ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR JANUARY 4, 2007

Market Watch

Analysts reported that Iran could lose up to 250,000 bpd of exports per year as it fails to invest enough to compensate for declining production from oilfields and meet rising domestic demand. A report by academic Roger Stern at John Hopkins University predicted that Iran's exports could fall to almost nothing by 2015 if it did not change its energy policies. US sanctions have limited the technology available to maintain output from oilfields. Iran has also been struggling to produce the gas it needs for reinjection into oilfields to maintain well pressure. UN sanctions against Iran over its nuclear program would further curtail already limited foreign investment, even though the sanctions are not related to the oil industry. In addition to sanctions and politics, deal terms have frustrated foreign investors.

The UK government's weather forecasting division said the world was likely to experience its warmest recorded year in 2007 due to the effects of El Nino and global warming. An official at the climate change program at WWF UK said the forecast reinforces the need for world leaders to act to stem emissions of gases such as carbon dioxide that many scientists say cause global warming.

DOE Stocks

Crude – down 1.3 million barrels
Distillate – up 2 million barrels
Gasoline – up 5.6 million barrels
Refinery runs – up 0.11%, at 91%

Iran's Governor to OPEC, Hossein Kazempour Ardebili said OPEC would consider meeting if the weaker oil prices persisted. However he did not state when OPEC may discuss having a meeting. Separately, an OPEC spokesman said OPEC may need to take further action to support the oil market should prices remain under pressure.

An official at the National Iranian Oil Co said Iran would cut its spot crude sales to the Mediterranean in February by 43,000 bpd if the country proceeded with scheduled maintenance which would reduce crude supplies to domestic refiners. Its exports would fall to 2.2 million bpd or lower to comply with its share of the OPEC output cuts. The official stated that crude exports in January were estimated at 2.25 million bpd.

According to Dow Jones, the ten OPEC members produced a total of 27.08 million bpd of oil in December, up 75,000 bpd on the month. It showed that the OPEC-10 cut production by 500,000 bpd, less than their agreement to cut production by a total of 1.2 million bpd from November 1. It reported that Saudi Arabia's oil production stood at 8.75 million bpd in December, down from 8.78 million bpd in November. Meanwhile, total OPEC production fell by 515,000 bpd on the month to 28.45 million bpd in December. It reported that Iraq's production fell by 59,000 bpd to 1.37 million bpd in December.

According to Oil Movements, OPEC's oil exports are expected to increase by 350,000 bpd to 24.4 million bpd in the four weeks ending January 20. It said OPEC exports at sea stood at 400 million barrels compared with 430 million barrels a year ago.

Refinery News

The US Coast Guard reported that the Houston Ship Channel was shut for more than seven hours overnight due to fog.

Enbridge Inc said a 300,000 bpd crude oil pipeline connecting oil producers in western Canada with the Chicago area resumed operations after it was shut on Monday. Line 14 was shut on January 1 after a leak in the line was detected. Heavy crude oil normally shipped through Line 14 has been temporarily shifted to Line 6A while light crude flows through Line 14 has been increased as operators return the line to normal operations.

Shell Oil Co said operations at the Deer Park refinery would be cut for a month starting next week as it undergoes maintenance turnaround. It is expected to shut a 270,000 bpd distiller, a 67,000 bpd selective hydrocracker and an 85,000 bpd delayed coker unit.

China's Maoming refinery is scheduled to shut a 1 million ton/year coking unit for regular maintenance starting Friday for about 20 days.

Nymex Petroleum Options Most Active Strikes for January 4, 2006								
Symbol	**Month**	**Year**	**Call/Put**	**Strike**	**Exp Date**	**Settle**	**Volume**	**IV**
LO	6	7	P	50	05/17/2007	1.22	5,300	33.38
LO	4	7	C	65	03/15/2007	1.01	4,813	33.41
LO	6	7	P	45	05/17/2007	0.49	4,804	34.91
LO	2	7	P	56	01/17/2007	1.78	4,413	37.42
LO	3	7	P	55	02/14/2007	1.83	3,818	34.65
LO	6	7	P	55	05/17/2007	2.59	3,760	32.06
LO	6	7	C	62	05/17/2007	3.12	3,527	31.20
LO	6	7	P	60	05/17/2007	4.85	3,405	31.42
LO	2	7	P	54	01/17/2007	0.89	3,201	37.83
LO	2	7	P	55	01/17/2007	1.28	3,125	37.50
LO	6	8	C	75	05/15/2008	3.2	2,850	26.31
LO	6	8	C	80	05/15/2008	2.29	2,850	26.19
LO	2	7	C	60	01/17/2007	0.29	2,801	37.44
LO	5	7	C	62	04/17/2007	2.45	2,500	31.89
LO	6	7	C	67	05/17/2007	1.75	2,025	31.45
LO	2	7	C	58	01/17/2007	0.67	2,000	37.33
LO	2	7	P	57	01/17/2007	2.38	1,905	37.36
LO	4	7	P	55	03/15/2007	2.15	1,840	33.82
LO	8	7	C	62	07/17/2007	4.38	1,800	30.80
LO	2	7	P	50	01/17/2007	0.15	1,735	40.39
LO	7	7	C	80	06/15/2007	0.47	1,700	30.89
LO	2	7	C	57	01/17/2007	0.98	1,695	37.51
LO	3	7	P	50	02/14/2007	0.52	1,642	36.56
LO	12	10	C	90	11/16/2010	1.94	1,625	20.22
LO	3	7	C	60	02/14/2007	1.3	1,609	34.15
LO	4	7	P	58	03/15/2007	3.5	1,525	33.21
OB	8	7	P	1.76	07/26/2007	0.1478	1,207	28.72
OB	7	7	C	2.05	06/26/2007	0.0491	1,124	30.42
OB	5	7	P	1.9	04/25/2007	0.2447	1,107	33.57
OB	7	7	C	1.85	06/26/2007	0.0941	562	28.95
OB	4	7	C	1.82	03/27/2007	0.0537	525	33.86
OB	8	7	C	1.8	07/26/2007	0.1234	350	28.94
OB	2	7	C	1.6	01/26/2007	0.0182	228	38.45
OB	4	7	P	1.9	03/27/2007	0.2577	100	35.45
OH	2	7	P	1.55	01/26/2007	0.0534	960	33.07
OH	2	7	C	1.55	01/26/2007	0.0466	960	33.15
OH	3	7	P	1.76	02/23/2007	0.201	666	34.76
OH	7	7	P	1.63	06/26/2007	0.1007	500	26.71
OH	7	7	C	1.81	06/26/2007	0.0673	500	27.36
OH	2	7	P	1.82	01/26/2007	0.2783	400	38.76
OH	2	7	P	1.5	01/26/2007	0.0319	316	34.07
OH	2	7	C	1.83	01/26/2007	0.0017	300	36.61
OH	3	7	C	1.73	02/23/2007	0.0285	300	33.91
OH	2	7	P	1.8	01/26/2007	0.2589	267	38.14
OH	3	7	C	1.61	02/23/2007	0.0628	266	32.72
OH	2	7	P	1.63	01/26/2007	0.1076	220	34.68
OH	3	7	P	1.4	02/23/2007	0.0154	125	33.22
OH	2	7	P	1.66	01/26/2007	0.1315	100	35.15

The shutdown would lead to about a 5% cut in the refinery's crude throughput in January to about 247,000 bpd.

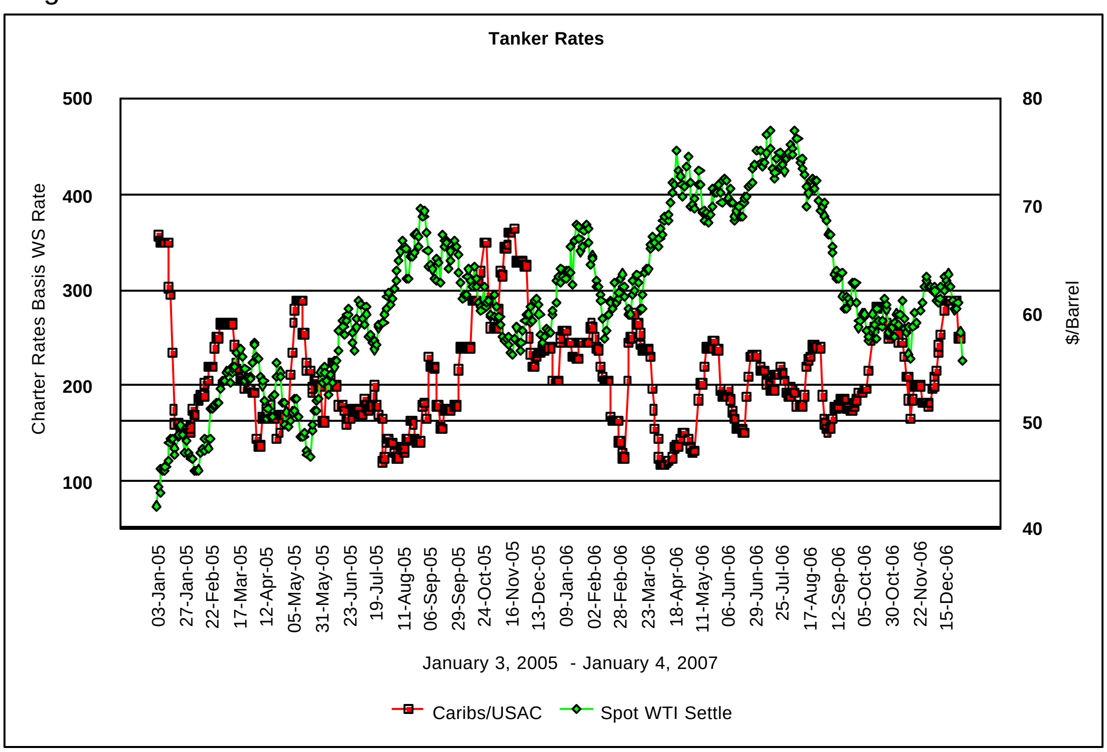
BP said it would not begin to phase out the older oil transit pipelines at its Prudhoe Bay oilfield in Alaska until early 2008 due to the complexity of the project to replace the pipelines. BP had promised to replace all 16 miles of oil transit pipelines at Prudhoe Bay after tests revealed severe corrosion in one section of the pipeline which BP's own tests had failed to detect.

Industry sources stated that Iraq is expected to issue a tender to sell Kirkuk crude in the coming days after stocks held at the port of Ceyhan reached more than 4 million barrels. Stocks of Kirkuk crude increased to 4.4 million barrels after pumping along the northern pipeline resumed on January 1 before stopping again on January 3. Separately, sources stated that Iraq's oil exports fell in December to 1.44 million bpd from 1.46 million bpd in November. The majority of the crude was shipped from the main southern Basra oil terminal, except for a total of 1.17 million barrels exported from the Khor al-Amaya terminal.

Singapore's International Enterprise reported that the country's light distillate stocks built by 290,000 barrels to 7.536 million barrels while middle distillate stocks fell by 965,000 barrels to 6.992 million barrels in the week ending January 4. It also reported that Singapore's residual fuel stocks built by 6,000 barrels to 10.157 million barrels on the week.

Belarus said it would guarantee the shipment of Russian crude across its territory after imposing a $45/ton oil transit duty. A Foreign Ministry spokesman said the introduction of duties on oil shipped across the Belarussian territory was a measure that responds to Russia's decision to impose export duties on its crude oil.

Russian gas oil exports out of the Black Sea port of Tuapse was set at 270,000 tons in January. The schedule showed nine cargoes of 30,000 tons each set to load this month, down from a scheduled 14 cargoes in December.



Egypt on Thursday reopened three of its Red Sea ports that were closed due to thick fog. An official from the Red Sea Port Authority said the Adabiya, Port Taufiq and petroleum ports were reopened.

Cargo surcharges for shipping on the Rhine River have been removed following an increase in water levels. Surcharges were imposed earlier at Kaub to compensate vessel owners for lost revenue, as vessels could not sail fully laden.

Production News

Indonesia's BPMIGAS said the country's crude oil production fell by 0.58% to 857,000 bpd in December from 862,000 bpd in November due to ageing fields. Indonesia has stated that it expects crude oil and condensate production to increase by 4% to 1.05 million bpd in 2007 from an estimated 1.01 million bpd in 2006.

Officials stated that two thirds of the 150,000 bpd of crude production shut in by Tropical Cyclone Isobel was restored as of Thursday. Production at the 100,000 bpd Cossack Pioneer field resumed.

OPEC's news agency reported that OPEC's basket of crudes fell to $55.39/barrel on Wednesday from $56.08/barrel on Tuesday.

Market Commentary

The oil market continued its sharp sell off for the second consecutive trading session amid the unseasonably mild weather in the Northeast. The crude market gapped lower from 58.15 to 57.15 and quickly traded to a low of 56.50 following the release of the DOE report. The market bounced off that level as the 1.3 million barrel draw in crude stocks reported by the DOE helped limit its losses. The market partially backfilled its gap as it traded to a high of 57.50. However the market, which failed to completely backfill its gap, erased its gains and extended its losses to over $2.70 as it posted a low of 55.55 ahead of the close. It settled down $2.73 at 55.59. The market continued to trend lower amid the build reported in total petroleum stocks of 1.8 million barrels. The sharp sell off triggered market speculation that a hedge fund may be liquidating positions. It is interesting to note that open interest in the crude market built by a total of 30,686 contracts amid the market's sell off. Open interest in the February and March contracts built by 13,505 lots and 11,068 lots, respectively. Meanwhile, the product markets ended sharply lower in light of the larger than expected builds in product stocks. The heating oil market gapped lower from 158.00 to 157.40 and traded to 156.20 following the release of the weekly petroleum stock reports. The market retraced some of its losses and backfilled its gap as it posted a high of 158.50. However the market erased its gains and traded sideways before further selling pushed the market to a low of 154.10 on the close. It settled down 4.5 cents at 154.31 in light of the inventory reports and the weather forecasts. The RBOB market also settled down 6.19 cents at 148.70 after the market sold off to a low of 148.50 ahead of the close. The market gapped lower on the opening from 154.50 to 151.75, which it later backfilled as it posted a high of 152.70. However the market was pressured in light of the larger than expected build in gasoline stocks.

Technical levels

		Levels	Explanation
		60.05	Previous high
	Resistance	56.40, 57.50 to 58.15	Remaining gap (January 4th)
CL	55.59, down $2.73		
	Support	55.55	Thursday's low
		55.08, 54.83	Previous lows (continuation chart)
		162.00	Previous high
	Resistance	156.00, 158.50	Thursday's high
HO	154.31, down 4.50 cents		
	Support	154.10	Thursday's low
		153.00, 146.10	Previous lows (continuation chart)
		159.50	Previous high
	Resistance	151.00, 152.70 to 154.50	Remaining gap (January 4th)
RB	148.70, down 6.19 cents		
	Support	148.50	Thursday's low
		147.58, 145.50	Basis support line, Previous low

The oil market, which continued to trend lower, will likely test its support at the 55.00 level as the complex remains pressured by the mild weather and the weekly petroleum stock reports. However the market is technically oversold. If the market does breach the 55.00 level, more distant support is seen at a low of 54.83 followed by 53.50. Meanwhile resistance is seen at 56.40 followed by its gap from 57.50 to 58.15 followed by more distant resistance at 60.05.