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ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR MARCH 29, 2006

Germany and the five permanent members of the UN Security Council meeting in Berlin today, reaffirmed yesterday's Council demand that Iran halt enrichment of uranium. Iran quickly rejected Wednesday's UN Security Council demand that Iran halt uranium enrichment. The UN also called on the IAEA to report in 30 days on Iranian cooperation with agency demands. Iran's ambassador to the IAEA said Thursday that Iran definitely would not suspend its enrichment program, while the Iranian foreign minister said that the UN statement made it "…much harder for us to actively pursue further initiatives and cooperation. While both the

Market Watch

The U.S. GDP grew at a slightly upward revised 1.7% annual rate in the fourth quarter, up 0.1% from the preliminary estimate from last month.

An official with China National Petroleum Corp told a conference today that "within one year (Chinese domestic) product prices will be at the same level as international oil product prices. But he did note that the government is considering adopting other measures such as giving some subsidies to certain sectors impacted by the price hikes such as farm vehicles, transport firms and taxis.

T. Boone Pickens said on CNBC this afternoon that he expected to see $75 oil before we will see $60 again for WTI.

China Aviation Oil, which completed its corporate restructuring this week, said the firm would engage in no speculative trading moving forward. The firm posted some $550 million in losses back in 2004 due to speculative trading that brought the firm close to failure.

The Japanese government said today that in its new fiscal year beginning April 1st, it forecasts Japan's oil demand will fall 2.9% for the year and decline steadily over the next five years, as the power sector turns to cleaner and more efficient fuels. It noted that the only reason Japanese demand grew by 0.5% in this past fiscal year was due to a severe winter and unexpected shutdowns of nuclear power plants.

Tropical Cyclone Glenda struck portions of Northwest Australia today with winds of up to 155 mph. While much of 140,000 b/d of crude production in the area has been shut in since Saturday in advance of the storm, no significant damage to date has been reported.

Yemen is expected to talk with China next month to discuss strategic storage projects for both crude and products to be built in Yemen at is Red Sea port terminal of Ras Issa.

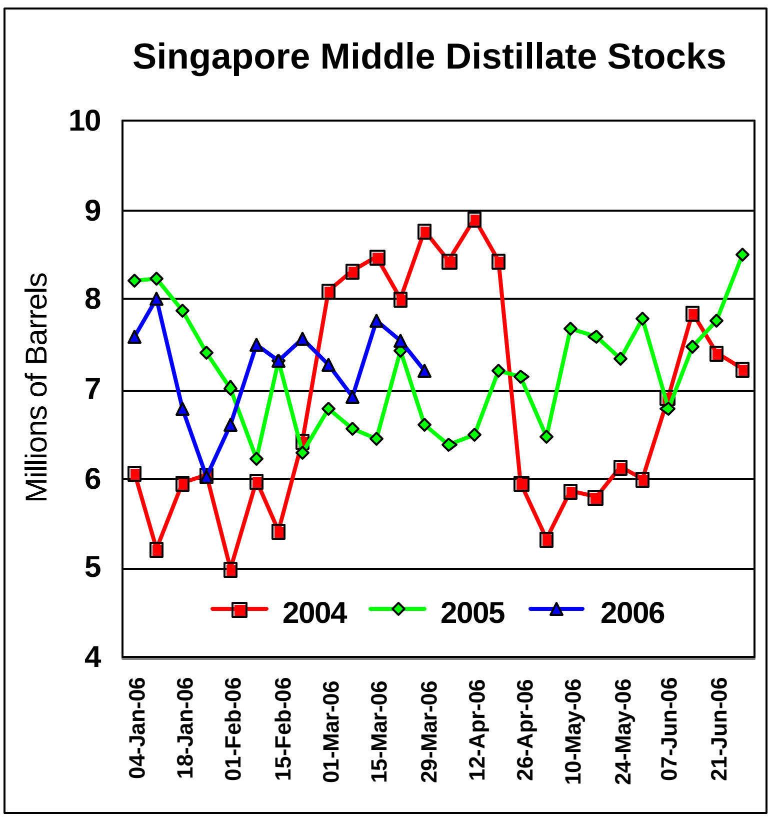
The NY Post reported today that a group of floor traders at the NYMEX are furious at being denied a chance to buy pre-initial public offering shares in the exchange before it goes public later this year. According to the report the leaseholders are threatening to walk off the job if their demands are not met.

Russian and Chinese officials ruled out the use of force against Iran, western diplomats noted that the next step would be a binding resolution from the Security Council based on Chapter VII of the UN charter, which deals with “action with respect to threats to peace”. Adoption of such a resolution would make compliance enforceable with economic sanctions or other measures. The head of the UN nuclear agency said though that Iran posed no imminent threat and that imposing sanctions on Iran was a bad idea.

Meanwhile the Iranian press reported that Iran is preparing to launch on Friday a week of naval military exercises in the northern Persian Gulf. The exercises would include firing of its Shahab II missile. Leaders said the exercise would demonstrate the Iranian full readiness to defend its territorial integrity. Military officials said that some 17,000 soldiers, airman and sailors would take part and that exercises would also include activities in the Straits of Hormuz.

Goldman Sachs said in a research note Thursday said that it maintained its price forecast for WTI for the remainder of the year pegging oil for the next nine months would average $69.50. But it did note that due to lower prices in the 1Q06 than it predicted it was forced to lower its overall average price in 2006 by 73 cents per barrel to $67.80.

The IEA said Thursday that it would not order an emergency stock release despite the prolonged supply outage from Nigeria. The agency noted that the supply disruption has been offset by production from other OPEC producers. The agency said “strategic stocks are not for combating high prices. It is important for markets to deal with supply disruptions.” The agency also noted that while there are high prices in the market it is not from a lack of oil.



Star Gas Partners said that the latest offer from the Soros Group to recapitalize the company is not superior to a purchase agreement with Kestrel Energy Partners. The approval of the deal is expected be completed by shareholders on April 6th.

The CEO of United Parcel Service said today that while the company has hedged some in 2006 it does not plan to modify its hedging strategy ahead of the 2006 hurricane season.

The DOE announced a revised schedule for returns of crude oil into the SPR. Some 800,000 barrels of scheduled deliveries for April will be moved into May. The new schedule calls for 1.6 million barrels to be delivered in March, 1.8 million in April and 2.2 million in June.

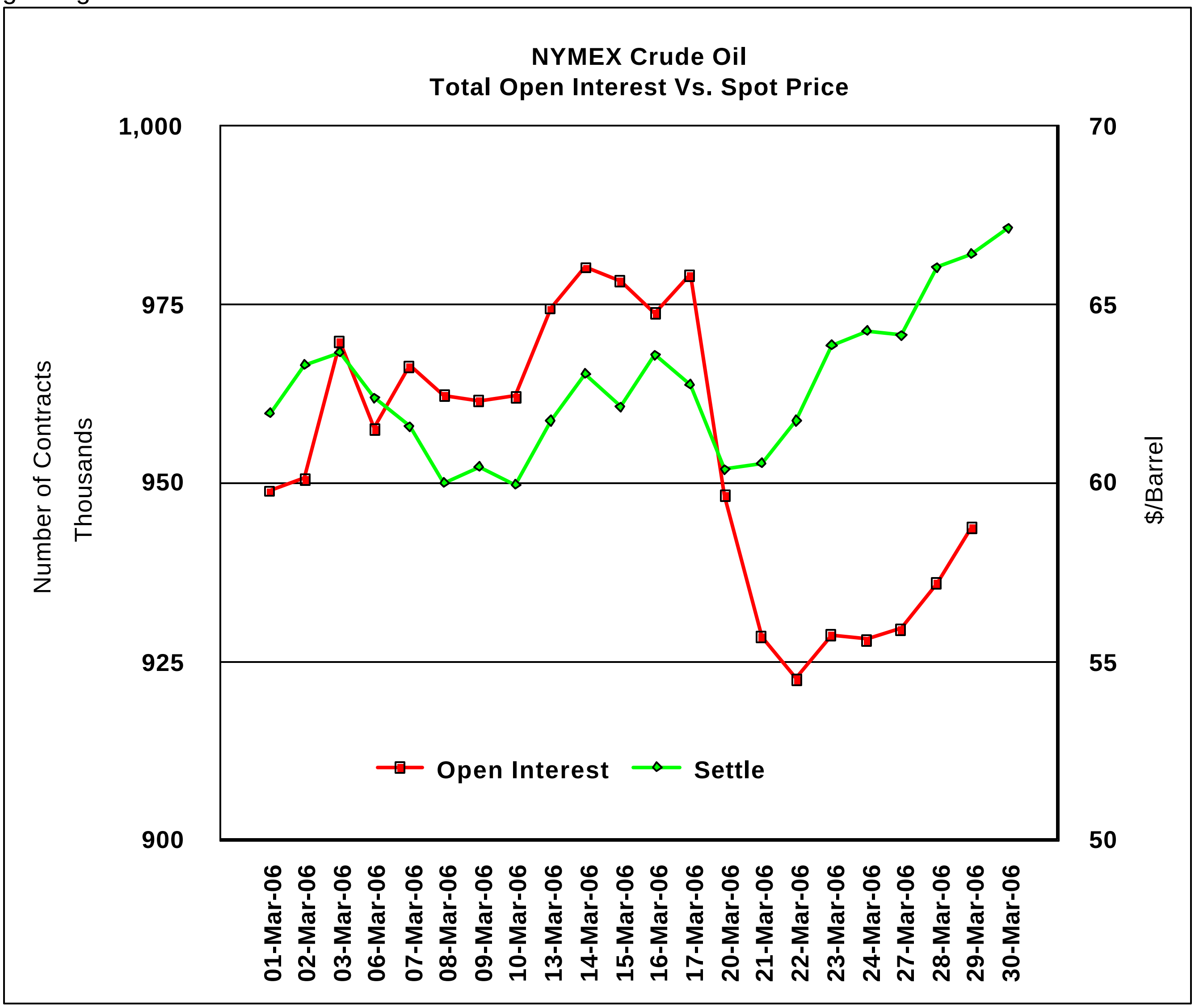
Refinery News

PDVSA reported that a small fire occurred on Tuesday at its hydrodesulfurization unit at its Cardon refinery. The company said that exports from the refinery remain at normal levels.

Motiva reported to regulators that its FCC unit at its 235,000 b/d Port Arthur refinery was restarted Tuesday night, but there have been some problems in restarting the unit. The unit has been offline since the end of January.

BP reportedly will delay the restart of some gasoline making units at its Texas City refinery by about two weeks. The refinery, which was shut down on September 21st , in front of Hurricane Rita, has restarted some chemical units but gasoline production has not yet come on line.

Chevron reportedly restarted the reformer unit at its 210,000 b/d Pembroke refinery in the UK after an unscheduled outage of nearly 10 days. The unit came back up this week and is "slowly getting back to normal". A reformer is used in production of reformate, a key blendstock in non-oxy, low RVP summer grade gasoline.



Kuwait National Petroleum plans to begin a six week maintenance turnaround on its 200,000 Shuaiba refinery starting March 31st.. Crude and product deliveries are not expected to be impacted. The main crude unit is expected back by May 18th with other units following shortly afterward.

International Enterprise reported today that stocks of light distillates in Singapore for the week ending March 29th stood at 8.354 million barrels, up 777,000 from the previous week. Middle distillates fell some 331,000 barrels to 7.207 million barrels while residual fuel stocks were pegged at 10.125 million barrels down 706,000.

Production News

Shipping analysts estimate that OPEC will ship some 25.04 million b/d of oil, up some 190,000 b/d from the period ending March 18th.

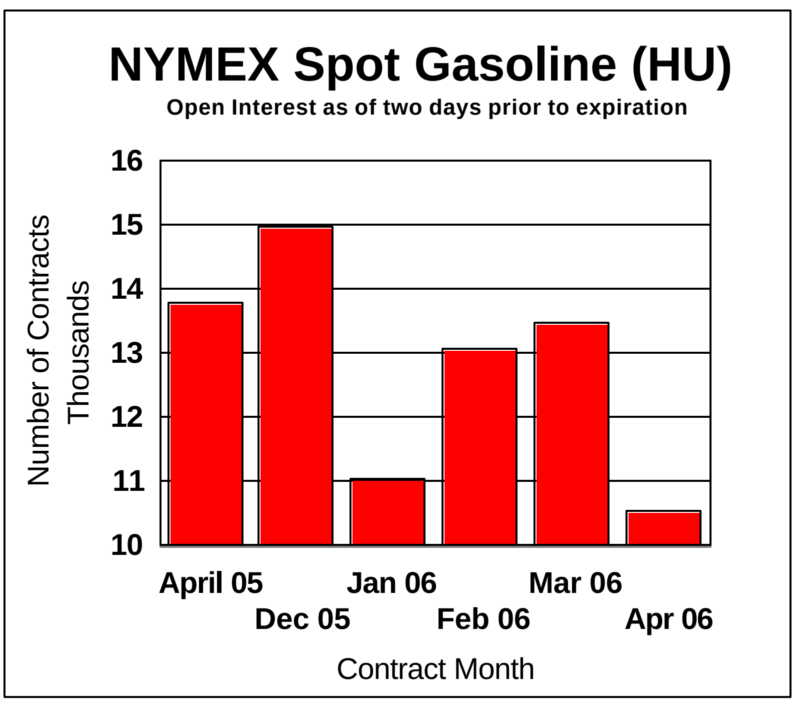
Iraq's crude oil exports from southern oil terminals resumed Thursday afternoon, following a two-day suspension due to poor weather.

ExxonMobil offshore Erha oilfield in Nigeria has begun pumping this week, and when output from another field is added, production will reach 190,000 b/d by the fourth quarter.

The Italian oil company AGIP, reported that it has lifted a force majeure on crude oil exports from its Brass shipping terminal. Loading had been interrupted following a bomb attack back on March 17th, which forced some 75,000 b/d to be shut in, due to damage to the Tebidaba-Brass pipeline. The company said operations are fully back to normal.

The British government reported today that in 2005 indigenous oil production fell to 84.6 million TOE, down some 11.2% from 2004 levels. Net exports also fell 83.7% to just 2 million TOE. While six new oil fields started production in 2005, the additional combined output was insufficient to make up for the general decline in production from older established fields. The government also reported that natural gas production declined in 2005 resulting in a 30.3% year on year increase in imports and a 15.9% fall in exports.

The head of PEMEX warned that unless Mexican lawmakers allow for private investment in the oil industry there, the nation risks a drop in oil output. He noted that foreign investment was necessary in order to gain the latest technology and share the risks in tapping into the billions of barrels of deep Gulf of Mexico reserves and costly onshore fields. He noted that proven reserves have fallen every year since 1990 and currently there is less than 10 years worth of reserves left at current production rates. He noted that since the government takes 60% of Pemex revenues in taxes, the company last year posted a net loss despite oil prices leading to record profits for interenational oil companies.



The director of the National Hurricane Center today said he expected that the 2006 hurricane season would be above average and stronger than normal but did not expect it be as strong as 2005.

ExxonMobil said today that despite its recent sale of a small oil field to its partner in the agreement, Repsol, it still looks to keep its existing assets in Venezuela despite recent criticism by the Venezuelan oil minister.

Shell Oil said that oil production from its recent discoveries at Brazil's BC 10 offshore block is likely to start in late 2007 or early 2008. The company hopes to eventually produce between 60,000-100,000 b/d from the region.

The Venezuelan National Assembly today scrapped 32 private oil field contracts that were singed in the 1990's, and approved new general guidelines for the new "mixed companies" that will handle operations at the oil fields. PDVSA will now hold at least a 60% stake in each new partnership. Foreign companies involved are Petrobras, Repsol, Chevron and Total. The new model hikes taxes for oil fields that produce collectively some 460,000 b/d. PdVSA and its partners will have to pay 50% in income taxes and 33.3% in royalties. If these taxes do not equal at least half of total revenue, the companies will have to pay the difference.

Kerr-McGee Corp said today that production had begun at the deepwater Gulf of Mexico Constitution field. The first six wells at the field are expected to produce 15,000 b/d of oil and 12 million cubic feet of gas per day starting this week and eventually production will reach 40,000 b/d of oil and 75 million cubic feet of gas per day by the end of the year.

Market Commentary

The oil markets this morning opened basically near unchanged levels and moved in a sideways pattern until late morning. But strengthening product values on the backs of continued news of refinery delays or hiccups coupled with a general bullish tone of the geopolitical news stories of the day, and the mid-day bullish comments from Boone Pickens, helped the crude market finally breach the $67.00 level and send spot gasoline values to over $2.00 per gallon before the close. This was the highest level for the April gasoline contract since September of last year. The April-May gasoline spread continued to widen for the third consecutive day and throughout the trading day finishing at 8.56 cents by the end of the day, as shorts seemed to be rushing for the exits. Trading volume today was good with over 200,000 in the NYMEX WTI contract, with heating oil and gasoline markets booking 45,000 and 49,000 lots respectively.

The NYMEX reported at midday that crude open interest grew Wednesday by over 7,800 contracts. This was the fourth daily increase out of the last five and continues to support the belief that this latest rally in the crude is driven by fresh new buying coming most likely from the fund sector of the market. The open interest report also showed that the spot gasoline (HU) contract came into the trading day today with a very limited amount of contracts still open. Given the volatility in today's April May spread we believe that this open interst level was substantially reduced even further today. As a result this spread could be subject to wide fluctuations tomorrow due to the lack of participants on the last day of trading.

Until the bullish tone of this market is dialed lower, we think the bulls will remain in the drivers seat for this market. Now that the $67.00 level has been the next upside target has to be the triple top on the spot continuation chart at the $68.80-$69.00 area. We think it will take a significant change in the Nigerian situation or a ratcheting down of tension in the Iranian situation for the bears to return from hibernation.