



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR FEBRUARY 27, 2006

Iran's Foreign Minister Manouchehr Mottaki said Iran would not suspend its atomic research and development, casting doubt over whether a Russian agreement would defuse a crisis over Iran's nuclear program. On Sunday, Iran's nuclear chief said Iran had reached a tentative agreement with Russia on a joint venture to enrich uranium but it was unclear what the deal involved while both Iranian and Russian officials identified serious obstacles to a full deal. Iran's Foreign Minister said the Russian proposal had no references in it to Iran's rights to pursue a peaceful nuclear program. Russian analysts said Iran wants security guarantees that it would not be attacked by the US. Meanwhile, the White House was skeptical

Market Watch

Colonial Pipeline reversed its decision to ban MTBE blended reformulated gasoline on its system, responding to customer requests for more flexibility on transporting gasoline blends. Colonial will continue to allow future shipments of RFG 87 and RFG 93, both of which contain MTBE, on a case by case basis. It said that starting with the 17th cycle on March 22, Colonial is expected to allow the shipment of premium gasoline with MTBE on a case by case basis. Also, starting with the 20th cycle, on April 6, the pipeline is expected to allow the shipment of regular RFG with MTBE on a case by case basis.

Officials in Iran said two bombs exploded in the southern cities of Dezful and Abadan on Monday wounding at least six people. In both cities, the devices were planted in the governor's offices. There was no immediate claim of responsibility for the bombings. Both blasts occurred far away from any oil facilities in the province, where small bombs damaged 15 pipelines and one oil well in September.

The Renewable Fuels Association reported that the US ethanol industry produced 3.904 billion gallons in 2005 or about 255,000 bpd of ethanol. Currently, 95 ethanol plants have the capacity to produce more than 4.3 billion gallons annually. It said about 34 ethanol plants are under construction and nine expansions under construction with a combined annual capacity of more than 2.1 billion gallons.

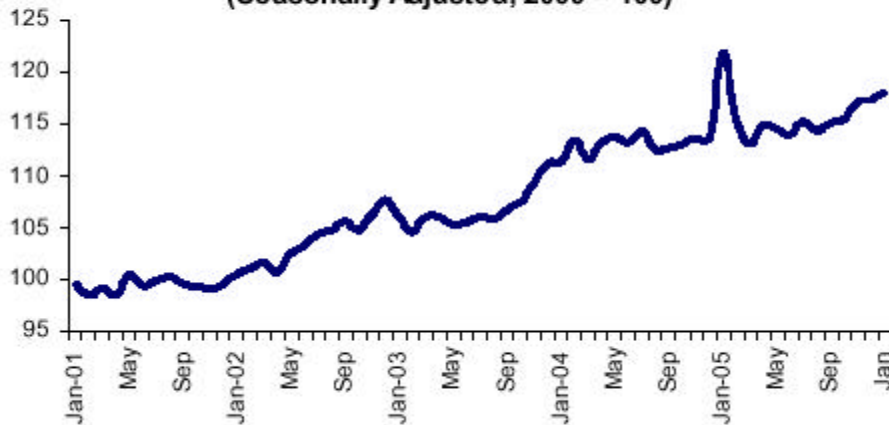
The US National Weather Service reported that US demand for heating fuels is expected to be about 11.25% below normal in the week ending March 4. The exception is the eastern portion of the country, where below normal temperatures are expected to keep demand for heating oil in the Northeast at 8.2% above normal.

Iraqi Interior Ministry forces have captured a senior aide to Abu Musab al-Zarqawi. Abu Farouq was captured with five others in the Sunni insurgent stronghold of Ramadi.

The cost of shipping crude from the Middle East to refineries may fall for a second consecutive week due to a surplus of vessels available for hire next month. Forty two VLCCs will be available to load in the Persian Gulf in the next 30 days.

The American Trucking Associations's seasonally adjusted Truck Tonnage Index increased by 0.6% in January. January's improvement pushed the seasonally adjusted index to 118. ATA recently revised the index back five years, which resulted in a slightly stronger 2005 performance than previously reported. ATA's index increased 2.3% compared with 2004 rather than the 2% as originally reported.

**ATA's Truck Tonnage Index
(Seasonally Adjusted; 2000 = 100)**



over reports that Iran had reached an agreement with Russia. Separately, Iran's President Mahmoud Ahmadinejad said Iran would like the US and Russia to abolish their nuclear weapons because they are a threat to Middle Eastern stability.

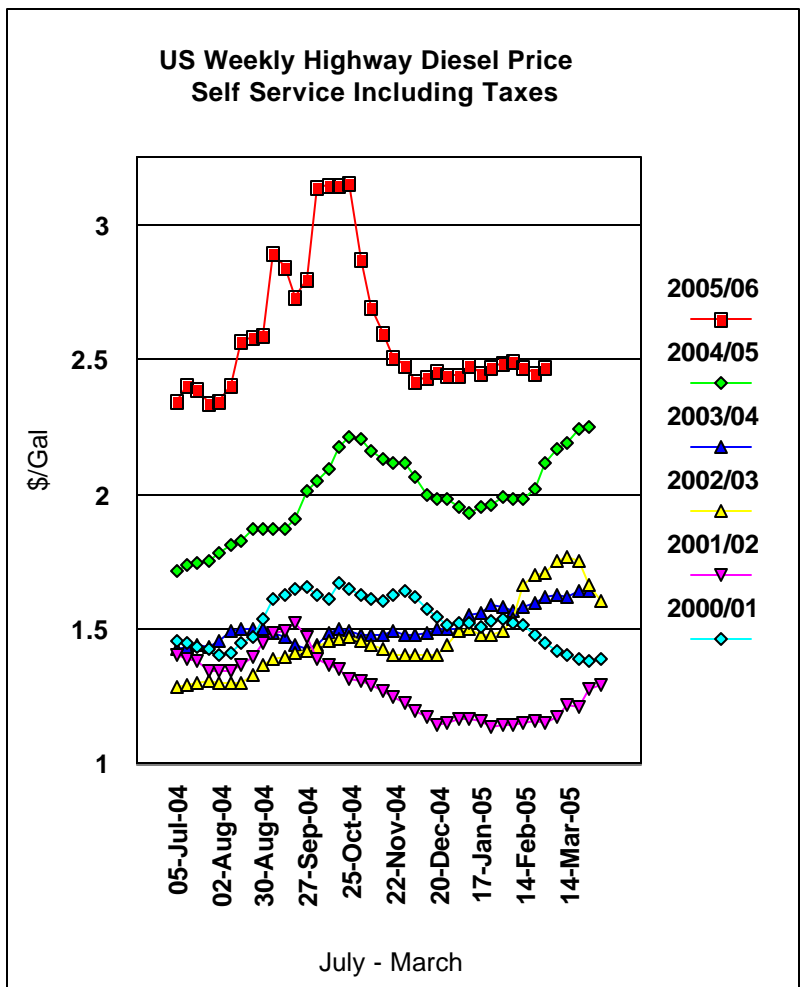
Saudi Arabia's Interior Ministry said Saudi forces killed five suspected militants believed to be linked to an al Qaeda attack on

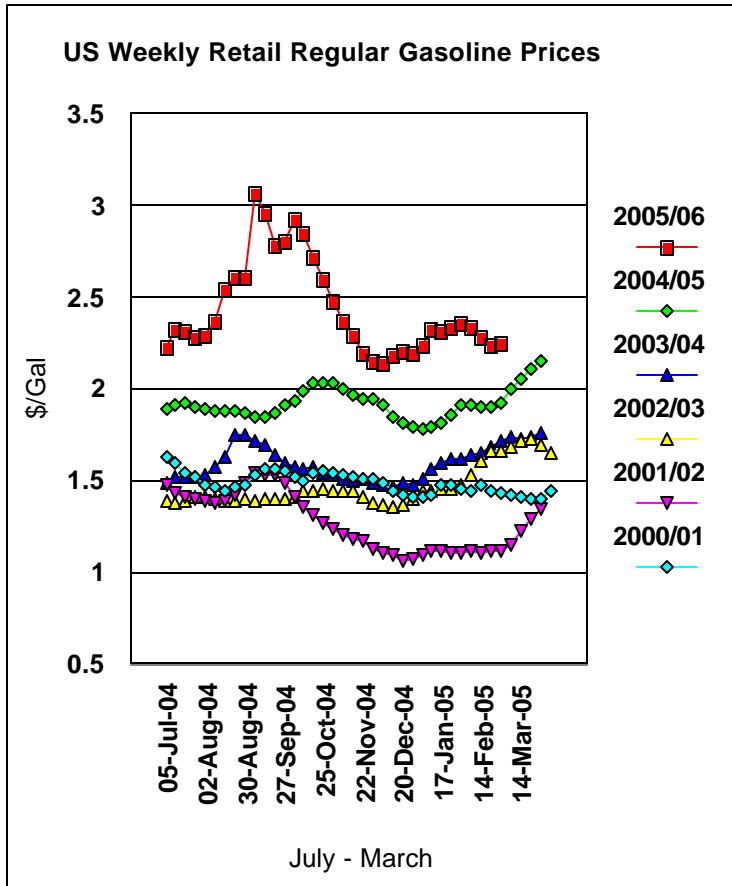
the Abqaiq oil facility. Security sources said police tracked down the militants after pursuing two vehicles that appeared on the surveillance video of the Abqaiq facility shortly before it was attacked. Interior Ministry spokesman Mansour al-Turki said police seized a large cache of explosives at the villa, which security forces besieged, and that a suspected militant was being interrogated.

Kuwait expressed concern about the safety of its oil installation following a foiled attack against Saudi Arabia's Abqaiq oil facility. Kuwait's Energy Minister Sheik Ahmed Fahd al Ahmad al Sabah said there have been statements recently by al Qaeda members threatening to bomb, sabotage and destroy economic installations.

Indonesia's OPEC Governor Maizar Rahman said the country would ask OPEC during its next meeting to roll over its current production until world oil prices fall below \$50/barrel.

The EIA reported that the US average retail price of diesel increased by 1.6 cents/gallon to \$2.471/gallon in the week ending February 27th. The EIA also reported that the US average retail price of gasoline increased by 1.4 cents/gallon to \$2.254/gallon in the latest week.





The Lundberg survey reported that retail gasoline prices fell by an average of 6 cents/gallon to \$2.27/gallon in the past two weeks.

Refinery News

Western Refining Inc plans to shut the North Plant of its 108,000 bpd El Paso, Texas refinery for seasonal maintenance starting March 4.

Flint Hills Resources has threatened to close its refinery in Alaska unless the state grants it a major financial concession. Flint Hills Resources is asking for a contract change that could cost Alaska up to \$100 million in retroactive payments. The FERC may lower tariffs next year for transporting oil through the nearby trans-Alaska pipeline.

Shell Canada is expected to shut its 155,000 bpd Scotford upgrader in May for six to eight weeks of planned turnaround maintenance.

Petrochemicals Ltd said it would shut down its Phase II units for turnaround from March 22 to April 20. The company said its Phase I refinery would continue to operate at full capacity.

Abu Dhabi plans to shut two condensate splitters at its 415,000 bpd Ruwais refinery in the third quarter for routine maintenance.

Iran expects to finalize the design of a proposed 360,000 bpd condensate refinery within six months. The refinery is expected to produce 36 million liters/day of gasoline and other light products. The new refinery is part of Iran's plan to upgrade its existing nine refineries and build two new ones. Iran is also studying plans for a heavy oil refinery with an initial 160,000 bpd capacity to handle crude from Azadegan field.

Production News

Royal Dutch Shell said the amount of crude oil production shut in due to militant attacks last week remains at 455,000 bpd. It said it has not suffered any fresh militant attacks. Meanwhile, a Delta State government official said nine foreign oil workers being held by Nigerian militants could be released in days. The official declined to comment on what if anything, the militants would be granted in return for the hostages' release. Separately, local reports said President Olusegun Obasanjo is expected to meet with oil executives Tuesday in Nigeria to discuss the security situation in the Niger Delta.

According to the Middle East Economic Survey, OPEC's production fell by 460,000 bpd to 29.27 million bpd in January. It estimated that the ten OPEC members, excluding Iraq, produced 27.69

million bpd, down 490,000 bpd on the month. MEES reported that Iraq's production increased by 30,000 bpd to 1.58 million bpd.

Russia's Transneft confirmed a large oil export program for March but has slightly trimmed its initial plans for Ukraine's Black Sea ports. Ukraine's Black Sea port of Odessa is scheduled to load 570,000 tons of crude, down from the initial March schedule of 690,000 tons. The port of Yuzhny is scheduled to export 464,000 tons, down from an initial schedule of 610,000 tons. Meanwhile exports from the Baltic Sea port of Primorsk are expected to increase to 5.405 million tons, unchanged from its preliminary plan. The Black Sea port of Novorossiisk is expected to ship 3.937 million tons, relatively unchanged from its preliminary plan. Lithuania's Butinge is expected to ship 541,000 tons, up from its initial plan of 460,000 tons while Russia's Black Sea port of Tuapse is expected to load 380,000 tons, down from 436,000 tons scheduled for February.

Delays for oil tankers transiting the Turkish Straits fell to 8 days for a round trip voyage to the Black Sea, down from a peak of 24 days in early January. Oil tankers were facing delays of four days to pass north through the Dardanelles and Bosphorus and four days south again.

Russia's Fuel and Energy Ministry reported that the country's fuel oil exports increased by 1.4% on the year to 2.535 million tons in January. It also reported that the country's diesel exports increased by 7.2% on the year to 3.113 million tons in January.

OPEC's news agency reported that OPEC's basket of crudes increased by \$1.06/barrel to \$56.24/barrel on Friday.

The General Administration of Customs of China reported that China's crude oil imports increased by 70.7% on the year to 13.152 million tons in January. Its crude exports fell by 17% to 432,485 tons in January. It also reported that China's gasoline exports fell by 23.6% to 359,370 tons in January. Its naphtha exports fell by 46.4% on the year to 92,014 tons while kerosene exports fell by 8.9% to 179,490 tons and light diesel fuel fell by 4.9% to 60,054 tons.

A senior government official in India said the country's oil products sales in January fell by 0.7% on the year to 9.59 million tons. India's sales of diesel increased to 3.43 million tons in January, up from 3.31 million tons last year.

Malaysia announced an increase in pump prices of petrol and diesel effective Tuesday as part of a long term plan to cut fuel subsidies and reduce its fiscal deficit. The price of petrol and diesel would increase by 30 Malaysian cents or \$0.08/liter.

Market Commentary

The oil market opened about \$1 lower at 61.90 as it retraced Friday's sharp gains. The market eased off its high as it gave up the weekend premium, which was mostly prompted by the news of the Al Qaeda attack on the world's largest processing plant on Friday. The market also eased off its high amid reports stating that Nigeria's militants would release the hostages in a few days. The crude market posted a high of 62.10 but continued to trend lower. The market backfilled its previous gap from 61.70 to 61.15 as it sold off to a low of 60.85. It later settled in a sideways trading range and traded back above the 61.50 level before further selling pushed the market below the 61.00 level once again. It settled down \$1.91 at 61.00. Volume in the crude was good with 170,000 lots booked on the day. The heating oil market also settled down 4.41cents at 168.26. The market gapped lower from 169.50 to 169.00 on the opening and continued to trend lower as it retraced last week's gains. The market backfilled its gap from 169.50 to 167.40 as it traded to a low of 166.85. However the market later settled in a sideways trading pattern. The market later posted a high of 169.70 before it sold off

ahead of the close once again. The gasoline market opened down 3.7 cents at 151.35 and quickly sold off to a low of 147.00. However as the market posted a double bottom at 147.00, the market bounced off that level and rallied to a high of 154.00 ahead of the close. It settled down 2.56 cents at 152.50. Volumes in the product markets were good with over 63,000 lots booked in the heating oil and 58,000 lots booked in the gasoline market.

The crude market is seen trading sideways as concerns over the situation in Saudi Arabia ease. The market will remain concerned over the other wildcards in the market, Iran and Nigeria. The market is

seen finding support at 60.85 followed by 59.70, 59.30 and 59.20. Meanwhile resistance is seen at 61.70 followed by 62.10 and 63.25.

Technical Analysis		
	Levels	Explanation
CL 61.00, down \$1.91	Resistance 62.10, 63.25 61.70	Monday's high, Previous high
	Support 60.85 59.70, 59.30 and 59.20	Monday's low Previous lows
HO 168.26, dow 441 cents	Resistance 173.50, 174.50 to 175.80 169.70	Previous high, (Remaining gap February 7th) Monday's high
	Support 166.85 164.00, 159.70	Monday's low Double bottom, Previous low
HU 152.50, down 2.56 cents	Resistance 155.75, 156.50, 156.90, 158.80 154.00	Previous highs, 38% (189.50 and 136.75), Previous high Monday's high
	Support 152.00, 150.00 147.00, 143.40	Monday's low, Previous low