



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR DECEMBER 6, 2006

French Foreign Minister Philippe Douste-Blazy said the world powers had to quickly agree on a resolution imposing sanctions against Iran. He said the UN's credibility was at stake. Senior officials from the permanent members of the UN Security Council and Germany failed to agree on a draft resolution during a meeting on Tuesday. He said several key differences remained between the West and Russia. A European diplomat said that France, Britain and Germany, who drafted the original sanctions proposal, told Russia they wanted a resolution to be passed by the end of the year to preserve the UN's credibility.

Market Watch

The EIA stated that a prolonged period of colder than normal temperatures may cause a decline in heating oil supplies and drive US oil prices higher. However it stated that crude costs are not expected to reach \$70/barrel in the near future.

The incoming chairman of the House Agriculture Committee, Collin Peterson said the government should pay farmers to grow 5 million acres of switchgrass, a possible new feedstock for the ethanol industry. He suggested a five year pilot program to encourage farmers to grow 5 million acres a year of switchgrass and other crops for making cellulosic ethanol. He said the government should also underwrite cellulosic plants, as it did for corn ethanol.

A report by the Iraq Study Group, led by former Secretary of State James Baker and former Rep. Lee Hamilton, called the situation in Iraq grave and deteriorating and urged the US to begin moving combat forces out of the country. The report presented to President George W. Bush warned that Iraq could slide into chaos if the situation there continued to worsen. It said a slide into chaos could trigger the collapse of Iraq's government and a humanitarian catastrophe. The panel recommended that the US military launch a rapid effort to train Iraqi forces to defend their country and talk with Syria and Iran to help resolve the conflict in Iraq. It also recommended that the Bush administration restate that it did not seek to control Iraq's oil sector. It said the US government should help Iraq set rules for foreign investment, fight corruptions in the country's oil sector and distribute oil wealth to Iraqis. President George W. Bush said he would take the recommendations very seriously. He however has not stated if he would heed the advice of the panel. Separately, the White House later stated that it has ruled out direct talks with Iran over Iraq unless Iran suspends its nuclear activities.

DOE Stocks

Crude – down 1.1 million barrels
Distillate – down 400,000 barrels
Gasoline – down 1.1 million barrels
Refinery runs – up 2.72%, at 90.5%

Saudi Arabia's ambassador to the US, Prince Turki al-Faisal, urged the US not to suddenly withdraw troops from

Iraq and to support the government of Prime Minister Nuri al-Maliki. He said Saudi Arabia did not want Iraq to fracture along ethnic or religious lines and added that Saudi Arabia was not seeking to support the minority Iraqi Sunnis against other religious groupings in Iraq.

PIRA Energy said OPEC's oil exports in November fell by 1.5 million bpd to 22.98 million bpd. The November decline followed an increase in October of 700,000 bpd.

According to a Reuters survey, the ten OPEC members bound by production quotas produced 26.91 million bpd in November, down 730,000 bpd from October. Total OPEC output fell to 28.87 million bpd from 29.54 million bpd in October. It reported that Saudi Arabia cut its production by 300,000 bpd to 8.75 million bpd.

Refinery News

Colonial Pipeline notified its shippers that it was allocating the 70th cycle on the main line carrying diesel, jet fuel and heating oil north of Mississippi. It was the eighth consecutive cycle that was allocated.

Trade sources stated that a hydrotreater and reformer unit at Sunoco Inc's 145,000 bpd Eagle Point refinery in Westville, NJ were undergoing planned maintenance.

Venezuela's PDVSA is expected to restart a fluid catalytic cracking unit at its 640,000 bpd Amuay refinery in early December. The refinery was hit by a series of operational problems during the past several months.

Trinidad's 160,000 bpd Pointe-a-Pierre refinery is expected to carry out maintenance on its catalytic cracking unit for about 42 days starting in mid-January.

Oman Refinery Co is expected to shut its 85,000 bpd refinery in Muscat from mid-January until April as it works to expand its capacity by 25% to 106,000 bpd.

Cosmo Oil Co said it shut its 110,000 bpd No. 1 crude distillation unit at its Chiba plant for unplanned maintenance work. The unit was shut on November 30 and is expected to remain shut until the end of January. Cosmo Oil increased the capacity of its refiners to make up for the lost output at the Chiba refinery. It raised output of its No. 5 crude distillation unit at its Yokkaichi plant to 90,000 bpd from 80,000 bpd and output of its No. 6 CDU was lifted to 85,000 bpd from 75,000 bpd. It also increased output of its crude distillation unit at its Sakaide plant was increased to 140,000 bpd from 120,000 bpd.

The Shetland Island Council said Brent crude oil liftings from Sullom Voe increased to 304,521 tons in the week ending December 5, up from 263,467 tons in the previous week.

The Petroleum Association of Japan reported that kerosene stocks fell by 2.1% on the week to 4.98 million kiloliters or 31.34 million barrels in the week ending December 2. It reported that crude stocks totaled 18.32 million kl or 115.22 million barrels, up 4.81 million barrels on the week. Gasoline stocks fell by 200,000 barrels to 13.22 million barrels. Japanese refiners operated their facilities at an average 84.2% of total capacity of 4.8 million bpd, down from 86% the previous week.

Indian Oil Corp is expected to import 40 million tons of crude oil in the year ending March 2008, up from 37.5 million tons in the current fiscal year. It said it imported 24.7 million tons of crude between April-October. The company's chairman, Sarthak Behuria stated that a recent government decision to cut retail fuel prices was costing the company an additional 80 million rupees or \$1.8 million a day.

Low water cargo surcharges were still being imposed for cargo shipping on parts of the Rhine River, as water levels remain low. Water levels at the point of Kaub remained below the minimum that vessels needed to sail fully loaded.

NYMEX Petroleum Options Most Active Strikes for December 6, 2006

Symbol	Month	Year	Call/Put	Strike	Exp Date	Settle	Volume	IV
LO	5	7	P	50	04/17/2007	0.35	4,000	31.77
LO	3	7	P	60	02/14/2007	1.29	3,925	28.09
LO	1	7	C	65	12/14/2006	0.2	3,076	28.33
LO	2	7	C	85	01/17/2007	0.01	2,054	32.42
LO	2	7	C	80	01/17/2007	0.02	2,050	28.61
LO	1	7	P	62	12/14/2006	0.95	1,703	28.47
LO	4	7	P	45	03/15/2007	0.05	1,550	33.11
LO	5	7	P	66	04/17/2007	4.16	1,500	26.89
LO	6	7	P	65	05/17/2007	3.88	1,500	27.09
LO	12	10	P	50	11/16/2010	3.73	1,500	26.14
LO	1	7	P	61	12/14/2006	0.55	1,460	28.57
LO	3	7	P	55	02/14/2007	0.4	1,326	29.62
LO	1	7	C	64	12/14/2006	0.39	1,267	28.41
LO	3	7	C	65	02/14/2007	2.79	1,175	27.13
LO	1	7	C	62	12/14/2006	1.13	1,171	28.20
LO	4	7	P	50	03/15/2007	0.2	1,162	31.52
LO	4	7	P	57	03/15/2007	0.91	1,150	29.07
LO	6	7	P	60	05/17/2007	2.17	1,150	28.70
LO	1	7	P	66	12/14/2006	3.9	1,010	28.48
LO	1	7	P	61.5	12/14/2006	0.73	980	28.48
LO	1	7	P	60	12/14/2006	0.28	971	28.38
LO	5	7	P	55	04/17/2007	0.86	880	29.91
LO	2	7	P	63	01/17/2007	2.04	850	26.99
LO	1	7	P	56	12/14/2006	0.01	731	30.88
LO	1	7	C	66	12/14/2006	0.09	678	27.99
LO	2	7	P	60	01/17/2007	0.97	672	27.87
LO	4	7	P	62	03/15/2007	2.18	600	27.57
LO	4	7	P	65	03/15/2007	3.43	600	27.01
LO	6	7	P	62	05/17/2007	2.76	600	28.00
LO	12	7	P	69	11/13/2007	6.64	600	26.23
LO	12	7	C	69	11/13/2007	6.24	600	26.15
OB	1	7	C	1.7	12/26/2006	0.0232	110	34.68
OB	6	7	C	2.03	05/25/2007	0.1124	33	33.07
OB	6	7	C	2.09	05/25/2007	0.0974	33	33.74
OB	1	7	C	1.6	12/26/2006	0.0622	20	33.99
OB	3	7	C	2.05	02/23/2007	0.02	20	36.34
OH	1	7	P	1.9	12/26/2006	0.1206	126	30.07
OH	3	7	C	1.86	02/23/2007	0.0988	125	30.53
OH	2	7	P	1.75	01/26/2007	0.044	79	29.57
OH	3	7	P	1.75	02/23/2007	0.0592	78	30.84
OH	3	7	C	1.95	02/23/2007	0.0668	76	31.38
OH	1	7	C	1.87	12/26/2006	0.02	50	28.65

Norway's Norsk Hydro said its oil and gas production through 2010 would be lower than earlier forecast due to production constraints. It set a new oil and gas production target for 2007 of 605,000 bpd of oil equivalent and stuck to its 2006 target of 570,000 boed. However it lowered its 2010 production target to 700,000 boed from its previous target of 750,000 boed. Separately, Norway's

Production News

Iraq's North Oil Co said it was unaware of any damage to its infrastructure following reports that rebels blew up a pipeline transporting crude from Kirkuk's oilfields to the Baiji refinery. Iraqi police said insurgents planted a bomb on Wednesday that started a fire in the pipeline. A company spokesman however stated that no sabotage attacks had been reported.

According to ODS-Petrodata Group's survey, worldwide offshore rig demand fell slightly last week. It said worldwide rig utilization was 91.6%, with 598 rigs under contract out of a fleet of 653. In the US Gulf, utilization increased by 1.4% to 81.4%, with 114 rigs under contract out of 140.

Baker Hughes reported that the number of rigs searching for oil and natural gas in the US increased by 20 to 1,717 in the week ending December 1. The number of rigs searching for oil fell by 8 to 289 while the number of rigs searching for natural gas increased by 28 to 1,423.

Statoil said it expected its oil and gas production in 2006 to total 1.14 million boed and increase to 1.13 million boed in 2007, unchanged from its previous estimate.

Ecopetrol said Colombia's oil production in October fell to 526,392 bpd from 527,299 bpd reported last year. Private companies produced 317,079 bpd in October compared with 331,549 bpd in October 2005.

Saudi Aramco increased its official selling price of all its crude oil grades bound to the US. Its Arab Light crude was priced at WTI minus \$5.80, up \$1.05 on the month while its Arab Medium was priced at WTI minus \$7.80, up 80 cents. Its Arab Heavy grade was priced at WTI minus \$10.30, up 50 cents.

Qatar Petroleum said it raised its November retroactive official selling price for Qatar Land crude to \$58.86/barrel, up 29 cents on the month. Its official selling price for Qatar Marine crude was set at \$55.99/barrel, up from \$55.87/barrel in October.

Abu Dhabi National Oil Co raised the November retroactive selling price for its Murban crude by \$.35/barrel to \$59.70/barrel. It also raised the official selling prices for Lower Zakum and Umm Shaif both by \$.35 to \$59.75/barrel and \$59.10/barrel, respectively. It set the price of its Upper Zakum crude at \$55.95/barrel, up from \$55.75/barrel.

OPEC's news agency reported that OPEC's basket of crudes fell to \$59.19/barrel on Tuesday, down from Monday's \$59.70/barrel level.

Market Commentary

The oil market, posted an inside trading day as it failed to breach its previous trading range. It opened relatively unchanged and quickly traded to 62.85 in light of the DOE report, which showed draws across the board. The crude market was initially supported by the unexpected draw in crude stocks of 1.1 million barrels on the week. However the market erased its gains and posted a low of 61.85, as a closer look at the report revealed that Padd 5 had a draw of over 4 million barrels while stocks in Padds 2 and 3 built by 1.7 million barrels and 1.2 million barrels, respectively. The market later retraced its gains and rallied to a high of 63.00. However the market once again traded lower on a late bout of selling, which pushed it back towards the 62.00 level on the close. It settled down 24 cents at 62.19. Volume in the crude market was light with 115,000 lots booked on day. Crude volume on Globex was much better with over 230,000 lots booked during the open outcry session. The heating oil market also rallied to 180.80 in light of the draw reported in distillate stocks. The market however gave up its gains and sold off to low of 177.50. The heating oil market later retraced its losses and rallied to a

high of

181.80. In

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Levels			Explanation
CL 62.43, down 1 cent	Resistance 63.20, 63.50, 63.75, 64.70 63.00		Previous highs Wednesday's high
	Support 62.00, 61.85 61.55, 61.20, 60.88, 60.35		Wednesday's low Previous lows, 50%, Previous low
HO 179.83, down 1.06 cents	Resistance 182.50, 182.80, 185.10, 187.25 181.80		Previous highs Wednesday's high
	Support 179.00, 177.50 176.20, 176.06, 173.50		Wednesday's low Previous low, 62%(169.15 abd 187.25), Previous low
RB 164.39, down 1.92 cents	Resistance 168.00, 168.50, 171.00 164.25		Previous highs, Double top Wednesday's high
	Support 161.50 160.75, 160.25, 158.70, 157.71		Wednesday's low Previous low, 50% retraction (149.50 and 171.00), Previous low, 62%

points at 179.40. The RBOB market, which remained in negative territory throughout the session, quickly traded to 164.10 in light of the unexpected draw reported in gasoline stocks. However the market gave up its gains and traded to 161.75. The market later posted a high of 164.25 only to see it fall to a low of 161.50 ahead of the close. It settled down 2.26 cents at 162.13. Volume in the product markets remained light with 21,600 lots booked in the heating oil market and 16,600 lots booked in the RBOB market.

The oil market will continue to trade sideways after it failed to breach its previous range in light of the weekly petroleum stock reports. The market is seen holding its support ahead of OPEC's meeting next week amid talks of further output cuts. The market's losses are also seen limited by the ongoing talks over Iran's nuclear program and the situation in Iraq. The market is seen finding support at 62.00 followed by its lows of 61.85, 61.55 and 61.20. More distant support is seen at 60.88 and 60.35. Meanwhile resistance is seen at 63.00 followed by 63.20, 63.50 and 63.75. More distant resistance is seen at 64.70.