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## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR APRIL 7, 2008**

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OPEC's Secretary General Abdullah al-Badri said the oil market was well supplied with enough crude and added that OPEC was not under pressure to increase output. He said oil prices were high due to the fall in the dollar's value, shortage of refinery capacity and some political tensions in the world. He also said there were no plans to hold an OPEC emergency meeting before its next scheduled meeting in September.

An OPEC analyst said the main challenge facing OPEC producers was

#### Market Watch

The National Weather Service forecast that US heating demand would be 17.4% below normal this week. Heating demand was nearly 7% above normal nationwide last week and has averaged about 5% below normal so far this heating season. Demand for heating oil is expected to be 13% below normal this week.

BP Plc said it hoped to sign a service contract designed to increase production in Iraq by 100,000 bpd within a few months. The agreement would be one of five that Iraq has been negotiating with oil majors to increase production by 500,000 bpd from its largest oilfields. It said it was also in similar discussions in Kuwait for a service contract there. Kuwait aimed to include a performance related clause in its service contracts that would increase the attraction for signing up for international oil companies.

Royal Dutch Shell's CEO Jeroen van der Veer said the EU had to create rapid incentives to promote underground storage of carbon dioxide to achieve its climate change goals. He said government action is needed to support and stimulate investment quickly on a scale large enough to affect global emissions since CO2 capture and storage adds costs and yields no revenues. He said the quickest way to give utilities an incentive to invest in developing the technology would be to give them credits in the EU's Emissions Trading System for CO2 they capture and store.

The European Federation for Transport and Environment said the UK, Germany and the Netherlands were at odds with the European Union over its targets for biofuel blends in transport fuels. The three countries are concerned about sustainability and the indirect impacts of increased demand for biofuels.

#### **April Calendar Averages**

**CL** – 104.99  
**HO** – 296.60  
**RB** – 273.55

to work out how much oil the world would need in coming years as the demand outlook in industrialized countries was uncertain. He said there is a real prospect of OPEC wasting resources on capacity that may not be needed. He reiterated that current record high oil prices around \$110 were unrelated to market fundamentals and

damaging for producers and consumers alike.

Lloyd's Marine Intelligence Unit reported that OPEC's oil exports, excluding Angola and Ecuador, fell by 100,000 bpd in the four week ending March 23 to 22.104 million bpd. He said that refinery maintenance in the first and early into the second quarter was likely affecting flows as demand slows.

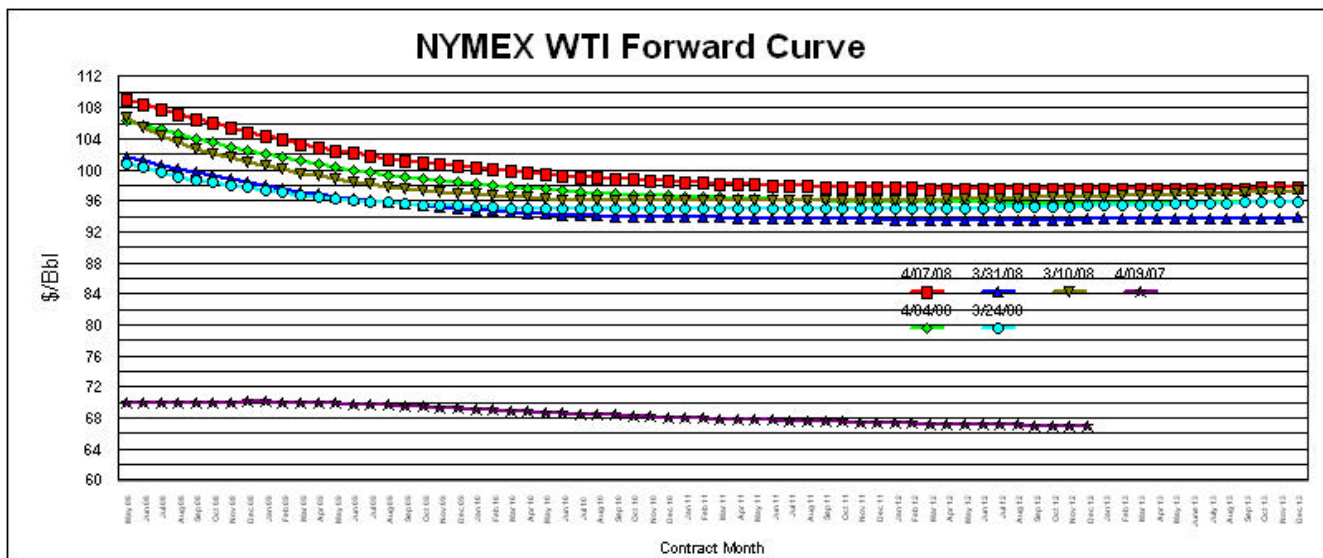
The US State Department said that one of its diplomats would meet his counterparts from five other powers by mid-April to discuss the next steps to make Iran halt its nuclear work. However a State Department spokesman could not give a date for the meeting of envoys of the US, Britain, China, France, Russia and Germany. On Saturday, Iran said it would not make any concession in exchange for incentives offered by the West to halt its nuclear program.

DEBKAFfile reported that Iran, Syria and Lebanon were on military alert over US Gulf movements and Israel's defense drill. It reported that according to British media, the US was set to attack Iranian military facilities. It stated that the USS Abraham Lincoln Strike Force was heading for the Persian Gulf. Official sources in Britain said Iran's intervention against the US effort to stabilize Iraq may prompt a US attack on the military installations in Iran. In the last two weeks, Russian military and intelligence officials have also been leaking claims of intensified US military movements around Iranian shores.

Iran's Foreign Ministry spokesman Mohammad Ali Hosseini said Iran was willing to enter another round of talks with the US over security in Iraq. Meanwhile, Iraq's Foreign Minister Hoshyar Zebari said conflicts of timing and schedules have so far prevented officials from choosing a date.

The head of the EIA, Guy Caruso said the EIA expected the US average retail gasoline price to reach \$3.60/gallon during the peak of the summer driving season. He also stated that gasoline prices in California may reach \$4/gallon. He said increasing prices would reduce US gasoline demand by 85,000 bpd this summer. Meanwhile US Energy Secretary Sam Bodman said that despite repeated calls for OPEC to increase its production, ministers continued to reject his pleas. He said he did not believe the national average gasoline price would reach \$4/gallon. He also stated the DOE still planned to proceed with a program to purchase crude oil for the SPR.

The EIA reported that the US average retail price of gasoline increased by 4.2 cents/gallon to



\$3.332/gallon in the week ending April 7. It also reported that the US average retail price of diesel fell by 0.09 cents to \$3.955/gallon.

According to the Lundberg survey, the average price of gasoline increased by 5.26 cents to \$3.3171/gallon on April 4. Trilby Lundberg said prices would continue rising along with crude oil and ethanol prices as refiners pass on the costs of mandated spring reformulations of gasoline.

### **Refinery News**

The US Coast Guard said ship traffic along the northern end of the Houston Ship Channel resumed after ship traffic was halted due to dense fog on Monday morning.

Finland's Neste Oil said deliveries would not be disrupted by a delay in starting a diesel production line at the Porvoo plant because of a fire last week. It said the shutdown of a hydrocracker diesel unit would be delayed through May and added that lost output and repairs would cost 40 million euros or \$63 million. The fire at the 196,000 bpd Porvoo refinery was caused by a leak in a heat exchanger on a new diesel line on April 4 as the unit was being halted for scheduled maintenance.

Citgo Petroleum restarted a platformer at its 156,000 bpd Corpus Christi, Texas refinery after completing turnaround work. It is expected to resume normal operations by April 14. The restart is part of a multi-unit turnaround at the refinery that started on March 1 and included a crude unit, a coker and a hydrotreater.

ExxonMobil Corp reported flaring at its 150,000 bpd refinery in Torrance, California on Saturday, a day after a fire shut a hydrotreating unit. A notice to the South Coast Air Quality Management District did not say which unit was involved.

Alon USA Energy Inc's 70,000 bpd Big Spring, Texas refinery is expected to be back in restart mode sometime within the next 24-48 hours. A small, brief fire at an asphalt tank in a storage yard at the plant halted the restart process earlier Monday and resulted in a temporary shutdown of its crude unit as a safety precaution.

BP has completed the restart of its 250,000 bpd crude unit at its Texas City, Texas refinery. The crude unit was restarted in mid-March and has been running normally as of late March. BP has said it expects the refinery to reach full capacity by the end of the second quarter of 2008. Meanwhile, the units at BP Plc's 265,000 bpd refinery in Carson, California were operating on Monday morning. A hydrocracker unit was briefly shut, a sulfur recovery unit malfunctioned and a co-generation plant's operations were interrupted on April 2-3.

Valero Energy Corp restarted a 54,000 bpd fluid catalytic cracking unit at its 135,000 bpd refinery in Wilmington, California over the weekend. The unit was shut on March 27 for 10 days of repairs. It also restarted an alkylation unit.

Frontier Oil Corp said it expected its 110,000 bpd El Dorado, Kansas refinery to resume normal operations by the end of the week following a 38 day overhaul.

Credit Suisse stated that US refinery margins increased last week as companies reduced runs. Margins in the US Gulf Coast increased by \$2.20/barrel to \$14.15/barrel in the week ending April 4 while margins in the Northeast increased by \$1.23 to \$10.30/barrel. Margins in the Midwest increased by \$1.12 to \$15.83/barrel while margins in the Rocky Mountain region increased by \$2.32 to \$20.29/barrel and margins in the West Coast increased by \$1.63 to \$23.63/barrel.

Marathon Oil Corp said it would continue to grow its diesel production capacity over the next few years. Marathon's chief executive, Clarence Cazalot said its distillate production growth as a percentage of crude oil throughput stood at 3.7% for Marathon compared with an industry average of 1.9% from 2003-2007. He said the company was expected to more than double its coking capacity to 138,000 bpd in 2001 from 66,000 bpd in 2008 through addition of coking units.

Imperial Oil Ltd said it completed repairs at its 187,000 bpd Strathcona refinery in Edmonton, Alberta and expects fuel production to increase over the next few days.

Turkey's Dardenelles Strait was closed early Saturday morning due to foggy conditions.

Saudi Aramco said it had no plans to increase its stake in a Japanese refiner but continued to seek a share in a plant in China. Saudi Aramco said it hoped to conclude talks this year on a stake in Sinopec Group's 200,000 bpd east China Qingdao refinery.

### **Production News**

Iraq's southern oil export flow stood at about 1.3 million bpd on Sunday, down from about 1.66 million bpd on Saturday.

Marathon Oil's Brae oil and gas fields in the UK North Sea were shutdown on Monday after a power outage. The company said it was in the process of stabilizing the power supply to the three platforms on the field but could not say when the fields would resume operations.

BHP Billiton Ltd said it still hoped to start up the 50,000 bpd Neptune oil field in the US Gulf of Mexico by the second quarter of 2008. The Neptune oilfield was initially due to come online in the last quarter however it said it that an unspecified anomaly discovered on the hull of the platform had delayed the start up of the field.

Russia's Federal Customs Service said the country's crude oil exports fell 4.7% on the year to 36.619 million metric tons in January-February. Oil exports to countries outside the Commonwealth of Independent States totaled 34.253 million tons. Its oil product exports increased by 6.1% on the year to 16.733 million metric tons in January-February.

Kazakhstan's Deputy Energy Minister Lyazzat Kiinov said Kazakhstan may impose a crude oil export duty as soon as mid-2008 to stabilize supplies on the domestic market. The government is due to discuss the draft proposals on Tuesday. He said the duty would likely be \$109/ton but did not say what global price it was based on and whether the duty would move on a sliding scale.

Azerbaijan's crude oil production increased by 8% on the year in January-March 2008 to 11.25 million tons. Azerbaijan's oil production in March averaged 932,000 bpd, up 4.9% on the month. The BP led group said its output from the Chirag and Azeri oilfields increased by 10.3% in January-March of this year to 9.08 million tons or 738,374 bpd compared with 8.23 million tons or 669,253 bpd last year. Its production in March stood at 757,000 bpd, up 6% on the month. Azerbaijan's state oil company, Socar, said its production fell to 2.17 million tons from 2.19 million tons. Azerbaijan exported 8.73 million tons of oil in January-March 2008 compared with 7.42 million tons in 2007 while its refined products exports increased to 560,000 tons from 490,000 tons in 2007.

OPEC's news agency reported that OPEC's basket of crudes was unchanged at \$98.63/barrel on Friday.

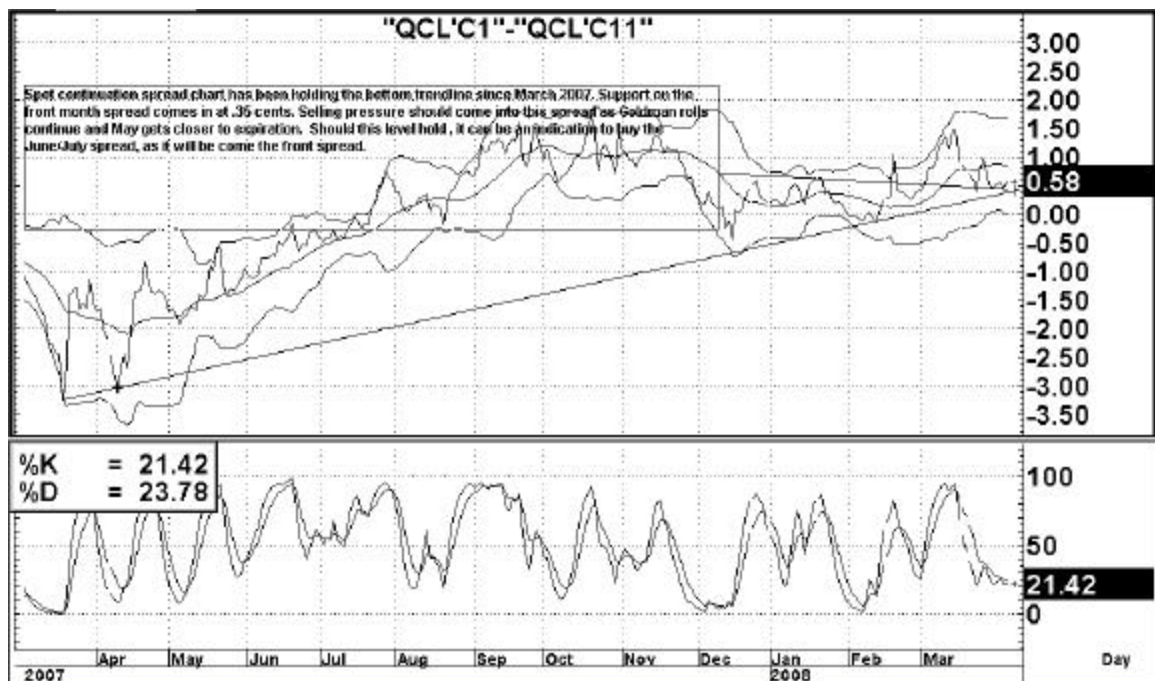
		<b>Explanation</b>	
<b>CL</b>	<b>Resistance</b>	110.35, 111.80, 112.58, 116.13	Previous high, Basis trendlines
	<b>Support</b>	109.48	Monday's high
<b>HO</b>	<b>Resistance</b>	310.93, 321.91	Previous highs, Basis trendline
	<b>Support</b>	310.20	Monday's high
<b>RB</b>	<b>Resistance</b>	280.00, 288.30	Basis trendline
	<b>Support</b>	279.78	Monday's high
		277.59, 277.05, 275.75, 275.10	Basis trendline, Monday's low
		271.87, 270.62, 269.43, 266.99, 263.22	38%(259.08 and 279.78), Previous low, 50%, 62%, Previous low

Saudi Aramco has cut its crude prices for crude bound for the US and Europe while prices for Asia were mixed. Saudi Aramco cut

the price for its Arab Extra Light crude bound for the US by 25 cents to WTI minus 55 cents. Its Arab Light crude price was cut by 90 cents to WTI minus \$4.65, its Arab Medium price was cut by \$1.60 to WTI minus \$9.25 and its Arab Heavy price was cut by \$2.10 to WTI minus \$13.70. Meanwhile, its Arab Extra Light crude bound for northwest Europe was priced at BWAVE plus 40 cents, down 60 cents on the month. Its Arab Light crude was priced at BWAVE minus \$3.95, down 70 cents, its Arab Medium crude was priced at BWAVE minus \$6.95, down 75 cents and its Arab Heavy was priced at BWAVE minus \$9.30, down 85 cents on the month. Its Arab Super Light crude bound for Asia was priced at the Oman/Dubai average plus \$7.05, up 70 cents, its Arab Extra Light crude was priced at the Oman/Dubai average plus \$5.25, up 80 cents, its Arab Light crude was priced at the Oman/Dubai average plus \$1.45, up 40 cents, its Arab Medium was priced at the Oman/Dubai average minus \$3.15, down 40 cents and its Arab Heavy crude was priced at the Oman/Dubai average minus \$7, down 90 cents.

### Market Commentary

Already tight supplies in gasoil were further tightened by news of a fire at Neste's Porvoo refinery located in Finland. Neste estimates losses at 40 million euro (\$63 million) in production due to repairs and damage due to the fire. Adding to the mix of supportive fundamentals was the shutting of the Houston shipping channel, which brings supplies to eight refineries or 13.5% of the U.S. refining capacity. China has also said it would grant hefty tax rebates on crude oil imports into that country. Prices basis the May crude oil



contract traded above the ascending pennant at \$106.09. The projected level to the upside off of this move is \$112.12. The forward curve is indicative of further strength as the front end continues to pull away from the deferred. With this in mind we have included a copy of the spot continuation spread chart. This spread has held a long term ascending trendline dating back to March of 2007. We would look for a test of the .35 cents support area in May/June prior to May's expiration. With this in mind, should this occur, we would like to buy the June contract and sell the July contract, looking for the differential to widen back out. Heating oil once again took center stage, bringing the rest of the complex with it. Tightness in gasoil is still the driver behind these higher prices, as gasoil continues to gain against the heating oil. ICE gasoil futures reached a record high of \$1,005/ton today. Technically, heating oil should come under pressure on length profit taking. Should prices basis the May dip to the 3.0000 cent support level and hold we would look for a rebound with an attempt back up towards the high of 3.1093. Gasoline continued to follow the rest of the market, however at a much slower pace. As long as stock levels run at their above normal rates and demand for this product not lending any support, we do not see gasoline making a significant gain against the crude oil or heating oil markets. There is support in the July RBOB crack at 8.16, should this level become penetrated we would look to sell this spread, selling the gasoline and buy the crude oil and look for a test of support at 4.88. Total open interest for crude oil is 1,403,368 down 513, May08 310,394 down 12,944, June08 204,370 up 6,934 and Dec08 197,174 down 2,623.