



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR JANUARY 23, 2007

US Energy Secretary Sam Bodman said the Energy Department would start to fill the SPR with initial purchases of 11 million barrels in the spring. The money to buy the oil for the SPR would come from the \$600 million the Energy Department raised when it sold 11 million barrels of reserve oil to US refiners after Hurricane Katrina disrupted petroleum supplies. It is expected to take the department until the end of the summer to purchase the oil and put it in the reserve. Separately, in his State of the Union address, President George W. Bush is expected to call for a doubling of the SPR's capacity to 1.5 million barrels by 2027. He is also expected to ask Congress to set a goal of reducing gasoline usage by 20% over 10 years.

OPEC's President Mohammed al-Hamli said a reasonable price for OPEC's crude basket is \$55/barrel. He said OPEC was not panicking about the fall in oil prices but added that prices

Market Watch

Analysts stated that US ethanol producers may start scrapping plant construction plans after a surge in the cost of corn and a fall in gasoline prices cut profit margins. US producers mainly use corn to produce ethanol, however competition for food and animal feed pushed prices higher after harvest estimated were revised lower. Prices for natural gas, used to fuel ethanol plants and to produce corn fertilizer also increased as oil and refined products prices fell, reducing the profitability of producing ethanol. In July, a new ethanol plant would have commanded returns in the 35-40% range while \$2/gallon ethanol and \$3.50/bushel corn would generate implied returns of 5-13%. Higher building costs have also caused project delays. Analysts stated that margins could improve in the short term as the US heads into the summer. However increasing imports could weigh on ethanol prices longer term.

WSI Corp said temperatures in the US Northeast and Midwest would average above normal in February and March. It said temperatures in February are forecast to be above normal in the Northeast, North Central region and the Northwest. In March, all regions of the country would have warmer than normal weather before colder than normal conditions return in April in all regions except the Northwest. Meanwhile, the National Weather Service said the Northeast had equal chances of having above or below normal temperatures in February through May.

Lehman Brothers revised down its 2007 oil price forecast by \$5 to \$68.50/barrel due to stalled financial flows, warm weather and bearish geopolitical perceptions.

According to a Reuters survey, WTI crude is estimated to average \$61.69/barrel, down \$1.50 from its previous survey. Barclays Capital cut its forecast from \$76/barrel to \$66.30/barrel. Goldman Sachs is now the most bullish, predicting oil to average \$69/barrel. WTI crude is estimated to average \$60.53/barrel in 2008.

US Senator Mary Landrieu and Representative John Peterson said they planned to introduce legislation that would expand on a 2006 bill that opened up additional areas of the Gulf of Mexico to drilling. Senator Landrieu said she wants to introduce legislation that would give states or groups of states a local option on whether they should develop the reserves off their coasts. She also said the legislation would allocate all federal revenues from new drilling on the Outer Continental Shelf to a fund that would finance the research and development of alternative fuels.

should be high enough to protect investment in new projects. He said oil prices would likely firm, not collapse, in the near term. OPEC's basket price stood at \$49.63/barrel on Monday, up \$1.43/barrel from Friday's \$48.20/barrel level. OPEC's President also stated that OPEC had no plans for an emergency meeting to address the fall in oil prices.

Saudi Arabia's Oil Minister Ali al-Naimi said Saudi Arabia was aiming for moderate oil prices. He however did not give an actual price level he considered moderate. During a tour of key Asian consumer nations, he said Saudi Arabia would fulfill its duty as a supplier to Japan and the rest of the world in case of emergencies. This followed his meetings with energy officials in the past week in South Korea and India, where he said prices had to give adequate returns to producers without hurting consumers. South Korea's presidential office said Saudi Arabia's Oil Minister Ali al-Naimi promised South Korea a steady supply of energy.

Separately, Saudi Arabia's ambassador to the US, Prince Turki al-Faisal said Saudi Arabia continued to support an oil policy of a balance between equitable crude prices and production. Ahead of President George W. Bush's State of the Union address which is expected to tout the need for more US energy independence, Saudi Arabia's US ambassador said the US would rely on Middle East oil for many years to come. In regards to Iraq, he said Saudi Arabia would not take sides in Iraq's sectarian violence. He denied a New York Times article which stated that Saudi King Abdullah told visiting US Vice President Dick Cheney that the Saudis may support Iraq's minority Sunni population over the Shi'ites if fighting continued between the two groups following any US troop withdrawal.

US Undersecretary of State Nicholas Burns urged Iran on Tuesday to resume talks on its nuclear program or face stricter sanctions. He said the package of incentives offered to Iran in return for suspending uranium enrichment remained on the table. He however ruled out direct negotiations with Iran and said rapprochement between the US and Iran was not possible until Iran halted its uranium enrichment. He also called on firms and countries to avoid doing business with Iran and condemned Russia's completion on Monday of its contract to deliver anti-aircraft systems to Iran. He stated that the US did not want war with Iran but would not let Iran threaten the flow of oil. The US Undersecretary of State said the USS John C. Stennis and several accompanying ships heading to the Gulf was a warning to Iran.

Iran said it was still cooperating with the IAEA despite announcing on Monday that it had barred 38 inspectors. The IAEA said this would not affect its monitoring of a plant where Iran planned to expand its output of nuclear fuel from an experimental to an industrial scale level in defiance of the UN Security Council resolution.

Gunmen demanding ransom kidnapped two engineers, an American and British, increasing the number of foreign nationals held hostage to 29. Militants have started negotiating for the release of 24 Filipino sailors who were taken hostage aboard a German cargo ship. The ship was near the city of Warri when armed men took 17 sailors to a nearby village on Saturday and forced the remaining crew members to stay on board. Government officials said the Filipinos' kidnappers have demanded the release of two jailed leaders from the Niger Delta and talks have started. Militant sources stated that they were also demanding a change in the ruling party's candidate for Delta State governor in elections in April.

Senior Iraqi officials are scheduled to meet on Tuesday to resolve a problem in plans to present a law on the oil industry to the cabinet this week. The draft law gives the national government a right of review over existing contracts signed under former president Saddam Hussein or by the Kurdish regional government.

NYMEX Petroleum Options Most Active Strikes for January 23, 2007

Symbol	Month	Year	Call/Put	Strike	Exp Date	Settle	Volume	IV
LO	6	7	C	68	05/17/2007	1.2	14,700	34.60
LO	6	7	C	60	05/17/2007	3.12	9,256	34.02
LO	6	7	C	55	05/17/2007	5.46	4,000	35.08
LO	7	7	C	59	06/15/2007	4.06	3,275	32.73
LO	3	7	P	50	02/14/2007	0.58	3,229	44.08
LO	6	7	C	65	05/17/2007	1.74	2,837	34.38
LO	3	7	C	64	02/14/2007	0.22	2,052	43.27
LO	5	7	P	47	04/17/2007	0.77	2,001	38.56
LO	3	7	C	55	02/14/2007	2.29	1,776	42.35
LO	3	7	C	58	02/14/2007	1.15	1,733	42.38
LO	12	7	C	58.5	11/13/2007	6.49	1,610	29.55
LO	12	7	P	58.5	11/13/2007	5.21	1,610	29.33
LO	4	7	P	48	03/15/2007	0.64	1,601	40.60
LO	3	7	P	53.5	02/14/2007	1.58	1,545	42.83
LO	4	7	C	60	03/15/2007	1.62	1,523	38.07
LO	8	7	P	45	07/17/2007	0.85	1,500	34.76
LO	5	7	C	60	04/17/2007	2.48	1,414	35.85
LO	6	7	P	50	05/17/2007	1.61	1,410	36.48
LO	3	7	C	60	02/14/2007	0.67	1,396	42.17
LO	4	7	C	65	03/15/2007	0.66	1,384	38.65
LO	4	7	C	60.5	03/15/2007	1.49	1,360	38.16
LO	3	7	C	53.5	02/14/2007	3.12	1,335	42.97
LO	3	7	C	63	02/14/2007	0.29	1,306	42.85
LO	4	7	P	50	03/15/2007	1.01	1,225	39.68
OB	6	7	P	1.64	05/25/2007	0.0997	1,500	31.63
OB	2	7	P	1.63	01/26/2007	0.1828	1,000	54.14
OB	3	7	C	1.5	02/23/2007	0.0636	927	41.99
OB	4	7	C	1.7	03/27/2007	0.0745	925	39.38
OB	2	7	P	1.68	01/26/2007	0.2327	500	66.45
OB	2	7	P	1.66	01/26/2007	0.2127	500	59.06
OB	3	7	P	1.62	02/23/2007	0.1648	500	43.45
OB	4	7	C	1.74	03/27/2007	0.0622	385	39.76
OB	4	7	P	1.5	03/27/2007	0.0493	385	38.99
OB	6	7	P	1.65	05/25/2007	0.1043	350	31.57
OB	6	7	C	1.65	05/25/2007	0.1328	350	31.67
OB	4	7	C	1.8	03/27/2007	0.0472	112	40.34
OH	4	7	C	1.65	03/27/2007	0.065	370	32.38
OH	2	7	C	1.5	01/26/2007	0.0811	326	50.14
OH	4	7	C	1.6	03/27/2007	0.0893	325	33.45
OH	3	7	P	1.56	02/23/2007	0.0575	202	39.87
OH	2	7	P	1.68	01/26/2007	0.1065	200	51.06
OH	3	7	C	1.56	02/23/2007	0.0899	200	39.91
OH	4	7	P	1.65	03/27/2007	0.1111	200	32.45
OH	2	7	P	1.78	01/26/2007	0.2038	170	54.14
OH	4	7	P	1.72	03/27/2007	0.1622	170	34.57

Refinery News

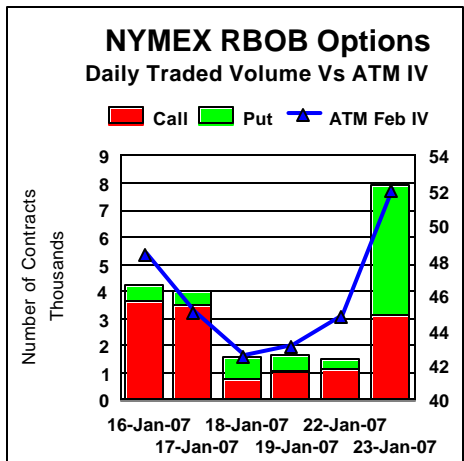
Alon USA Energy Inc said its alkylation unit at its 67,000 bpd Big Spring, Texas refinery resumed operations on Monday after it was shutdown earlier in the day for repair.

Marathon Oil Co has received approval for the expansion of its refinery in Garyville, Louisiana from the Louisiana Department of Environmental Quality. It is expected to start construction in 2007 with start up scheduled for the fourth quarter of 2009.

India's Essar Oil has shutdown its refinery in Gujarat until January 26 to integrate new units with existing ones. Once work is completed, capacity at its Vadinar plant would be increased to 160,000 bpd from 150,000 barrels and the unit should be functioning at full capacity of 210,000 bpd by the end of March.

Iraq's oil exports returned to normal at the southern Basra terminal early on Monday after it was suspended for a day due to bad weather conditions. Iraq's Oil Minister Hussain Shahrstani said that Iraq was capable of increase crude exports to 1.9 million bpd from 1.6 million bpd if it needed to.

Russia's main Black Sea port of Novorosiisk was reopened after it was closed due to high winds. The port was closed for four of the previous five days due to high winds.



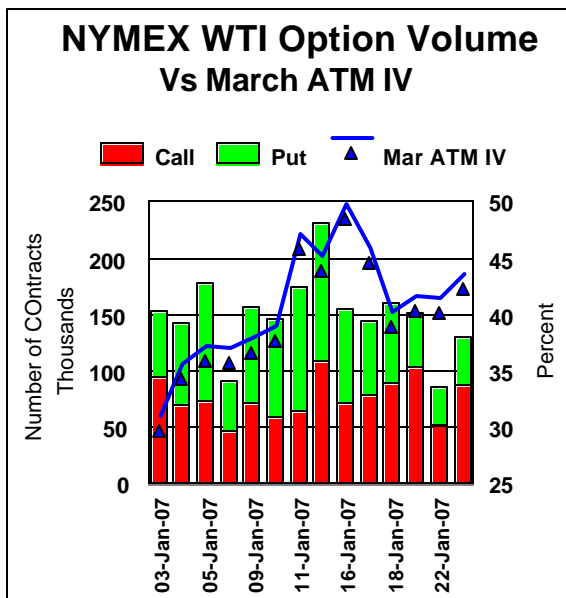
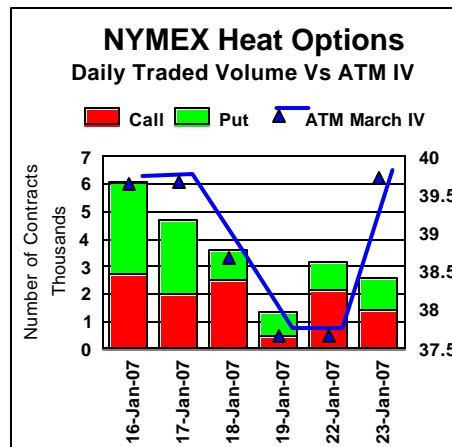
Russia's Transneft said it did not expect a quick resumption of oil flows to Lithuania after it was suspended last year due to a leak. A Transneft official said the company would not start repair work before March. Lithuania's Prime Minister Gediminas Kirkilas said Lithuania hoped Russia would resume flows along the 250,000 bpd pipeline in March.

China reported that the amount of energy it consumes per dollar of GDP has been falling since the third quarter of 2006. China pledged to cut the amount of energy it uses per dollar of GDP by 20% by 2010. However China fell short of its 2006 target mainly because the economy remained tilted towards energy intensive heavy industries.

Thailand's Commerce Ministry reported that the country's crude oil imports increased by 15.36% on the year in December from 4.11 billion liters or 833,284 bpd.

Production News

Oil production in Alaska fell from an average of 825,000 bpd in December to less than 700,000 bpd since January 19 after scheduling problems led to high inventories at the port of Valdez. Producers were asked to cut production to 86% on Friday but were allowed to return to full production on Tuesday morning. According to state data, inventories at the port of Valdez have been higher than usual and near the terminal's 6.7 million barrel capacity since early January.



Petroecuador increased its daily production to 174,600 barrels after a protest in the Amazon jungle caused accumulated losses of 54,000 barrels since the start of the year. Villagers in the Amazon province of Orellana blocked roads since the beginning of the year to demand more funds to fix roads and build bridges.

The Chevron-led Tengizchevroil consortium said crude production at its onshore oilfield fell to 13.3 million tons or 291,190 bpd in 2006 from 13.6 million tons a year earlier.

Crude production at China National Petroleum Corp's overseas operations increased by 52.4% on the year to 54.6 million tons in 2006.

Market Commentary

The oil market opened 67 cents higher at 53.25 as it retraced some of Monday's losses. The market was supported by reports that foreign workers in Nigerian were kidnapped. Comments made by OPEC's President that a reasonable price for its OPEC basket of crude was \$55/barrel also provided some support to the market. The market posted a low of 53.05 early in the session before it continued to retrace its previous losses. The market traded mostly sideways as it traded to a high of 53.92 in afternoon trading. However the market extended its gains to

over \$2.50 as it rallied to a high of 55.12 in light of reports stating that the Bush Administration would purchase 11 million barrels of crude oil to fill its SPR. The market was also supported by reports that production in Alaska was cut by 14% since Friday after scheduling problems led to high inventories in the port of Valdez. The crude market settled up \$2.46 at 55.04. Volume in the crude market was lighter with 236,036 contracts traded on Globex during the open outcry session. The heating oil market posted a low of 153.00 early in the session and settled in a sideways trading pattern for much of the day. The market extended its gains to over 7.46 cents as it rallied to a high of 158.30 ahead of the close amid the strength in the oil market. The RBOB market opened up 2.66 cents at 140.20 and posted a low of 140.10. The market quickly bounced off that level and traded to 142.90, where it held some resistance. The RBOB market later breached that level and extended its gains to 7.46 cents as it rallied to a high of 145.00 ahead of the close. It settled up 7.19 cents at 144.73. Volumes in the product markets were better with 42,343 contracts booked in the heating oil market and 31,239 contracts booked in the RBOB market.

The oil market is likely to give up some of its gains after the market rallied on the announcement that the Energy Department would purchase 11 million barrels of oil to fill its SPR. The market will also seek further direction for the weekly petroleum stock reports which are expected to show builds in crude stocks of more than 500,000 barrels, draws in distillate stocks of about 800,000 barrels and builds in gasoline stocks of 1.5 million barrels. If the reports continue to show builds in crude and gasoline stocks, the market is seen trading lower. Support is seen at 54.00 followed by its low of 53.05.

More distant support is seen at 52.15 and 51.20. Meanwhile resistance is seen at its high of 55.15 followed by 55.35 and 55.95.

Technical levels			
	Levels	Explanation	
CL 55.04, up \$2.46	Resistance	55.35, 55.95	Previous high
		55.15	Tuesday's high
	Support	54.00, 53.05	Tuesday's low
		52.15, 51.20	Previous lows
HO 157.63, up 6.79 cents	Resistance	159.50, 162.00	Previous highs
		158.30	Tuesday's high
	Support	153.00	Tuesday's low
		149.50, 149.00	Previous lows
RB 144.73, up 7.19 cents	Resistance	145.80, 149.00	Previous highs
		145.00	Tuesday's high
	Support	142.80, 140.10	Tuesday's low
		137.10, 136.60, 133.60	Previous lows