



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR MARCH 3, 2006

US Energy Secretary Sam Bodman said there is no sign that the global economy is suffering in any major way due to high prices. He said he believes OPEC has a sense that with current high oil prices, markets need more, not less crude from the group. In regards to Nigeria, he stated that Nigeria's Oil Minister, Edmund Daukoru, who he met with earlier in the week, did not offer any assurances on how Nigeria would protect its oil facilities from future militant attacks. He also said he was not concerned about Venezuela's threats to cut shipments of crude oil and refined products to the US. Separately, he said he planned to ask major oil companies why they were not installing more pumps at the retail stations that offer gasoline made from 85% ethanol. He said if companies did not make an effort to install the ethanol pumps, there would be a more aggressive response from the government on the matter.

Market Watch

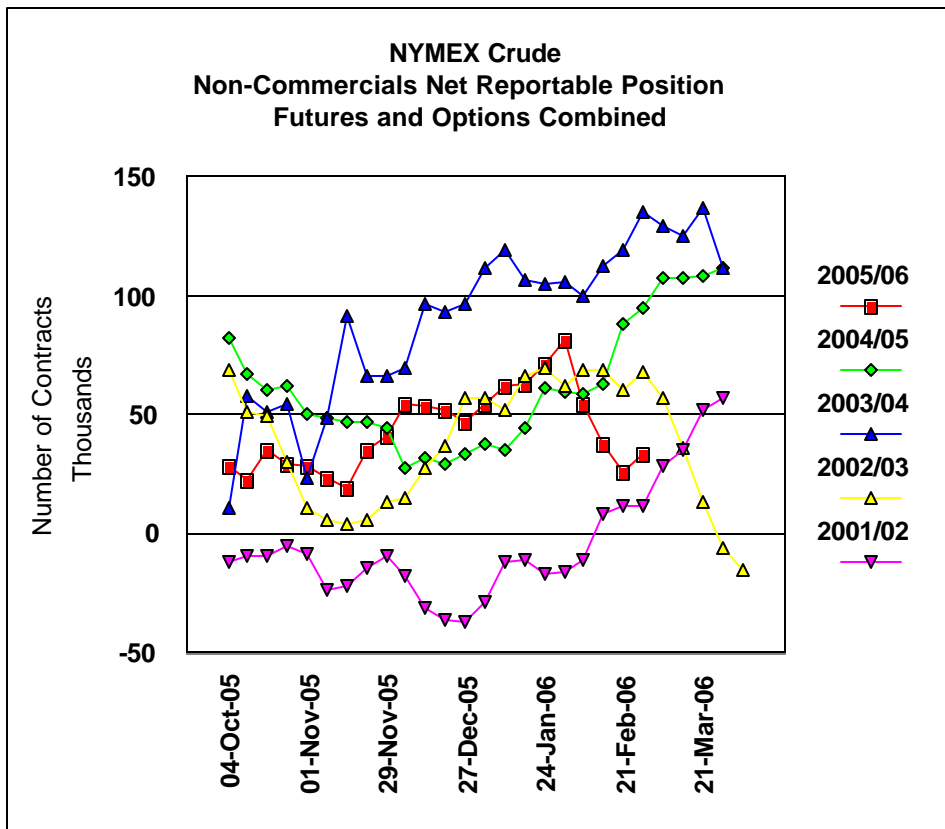
Agip bought 100,000 barrels of gasoline from Sunoco at two cents under NYMEX April RBOB futures. It is believed to be the first physical gasoline deal priced against the future US gasoline benchmark. The deal was structured as an exchange for physical with the US unit of Agip buying physical RBOB gasoline and selling July RBOB futures.

Traders stated that at least 12 million barrels of Russian, North Sea and Algerian crude oil is expected to hit the Asian market in April and May after the arbitrage opened to its widest level in a year and a half.

Russia's Transneftproduct has taken over operational control and subsequently raised fees at a gas oil terminal in Latvia's port of Ventspils, prompting some traders to consider moving operations elsewhere. Transshipment costs at the terminal that Transneftproduct operates with Ventbunkers were raised to \$12.60/ton from March 1, up from \$10.80 previously. Storage costs were also introduced at \$0.20/ton a day from no charge previously.

OPEC President, Edmund Daukoru said OPEC would most likely convene before its June meeting as part of an effort to manage volatility in the oil markets. He said that it is difficult to say now whether OPEC would cut its production at its meeting next week due to constant price spikes.

Iran's nuclear negotiator and European foreign ministers ended their talks on Iran's nuclear ambitions without any agreement. The talks were just three days before the IAEA meeting. A diplomat said EU officials would not compromise on their demand that Iran give up all uranium enrichment in Iran. Iran's President Mahmoud Ahmadinejad said the IAEA's treatment of Iran is politically motivated. Meanwhile, Russia's Foreign Minister Sergey Lavrov said a deal with Iran on its nuclear enrichment program was still possible before next week's meeting of the UN's IAEA. Separately, a Russian global policy think tank, the Council for Foreign and Defense Policy said Iran could probably build nuclear weapons in no more than five years.



Hopes of a release of the three remaining hostages held by militants in Nigeria dimmed as the militants raised five new conditions for their freedom late Thursday. The militants called for the disbandment of the government's special military unit, the Joint Task Force in the Niger Delta, the demilitarization of the zone where the Ijaw live, an end to pollution and gas flaring and an end to the use of government troops for oil company security. They also demanded that the Joint Task Force be replaced with a credible negotiation team.

Separately, the Nigerian government told political opponents on Friday not to

stage anti-government protests. Information Minister Frank Nweke said the government would not hesitate to crack down on unpatriotic protesters, who he accused of planning unrest in the country. The increase in unrest has been attributed to uncertainty over next year's election.

Hundreds of Iraqi Shi'ites marched in the streets of Basra after mosque services on Friday. They marched to the Iraqi South Oil Co, threatening to disrupt exports unless the government provided better protection and greater support to local authorities and private militias.

Refinery News

ConocoPhillips said its 247,000 bpd refinery in Belle Chase, Louisiana was on schedule to reach full operations near the end of the first quarter after some units were restarted in January. The refinery was shut due to Hurricane Katrina.

Murphy Oil Corp will restart its 120,000 bpd Meraux, Louisiana refinery in April after it was shut in late August due to Hurricane Katrina.

China's oil refineries are expected to cut their runs for the second consecutive month in March due to turnarounds. The country's 12 major plants are expected to cut its runs by 6% on the month in March to 2.18 million bpd.

Production News

BP shut in 100,000 bpd of crude production in Alaska following an oil spill at a pipeline. The spill occurred on Thursday at a BP operated transit line on Alaska's North Slope between Gathering Center

2 and Pump Station 1 in Prudhoe Bay's western operating unit. Output at the 100,000 bpd gathering facility and the wells that feed into it were shut in.

According to traders, European refiners and gas oil traders have started tapping supplies from regional storage tanks to meet demand as supplies tighten.

Indonesia's government discussed on Friday the possibility of a joint operating agreement in a bid to resolve a dispute between Exxon Mobil Corp and Pertamina over the Cepu block. The two companies have been disputing for months over which company will operate the Cepu oil development. The development of Cepu, estimated to have recoverable reserves of up to 600 million barrels and expected to produce up to 180,000 bpd, cannot start until it is decided whether Pertamina, Exxon or a combination of the two operate the field.

Indonesia's domestic oil consumption in 2006 is estimated to fall 20% on the year due to high prices. The country's oil imports are also expected to fall by a 20% to 80 million barrels this year or 220,000 bpd from 100 million barrels in 2005.

Japanese oil companies have started to increase their gasoline imports months ahead of the summer driving season, fearful that below average stocks and heavy spring maintenance may leave them short of supplies. Nippon Oil Corp is expected to import about 40,000 kiloliters or 252,000 barrels of gasoline and gasoline reformulate for March. Meanwhile, Exxon Mobil Corp was seen moving about 300,000 barrels of gasoline from Europe for March loading, with the shipment heading to Japan and Singapore.

OPEC's news agency reported that OPEC's basket of crude increased to \$58.10/barrel on Thursday, up from \$57.13/barrel reported on Wednesday.

Italy's Eni SpA said it expects supplies of Russian gas to fall 10.8% below requested volumes on Saturday due to severe winter weather in Russia.

Market Commentary

The oil market opened lower as it retraced some of Thursday's sharp gains but ended in positive territory as the market rallied ahead of the weekend. The market traded to 63.40 and held some resistance at that level before it traded to a low of 62.70. However the market bounced off that level and settled in a sideways trading range before further buying pushed the market to its high ahead of the close.

The market was supported amid the continuing concerns over the Iranian situation, the threats of further attacks in Nigeria and the

Technical Analysis		
	Levels	Explanation
CL Resistance 63.36, up \$1.39 Support	63.95, 64.49, 64.60 63.75	Previous high, 50% (69.78 and 59.20), Previous high Friday's high
	63.20, 62.70 62.35, 61.50	Friday's low Thursday's low, Previous low
HO Resistance 180.49, up 5.83 cents Support	184.00, 184.80 182.00	Previous highs Friday's high
	180.00, 178.75 175.70, 172.75	Friday's low Previous lows
HU Resistance 169.25, up 7.01 cents Support	175.50, 178.90 to 181.00 174.75	Previous high, Remaining gap (February 7th) Friday's high & 50% retracement level (199.50 and 150.00)
	172.00, 170.00 166.50, 164.25 to 163.40	Friday's low, Gap (March 2nd)

possibility of attacks on oil facilities in Saudi Arabia. The market rallied to a high of 63.75 and settled up 31 cents at 63.67. Volume in the crude market was good with over 225,000 lots booked on the day. Meanwhile, the gasoline market opened down 2 cents at 167.25 and traded to a low of 166.50 early in the session. However the market bounced off the level and retraced its earlier losses. The market continued to trend higher and retraced 50% of its move from a high of 199.50 to a low of 150.00 as it rallied to a high of 174.75 ahead of the close. The gasoline market settled up 5.06 cents at 174.31. The heating oil market also posted a low of 178.75 early in the session as it retraced some of Thursday's gains. However the market bounced off its low and rallied to a high of 182.00 ahead of the close. It settled up 79 points at 181.28. Volumes in the product markets were good with 53,000 lots booked in the gasoline market and 45,000 lots booked in the heating oil market.

The Commitment of Traders report showed that non-commercials in the crude market cut their net short positions by 4,477 contracts to 25,651 contracts in the week ending February 28. The combined futures and options report also showed that non-commercials increased their net long position by 7,338 contracts to 33,509 contracts on the week. Given the market's recent uptrend and continued increase in open interest, non-commercials have further increased their net long positions in the past few trading sessions. The non-commercials in the gasoline market however cut their net long positions by 7,898 contracts to 13,720 contracts as traders continue to liquidate their positions. Meanwhile, non-commercials in the heating oil market reversed their net long position of 849 contracts to a net short position of 782 contracts on the week.

The oil market on Monday will be driven by any news over the weekend. The market will seek further direction from the outcome of the IAEA meeting, which may result in Iran's referral to the UN Security Council over its nuclear ambitions. Even though the market is technically starting to look overbought, it will likely continue to trend higher if Iran is referred to the UN Security Council. The market is seen finding some resistance at its high of 63.75 followed by 63.95, 64.49 and 64.60. Meanwhile, support is seen at 63.20 followed by its low of 62.70. More distant support is seen at 62.35 and 61.50.