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ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR MAY 9, 2006

The Iranian letter to Washington was dismissed by U.S. officials overnight saying that the letter offered no concrete solutions to the crisis but was a rambling 18 page discussion that offered philosophical, historical and religious analysis of Iran's relationship to the West. In addition the letter supposedly asked questions about the cost to the world of the establishment of Israel, as well as noting that western style democracy has failed humanity. Many diplomats privately noted that it appeared the Iranian written communication was timed to have maximum propaganda effect as the members of the Security Council were meeting this week to take up the Iranian nuclear issue. One analyst noted that the President of Iran might be trying to emulate the Iranian revolutionary founder of the Islamic republic, Ayatollah Khomeini. In 1987, Khomeini wrote Soviet leader Gorbachev, telling him how to react to the imminent downfall of the USSR and communist rule. He noted that the only resort left to Soviet leaders was to embrace Islam and the solutions it offers.

Foreign ministers of the Security Council and Germany failed to agree on a strategy to deal with Iran during a late night meeting in New York on Monday evening. Sources reportedly noted that prospects for an agreement this week were not good. The German foreign minister said that it might take two to three weeks before the differences between the countries could be worked out for a UN resolution. Meanwhile Iran's chief nuclear negotiator said today that a proposal to allow Iran to enrich uranium on Russian soil remained a possible way out of the current dispute between Iran and the West. He noted that more time was needed to review the proposal.

Market Watch

The EPA said this morning that only two states, Pennsylvania and Maryland have asked the agency formally for waivers from clean air regulations, so as to temporarily use conventional gasoline instead of reformulated gasoline.

Capital Economics said today in a research report that they expect the price of oil will drop to $50 by the end of 2006 and drop to $45 by the end of 2007, as U.S. economic growth slows and the investment boom in China loses steam. They see supply gains from new production in Angola, Brazil, Canada, Russia and around the Caspian Sea will helped to meet the growing demand for oil.

Tokyo Electric Power said today that it plans to buy 5 million kilolitres of oil for power generation this fiscal year down some 31% from last year.

U.S. Transportation Secretary Mineta said today he would support legislation requiring new vehicles purchased by the federal government get the highest gas mileage possible. He declined though to specify gas mileage nor the timetable for implementation.

The Majority Leader of the U.S. House of Representatives said today that he supported a temporary reduction in fuel ethanol import tariffs in order to help reduce gasoline prices. Congressional action remains doubtful considering that key senators from the farm states may be less than eager to support removal of the tariffs. But an EIA analyst said today that lifting the 54-cent per gallon tariff on non-Caribbean Basin ethanol would result in only 10,000 b/d of extra ethanol reaching market. The EIA estimated that Brazil does not have a lot of extra export capacity.

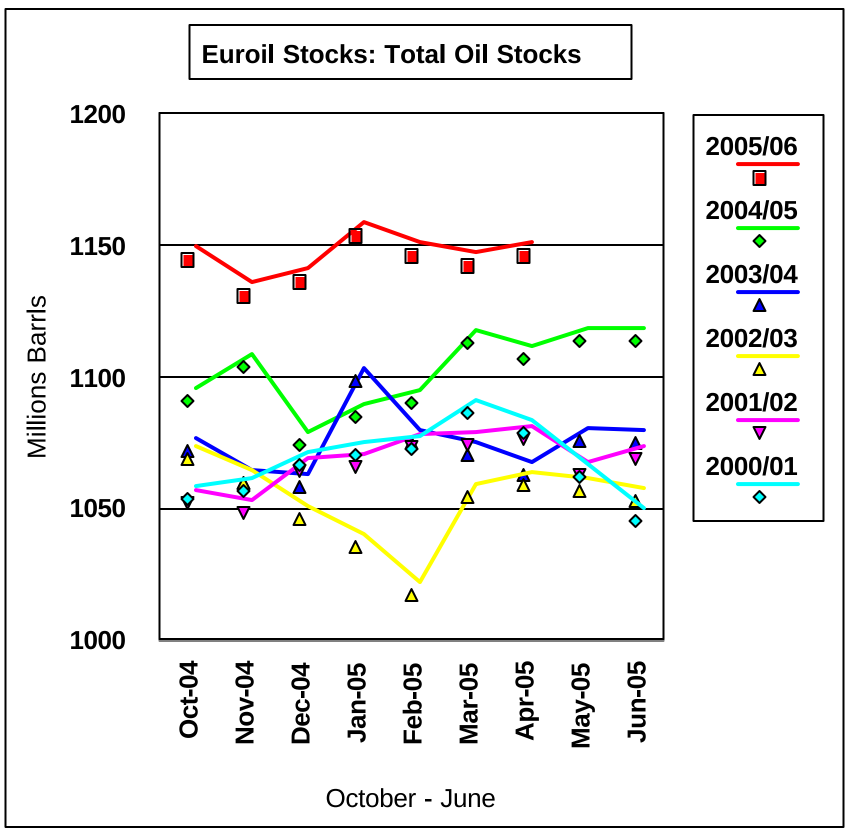
The new UK Foreign Secretary said today that no one in the international community intended to take military action against Iran, but refused to describe such a proposal as "inconceivable", as her predecessor had done earlier this month. President Bush meanwhile said that his administration viewed diplomacy as the first and most important option in dealing with the standoff with Iran.

EuroStock Report

	Apr-06	Mar-06	Apr-05
Crude	486.03	487.28	474
Mogas	141.02	144.16	146.34
Distillate	381.75	377.93	357.23
Fuel Oil	111.48	106.41	109.33
Total	1146.24	1142.62	1107.21

The Saudi oil minister said today that he expected oil prices to remain firm this decade and he again reiterated that his country was willing to pump more crude oil into the markets if needed. He again said that oil prices above $70 are not in the interests of producers or consumers. He noted the country's 1.8 million b/d surplus capacity would be built up over the next three years.

The EIA released their latest Short Term Energy Outlook today. The agency scaled back its estimates for gasoline demand in the U.S by 90,000 b/d in the second quarter, and also cut back its estimate for the third quarter demand by 30,000 b/d due to higher prices. But the agency increased its estimate for summer retail prices by only 9 cents to $2.71 per gallon. The agency noted that although the combination of refinery maintenance and the phase out of MTBE from the gasoline pool had strained gasoline markets the last several months, these pressures appear to be easing as refinery operations increase and the transition to ethanol based reformulated gasoline progresses. While isolated locations continue to see price volatility and significant supply uncertainties remain, some softening in the near term gasoline balance is expected to dampen retail prices somewhat. The potential for midsummer retightening exists, however, if demand growth picks up or refinery outages occur at unusual rates. The agency also noted that the prospects for significant improvement in world petroleum supply and demand balance appear to be fading. As a result the EIA is looking for the monthly price of U.S crude oil to average around $68 per barrel through the end of the year. The agency kept its estimates for Chinese demand for the remainder of the year basically unchanged from last month's estimates.



Refinery News

PDVSA reported that its Cardon refinery has returned to normal operations following a three-week shutdown caused by electrical event.

Shell oil reportedly restarted its coking, hydrocracking and hydrotreating units at its 100,000 b/d Wilmington, CA refinery this morning. The units had gone off line in the last week of April due to a malfunction the company decline to specify.

Flint Hills Resources reportedly is bring back sulfur recovery unit #1 at its 288,000 b/d refinery at Corpus Christi, this week after a turnaround that began back on April 18th.

Total has closed its 89,109 b/d refinery in Rome, at the start of this week, for a two-week turnaround.

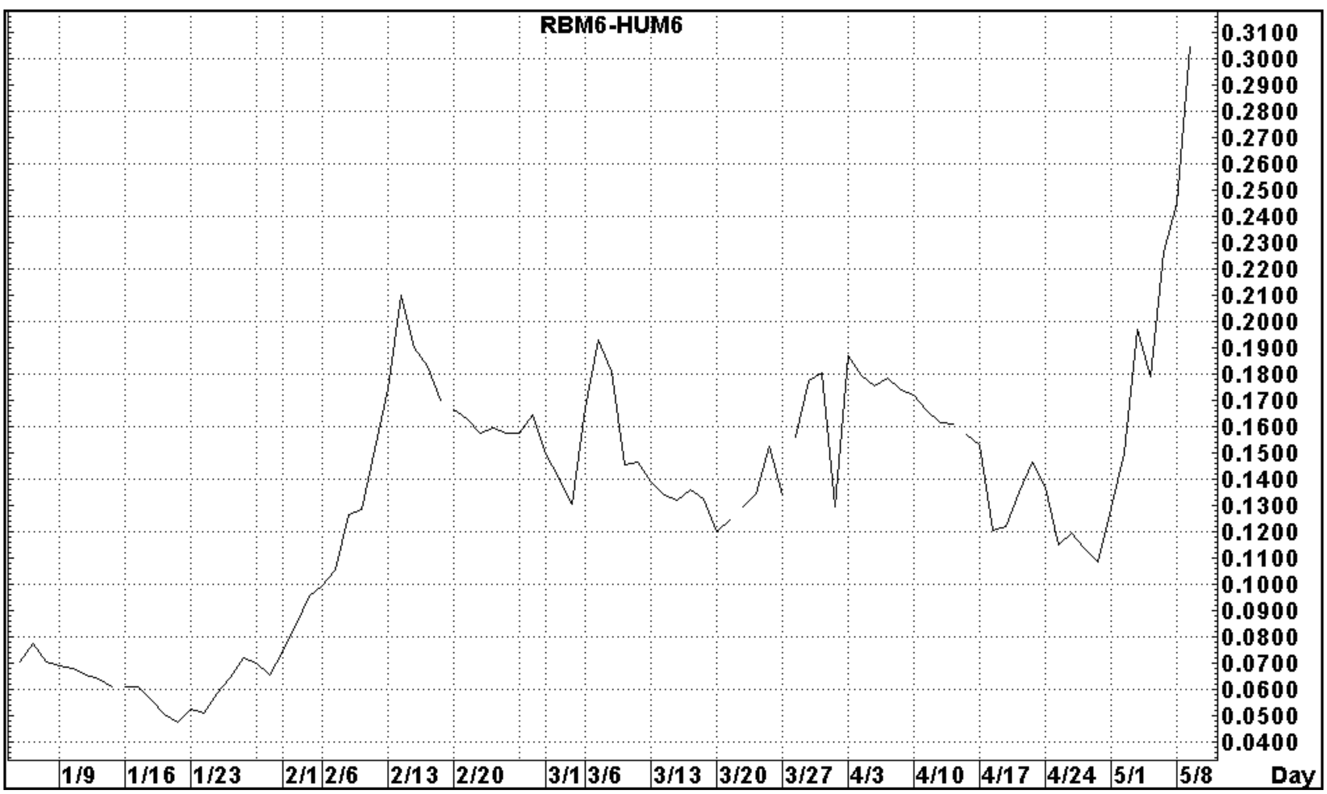
Taiwan's Formosa Petrochemical said it will shut its crude and desuphurising units for 50 days of regular maintenance starting on June 20th. The facilities are currently running at full capacity.

Production News

Platts reported today that according to its survey, it estimates OPEC crude production in April, moved back over 30 million barrels per day for the first time since November. Iraq saw the biggest monthly gain, a 190,000 b/d jump thanks to improved exports from the southern part of the country. Nigerian production improved by 50,000 b/d helped by the start up of ExxonMobil's Erha field. Saudi and Venezuelan production both showed minor declines on the month of 20,000 and 10,000 b/d respectively.

Norway reported that its oil production in April fell to its lowest level in nearly 12 years due to maintenance at various North Sea fields. Preliminary data showed that production in April stood at 2.22 mb/d a 10% decline from March levels.

Nigerian delta militants today warned governors of the Niger Delta that they may be attacked if they continue to defy the country's constitution and persist in their campaign to amend the country's constitution to allow the current Nigerian president to seek a third term in 2007 election.



PetroCanada said today that it now estimated production in the second quarter of this year from its Terra Nova offshore oil field will drop by 75% due to the mechanical failure of a gearbox. The company was forced to shut down the field on May 7th. Officials noted it was "highly unlikely" production at Terra

Nova would resume until fall, as the timing and scope of repairs was still being assessed. The field had been projected to operate at a 83.000 b/d production rate, before the problem.

Iraq said today that it has cut the official selling price of its Basra Light for loading in June to Asian and European by 35 cents and $1.20 respectively. U.S. customers saw a price increase for June by $1.10.Meanwhile the Iranians cut their June official selling price to European customers by 80 cents while increasing the selling price to Asian customers by 45 cents.

BP will load the first cargo of Azeri crude oil from the new BTC pipeline terminal at Ceyhan at the end of May.

Market Commentary

The oil markets roared back to life this morning as the perception of rapprochement between Iran and the West seems to have evaporated, as traders increasingly viewed the Iranian letter to Washington as nothing more than a propaganda tool. As a result bears appeared to run for the exits during the first hour of trading today, driving all three oil markets higher before an upper level of resistance was found by mid morning. In crude oil it was a near 50% retracement of the past week's bear move while in heating oil it was nearly a 62% retracement of the recent sell off.

Market expectations for tomorrow's inventory reports appears to be centered around a decline of 300,000 barrels in distillate and a 300,000 barrel decline in crude oil while gasoline stocks are expected to post a small gain of 1.2 million barrels. But we feel that if this market finds total stocks building again especially in crude and gasoline that the bears may return to this market once again and sell it off and attempt to re-challenge recent lows. But if these inventory stats come in as neutral this past two day rally may continue as some technicians look towards the intraday charts and seize upon a potential bullish signal of an inverted head and shoulders pattern to try to drive this market higher possibly back up to the $74-$75 level. Volumes on the day were excellent with over 300,000 lots traded in the crude oil , with 211,000 booked via spreads. Heating oil saw 66,000 lots booked, with 46,000 traded in the unleaded contract and 7064 lots in the RBOB contract.

Technical Analysis			
		Levels	**Explanation**
		71.82 to 72.20 & 72.36	Remaining gap (May 4th) and 62% retrace of the past week bear move
	Resistance	71.45 &71.57	Tuesday's High and 50% retracement of the past week sell off
CL	70.69, up 92 cents		
	Support	70.65-70.55, 69.75	Support for the second half of Tuesday, Tuesday's low
		69.00-$68.25, 67.35	Congestion from Monday's trading, 62% retracement of Mar-Apr rally
		208.75, 210.50	Highs from May 2nd and April 21st
	Resistance	201.50 & 202.24	Tuesday's high, 62% retracement of the past week sell off
HO	199.51up 4.06 cents		
	Support	196.20-195.75	Gap from May 9th.
		195.75-191.50, 190.80-190.30	Recent lows, gap from April 10th
		215.50, 218.00-21850	Trend line resistance, Highs from May 2 and 3rd
	Resistance	205.4 & 207.5	Tuesday's High and High from May 4th
HU	204.66,up 4.30 cents		
	Support	202.00, 199.30, 19650	Tuesday afternoon support, Tuesday's low and Monday's low
		196.50-196.35, 189.50	Gap left from April 10th, 50% retracement feb-april rally

An interesting note is that the RBOB contract saw its highest volume today since late April as the June contract continued to explode in value relative to other months as well as versus heating oil and the unleaded contract. The June RBOB - June Unleaded spread settled tonight at an all time high of 30.44

cents per gallon. Outright interest in the RBOB contracts though remains limited as spreads continue to account for nearly 80% of the daily trading volume and as a result this market still lack sufficient depth to handle any influx of orders. While yesterday saw the unleaded contract lose 3440 lots in open interest, and still stood at 104,222 lots, the RBOB contract gained only 205 lots to reach only 45,142 contracts.