



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR OCTOBER 16, 2006

In its monthly report, OPEC cut its forecast for demand for its oil in the fourth quarter of 2006 and said oil price weakness may persist. Demand for OPEC crude in the fourth quarter is expected to average 28.69 million bpd. OPEC left its forecast for growth in world oil demand next year unchanged at 1.3 million bpd. It cut the 2006 forecast by 100,000 bpd to 1 million bpd due to a slowing world economy. It estimated non-OPEC supply to increase by 1.8 million bpd to an average of 53 million bpd. As a result, OPEC estimates demand for its crude next year to fall to 28.08 million bpd from 28.72 million bpd this year.

Market Watch

Shell Oil Co said it had no plans to cut back on its investments in energy exploration projects because of a steep fall in oil prices. The President of Shell, John Hofmeister said Shell would continue with its planned energy projects, including expensive drilling in the deep waters of the Gulf of Mexico, even if the oil price fell to half the current level. In regards to Saudi Arabia's production, he stated that he has not seen a change in crude supplies to the US from Saudi Arabia. He said he did not expect changed to Saudi shipments to the US in the month ahead.

The head of BP Plc's US operations said BP was preparing more documents from its Alaska operations for a Congressional committee investigating a pipeline failure and subsequent partial shutdown of its Prudhoe Bay oilfield. The US House Energy and Commerce subcommittee asked BP last week why the company failed to disclose a four year old order to inspect and clean pipelines which last March leaked more than 200,000 gallons of crude oil.

Militias allied with Iraq's Shi'ite led government were seeking and attacking Sunni Arab targets on Sunday. The wave of killings around the Shiite city of Balad was the deadliest in a surge of violence that has claimed at least 110 lives in Iraq since Saturday. The violence came as Iraq's Prime Minister Nouri al-Maliki on Sunday renewed pledges by the Iraqi government to break up the militias and as al-Qaeda in Iraq and other Sunni Arab insurgent groups declared a new Islamic republic in the western and central parts of the country. Sunni insurgent groups declared separate Islamic republic in Iraq, from the western province of Anbar to Baghdad, Kirkuk and other parts of the north. Meanwhile, The Los Angeles Times reported that relations between the main Sunni and Shi'ite political blocs worsen as Iraq takes a step toward federalism and sectarian violence persists. Sunni Arabs suspect that Shi'ites have agreed to cede the northern oil hub of Kirkuk to Kurds in exchange for support of an oil rich Shi'ite southern region.

The head of the Nebraska Corn Board said increasing ethanol production appeared to be impacting the USDA's corn carryover estimate for the 2006-2007 marketing year. The US Agriculture Department said corn production was forecast at 10.9 billion bushels. He believes the rise of the ethanol industry led the USDA to drop its corn carryover estimate to 996 million barrels. Carryover stocks were about 2 billion bushels last year. Ethanol production has consumed an additional 550 million bushels in the last year, accounting for about half of the decrease in carryover.

California Governor Arnold Schwarzenegger's office said the state would soon work to create a market based program with the European Union and seven states in the US Northeast to reduce emissions linked to global warming.

Indonesia's Oil Minister Purnomo Yusgiantoro said Indonesia wanted OPEC to cut production from its formal output limits, not from actual output levels as most members seem to prefer. OPEC is scheduled to meet on Thursday in Qatar to attempt to agree on how to divide a 1 million bpd cut. Meanwhile, a senior Iraqi oil official said Iraq would not attend OPEC's meeting.

Iran's governor to OPEC, Hussein Kazempour Ardebili said world crude oil prices would soon get an upward push from falling temperatures and the change of season in the northern hemisphere. He said OPEC was seeking a balance of supply and demand in the oil market with its plan to cut production.

US Secretary of State Condoleeza Rice warned that UN sanctions on North Korea should be seen by Iran as a strong signal to abandon its nuclear ambitions. She said the UN Security Council measure adopted on Saturday was a strong resolution that would punish and further isolate the North Korean regime.

The EIA reported that the US average retail price of diesel fell 0.3 cents/gallon to \$2.503/gallon in the week ending October 16th. It also reported that the US average retail price of gasoline fell by 3.5 cents/gallon to \$2.226/gallon on the week.

Refinery News

ConocoPhillips performed unscheduled maintenance on one unit at its 229,000 bpd Sweeny refinery in Texas over the weekend as it took advantage of reduced operations of its aromatics units.

Alon USA said it planned to shut an alkylation unit and associated equipment at its 70,000 bpd Big Spring, Texas refinery Monday afternoon in order to perform about four days of maintenance. The unit is expected to begin restarting late Thursday or early Friday. On Saturday, Alon USA interrupted operations of several oil processing units at its Big Spring refinery on Saturday after workers suspected a crude oil charge line may be leaking.

Valero started performing maintenance on complex 2 at its 210,000 bpd refinery in Texas City, Texas. Work on the complex started on Sunday.

Tesoro Corp said it was restarting its 94,000 bpd Kapolei refinery in Oahu, Hawaii after it was shutdown on Sunday following an earthquake, which caused power outages.

Meanwhile, Chevron Corp's 54,000 bpd refinery in Hawaii was also shut as a result of power outages following a strong earthquake and aftershocks.

Reuters reported that refinery margins for US refineries cracking Brent crude plunged. Complex Gulf refineries running Brent saw margins fall by \$2.20 to \$4.57/barrel while margins at Gulf refineries cracking light Texas crude fell by 7 cents to \$4.59/barrel. Rotterdam refineries cracking Brent crude saw profits fall by 50 cents/barrel to \$4.98/barrel while simple Rotterdam refineries saw margins fall by 31 cents to \$2.04/barrel.

Nippon Oil Corp is expected to refine a similar volume of crude in November. However refining volumes would increase from October as some refineries return to operation after planned maintenance. It is expected to operate its refineries at 85% of capacity in November.

The Rainbow oil pipeline in Alberta is expected to resume operations later on Monday but at less than its full capacity of 200,000 bpd. Imperial was forced to shut the system down on Tuesday after 1,260

barrels of crude oil spilled that day from a section of pipeline. Imperial said it would ask shippers on the line to voluntarily reduce the amount of oil shipped after the pipeline is restarted.

Production News

BP Plc said the Prudhoe Bay oilfield has fully recovered from Tuesday's power outage and is expected to reach 400,000 bpd of crude production within a few days. Production reached 350,000 bpd at the start of the month before it fell to 20,000 bpd on October 11 when strong winds caused a power outage.

Venezuela has started to implement a 50,000 bpd production cut. The four partnerships in the Orinoco river basin received instructions at the start of the month from the Oil Ministry to cut production. An analyst said Venezuela could be scaling back real output in the hopes that it would get its Orinoco partners to follow suit. He said Saudi Arabia would want all members to cut real production, even if they were producing below their quota.

A shipping agent at Turkey's Ceyhan terminal said Iraq's crude oil exports from its northern oil fields were still suspended Monday. He said the flow was suspended Thursday evening and added that there were currently about 1.5 million barrels of Iraqi oil in storage in Ceyhan. Iraq needs to fill at least half the storage available at the Ceyhan terminal before it could announce a new tender to sell Kirkuk crude. The total capacity of the tanks is 7.5 million barrels. Meanwhile, Iraq's State Oil Marketing Organization issued a tender to sell 9,000 metric tons/day of fuel oil for November and December.

The Norwegian Petroleum Safety Authority allowed Norske Shell ASA to restart its 80,000 bpd Draugen offshore oil platforms after a new review of lifeboat problems. Shell was forced to shut the platform Friday after the safety authority rejected its application for a dispensation from lifeboat rules. However, the Norwegian Petroleum Safety Authority has not allowed Statoil to resume output at the Snorre field. The PSA said it had not found grounds to give Statoil a similar dispensation for its Snorre A field.

Russia's Natural Resources Minister Yuri Trutnev said Russian regulators would not halt the development of a massive oil and gas project led by Royal Dutch Shell if the operating consortium presents a workable plan to address environmental violations. He said that Shell has already started work towards addressing the problems. Meanwhile Shell said it fully addressed all ecological issues at its Sakhalin-2 oil and gas projects and was seeking dialogue with the Russian authorities.

Azerbaijan's State Statistics Committee said oil product output in Azerbaijan increased by 6.9% on the year to 5.535 million tons in January-September. It said Azerbaijan's oil product exports increased by 45.7% on the year to 2.34 million tons in January-September.

The first batch of tanks at China's second strategic oil reserve base would be ready for filling by the end of the year, just months after oil started flowing into its first facility. Construction work on tanks with 1.2 million cubic meters of storage capacity would be finished by the end of the year. Planned total capacity at the base, due for final completion at the end of 2008, is 5 million cubic meters. China's four bases would have total capacity of 16.2 million cubic meters.

Petrobras said its oil production in Brazil increased by 1.4% on the month to 1.788 million bpd in September. Petrobras' international oil output fell to 139,568 bpd in September from 140,565 bpd in August. Its overall production increased to 1.928 million bpd in September from 1.904 million bpd in August.

OPEC's news agency reported that OPEC's basket of crudes increased to \$54.90/barrel on Friday from \$54.19/barrel on Thursday. It also reported that OPEC's basket of crudes fell by 47 cents/gallon to \$54.85/barrel in the week ending October 13.

Nigeria's Bureau for Public Enterprises said Nigeria has invited prospective investors to express interest to acquire nine of its Liquefied Petroleum Gas depots. The largest of the depots with a 4,000 ton capacity, is located in the commercial city of Lagos, while the others of 1,000 tons each are spread across Nigeria.

Market Commentary

The oil market gapped lower from 58.50 to 58.30 and quickly sold off to a low of 58.10 as the market remained cautious ahead of OPEC's decision on how to divide its planned output cut. The market bounced off its low and quickly backfilled its gap as it traded towards the 60.00 level. The oil market, which was holding some resistance at its high, settled in a sideways trading pattern before it rallied to a high of 60.00. The market was well supported amid the news that OPEC would meet on Thursday to discuss a 1 million bpd cut. The crude market was also supported by the strength in the heating oil market amid the cold weather forecasts. The oil market settled down \$1.37 at 59.94 after it posted an outside trading day. Meanwhile, the heating oil market settled up 3.87 cents at 175.65 after it posted an outside trading day. The market gapped lower from 171.30 to 171.10 and posted a low of 170.90. The market however bounced off that level and settled in a sideways trading range before further buying, pushed the market to its high of 175.80 ahead of the close. The forecasts calling for below normal temperatures in much of the eastern two thirds of the country lent support to the market. The gasoline market posted a low of 144.50 early in the session. It quickly bounced off its low and rallied to high of 150.25 before it retraced some of its gains ahead of the close. It settled up 2.33 cents at 149.17. The RBOB contract settled up 1.41 cents at 153.22 after it posted a high of 154.75. Volumes in the product markets were light with 25,500 lots booked in the heating oil market, 7,000 lots booked in the gasoline market and over 14,000 lots booked in the RBOB contracts.

The crude market will likely retrace some of its gains and trade mostly sideways as the market awaits for OPEC's decision on how it would divide its 1 million bpd output cut during its meeting on Thursday. The market's gains are seen limited amid the lack of comments from Saudi Arabia on the output cuts. The market is seen finding resistance at its high of 60.00 followed by its previous highs of 61.30, 62.70 and 63.10.

Meanwhile support is seen at 59.50, 58.10 followed by 57.50 and 57.30.

		Levels	Explanation
CL	Resistance	61.30, 62.70, 63.10	Previous highs
	59.94, up \$1.37	60.00	Monday's high
	Support	59.50, 58.10	Monday's low
		57.50 & 57.30	Previous lows
HO	Resistance	176.50, 179.10, 181.80	Previous high, Remaining gap (October 10th)
	175.65, up 3.87 cents	175.80	Monday's high
	Support	175.00, 173.00, 172.00	
		170.90 to 170.20	Remaining gap (October 13)
RB	Resistance	155.20, 156.50, 157.00 & 160.70	Previous highs
	153.22, up 1.41 cents	154.75	Monday's high
	Support	152.00, 150.20, 149.50	Monday's low
		147.50, 147.00	Previous lows