



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR JANUARY 8, 2007

The Russian Druzhba pipeline transporting oil across Belarus to Poland and Germany stopped pumping overnight in a trade dispute between Russia and Belarus that could lead to fuel shortages across Europe. Russia's Transneft accused Belarus of stealing crude oil from the Druzhba line and said it would attempt to reroute disrupted supplies to its European customers. Belarus' Foreign Ministry denied that and accused Russia of lowering the pressure on the line. Belarus imposed a duty on transit shipments of Russian crude oil through the pipeline last week in retaliation to Russia imposing duties on oil sales and doubling the price of its gas exports to Belarus. Poland's Economy Ministry said it had no information from either Russia or Belarus about when Russia's Druzhba pipeline would resume operation. Germany's Economy Minister Michael Glos said Germany was concerned about the closure of the pipeline. However he said deliveries were expected to resume

in full as soon as possible. The Czech operator of the Druzhba oil pipeline, MERO said it expected supplies from Russia to halt at the Slovak-Ukrainian border but added that it would keep pumping its own reserves from Slovakia for about a week. Meanwhile, Total stated that supplies of Russian crude to its refineries in Leuna in Germany were halted. It however said it had abundant reserves to supply its customers. Shell's PCK Raffinerie GmbH Schwedt said supplies to its refinery has also been halted but added that it had several days reserves to supply its customers. Crude oil supplies through the pipeline to Lotos Group's refinery at Gdansk in Poland have been halted. The 90,000 bpd refinery

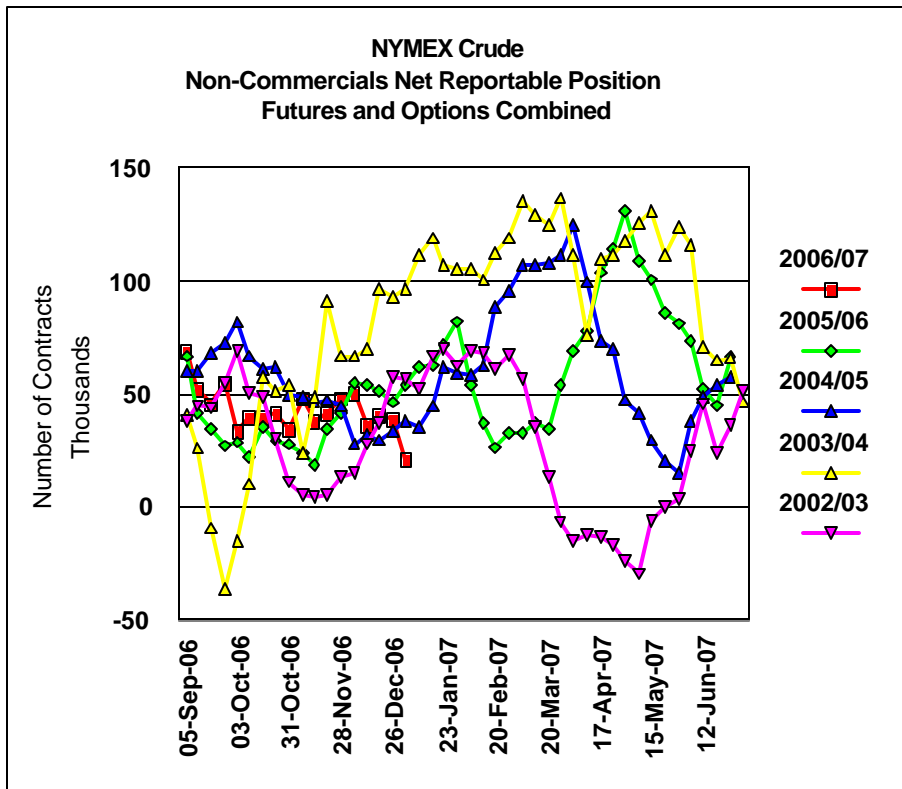
Market Watch

Goldman Sachs cut its 2007 US crude forecast for a second time in as many weeks. It cut its average price forecast by \$3.50/barrel to \$69/barrel. It stated that the weather deviation since mid-December through the first part of January would likely reduce oil demand by a further 46 million barrels relative to its prior assumption of normal weather. Long term, Goldman Sachs remains bullish.

According to the Sunday Times, Israeli pilots were training to strike as many as three nuclear targets in Iran with bunker buster nuclear weapons. Israeli officials however quickly denied the report. The Sunday Times said Israeli military officials believe Iran could produce enough enriched uranium to build nuclear weapons within two years.

Nigerian gunmen attacked a Nigerian armed forces patrol boat in Rivers state in the Niger Delta in the early hours on Sunday and kidnapped one officer. It was not clear whether the kidnapping was the work of ransom-seekers or of rebels seeking to press political demands.

Cargill Inc said its subsidiary Emerald Renewable Energy LLC planned to build four 100 million gallon/year ethanol plants in the US Midwest.



would be able to maintain full production until mid-February by using its own crude reserves for the first two weeks and the country's strategic supplies after that. The European Commission said it asked Russia and Belarus for an urgent explanation of the reasons for halting the flow of oil in a pipeline from Russia. A spokesman for European Energy Commissioner Andris Piebalgs said there was no immediate risk to oil supplies to the European Union however the Commission was watching the situation closely and would take precautionary measures.

A senior OPEC delegate said OPEC producers were holding

consultations on possible further action to stabilize the oil market. The delegate said they were holding consultations on different opinions about the market, making sure there is strong implementation and commitment to supply cuts and discussing different ideas about further action if there is a need for it. Separately, Iran's OPEC governor Hossein Kazempour Ardebili said OPEC members were prepared to take further action if necessary to stem the decline in oil prices. He said that possible action could include calling an emergency meeting if needed. Meanwhile Venezuela's Oil Minister Rafael Ramirez said members of OPEC were studying possible extraordinary meetings to evaluate the market and compliance with existing OPEC quotas. He said OPEC should hold an extraordinary meeting to discuss the fall in oil prices.

Iran's Supreme Leader Ayatollah Ali Khamenei said Iran would not give up its development of nuclear technology in the face of western pressure. He said Iran's nuclear program was no threat to Middle East countries. He added that the US' regional policies have failed and called on Muslims to preserve their unity against arrogant powers. Meanwhile the deputy head of Iran's volunteer Basij militia warned on Monday that pressuring Iran could result in the disruption of world oil flows through the Strait of Hormuz. He did not state how those flows would be affected but some Iranian officials have previously stated that Iran could use oil as a weapon in its nuclear standoff with the West.

Separately, DEBKAFfile reported that Iran's Supreme Leader suffered a stroke on January 3. By Saturday, specialists stabilized his condition enough to put him before TV cameras and refute the rumors that he was dead. The rumors started when he missed two important state and religious events and was not seen in public after December 24. In the interim, Ayatollah Mohammed Reza Khani was appointed temporary stand in for the supreme leader. It reported that the Supreme Leader was considering making Ayatollah Reza's appointment as stand in permanent. His illness was kept a secret for fear of an outbreak of factional hostilities.

The EIA reported that the US average retail price of diesel fell by 4.3 cents/gallon to \$2.537/gallon in the week ending January 8. It also reported that the US average retail price of gasoline fell by 2.8 cents/gallon to \$2.306/gallon on the week.

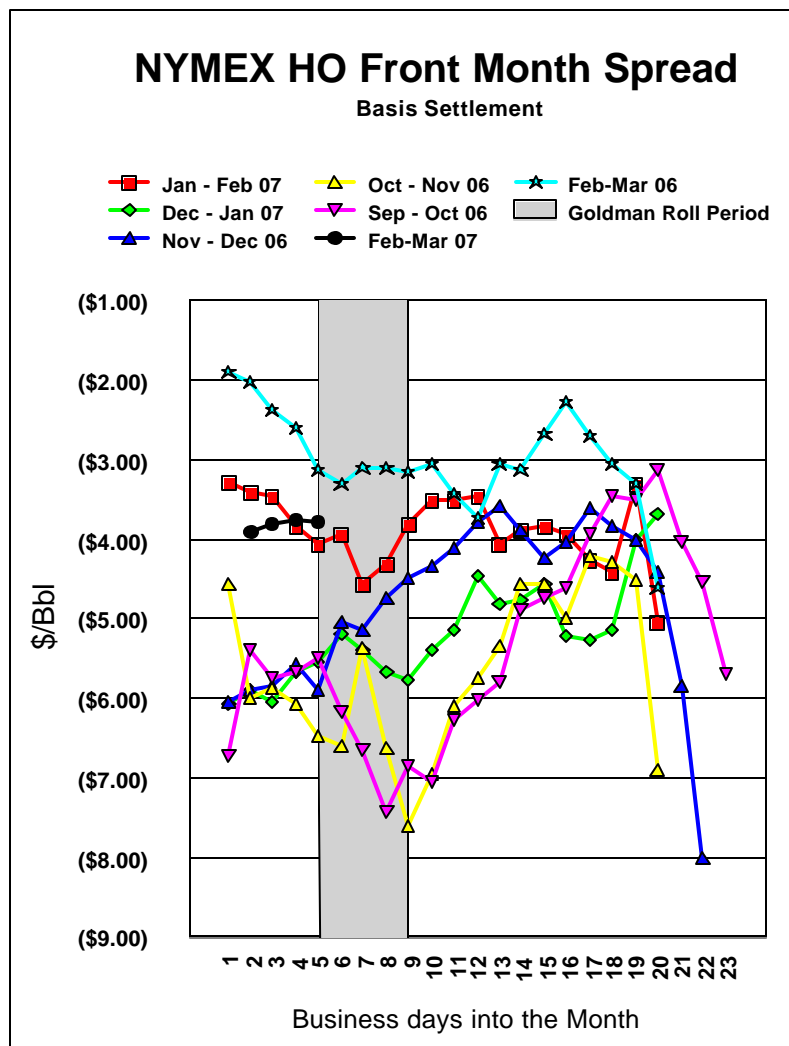
Refinery News

According to Credit Suisse, margins for US refiners in the Northeast increased by 57 cents to \$5.20/barrel in the week ending January 5. Margins for refiners in the Rockies increased by \$1.80 to \$17.78/barrel while margins in the West Coast increased by \$1.05 to \$23.77/barrel on the week. Gulf Coast margins averaged \$5.95/barrel, down 43 cents on the week while Midwest margins fell by 13 cents to \$7.82/barrel.

ConocoPhillips restarted an aromatics unit at its 247,000 bpd Sweeny, Texas refinery on Friday following a power failure.

Delek US Holdings Inc restarted two sulfur recovery units at its 60,000 bpd Tyler, Texas refinery after it was shut by an early morning thunderstorm.

The US Coast Guard said an oil product tanker and an offshore support vessel collided on Friday at the ship anchorage in Galveston, Texas. The collision did not cause an oil spill or disrupt shipping traffic.



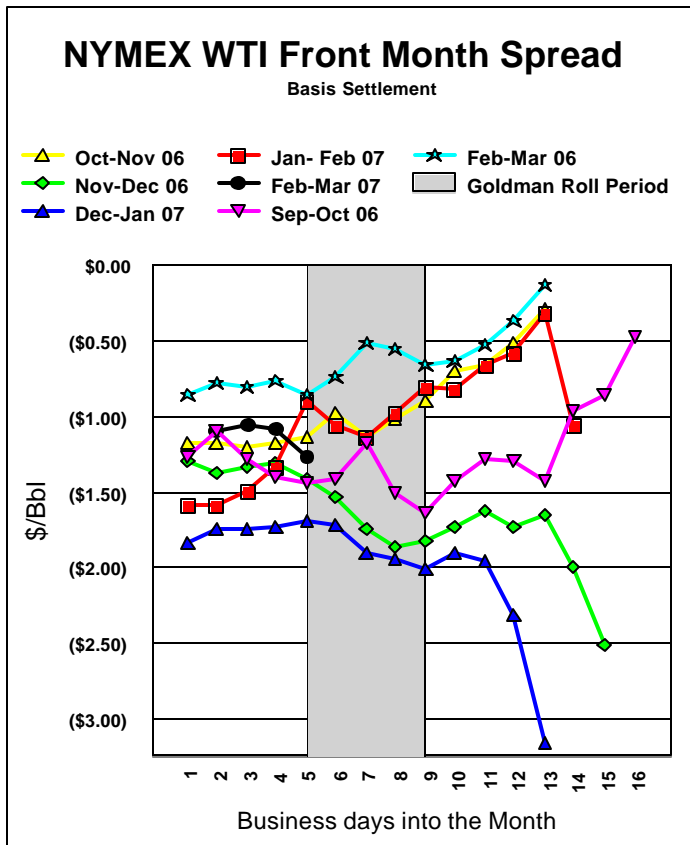
Iraq is expected to halt its crude oil exports for up to four days from its southern Basra terminal starting January 15 due to planned maintenance work. The planned work on the berths was likely to take about three to four days to complete.

South Korea's refiners are expected to cut January fuel oil exports to 250,000 tons, down 15% on the month as low oil prices encourage domestic utilities to turn to fuel oil instead of liquefied natural gas for heating.

Kuwait National Petroleum Corp said the country would not proceed with the construction of a new refinery at Al-Zour unless it found ways to lower the project cost from the \$15 billion proposed by international contractors. The refinery is expected to have a capacity of 615,000 bpd and would mainly produce low sulfur fuel oil for the country's power plants.

Production News

A Saudi source said Saudi Arabia



would reduce oil production by 158,000 bpd starting in February in line with OPEC's latest production cut. The country's total cut would equal 538,000 bpd, cutting its output to about 8.5 million bpd.

Nexen Inc said production at its Buzzard field in the UK North Sea started on time. It said production at the field is expected to peak at 200,000 barrels of oil equivalent/day in the first half of 2007.

OPEC's news agency reported that OPEC's basket of crudes fell further to \$51.25/barrel on Friday from \$53.23/barrel on Thursday. It also reported that OPEC's basket of crudes fell \$2.51/barrel to an average of \$53.99/barrel in the week ending January 5.

India's Oil Minister Murli Deora said the government was waiting for world crude prices to stabilize before deciding on whether to cut domestic petrol and diesel retail prices again. The government cut petrol and diesel prices by 4.25% and 3% respectively at the end of November.

Market Commentary

The oil market gapped higher from 56.40 to 56.90 amid the news that Russia's Druzhba pipeline transporting crude to Poland and Germany stopped pumping overnight following a dispute between Russia and Belarus.

The market was also supported by the news that OPEC members were holding consultations on possible further action to stabilize the

Technical levels		
	Levels	Explanation
CL 56.09, down 22 cents	Resistance 57.50 to 58.15, 60.05 57.25	Remaining gap (January 4th), Previous high Monday's high
	Support 55.10 55.08, 54.83	Double bottom Previous lows (continuation chart)
HO 155.71, down 87 points	Resistance 162.00 157.00, 159.50	Previous high Monday's high
	Support 154.75 154.30, 154.10, 153.00	Monday's low Previous lows
RB 146.85, down 2.46 cents	Resistance 152.70 to 154.50 147.90, 149.95	Remaining gap (January 4th) Monday's high
	Support 145.50 141.00	Monday's low Previous low

market. The market was further supported by reports that Iran's Supreme Leader said Iran would not halt its nuclear program while another Iranian official warned that pressuring Iran could result in the disruption of world oil flows through the Strait of Hormuz. The market rallied to a high of 57.25 early in the session before it retraced its gains and backfilled its gap. The crude market sold off to a low of 55.10. However the market later bounced off its low and settled in a sideways trading pattern amid the supportive news. It settled just above the 56.00 level at 56.09, down 22 cents on the day. Volume in

the crude market on Globex was good with over 297,000 lots booked during the open outcry session. Similarly, the heating oil market gapped higher from 157.00 to 158.30 and rallied to a high of 159.50 in light of some weather forecasts finally calling for some cold weather starting in mid January. The

NYMEX Petroleum Options Most Active Strike for January 8, 2007								
Symbol	Month	Year	Call/Put	Strike	Exp Date	Settle	Volume	IV
LO	12	10	C	100	11/16/2010	1.58	5,000	20.96
LO	4	7	C	65	03/15/2007	1.2	3,559	34.46
LO	6	7	C	65	05/17/2007	2.61	2,957	32.25
LO	2	7	P	53	01/17/2007	0.35	2,398	40.36
LO	3	7	C	62	02/14/2007	0.98	2,356	35.61
LO	4	7	C	70	03/15/2007	0.51	2,092	35.11
LO	6	7	C	68	05/17/2007	1.86	1,855	32.43
LO	6	7	P	53	05/17/2007	1.81	1,850	33.90
LO	2	7	P	55	01/17/2007	0.89	1,779	39.33
LO	4	7	P	50	03/15/2007	0.7	1,700	36.69
LO	7	7	P	50	06/15/2007	1.35	1,350	34.83
LO	12	7	P	63	11/13/2007	6.63	1,225	30.66
LO	12	7	C	63	11/13/2007	6.57	1,225	30.65
LO	4	7	P	60	03/15/2007	4.25	1,201	34.31
LO	3	7	C	68	02/14/2007	0.24	1,200	36.92
LO	6	7	P	59	05/17/2007	3.98	1,200	32.51
LO	3	7	C	75	02/14/2007	0.04	1,150	38.45
LO	6	7	P	50	05/17/2007	1.13	1,102	34.69
LO	2	7	P	74	01/17/2007	17.91	1,100	78.98
LO	2	7	P	75	01/17/2007	18.91	1,100	82.83
LO	3	7	C	63.5	02/14/2007	0.7	1,100	35.91
LO	3	7	P	48	02/14/2007	0.23	1,032	39.46
LO	3	7	P	54	02/14/2007	1.25	1,026	36.83
LO	7	7	C	65.5	06/15/2007	3.01	1,000	31.33
OB	2	7	P	1.46	01/26/2007	0.0491	350	41.22
OB	7	7	C	2.05	06/26/2007	0.0526	300	31.22
OB	7	7	C	1.84	06/26/2007	0.1025	249	29.70
OB	9	7	C	1.76	08/28/2007	0.1466	160	28.78
OB	7	7	C	1.85	06/26/2007	0.0993	150	29.78
OB	2	7	C	1.6	01/26/2007	0.0136	100	41.84
OH	2	7	P	1.55	01/26/2007	0.0495	505	38.68
OH	2	7	P	1.75	01/26/2007	0.1992	250	41.07
OH	4	7	P	1.53	03/27/2007	0.0559	230	32.88
OH	4	7	C	1.71	03/27/2007	0.0615	230	32.95
OH	3	7	P	1.65	02/23/2007	0.103	226	31.92
OH	3	7	C	1.7	02/23/2007	0.0361	188	33.45
OH	6	7	C	1.9	05/25/2007	0.0454	175	31.57
OH	3	7	C	1.85	02/23/2007	0.0119	151	34.91
OH	3	7	C	1.8	02/23/2007	0.0174	150	34.45
OH	3	7	P	1.4	02/23/2007	0.012	120	33.38
OH	2	7	C	2.24	01/26/2007	0.0001	117	54.14
OH	6	7	C	2	05/25/2007	0.0301	100	32.03
OH	6	7	P	1.9	05/25/2007	0.2905	100	32.80

market rallied to a high of 159.50 before it erased its gains and sold off to a low of 154.75. The heating oil market later bounced off its low and traded in 2 cent trading range ahead of the close. It settled down 87 points at 155.71. Meanwhile the RBOB market posted an outside trading day as it breached its previous trading range. It posted a high of 149.95 on the opening but quickly erased its gains and posted a low of 145.50. It later retraced its losses and traded mostly sideways ahead of the close. The RBOB market settled down 2.46 cents at 146.85. Volumes in the product markets were light with 27,550 lots booked in the heating oil and 25,577 lots booked in the RBOB market on Globex.

The Commitment of Traders report showed that non-commercials cut their net long position by 17,654 contracts to 2,194 contracts in the week ending January 3. The futures and option report also showed that non-commercials cut their net long positions by 17,551 contracts to 21,554 contracts on the week. Given the market's continued sell off later in the week, non-commercials have likely switched to a net short position as open interest continued to

increase. Open interest increased by over 47,000 lots on Thursday and Friday. The non-commercials in the heating oil market increased their net short position from 3,327 contracts to 9,114 contracts

while non-commercials in the RBOB market cut their net long position by just 309 contracts to 11,129 contracts.

The oil market is seen trading in a range as it retraces its recent losses in light of the supportive news. The market is expected to continue holding support at 55.00 as it awaits for further developments on the OPEC consultations and renewed tension over Iran's nuclear program, with Iran continuing to state that it would not give up its nuclear program. The market is seen finding initial support at 55.10, 55.08 and 55.00. More distant support is seen at 54.83. Meanwhile, resistance is seen at its high of 57.25 followed by its gap from 57.50 to 58.15 and its high of 60.05.