nupeng said they would proceed with a three day warning strike due to start on Wednesday as they were meeting with government officials on Monday. They said the talks would not change their decision on the warning strike. Separately, Nigeria's President Olusegun Obasanjo expressed optimism that criminal activities in the Niger Delta, including bunkering and hostage taking, can be eradicated. He told the traditional rulers that they had a pivotal role to play in ensuring security and development in their domains.

Private weather forecaster Planalytics said no tropical storms are expected to threaten the US Gulf Coast at least through next week. It said if a hurricane or storm developed, it would probably track westward then northward across the Atlantic Basin.

Kinder Morgan Energy Partners said it planned to invest about \$195 million to expand its liquids terminals in Texas. The investment includes the construction of new storage tanks at the company's Pasadena Galena Park terminals on the Houston Ship Channel, an additional cross channel pipeline that increases connectivity between the two terminals, a new ship dock and additional by a the company's Jefferson Street truck rack facility. It would result in 3.4 million barrels of additional tank storage capacity. Construction is expected to start this month and completed by the spring of 2008.

OPEC Ministers agreed to maintain their oil production unchanged and pledged to continue to provide the world oil markets with its needs. OPEC's next scheduled meeting after its December 14 conference is scheduled for March 15, 2007. It postponed a decision on the disputed issue of which country should put forward the next Secretary General. Meanwhile, Saudi Arabia's Oil Minister Ali al-Naimi played down concerns about falling oil prices among OPEC members, adding that signs of a world economic slowdown was not alarming. He said he remained very optimistic about world oil

demand next year and said current price blips were not significant. He said oil market fundamentals were sound. OPEC's President Edmund Daukoru said that increased supply from non-OPEC producers is light but not necessarily sweet grades of crude. Earlier, he stated that a lack of oil refining capacity worldwide, which has helped to push up oil prices, is expected to last until around the end of the decade.

Iran's Oil Minister Kazem Vaziri reaffirmed that Iran would keep its oil exports flowing and would not use oil as a political weapon. He also stated that he did not think the US would follow through with sanctions against Iran.

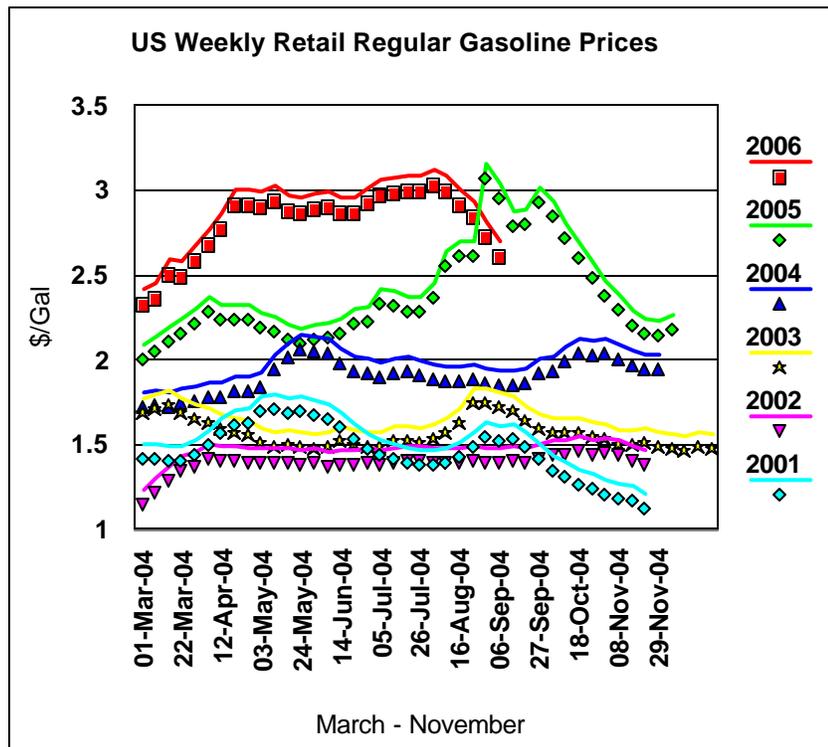
Al-Qaeda warned in a video aired on the fifth anniversary of the September 11 attacks that US allies, Israel and Gulf Arab states, would be its next target. Deputy al-Qaeda leader Ayman al-Zawahri said the next target is Israel. His warnings of attacks in the Gulf follows previous calls by Al-Qaeda leader Osama bin Laden to target oil facilities. He also blasted a UN resolution that governs a ceasefire that ended 34 days of fighting between Israel and Hezbollah.

According to the Lundberg survey, US retail gasoline prices fell about 22 cents/gallon to \$2.65/gallon in the past two weeks.

The EIA reported that the US average retail price of gasoline fell by 10.9 cents to \$2.618/gallon in the week ending September 11.

Refinery News

Refining margins in the US fell for the third consecutive week after government data showed product inventory builds above seasonal norms. Gulf Coast margins fell \$3.55 to \$4.55/barrel, West Coast margins fell \$3.92/barrel to \$14.35/barrel while Midwest margins fell by \$2.64/barrel to \$7.39/barrel and Northeast margins fell by \$2.15/barrel to \$3.98/barrel.



A contractor's crane cut a power line at Valero Energy's Houston, Texas refinery on Saturday, causing a power outage at a fluid catalytic cracking unit and a sulfur recover unit. A report filed with the Texas Commission on Environmental Quality did not state whether the outage impacted production. Separately, Valero reported flaring due to an upset condition at the west plant of its Corpus Christi, Texas refinery on Saturday.

ExxonMobil shut a unit at its Torrance, California refinery on Saturday. The unit was shut due to a mechanical failure. A report filed with the Governor's Office of Emergency Services did not specify which unit was shut or whether production at the refinery was impacted.

Alon USA shut a sulfur recovery unit and cut charge to its diesel hydrotreater following a failure of bearings on the primary blower at its 70,000 bpd Big Spring, Texas refinery.

Total SA shut several units at its Port Arthur, Texas refinery late Sunday following a power failure. A fluid catalytic cracking unit, crude complex and an alkylation unit were shut. In addition, the power interruption disrupted steam production at the refinery, causing several additional units to cut rates.

The 400,000 bpd Nerefco refinery in Rotterdam is currently undergoing maintenance for the entire month of September. The scale of the turnaround, increases to 600,000 bpd the total northwest European crude distillation capacity shut in this month by planned maintenance work. While traders stated that this would cut gasoline, diesel and jet fuel supplies, they said no shortages or price spikes were likely due to high stocks.

According to Euroilstock, European gasoline inventories fell for the third consecutive month in August to 132.09 million barrels, down 1.02 million barrels on the month. It reported that total oil and oil product stocks fell by 11.62 million barrels to 1.144 billion barrels. Crude oil inventories fell by 3.36 million barrels to 494.65 million barrels while middle distillate inventories fell by 4.28 million barrels to 382.35 million barrels on the week. It reported that refinery run rates increased by 1.53% to 93.87% while crude intake increased by 200,000 barrels to 12.297 million barrels on the week.

Russia's President Vladimir Putin said Asia's share of Russian crude and gas exports would increase from 3% to 30% in the next 10 to 15 years.

Lukoil increased its refined product exports from its Baltic Sea terminal of Vysotsk in August by 10.4% on the month to 910,950 tons. The increase mainly due to increased fuel oil shipments, which increased to 176,720 tons from 122,380 tons in July. Diesel exports increased to 471,250 tons from 407,500 tons in the previous month.

China's General Administration of Customs reported that the country's exports of crude in the first eight months of the year fell by 15.9% on the year to 4.15 million tons or 125,183 bpd.

Production News

BP Plc obtained one of the required approvals to restart the 200,000 bpd of production at the eastern portion of the Prudhoe Bay oilfield. The Regulatory Commission of Alaska approved temporary connections from two flow stations in the East Operating Area to the Endicott pipeline. To connect to the Endicott pipeline, BP would also need permission from the Alaskan Oil and Gas Conservation Commission and from the US Department of Transportation. BP was also seeking to connect another section of the eastern operating area to the nearby Lisburne pipeline.

Royal Dutch Shell Plc shut in production its Mars drilling platform in the US Gulf of Mexico to remove part of the platform that was damaged during Hurricane Katrina. It shut in 190,000 bpd of oil equivalent early Monday and will remain closed until early Tuesday.

Nigeria's Minister of State for Petroleum, Edmund Daukoru, estimated the amount of oil shut in due to militant attacks and pipeline leaks at 872,000 bpd. He stated that production from Royal Dutch Shell's Forcados oil terminal and EA platform would restart within three to six months. About 477,000 barrels of oil equivalent/day production from those facilities have been shut in following militant attacks in February.

Saudi Arabia kept its crude supplies to world majors in Europe steady in October from September. Lifters in Asia reported that they had received full contracted volumes for October as they had the previous month. Saudi Arabia is expected to produce 9.2 million bpd through October.

Iraq has awarded 1 million barrels of Kirkuk crude to Turkey's Tupras in its latest oil sale from its northern fields. A further 600,000 bpd was awarded to Italy's ERG. The crude is due to be shipped in the period up to September 22. Sabotage to a northern pipeline in Iraq forced SOMO to cut sales of Kirkuk crude to 1.6 million barrels instead of the tendered amount of 6 million barrels. Separately, Iraq's SOMO set the price for its Basra Light crude bound to the US at second month WTI minus \$8.80/barrel, down \$1/barrel. It set the price of its crude bound for Europe at dated BFO minus \$7.25, unchanged on the month while it set the price of its crude bound for Asia at the Oman/Dubai average minus \$3.30/barrel, down 50 cents.

Iraq's Oil Minister Hussein al-Shahristani said Iraq plans to almost double its oil production to between 4 million bpd and 4.5 million bpd in five years at a cost of \$20 billion. Its current production totaled 2.3 million-2.4 million bpd.

The average daily loading rate of the nine main North Sea crude oil systems in October is expected to increase by about 8% to 2.611 million bpd. Meanwhile, the North Sea Troll crude system is expected to load 256,000 bpd in October, down from 271,000 bpd in September. The North Sea Forties crude system is scheduled to load 468,000 bpd in October, up from 443,000 bpd in September. The North Sea Flotta system is scheduled to load 1.95 million barrels in October.

An Iranian Oil Ministry official stated that the country earned about \$29 billion in revenue from crude exports in the first half of the fiscal year, which started on March 21. Iran's crude price ranged from \$60.40/barrel to \$66.10/barrel in the first half of the year.

The National Iranian Oil Co increased the price of Iran Light bound for Asia by 8 cents to a premium of 55 cents to the average of Oman/Dubai. Iran Heavy was cut by 38 cents to the Oman/Dubai average minus \$3.47 and its Forozan crude price was cut by 38 cents to the Oman/Dubai average minus \$3.42. Its Iran Light bound for Northwest Europe was increased by 10 cents to BWAVE minus \$5.05, its Iran Heavy was increased by 10 cents to BWAVE minus \$6.80 and its Forozan crude was increased by 10 cents to BWAVE minus \$6.70. Meanwhile, its Iran Light crude bound for the Mediterranean was priced at BWAVE minus \$7.70, down 30 cents. Its Iran Heavy crude was cut by 50 cents to BWAVE minus \$9.90 and its Forozan crude was cut by 50 cents to BWAVE minus \$9.80.

Azerbaijan produced 2.957 million tons or 699,000 bpd of crude in August, up 8.6% on the month. The Azerbaijan International Operating Co produced 2.176 million tons in August.

Angola's oil production is expected to increase by about 500,000 bpd to 2 million bpd by the end of 2007 or the beginning of 2008.

Market Commentary

The oil market gapped sharply lower from 66.00 to 65.25 following the reports over the weekend of Iran's readiness to compromise in talks with Europe. The market traded lower in follow through selling seen overnight amid the reports that Iran's chief nuclear negotiator, Ali Larijani, offered a two month uranium enrichment freeze during talks. As expected, OPEC also decided to maintain its current production level, which helped limit the market's gains. The market breached its support at 65.00 and posted a low of 64.85 in light of the news. The market however bounced off that level and backfilled its opening gap as it rallied to a high of 66.50 in afternoon trading. The market, which failed to sustain its gains, traded back towards the 65.50 level ahead of the close. It settled down 64 cents

NYMEX Petroleum Options Most Active Strikes for September 11, 2006										
Symbol	Month	Year	Call/Put	Strike	Exp Date	Settle	Prev Settle	Volume	IV	
GO	10	6	P	2	09/26/2006	0.4063	0.3929	100	58.14	
GO	12	6	C	1.75	11/27/2006	0.066		25	35.41	
GO	10	6	C	1.6	09/26/2006	0.051	0.063	21	41.68	
LO	12	6	C	75	11/14/2006	0.9	0.97	6,366	28.89	
LO	12	6	P	62	11/14/2006	1.02	0.85	6,113	27.99	
LO	12	6	P	65	11/14/2006	1.93	1.63	6,055	27.57	
LO	10	6	P	65	09/15/2006	0.6	0.5	5,338	31.97	
LO	6	7	P	60	05/17/2007	2.17	1.97	4,250	29.10	
LO	12	6	P	55	11/14/2006	0.21	0.17	3,600	31.67	
LO	12	6	C	70	11/14/2006	2.05	2.35	3,519	27.61	
LO	12	6	P	66	11/14/2006	2.34	2	3,503	27.54	
LO	11	6	P	63	10/17/2006	0.98	0.77	3,467	29.10	
LO	11	6	P	64.5	10/17/2006	1.41	1.15	3,375	28.24	
LO	10	6	P	63	09/15/2006	0.13	0.12	3,337	32.92	
LO	1	7	P	65	12/14/2006	2.27	1.99	2,506	27.73	
LO	1	7	P	60	12/14/2006	0.92	0.79	2,406	28.54	
LO	12	6	P	67.5	11/14/2006	3.06	2.66	2,170	27.58	
LO	11	6	C	70	10/17/2006	1.11	1.3	1,912	28.72	
LO	11	6	P	57	10/17/2006	0.18	0.11	1,875	32.79	
LO	11	6	C	83	10/17/2006	0.12	0.13	1,844	38.48	
LO	11	6	P	65	10/17/2006	1.61	1.31	1,707	28.30	
LO	11	6	P	60	10/17/2006	0.44	0.31	1,657	30.92	
LO	11	6	P	70	10/17/2006	4.51	3.91	1,464	28.95	
LO	12	6	P	75	11/14/2006	8.34	7.59	1,450	29.56	
LO	12	7	P	66	11/13/2007	4.86	4.59	1,400	26.31	
LO	3	7	P	60	02/14/2007	1.49	1.34	1,350	29.12	
LO	11	6	P	62	10/17/2006	0.75	0.58	1,326	29.56	
LO	12	6	P	64	11/14/2006	1.56	1.32	1,324	27.50	
OB	4	7	P	2.08	03/27/2007	0.2341	0.2166	150	268.09	
OH	12	6	C	2.15	11/27/2006	0.0432	0.0565	450	33.72	
OH	12	6	P	1.85	11/27/2006	0.07	0.0634	378	30.18	
OH	1	7	C	2	12/26/2006	0.1083	0.127	345	29.63	
OH	11	6	C	2.5	10/26/2006	0.0021	0.0052	125	39.84	

at 65.61. Volume in the crude market was good with over 221,000 lots booked on the day. Open interest in the crude market continued to build by a total of 17,161 contracts as of Friday as traders continued to short the market. Open interest in the October contract fell by 9,835 contracts while open interest in the November contract built by 12,145 contracts. The gasoline market also gapped lower from 163.25 to 159.20 and sold off to a low of 158.40. However the market bounced off its low and backfilled its gap as it rallied to a high of 166.70 in light of some refinery problems. The market once again erased its gains and traded back towards its low ahead of the close. It settled down 1.45 cents at 159.46. The heating oil market also settled down 3.78 cents at 180.54 after the market sold off to a low of 180.30 ahead of the close. The market gapped lower from 183.40 to 182.00 and found some support at 180.70. The market traded to a high of 183.70 in afternoon trading before a late bout

of selling pushed the market to its low. Volumes in the product markets were lighter with 21,000 lots booked in the gasoline market and 41,000 lots booked in the heating oil market.

The NYMEX options market saw strong option activity in the crude market for the fourth consecutive trading session with over 100,000 contracts booked on the day. But unlike the first two sessions in which calls accounted for the majority of total volume, today saw puts account for over 60% of the total volume, and nearly 70% of total volume on a delta weighted basis for the second session in a row. The last three times that puts have accounted for over 60% of the total daily volume were August 8th, July 21st and June 19th. But one would have to go back to December 14, 2005 when total put volume accounted for over 60% of total volume, at the same time finding that volume on a delta weighted basis, saw puts account for 70% of the total volume, (thus showing greatest interest in close to the money puts). Following that date in December, spot crude prices fell \$3.50 over the next several trading

sessions

before the market bottomed out.

The oil market will likely retrace some of its losses before it continues on its

Technical Analysis			
		Levels	Explanation
CL	65.61, down 64 cents	Resistance	67.40, 67.72
		Support	66.50
			64.85
			64.45, 63.45
			Monday's high
			Monday's high
			Monday's low
			Backfills gap (March 28 continuation chart), Previous low
HO	180.54, down 3.78 cents	Resistance	188.00
		Support	182.00, 183.70
			180.30
			180.25, 176.70
			Previous high
			Monday's high
			Monday's low
			Previous lows
HU	159.46, down 1.45 cents	Resistance	168.00
		Support	164.50, 166.70
			158.40
			157.55, 151.50
			Previous high
			Monday's high
			Monday's low
			Previous lows

downward trend. Even though the market technically looks oversold, the market is seen remaining under pressure following the news that Iran may be ready to compromise and halt its uranium enrichment for two months during talks. The market will remain pressured as long as Iran is willing to compromise. The market is seen finding support at its low of 64.85 followed by more distant support at 64.45 and 63.45. Meanwhile resistance is seen at 66.50 followed by 67.40 and 67.72.