



## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR MARCH 28, 2007**

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Britain's Prime Minister Tony Blair said it was time to increase the pressure on Iran to force the country to release the 15 sailors and marines it detained last week. He said the detention of the British sailors and marines by Iran was "completely

#### Market Watch

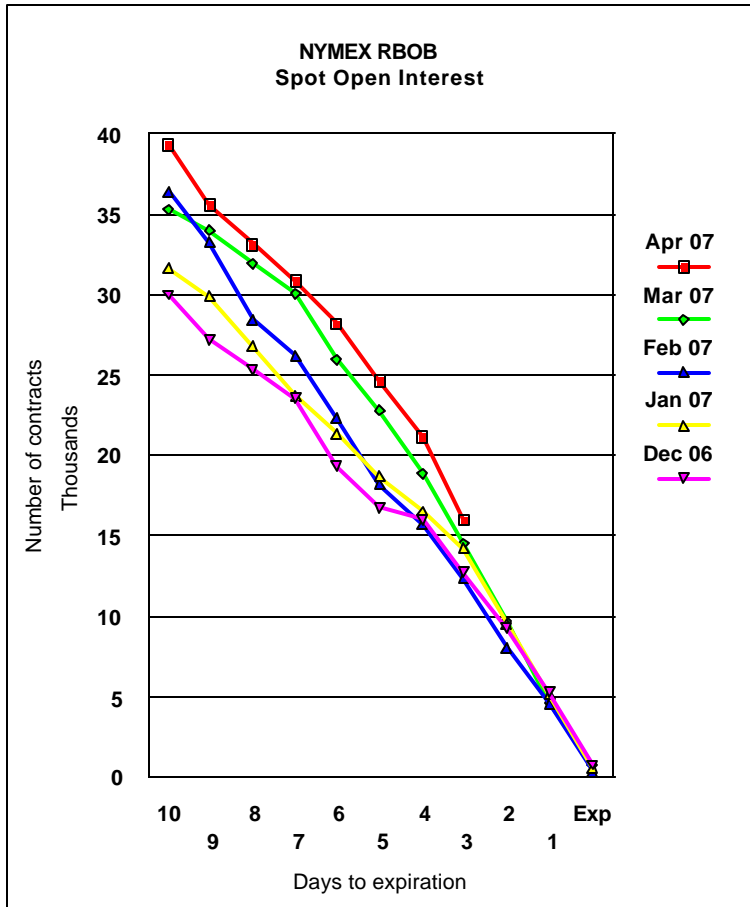
Saudi Arabia's King Abdullah criticized the US military presence in Iraq as an "illegitimate foreign occupation" in an opening speech to the Arab summit. He said that Arab countries, which were planning to revive a Middle East peace plan at the summit, would not allow any foreign force to decide the future of the region. Arab foreign ministers meeting ahead of the summit agreed on Monday to call for the amendment of Iraq's 2005 constitution to give Sunni Arabs a greater share of the country and prevent its breakup.

unacceptable, wrong and illegal." He added that Britain was in contact with allies in NATO and the UN Security Council to build support. He also said that Iran has given two conflicting positions for its troops at the time and said the first confirmed that they were inside Iraqi waters. The British Defense Ministry said global positioning data showed the British sailors were 1.7 nautical miles inside Iraqi waters, under UN jurisdiction and carrying out routine patrol when the Iranian navy detained them. Iran has claimed that the UK vessels were 0.5 kilometers into Iran's territorial waters. The Defense Ministry denied a market rumor that Britain had sent in troops to rescue the sailors. UK Foreign Secretary Margaret Beckett said she halted bilateral talks with Iran on all other issues until Iran returns the 15 British sailors and marines. Britain's Foreign Office stated that it would halt all official visits between Britain and Iran and suspend the issuing of visas to Iranian officials until the crisis over the detained navy personnel is over. Meanwhile, Iran's Embassy in London said the UK and Iranian governments were capable of resolving the crisis over the 15 captured UK naval personnel through cooperation. An Iranian politician said an apology from Britain's government for a breach of its territorial waters could resolve the standoff between the two countries. Later, Iran's Foreign Minister, Manouchehr Mottaki backed off an earlier prediction that a detained UK servicewoman could be freed Wednesday or Thursday, saying Iran would look into releasing her as soon as possible. Separately, the White House said that US has not been seeking to escalate tensions with Iran, though it supports Britain as it seeks the release of the 15 sailors and marines.

#### DOE Stocks

**Crude** – down 900,000 barrels  
**Distillate** – down 700,000 barrels  
**Gasoline** – down 300,000 barrels  
**Refinery runs** – up 0.81%, at 87%

US navy war games continued for a second day on Wednesday. US commanders said the maneuvers were not a direct response to Iran's seizure of the 15 British sailors and marines. A second US aircraft carrier started exercises in the Gulf on Tuesday, the first time two such vessels were sent to patrol Gulf waters since the US led war in Iraq. US



commanders said the purpose of the exercises was to show the commitment of the US to stability and security in the region.

Russian military intelligence services reported heightened US military preparations for both an air and ground operation against Iran. A source stated that the Pentagon has probably not yet made a final decision as to when an attack would be launched. The US naval presence in the Persian Gulf has for the first time in the past four years reached the level that existed shortly before the invasion of Iraq in 2003.

Iran implemented its decision to limit its cooperation with the UN's IAEA. Iran's government on Sunday decided to limit its cooperation with the agency after the UN Security Council voted to impose further sanctions against Iran over its nuclear program. Iran has denounced the UN resolution as illegal and has vowed not to suspend its nuclear work.

OPEC's Secretary General, Abdullah al-

Badri, said oil prices have increased due to political tension over Iran and added that there was no need for OPEC to increase its production. He said the supply and demand situation was balanced. He said he has not received any request for the group to hold an emergency meeting. Separately, Indonesia's OPEC governor, Maizar Rahman, said OPEC has not given an indication it intends to hold an emergency meeting over an increase in oil prices. He said the rally in oil prices was due to geopolitics. Libya's oil policy head Shokri Ghanem said it was too early for OPEC to call an emergency meeting despite crude prices rallying overnight on concerns over events in the Persian Gulf.

The head of the EIA, Guy Caruso said he saw more US oil refineries resuming operations and added that he expected drawdowns in oil stocks. In regards to ethanol, he said the rush to build new ethanol plants is expected to outpace demand this year and pressure prices. US ethanol production capacity is expected to increase by 63% to about 8 billion gallons, with 78 ethanol plants expected to be built in 2007 and beyond. Meanwhile demand is expected to increase just over 10% to about 5.3 billion gallons, leaving a 2.7 billion gallon overhang that could pressure prices.

### Refinery News

A delayed coker unit at Citgo Petroleum Corp's 156,000 bpd Corpus Christi, Texas refinery was temporarily shutdown following a power interruption on Tuesday. The unit was restarted within an hour after power was restored. A report filed with the Texas Commission for Environmental Quality did not specify whether production was impacted.

**NYMEX Petroleum Options Most Active Strikes for March 28, 2007**

Symbol	Month	Year	Call/Put	Strike	Exp Date	Settle	Volume	IV
LO	9	7	C	75	08/16/2007	2.41	8,576	29.83
LO	6	7	C	70	05/17/2007	1.55	6,793	32.83
LO	10	7	C	100	09/17/2007	0.4	6,500	33.91
LO	6	7	P	65	05/17/2007	2.81	4,625	32.87
LO	6	7	P	63	05/17/2007	1.96	4,514	33.09
LO	6	7	C	75	05/17/2007	0.67	4,263	34.26
LO	9	7	C	70	08/16/2007	3.95	3,601	29.44
LO	5	7	P	60	04/17/2007	0.62	3,562	35.37
LO	6	7	C	85	05/17/2007	0.12	3,219	37.17
LO	7	7	P	63	06/15/2007	2.24	3,150	32.17
LO	7	7	C	90	06/15/2007	0.16	3,083	34.94
LO	7	7	C	80	06/15/2007	0.65	2,856	33.09
LO	10	7	C	75	09/17/2007	2.92	2,850	29.32
LO	6	7	P	60	05/17/2007	1.08	2,783	34.00
LO	12	7	C	85	11/13/2007	1.5	2,635	28.12
LO	5	7	C	65	04/17/2007	1.62	2,593	34.10
LO	10	7	P	64	09/17/2007	3.41	2,550	30.01
LO	5	7	P	58	04/17/2007	0.31	2,241	36.46
LO	5	7	P	62	04/17/2007	1.15	2,185	34.45
LO	7	7	P	65	06/15/2007	3.02	2,150	31.81
LO	12	7	P	60	11/13/2007	2.51	2,150	29.86
LO	6	7	C	67	05/17/2007	2.57	2,040	32.85
LO	9	7	P	64	08/16/2007	3.07	2,011	29.96
LO	7	7	P	63.5	06/15/2007	2.41	2,000	31.98
LO	6	7	C	95	05/17/2007	0.03	1,900	41.13
LO	12	7	C	80	11/13/2007	2.34	1,792	28.05
LO	7	7	P	50	06/15/2007	0.16	1,751	35.87
LO	5	7	C	72	04/17/2007	0.28	1,740	38.45
LO	7	7	P	60	06/15/2007	1.38	1,697	33.05
LO	5	7	C	70	04/17/2007	0.47	1,627	37.20
OB	5	7	C	2.2	04/25/2007	0.0267	508	39.61
OB	5	7	P	1.7	04/25/2007	0.0053	407	39.38
OB	9	7	C	2.13	08/28/2007	0.0907	294	31.61
OB	9	7	C	2.09	08/28/2007	0.1012	290	31.24
OB	6	7	C	2.04	05/25/2007	0.0938	284	36.49
OB	12	7	C	1.9	11/27/2007	0.1322	275	31.70
OH	5	7	C	1.83	04/25/2007	0.0609	1,240	31.15
OH	5	7	P	1.83	04/25/2007	0.0641	1,237	31.15
OH	2	8	P	1.77	01/28/2008	0.0779	600	26.28
OH	12	7	P	1.9	11/27/2007	0.1212	513	27.13
OH	7	7	C	1.9	06/26/2007	0.093	400	31.18
OH	5	7	C	1.64	04/25/2007	0.1945	355	32.61
OH	6	7	C	1.84	05/25/2007	0.0869	355	30.93
OH	6	7	P	1.84	05/25/2007	0.0916	355	30.95
OH	12	7	P	2.02	11/27/2007	0.1784	351	26.97
OH	2	8	P	1.97	01/28/2008	0.1519	300	25.56
OH	5	7	C	1.6	04/25/2007	0.2307	200	33.30
OH	7	7	P	1.85	06/26/2007	0.1088	200	30.99

Motiva Enterprises LLC cut feedstock to a gasoline unit at its 285,000 bpd refinery in Port Arthur, Texas following a malfunction on Monday. Operators took the charge out of the 90,000 bpd fluid catalytic cracking unit and lowered unit pressure until flaring at the refinery stopped.

Valero Energy Corp shut a saturated gas recovery unit at its Port Arthur, Texas refinery following a compressor malfunction on Tuesday night. It was not clear from a report filed with the Texas Commission on Environmental Quality whether fuel production had been affected.

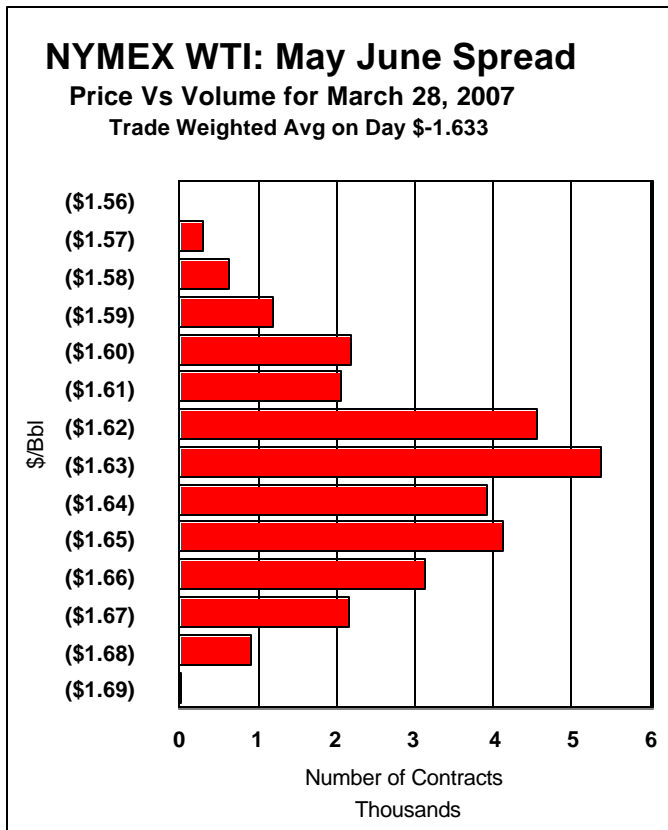
According to a report filed with the Texas Commission for Environmental Quality, the operation of sulfur removal equipment at ConocoPhillips' oil refinery in Sweeny, Texas was interrupted early Wednesday.

The Marseille Port Authority said the port workers' strike is expected to continue on Thursday. Refineries dependent on the Fos-Lavera oil terminal have started reducing output and could be forced to shutdown completely as early as the weekend if the strike continues, cutting 7% of European refinery capacity or 1.1 million bpd. Total's 155,000 bpd La Mede and 119,000 bpd Feyzin refineries and

ExxonMobil's 115,000 bpd Fos-sur-Mer refinery have been forced to cut runs to 65% of capacity. As

of Wednesday, 55 ships, including 31 oil tankers, 18 chemical tankers and six gas tankers were waiting outside the port. The port authority confirmed it would part of a meeting with regional government authorities, Gaz de France and CGT union representatives, scheduled for Thursday to try to end the strike. The strike at the Fos-Lavera terminal has blocked the unloading of oil and gas tankers since March 14 in protest against Gaz de France's decision to use its own personnel and not Marseille port workers to operate hookups for its future liquefied natural gas terminal.

Royal Dutch Shell said it was restarting its 77,000 bpd Reichstett refinery in France following a month long maintenance shutdown. It is expected to resume normal operations in the next few days. Shell's 80,000 bpd Berre L'Etang refinery recently went into full maintenance shutdown, expected to last four to six weeks.



Nippon Oil Corp said it would continue to cut refining volumes for the fourth consecutive month in April due in part to heavier refinery maintenance. It is expected to refine 4.4 million kiloliters or 922,500 bpd of crude in April, down about 400,000 kl or 8% on the year. Its crude refining volume was unchanged from its original plan at 4.8 million bpd, down 7% on the year.

Indonesia's 260,000 bpd Balikpapan refinery is expected to resume operations on April 10 following a one month maintenance shutdown. Its 200,000 bpd crude unit was shutdown on March 10, two weeks later than initially planned as Pertamina needed to build up fuel stocks further to meet domestic demand.

**Production News**

Royal Dutch Shell has reinstalled the drilling rig on its Mars platform in the Gulf of Mexico after completing major repairs to the structure from the 2005 hurricane season. Shell said the rig is expected to resume operations over the next few months. The return of the rig would have no immediate impact on production. The rig would primarily be used to perform maintenance on producing wells.

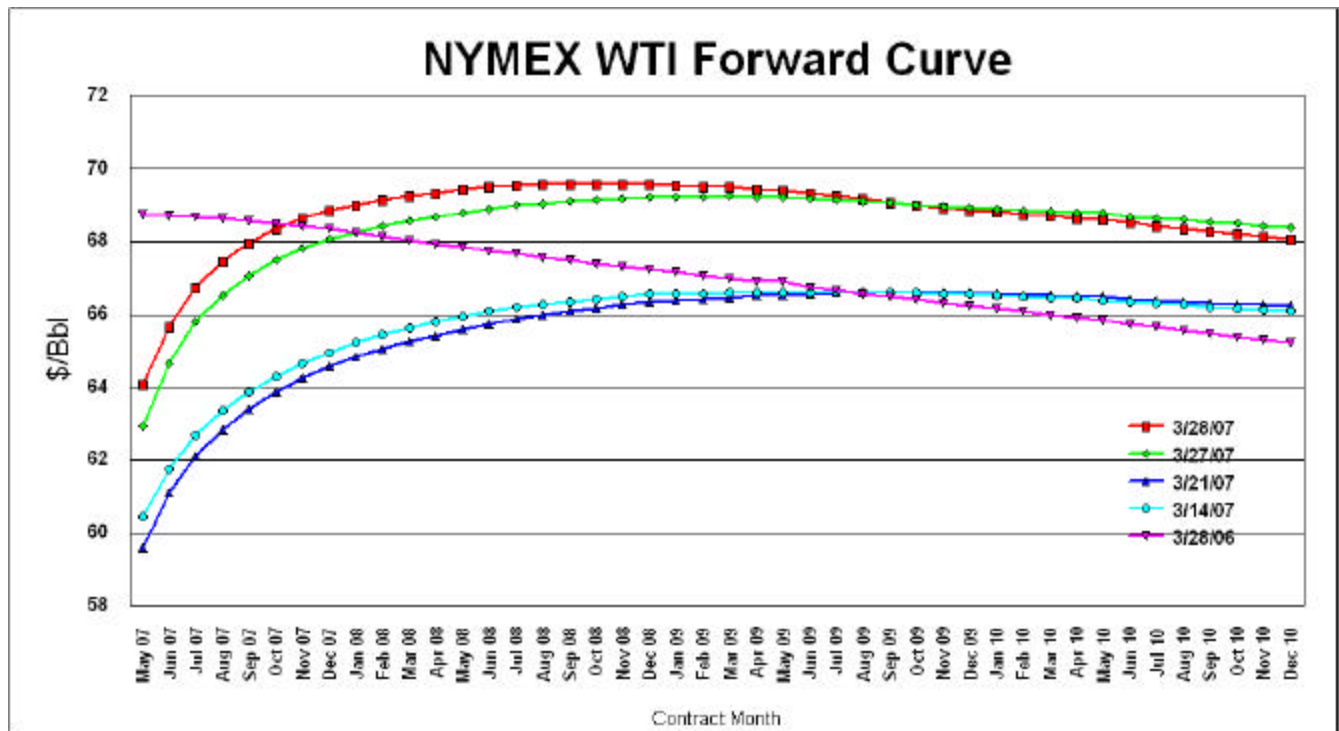
Smit International NV tug crews resumed their work on Wednesday after they temporarily interrupted their work earlier in the day. Smit and the union said they would return to the negotiation table Thursday to try to resolve issues concerning a pay rise and improved conditions for older crewmen. The tug strike, has prevented some large ships from entering or leaving the port of Rotterdam.

According to PDVSA's 2007 budget, the company's production is expected to reach 2.97million bpd in 2007.

Lifters said the UAE is expected to maintain crude oil supply volumes to Asia unchanged in May. Abu Dhabi National Oil Co has notified its customers in Japan and South Korea that it would supply crude oil at full contracted volumes for May, unchanged from April.

Total has launched the development of the Jura gas and condensate field in the North Sea, which should come on stream in the second quarter of 2008. It is expected to produce about 45,000 barrels of oil equivalent/day at plateau.

An official at Angola's Sonangol said the country is expected to produce about 1.9 million bpd of oil by the end of the year, nearly double its output from 2005. He said production in 2008 would likely increase to 2 million bpd. Its current production totaled 1.4 million bpd. He said Angola's plans to expand its oil output would not conflict with its responsibilities as the newest member of OPEC.



The Rhine River remained closed to shipping near Cologne in Germany following an accident involving a container ship on Sunday. The navigation authority estimates the river would be closed until Friday at least.

The Petroleum Association of Japan reported that the country's gasoline inventories totaled 2.2 million kl or 13.84 million barrels in the week ending March 24, down 1.44% on the week. Japan's crude stocks increased by 3.6% on the week to 17.9 million kl or 112.56 million barrels while kerosene stocks fell by 10.59% on the week to 2.12 million kl or 13.31 million barrels.

Glencore won Azerbaijan's Socar's tender for 450,000 barrels of Urals crude, loading on April 24-25 at Russia's Black Sea port of Novorossiisk.

Azerbaijan's Energy Minister Natiq Aliyev said the country would double its oil output to 65 million tons by 2010. He said most of the oil would be produced at Azeri-Chirag-Guneshli fields.

Indonesia is expected to import 11.49 million barrels of oil products for April, up 4.3% on the month.

India's Ministry of Petroleum and Natural Gas said India's oil product exports increased by 40.8% on the year to 27.6 million tons or 605,713 bpd in April 2006 to February 2007 period. It reported that India exported 10.1 million tons of diesel in April-February compared with 7.7 million tons.

OPEC's news agency reported that OPEC's basket of crudes increased to \$60.37/barrel on Tuesday, up from Monday's revised price of \$60.00/barrel.

### **Market Commentary**

On the heels of the news of war games in the Persian Gulf, the May contract gapped higher trading through our first major resistance level of 63.75, but with diminished confidence, was unable to take out the 64.80 number. The 64.80 number comes from the weekly trendline that can be drawn off the lows from January. Currently we have resistance set at 64.35, 64.80 and 6625, to the downside, 63.70, 63.35, 6305 (gap bottom) 62.55. With expected replenishing of the SPR scheduled for May, coupled with anticipated Chinese strategic stock building, we could easily see the May start to gain against the June contract and June to gain against July. Meanwhile the product markets, which retraced their gains in light of the DOE reports showing smaller than expected draws in product stocks, is seen finding support and trending higher ahead of the April contracts' expiration on Friday. The gasoline market will remain supported amid the continuing refinery problems. The RBOB market is seen finding resistance at 212.59 basis a trendline while support is seen at its low of 205.20, 203.32 and 200.00. The heating oil market is seen finding resistance at 185.17 followed by 186.97. Support is however seen at 180.30 followed by 177.71, 176.17 and 175.40.

As seen on the above forward curve comparison, this years curve is approximately \$5.00 weaker than a year ago. This we feel can be attributed to the heightened tensions that took place in the Mideast last year between Israel and the PLO. Due to the strategic replenishing mentioned above the front end of the curve should start to creep higher.

<b>Technical levels</b>			
	<b>Levels</b>	<b>Explanation</b>	
<b>CL</b>	<b>Resistance</b> 64.08, up 1.15	66.25 64.35, 64.80, 64.96	Wednesday's high
	<b>Support</b>	63.70, 63.35 63.05, 62.55	Wednesday's low
<b>HO</b>	<b>Resistance</b> 182.74, up 4.10 cents	186.97 185.17	Basis trendline Wednesday's high
	<b>Support</b>	180.30 177.71, 176.17, 17540, 173.09	Wednesday's low 38% retracement (165.63 and 185.17), Previous low, 50% and 62%
<b>RB</b>	<b>Resistance</b> 205.72, down 1.58 cents	212.59 211.43	Basis trendline Wednesday's high
	<b>Support</b>	205.20 203.32, 200.00, 199.15	Wednesday's low Previous low, 38% retracement(181.50 and 211.43), Previous low