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ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR MARCH 7, 2006

Market Watch

The head of the IEA, Claude Mandil, said the IEA could fill the gap left by a possible Iranian crude oil embargo. He said the IEA crude stocks could fill a gap left by any cut in Iran's oil exports for about 18 months.

Iran is offering to suspend full scale uranium enrichment for up to two years. However a diplomat said the Iranians were not prepared to freeze small scale enrichment. The diplomat also said any moratorium of more than two years on industrial scale production and any suspension of nuclear research activities would make it difficult to reach a deal. European Union negotiators have demanded a 10 year moratorium on all enrichment activities. A diplomat from one of the three EU powers that have negotiated with Iran said that Russia had proposed informally that Iran hold off large scale enrichment for seven to nine years, while pursuing limited research. A top Kremlin aide said Russia is not breaking ranks on Iran but it shares the goal of preventing Iran from gaining nuclear weapons. France, Britain, Germany and the US have rejected the idea of allowing Iran to pursue a small scale enrichment research program, arguing that the risks enabling Iran to master technology it could then use in a covert nuclear weapons program. The UN's IAEA chief Mohamed ElBaradei favors a compromise that would let Iran pursue enrichment research on a small scale under UN surveillance. Meanwhile, China's Foreign Minister, Li Zhaoxing called on Iran to cooperate with the IAEA in settling the dispute over its nuclear program. Separately, Iran's President Mahmoud Ahmadinejad called on the UN's IAEA to compensate Iran for suspending its nuclear activities since 2003. He said the IAEA has to compensate Iran for causing damage to the development of its scientific technology and economy due to the suspension of nuclear activities.

Vice President Dick Cheney said the US would not allow Iran to have nuclear weapons. He said Iran faces "meaningful consequences" if it persists in defying the international community. He said the US was keeping all options on the table in its determination to prevent Iran from developing nuclear weapons. Late Monday, Undersecretary of State Nicholas Burns said the US would seek to have European allies and others, possibly Russia and China, join it in imposing travel and financial sanctions on Iran if it refused to halt uranium enrichment.

OPEC's ministerial monitoring committee is expected to recommend to the full meeting of OPEC that it leave its oil production unchanged. OPEC's acting Secretary General Mohammed Barkindo said he expected no surprises when OPEC meets to discuss its output policy on Wednesday. Meanwhile, the UAE's Oil Minister Mohammed bin Dhaen al-Hamli said OPEC's 28 million bpd production ceiling is adequate. He said OPEC should maintain its current output ceiling. Qatari Oil Minister Abdullah bin Hamad al-Attiyah said OPEC will discuss issues of demand in the second quarter and the effect of new political pressures on world oil markets. He said April would be the right time for OPEC to consult again on its oil output policy. He was referring to the International Energy Forum on April 22-24. Kuwait's Oil Minister Sheikh Ahmad al-Fahd al-Sabah also stated that OPEC should leave its oil output ceiling unchanged and maintain current levels for the whole of 2006. He said OPEC was attempting to lower oil prices below $60/barrel and added that he was not concerned about the increase in crude oil stocks in the US. Saudi Arabia's Oil Minister Ali al-Naimi arrived in Vienna for Wednesday's meeting but declined to comment. Algeria's Oil Minister Chakib Khelil said he was somewhat concerned about increasing levels of gasoline supplies but added that the market is well supplied and that OPEC's output is likely to remain unchanged. Unlike most OPEC ministers, Venezuela's Energy Minister Rafael Ramirez said OPEC should consider cutting its output by 500,000 bpd in the second quarter. He said oversupply in the market is running at over 1 million bpd.

According to the EIA's Short Term Energy Outlook, the price of crude is expected to remain high through 2006 amid the steady world demand growth and the continuing risks of geopolitical instability. The price of WTI crude is estimated to average $64/barrel in 2006 and $61/barrel in 2007. Retail gasoline prices are projected to average $2.42/gallon in 2006 and $2.36/gallon in 2007. In regards to winter heating expenditures, the EIA stated that consumer heating with heating oil would pay $187 or 16% more than last year, down from its previous estimate of $195. Households heating primarily with propane are expected to pay $134 or 12% more than last year, down from its previous estimate of $150. The EIA also stated that world spare oil production capacity is expected to increase only modestly during 2006 and 2007 despite new supplies from OPEC and non-OPEC countries. Non-OPEC supply is expected to grow by 900,000 bpd in 2006 and by 1.6 million bpd in 2007. World oil demand growth is expected to increase from 1.2 million bpd in 2005 to 1.5 million bpd in 2006, down from its previous estimate of 1.6 million bpd. World demand growth is projected to increase further to 1.8 million bpd in 2007, also down 100,000 bpd from its previous estimate. Average domestic oil production is estimated to increase by 350,000 bpd or 6.8% in 2006 to 5.47million bpd. For 2007, a 5.3% increase is expected, resulting in an average production rate of 5.76 million bpd. The EIA also stated that about 255,000 bpd of US crude production would remain shut in the Gulf of Mexico by start of the 2006 hurricane season. In 2006 and 2007, petroleum demand is expected to increase by 1.4% to 20.95 million bpd and 2.2% to 21.41 million bpd, respectively. It is down from its previous estimate of 21.02 million bpd and 21.48 million bpd, respectively. Gasoline demand in 2006 was unchanged at 9.28 million bpd while gasoline demand in 2007 is estimated at 9.44 million bpd, up from its previous estimate of 9.43 million bpd. Distillate demand in 2006 and 2007 is estimated at 4.17 million bpd and 4.34 million bpd, respectively. In regards to OPEC, the EIA reported that OPEC's production fell by 50,000 bpd to 29.55 million bpd in February. The ten OPEC members cut their production by about 150,000 bpd to 27.85 million bpd.

Refinery News

Sunoco's 179,000 bpd refinery in Marcus Hook, Pennsylvania suffered an explosion late Monday, triggering a fire that took about an hour to extinguish. Sunoco said the fire had no effect on production.

Western Refining Inc plans to restart its 55,000 bpd North Plant at its 108,000 bpd El Paso, Texas refinery on March 11 following a week of seasonal maintenance.

PDVSA's La Isla refinery is scheduled to begin planned maintenance of its 50,000 bpd catalytic cracking unit this week.

Chevron Corp is considering adding 200,000 bpd of processing capacity to its Pascagoula, Mississippi refinery. It is currently adding processing capacity to the refinery's fluid catalytic cracking unit, a move which would increase the plant's gasoline output by 25%. The expansion is scheduled to be completed in late 2006.

Production News

BP Exploration Alaska said it was able to restore very limited crude production on the western side of Alaska's Prudhoe Bay field as cleanup of spilled oil continued after a leak was detected on March 2. It was able to restart 5,000 bpd of production through a 6 inch pipeline on March 4. BP is studying ways limited production can be increased.

Nigeria's Minister of State for Petroleum Edmund Daukoru said Nigeria is committed to security at its oil installations. He also stated that about 75% of Nigeria's shut in oil production due to militant attacks should be restored in about two weeks. Shell shut in about 450,000 bpd of Nigerian production.

Petroecuador said its production fell by 33% on Tuesday to 134,000 bpd after about 4,000 contract workers in two provinces called a strike to demand full time positions and better working conditions. The workers shut down electricity in all the oil fields.

Kuwait's Oil Minister Sheikh Ahmad al-Fahd al-Sabah said it expects to produce 50,000 bpd of oil from its new field by the end of next year and increase to 500,000 bpd in the future.

According to data supplied by oil traders, total former Soviet Union fuel oil exports via the Baltic and Black Sea ports fell by 1.41 million tons or 33% in February to 2.88 million tons. FSU gas oil exports from Baltic and Black Sea ports fell by 164,000 tons or 5% on the month to 3.09 million tons.

China is expected to cut its gasoline exports and increase imports of naphtha in March to compensate for lost domestic production as plants begin maintenance work. Gasoline exports are expected to fall by a third in March to 225,000 tons. Its naphtha imports are expected to increase to 100,000 tons from zero in February.

OPEC's news agency reported that OPEC's basket of crudes fell by 44 cents/barrel to $58.64/barrel on Monday.

Tokyo Electric Power Co increased its use of oil for thermal power generation in February and cut consumption of liquefied natural gas. It consumed 420,000 kiloliters or 94,300bpd of low sulfur crude oil in February, up 30.8% on the year. It also consumed 488,000 kl of fuel oil in February, down 2.8% on the year. Total oil consumption increased by 10.3% on the year to 908,000 kl. Its LNG consumption in February totaled 1.13 million tons, down 21.4% on the year.

South Korea's S-Oil Corp sold a total of 360,000 metric tons or 8,300 bpd of gasoline on a term basis for the term year starting in April.

Italy's Eni SpA said it expects supply of gas from Russia to fall 6.8% below requested volumes on Tuesday.

Market Commentary

The oil complex settled in negative territory for the second consecutive session, with the crude market settling down 83 cents at 61.58. The crude market opened slightly lower at 62.35 and quickly posted a high of 62.50. The market however retraced its small gains and continued to trend lower amid the expectations that OPEC would leave its output ceiling unchanged at its meeting on Wednesday. The market was also pressured amid the reports that 75% of Nigeria's shut in oil production following the militant attacks would resume in about two weeks. Also talks regarding Iran's nuclear ambitions continued as Iran offered to suspend full scale uranium enrichment for up to two years, while it pursues limited research. The market extended its losses to over $1.30 as it sold off to a low of 61.10. The market later erased some of its losses and settled in a sideways trading pattern ahead of the close. Volume in the crude market was excellent with over 304,000 lots booked on the day. The gasoline market gapped lower from 165.00 to 163.50 and partially backfilled the gap as it posted a high of 164.30 early in the session. The market continued to trade lower in follow through selling seen on Monday. The gasoline market extended its losses to over 8 cents as it posted a low of 157.55. The market however bounced off its low and retraced most of its losses ahead of the close as it traded back towards the 164.00 level. It settled down 2.26 cents at 163.34. The heating oil market also gapped lower from 175.55 to 174.25. The market partially backfilled its gap and posted a high of 174.75 before it continued to trend lower. The market retraced more than 62% of its gains from a low of 162.55 to a high of 182.00 as it sold off to a low of 169.70. The heating oil market later retraced some of its losses ahead of the close and settled down 3.55 cents at 172.22. Volumes in the product markets were good with over 49,000 lots booked in the gasoline market and 63,000 lots booked in the heating oil market.

The crude market is likely to trade lower amid the expectations that OPEC will leave its production policy unchanged at its meeting. However its losses may be limited in light of the expected draws in product stocks. The market is expecting a build of about 1.5 million barrels in crude stocks, a draw of 1.5 million barrels in distillate stocks and a draw of about 500,000 barrels in gasoline stocks. The market is seen finding support at its low of 61.10 followed by 60.30 and 59.70. Meanwhile resistance is seen at 62.00 and 62.50. More distant resistance is seen at 63.50, 63.75 and 63.95.

Technical Analysis

		Levels	**Explanation**
		63.50, 63.75, 63.95	Previous highs
	Resistance	62.00, 62.50	Tuesday's high
CL	61.58, down 83 cents		
	Support	61.10	Tuesday's low
		60.30, 59.70	Previous lows
		174.75 to 175.55, 179.50	Remaining gap (March 7th), Previous high
	Resistance	172.50, 173.60	
HO	172.22, down 3.55 cents		
	Support	171.00, 169.70	Tuesday's low
		168.00, 165.80	Previous lows
		170.50, 174.75	Previous highs
	Resistance	164.00, 164.30 to 165.00	Remaining gap (March 7th)
HU	163.34, down 2.26 cents		
	Support	160.00, 158.50	
		157.55, 154.70	Tuesday's low, Previous low