



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR SEPTEMBER 23, 2005

President George W. Bush said that about 1.8 million bpd of refining capacity in Texas and Louisiana shut by recent hurricanes will resume soon. He also said he would continue to suspend antipollution laws for gasoline and the Jones Act shipping law to help oil shipments in the wake of the hurricane. He also reiterated that he was prepared to loan crude oil to refineries from the government's emergency stockpile.

On Sunday, the head of the IEA, Claude Mandil said the IEA remained ready to release additional fuel stocks if required. However he said it was too early to tell if additional stocks needed to be released. He said it would decide on whether a further release is warranted within a week or so. He said Hurricanes Katrina and Rita highlighted a shortage of world refining capacity. The head of the IEA added that oil companies needed to invest more to increase refining capacity and to improve their ability to handle heavier crudes.

Market Watch

The API's weekly oil stock data will be released as usual on Wednesday morning as data collection was not affected by Hurricane Rita's impact on Texas and Louisiana refineries.

White House economic adviser Ben Bernanke said high energy prices in the wake of Hurricane Katrina and Rita pose a risk to US economic growth. However he said inflation expectations remain well contained.

Some auto industry executives are calling for an increase in the federal gasoline tax. They say a tax increase closer to levels seen in Europe is needed to shift the US economy to more fuel efficient cars. The federal gasoline tax is 18.4 cents, unchanged for about 10 years. State taxes can add up to another 20-30 cents, a small fraction of the national average price for regular gasoline of \$2.80.

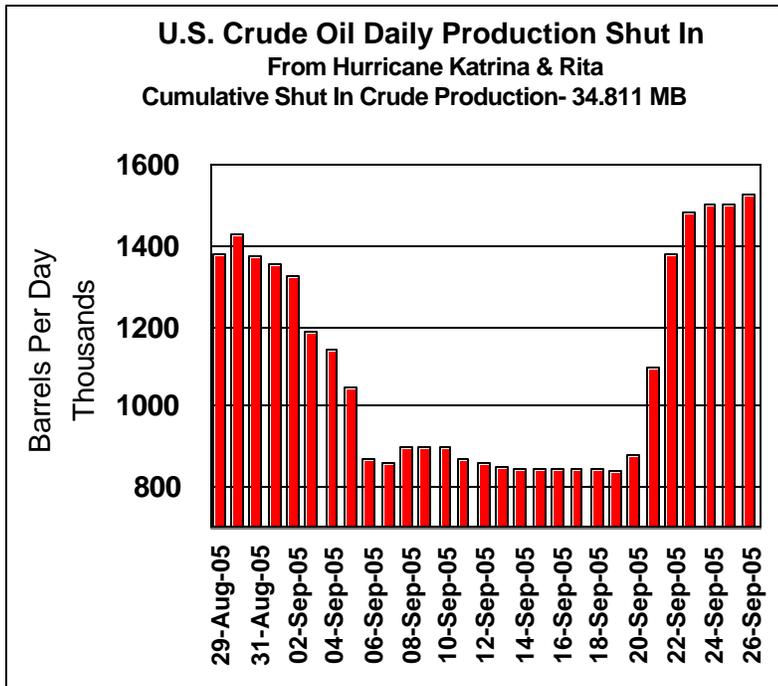
The UK's Finance Minister Gordon Brown reiterated his call for oil producers to increase production and increase transparency in order to bring oil prices down.

International ratings agency Fitch said world economic growth may slow by 1% in 2006 as oil prices remain at recent highs of \$70/barrel for a sustained period.

Venezuela's Energy Minister Rafael Ramirez said Venezuela could seize control of oil fields currently run by foreign companies with operating contracts if the companies do not shift to new transitory contracts by the end of the year. The transitory contracts are the first stage in migrating the deals to new joint ventures with PDVSA as part of a campaign by President Hugo Chavez to increase state control and revenues from natural resources.

The People's Bank of China expects the economy to grow 9.2% this year and by 8.7% in the first half of 2006. It forecast that consumer prices would increase 2% in 2005 and 2.1% in the first half of 2006.

The NYMEX hopes to pursue an initial public offering with private equity backer General Atlantic. The NYMEX's board has agreed to sell a 10% stake to General Atlantic for \$135 million.



The Energy Department said one of the storage sites for the US government's emergency stockpile suffered minor damage due to Hurricane Rita. It was unclear what if any impact this would have on making emergency oil available to refineries.

OPEC's Secretary General Adnan Shihab-Eldin said volatility is likely to remain a feature of the oil market for some time. He said that despite OPEC increasing its oil production, inadequate refining capacity in oil consuming countries would keep oil prices high. He said OPEC countries were also implementing costly investment plans expand crude oil production to at least 38 million bpd by 2010 from the current 32.5 million bpd. He urged oil consuming countries and oil companies to do their part to alleviate pressures on

the oil price.

The EIA stated that no rally in gasoline prices is expected if most refineries resume operations this week. The EIA reported that the US average retail price of gasoline increased by 1.7 cents/gallon to \$2.803/gallon in the week ending September 26th. It also reported that the US average retail price of diesel fuel increased by 6.6 cents/gallon to \$2.798/gallon on the week.

According to the Lundberg survey, the average retail price of gasoline in the US fell 20.41 cents to \$2.8076/gallon in the two weeks ending September 23.

The Texas Petroleum Marketers and Convenience Store Association said gasoline inventories in the Houston area could return to a reasonable level. Trucks of conventional gasoline, instead of RFG grade, were being delivered from the Dallas and San Antonio areas. The Houston area will be allowed to use conventional gasoline until September 30.

Insurgents bombed a junction on its crude pipeline to Turkey and briefly detained 9 employees at the complex. Iraqi oil exports to Turkey have been paralyzed by sabotage. Meanwhile a suicide bomber rammed a car into a bus carrying oil ministry employees and police to work in Baghdad on Monday, killing 10 and injuring 14.

Refinery News

The acting director of the Federal Emergency Management Agency said Hurricane Rita caused minimal damage to refineries in its path. Separately, Energy Secretary Samuel Bodman said refineries in the Houston area should be returning to operation by the middle or later part of the week. However there were at least three refineries in Port Arthur and Lake Charles impacted by the hurricane. Valero Energy's 255,000 bpd Port Arthur, Texas refinery suffered the most substantial damage. Company official on Sunday said low areas of the plants are flooded however the facility's operating units are dry. The heavy rains damaged motors at the facility's water treatment plant, two cooling towers and a

flare stack were also affected. It estimated that the refinery will be down two to four weeks. Meanwhile, Valero Energy Corp said it would restart its 243,000 bpd refinery in Texas City, Texas and its 135,000 bpd refinery in Houston by the end of the week. Separately, Total said it will take two weeks to a month to restart its 233,500 bpd refinery in Port Arthur, Texas. The refinery is without electrical power as transmission lines from Entergy were cut. It said a full assessment of the damage cannot be completed until power is restored. It however said it will use generators to resume the flow of gasoline to some lines at the refinery so the local area can be supplied with gasoline. Shell Oil's 285,000 bpd Motiva refinery at Port Arthur, Texas was also without power. Power lines were down and the facility appeared to be experiencing some flooding. Citgo's 324,000 bpd Lake Charles, Louisiana refinery suffered minor damage to some towers and piping circuits as well as some problems with cooling towers and electrical substations. However there is no estimate on when it will restart. Its Corpus Christi, Texas refinery was operating at near its normal average production of 157,000 bpd. Meanwhile, BP said it still has not set a restart schedule for its 437,000 bpd Texas City refinery. It said it found not major damage on its oil and gas production facilities in the Gulf of Mexico.

ConocoPhillips is restarting its 220,000 bpd Sweeny, Texas refinery following its brief shutdown ahead of Hurricane Rita. Its gasoline and diesel production was resuming. It however said its 255,000 bpd Lake Charles, Louisiana refinery remained shut. It is undergoing a complete damage assessment. The plant sustained wind damage and is without electrical power. ExxonMobil Corp is in the initial restarting process of its 557,000 bpd Baytown, Texas refinery. It said it has reopened its terminals and pipelines and is delivering fuel in the Houston area. It however said there was no estimate of the restart of its 350,000 bpd refinery in Beaumont, Texas. Lyondell-Citgo's 270,000 bpd refinery in Houston is on track to restart in the next few days. Pasadena Refining said it planned to restart its 100,000 bpd refinery in Texas on Monday after suffering some minor problems. Marathon Oil Corp is restarting its 72,000 bpd refinery in Texas City, Texas.

Deer Park Refining, a joint venture of Shell Oil and Saudi Arabia, is expected to restart its 340,000 bpd oil refinery in Deer Park, Texas in a few days after shutting ahead of Hurricane Rita.

Chevron Corp started transporting refined products to Texas and Louisiana retailers as it continues to assess Hurricane Rita's effect on operations in the Gulf of Mexico region.

Colonial Pipeline resumed operations and was operating at 55% of capacity. Efforts were continuing to return the pipeline to full capacity as electricity became available. It said it hopes to reach 72% by Tuesday. The Explorer Pipeline reopened at 50% of capacity and is expected to resume full capacity later on Monday. Meanwhile, officials stated that the LOOP is expected to begin offloading tankers on Monday.

The Houston Ship Channel and the Sabine Ship Channel remained shut on Sunday night following Hurricane Rita. The Coast Guard gave no estimate when the channels would reopen.

Shell officials flew over their Gulf production platforms but did not see any major topside damage.

The US Coast Guard said eight of 38 mobile offshore drilling units were adrift on Sunday. It added that of the 819 manned oil and natural gas facilities in the Gulf of Mexico, 745 remained evacuated on Sunday. It said two oil drilling platforms in the Gulf of Mexico sustained damage from Hurricane Rita. Diamond Offshore Drilling Inc said two company rigs broke free from their moorings during Hurricane Rita and have run aground about 100 miles north of their original location.

Chevron Corp said its Typhoon tension leg platform in the waters off New Orleans was severed from its mooring and suffered severe damage during Hurricane Rita.

Total's 328,000 bpd Normandy refinery will completely shutdown later on Monday as a strike over pay continues.

Production News

The MMS reported that offshore US oil production in the Gulf of Mexico was completely shut for a third consecutive day on Monday. It reported that 1.528 million bpd of crude production was shut in. The cumulative shut in oil production for the period is 34.811 million bpd.

Pemex has resumed work at two Gulf of Mexico exploration platforms that were closed by Hurricane Rita. It said oil production was not affected by the storm.

Colonial Pipeline lifted the allocation of its 27th cycle nominations on its main lines, lines 1 and 2 between Houston and Greensboro, North Carolina. The 27th cycle was put on allocation on September 13 due to disruptions caused by Hurricane Katrina.

Nigeria's Junior Oil Minister Edmund Daukoru said the country's crude oil nominations for its customers are unchanged despite a pledge by OPEC to offer 2 million bpd of spare capacity. Separately, he stated that oil facilities in Nigeria's Niger Delta have reopened with production full restored after a local militia suspended its threats over the weekend. Chevron restarted its 19,000 bpd Robertkirioil platform on Monday after it was shut by militant unrest in Nigeria. However a second facility at Idama with a capacity of 8,400 bpd was still shut.

US and Iraqi oil experts said the failure to rebuild components of Iraq's petroleum industry has impeded oil production and may have damaged the largest of the country's vast oil fields. Engineering mistakes, poor leadership and shifting priorities have delayed or led to the cancellation of several projects critical to restoring Iraq's oil industry. The problems have been compounded in some cases by security issues, poor maintenance and disputes between the US and its main contractor KBR, a subsidiary of Halliburton Corp. There are problems with at least three projects deemed crucial for Iraq's oil production. The Qarmat Ali water treatment plant is needed to inject water into Iraq's southern oil fields to aid in oil extraction. Under a contract, KBR was instructed to repair the complex but not the leaky pipelines carrying water to the fields. As a result, the water cannot be delivered reliably, raising concerns that some of Iraq's oil may not be recoverable. KBR has also built fewer than half the Al Fathah pipelines, aggravating the oil transport problems. Also the southern oil well repairs were suspended by KBR after the US refused to guarantee to protect it from possible lawsuits.

The UAE's Energy Minister Mohammed bin Dhaen al-Hamli said its crude oil production capacity will increase by 8% to 2.7 million bpd by the first quarter of 2006.

China's official customs figures showed that China imported 8.76 million tons of crude oil in August, down 6% on the year. Its gasoline exports in August increased by 31.3% on the year to 856,223 tons. It showed that naphtha exports fell by 16.1% on the year to 165,450 tons while kerosene exports fell by 13.2% to 142,581 tons. Meanwhile light diesel fuel exports fell by 159.2% to 318,164 tons while imports fell by 82.1% to 23,519 tons. Its fuel oil imports fell by 10.3% to 1.96 million tons. China's apparent oil demand increased by 3.7% in August.

The long delayed Bonga oilfield in Nigeria is now expected to start production in late October and quickly reach 100,000 bpd.

Algeria's Sonatrach plans to lift its oil production to 2 million bpd by 2010 from the current level of 1.35 million bpd.

OPEC's news agency reported that OPEC's basket of crudes fell to \$57.71/barrel on Friday, down from \$59.28/barrel on Thursday. It reported that OPEC's basket of crudes increased by \$1.34/barrel to \$58.13/barrel in the week ending September 22.

Market Commentary

The oil market reversed its early sell off and settled above the 65.00 level as the MMS report once again stated that oil production in the Gulf of Mexico was completely shut for the third consecutive day. The market gapped lower this morning from 63.85 to 63.41 in follow through selling seen on Access trading as Hurricane Rita spared refineries in the Houston area, even though some refineries in the Port Arthur and Lake Charles areas are seen down for weeks to a month. The market posted a low of 62.93 early in the session before it backfilled its gap as it traded back towards the 64.00 level. The oil market however breached that level and retraced more than 50% of its move from a high of 68.10 to its low of 62.93 as it rallied to a high of 65.90 ahead of the close. It settled up \$1.63 at 65.82. Volume in the crude was good with over 219,000 lots booked on the day. Meanwhile, the heating oil market, which led the complex higher, settled up 10.96 cents at 205.86. The market posted a low of 191.50 early in the session before it retraced all of its recent losses. The heating oil market bounced off its low and extended its gains to 11.6 cents as it posted a high of 206.50 ahead of the close. The market was supported amid concerns over heating inventories ahead this winter. The gasoline market also settled up 4.36 cents at 212.92 after it traded to a high of 213.50 on the close. The market rallied to its high after it gapped lower on the opening from 200.40 to 197.00, its intraday low. Volume in the product markets were moderate with 45,000 lots booked in the heating oil and 50,000 lots booked in the gasoline market.

The crude market on Tuesday is seen remaining supported following today's strong close. Even though the market traded lower earlier in the session, the market may be supported by the reports that some refineries are expected to have difficulty resuming operations following the power loss and flooding in the Port Arthur and Lake Charles areas. The oil production in the Gulf of Mexico also remains shut in. Technically, the market is seen finding support at 65.00, 64.00 followed by 62.93.

Meanwhile resistance is seen at 65.90 followed by 66.20, 67.90 and 68.10.

Technical Analysis		
	Levels	Explanation
CL Resistance 65.82, up \$1.63 Support	66.20, 67.90, 68.10	Previous highs
	65.90	Monday's high
HO Resistance 205.86, up 10.96 cents Support	65.00, 64.00	
	62.93	Monday's low
HO Resistance 205.86, up 10.96 cents Support	208.80, 209.50, 214.50	Previous highs
	206.50	Monday's high
HU Resistance 212.92, up 4.36 cents Support	200.00, 195.00	
	191.50	Monday's low
HU Resistance 212.92, up 4.36 cents Support	220.25, 227.00	Previous highs
	213.50	Monday's high
HU Resistance 212.92, up 4.36 cents Support	210.00, 205.00	
	197.00	Monday's low