ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR JUNE 3, 2005

An Iraqi shipping source stated that Iraq halted its Kirkuk crude exports through its northern pipeline to Ceyhan on Friday. Stocks at the Turkish terminal of Ceyhan stood at 3.2 million barrels.

The European Commission plans to ask OPEC to increase its production at its meeting later this month to ensure security of oil supply.

According to a Reuters survey, OPEC's production increased by 20,000 bpd in May to 29.77 million bpd as increased output from Saudi Arabia, Iran and Kuwait outpaced the fall in output from the UAE and Iraq. Production from OPEC's ten members, excluding

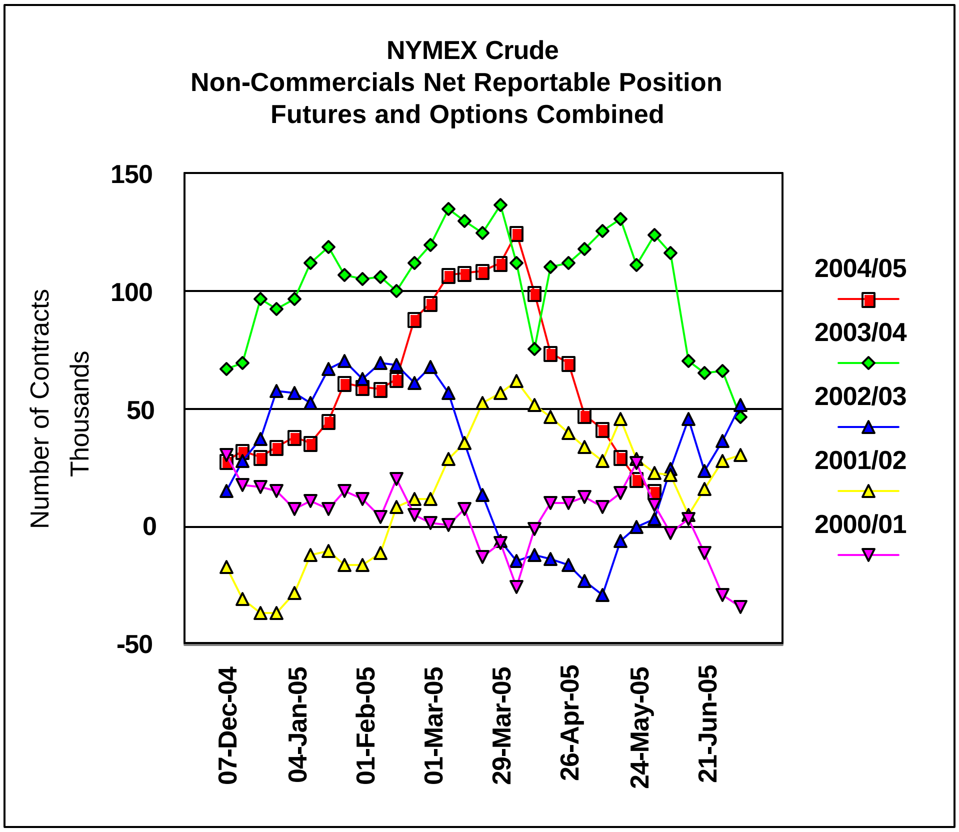
Market Watch

The director of the petroleum division of the DOE, John Cook, said oil prices will set new record highs during the second half of the year as demand cuts spare production capacity and oil inventories until it is not enough to cover any unexpected supply problems. He said OPEC needs to maintain its output at high levels to prevent prices from spiraling out of control. He said Chinese demand and US demand is expected to remain high though not as strong as in 2004. Chinese demand is expected to increase by about 600,000 bpd or 9% this year while US demand is expected to increase by 400,000 bpd or 2%.

PDVSA's director, Ivan Orellana said Venezuela has invited an OPEC team to study how it calculates oil data in the hopes of resolving a dispute over how much it pumps. He said a private firm is currently auditing Venezuela's oil production and that the OPEC team will arrive this month to verify output data. PDVSA has stated that the country is producing 3.3 million bpd compared with OPEC's estimate of 2.65 million bpd. Venezuela has insisted that it has completely restored its production following the strike more than two years ago.

Venezuela is continuing its offensive against oil contracts signed by past administrations. PDVSA has accused past management of giving away the country's oil under overly generous contracts to private firms. Venezuela's Deputy Oil Minister Bernard Mommer said PDVSA is acting as an agent for private interest. According to Mommer, 32 operating contracts awarded to private firms in the 1990s were not properly approved by Congress and went against the country's oil nationalization law. Separately, he stated that foreign companies running the Sincor heavy crude upgrading project in Venezuela must ensure their operations follow the law before the government approves any future business dealings. He also stated that Venezuela's government will take measures and even create laws if necessary so foreign companies care for the country's oil wells and make sure that oil refining rates remain high.

PricewaterhouseCoopers, which is investigating the collapse of China Aviation Oil for the Singapore Exchange, stated that its $550 million trading losses is attributed to a failure at every level of the company. It said the company reported a profit in its 2004 quarterly reports instead of a loss as a result of an incorrect methodology for assessing mark to market option values. It also noted an insufficient understanding of the futures markets among the company traders.



Iraq, stood at 27.94 million bpd in May, up 70,000 bpd from a revised April production level of 27.87 million bpd. Saudi Arabia increased its production by about 100,000 bpd to 9.5 million bpd while Iran's production increased by 40,000 bpd to 3.99 million bpd and Kuwait's production increased by 40,000 bpd to 2.48 million bpd. The UAE's production however fell by 80,000 bpd to 2.33 million bpd. Meanwhile Iraq's production fell by 50,000 bpd to 1.83 million bpd.

OPEC's news agency reported that OPEC's basket of crudes increased to $50.23/barrel on Thursday, up from $49.30/barrel on Wednesday.

Refinery News

A 105,000 bpd crude unit at Hovensa's oil refinery in St. Croix was unexpectedly shut last Friday. It is expected to resume operations by Wednesday.

A fluid catalytic cracking unit at ExxonMobil's 557,000 bpd Baytown, Texas refinery was operating normally on Friday. A boiler on catcracker 3 was shut on Thursday due to high fuel gas pressure on the unit. According to a filing with the Texas Commission on Environmental Quality, the boiler was restarted late Thursday night and the catcracker was able to continue operating while the boiler was off.

According the Texas Commission on Environmental Quality, a boiler control device on a fluid catalytic cracking unit at ConocoPhillips' 145,000 bpd Borger, Texas refinery was shutdown briefly on Friday morning.

Valero Energy Corp is scheduled to perform maintenance at its Houston refinery on June 13. However the maintenance is not expected to affect production. The work will take place in complex one of the refinery.

South Korea's SK Corp shut a 190,000 ton per year naphtha cracker at its Ulsan plant due to a power outage. It expects to restart the unit by Wednesday.

Production News

ConocoPhillips said a supply vessel collided on Thursday with a platform at the Ekofisk oilfield in the North Sea but no one was hurt and output was not affected. The damaged installations were in a part of the Ekofisk complex where production was discontinued.

The Caspian Pipeline Consortium approved a $2.50 tariff increase to $30.83/ton of crude. The Russian government has blocked the expansion plans of the pipeline, complaining that the tariffs are too low.

BP-Azerbaijan said that the BP led group would supply up to 40,000 bpd by rail cars to Batumi until a major pipeline to the Turkish Mediterranean coast comes on stream later this year. The Baku-Ceyhan pipeline will pump more than 1 million bpd and is expected to load the first tanker at the port of Ceyhan in the fourth quarter of 2005.

China's coastal oil refineries will return to record high processing rates in June to meet peak power demand in the summer and to cover for low supplies in the south due to maintenance work. Analysts however stated that even higher domestic production may not be enough to satisfy the increased demand and China may be forced to import diesel. China is processing 2.28 million bpd of crude in June or an average of 92% of capacity. Refining rates in May were 3% lower at 2.213 million bpd. Diesel usage in the power sector will peak from next month when fuel powered generators are operating to avoid being hit by a repeat of last year's power outages. The summer power shortage in China is forecast to be 20% worse than previously forecast at 30 gigawatts and the problem is not expected to disappear until 2007.

China's government has approved a plan by Sinopec to build a crude pipeline running more than 900 km along the Yangtze River. The pipeline would have a normal capacity of 21 million tons per year or 420,000 bpd and a maximum annual capacity of 24 million tons or 480,000 bpd. Sinopec is expected to build the pipeline in stages, each of which will begin carrying oil upon completion and finish the whole project by the end of 2006.

Japan's Cosmo Oil Co said it would export 20,000 tons of gas oil for second half of June loading to South Korea at an undisclosed price.

A senior Chevron official at its Tengiz field development in Kazakhstan said Kazakhstan is expected to meet its target production of about 3 million bpd in 2015 and potentially produce up to 5 million bpd by 2025. He also stated that TengizChevroil would continue to rely on the CPC pipeline as it main export route but would also seek to export some crude through the Baku-Ceyhan pipeline.

Brazil produced a record 1.73 million bpd of oil in May and expects to reach self sufficiency within a year. Its production in May was up 1.5% on the month and 21.1% on the year.

Market Commentary

The oil complex settled sharply higher after the markets retraced Thursday's late losses and continued to trend higher ahead of the weekend. The crude market opened up 27 cents at a low of 53.90 in follow through strength seen in overnight trading despite the market's weak close on Thursday. The market held good support at its low and traded in a range from 53.90 to 54.50. The oil market later breached its resistance and continued to rally amid the strength in the product markets following reports of some refinery glitches. The July crude contract later breached its resistance at 54.75 and quickly rallied to a high of 55.15 on further buying ahead of the weekend. The market, which posted an inside trading day, settled up $1.40 at 55.03. Volume in the crude was good with 185,500 lots booked on the day. Meanwhile, the product markets ended the session sharply higher, with the heating oil market settling up 5.73 cents at 159.95 and the gasoline market settling up 4.17 cents at

155.71. The heating oil market opened at its low of 155.40 and never looked back as it continued to retrace Thursday's late gains. The market breached Thursday's high of 159.50 late in the session and quickly rallied to a high of 160.30 ahead of the close. The market has gained over 15 cents since last Friday. Similarly, the gasoline market opened at its low of 152.25 and settled in a sideways trading range as it seemed ready to post an inside trading day. However the market breached Thursday's high of 156.00 and posted a high of 156.20 ahead of the close following the news of several refinery problems. Volumes in the product markets were good with 44,000 lots booked in the heating oil market and 38,000 lots booked in the gasoline market.

The latest Commitment of Traders report showed that non-commercials in the crude increased their net short positions from 14,319 contracts to 17,401 contracts in the week ending May 31st. The combined futures and options report showed that non-commercials in the crude market continued to cut their net long position by 5,063 contracts in the latest week to 15,275 contracts. Given the market's move in the past few trading sessions, non-commercials have cut their net short positions. Open interest in the crude market on Wednesday and Thursday increased by a total of 5,318 contracts. Meanwhile non-commercials in the heating oil market cut their net short positions from 3,317 contracts to 2,356 contracts on the week while non-commercials in the gasoline market increased their net long positions from 14,817 contracts to 15,793 contracts. Non-commercials in the heating oil market have likely reversed their net short positions during the past few sessions.

Even though the market lacks much fundamental support, it technically looks like it may have some further upside. The oil market next week may continue to trend higher after it settled near its high on Friday, especially if the product markets remain well supported. The market is seen finding resistance at its highs of 55.15 followed by 55.40-55.45. More distant resistance is seen at 55.80 and 57.20. Meanwhile, support is seen at 54.50 followed by its lows of 53.90 and 53.50. More distant support is seen at 52.50, 52.25-52.05.

Technical Analysis

		Levels	Explanation
		55.45, 55.80, 57.20	Previous highs
	Resistance	55.15, 55.40	Friday's high, Thursday's high
CL	55.03, up $1.40		
	Support	53.90, 53.50, 52.50	Intraday lows, 38% retracement (48.05 and 55.40)
		52.25-52.05	Opening gap (June 1st)
		161.50, 163.46	Previous high, Basis resistance line
	Resistance	160.30	Friday's high
HO	159.95, up 5.73 cents		
	Support	158.00, 155.40, 153.00	Friday's low, Thursday's low
		150.67, 147.70, 146.10-146.00	38% (135.10 and 160.30), 50%, Gap
		156.40, 158.24	Previous high, Basis resistance line
	Resistance	156.20	Friday's high
HU	155.71, up 4.17 cents		
	Support	152.25, 151.00	Friday's low, Thursday's low
		149.44, 147.35, 147.05, 145.26	38%(138.50 and 156.20), 50%, Previous low, 62%