ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR JUNE 17, 2008

Russia's Finance Minister Kudrin said today it remains uncertain what the main driving force behind the current surge in oil prices to record level is, and that it is unclear how prices will behave going forward. He said that Russia and a number of G8 ministers believe that speculation is somewhat overestimated, while OPEC believes on the contrary that price has speculation characteristics and is driven by the dollar rate.

Iran's OPEC governor said the unilateral output increase by Saudi Arabia would be wrong. Any output increase should be ratified in OPEC's ministerial meeting. He again said that

Market Watch

The NYMEX reported today that its average daily volume in May was 1.902 million contracts, a 38% increase form the same month a year ago. Electronic volume for NYMEX GLOBEX products averaged 938,020 lots per day while the open outcry futures and options accounted for 224,919 contracts per day. Clearport volume for the month averaged 416,656 contracts up 38% from a year earlier.

Iran said today that uranium enrichment was its "red line" and would continue, despite an enhanced offer of incentives from western nations and China to suspend these activities. The incentives package offers Iran the chance to develop a civilian nuclear program with light water reactors along with legally binding fuel supply guarantees. The new package contains a provision for the western power to "support" continued research and development in nuclear energy "as confidence is gradually restored in Iran's intentions. The offer also seems to allude to possible security guarantees, a prime Iranian concern, by citing readiness to "reaffirm obligations under the UN Charter to refrain…from the use of force against (Iran's) territorial integrity."

The Labor Department reported that US producer prices increased in May at their fastest pace in six months, led by higher energy and food prices. The Producer Price Index for finished goods increased 1.4% on a seasonally adjusted basis in May. It reported that the core index, excluding energy and food prices, increased 0.2% on the month and 3% on the year. The PPI data showed energy prices up 4.9% in May after falling 0.2% in April.

According to the Federal Reserve Board, US industrial production in May fell by 0.2%, down from a decline of 0.7% in April. It reported that the percentage of capacity use was 79.4%.

Goldman Sachs Group Inc said quarterly earnings fell by 11% as turmoil in financial markets impacted trading and slowed investment banking, yet it exceeded expectations by avoiding major losses. Goldman Sach's net income fell to $2.09 billion in the second quarter from $2.33 billion a year earlier. Net revenue fell 7% to $9.42 billion during the second quarter. Lehman Brothers Holdings Inc reported a quarterly loss of $2.9 billion, due to fixed income trading and hedging losses.

oil producers all agree that the oil market is saturated and Iran sees no need for OPEC to boost output.

June Calendar Averages
CL – 131.91
HO - 380.46
RB- 340.37

Meanwhile, Iran's President Mahmoud Ahmadinejad said the oil market is well supplied and added that the rally to record high prices is fake and imposed. He blamed the weak dollar and said it is being pushed down on purpose. Separately, he expressed support for a proposal by Venezuela's President Hugo Chavez to create a bank constituted by OPEC members to act as a counterweight to US influence in the world. He reaffirmed his proposal to create a new currency which OPEC members could use in oil transactions.

Several chief executives of US and European oil companies are scheduled to attend Sunday's major gathering of energy producing and consuming countries in Saudi Arabia. ExxonMobil's Rex Tillerson, Chevron Corp's David O'Reilly, ConocoPhillips' Jim Mulva, Eni SpA's Paolo Scaroni, Total's Christophe de Margerie, Petrobras' Jose Sergio Gabrielli and Petronas' Sri Mohd Hassan Marican are among those scheduled to attend the meeting. Most oil ministers from the 13 OPEC members, UK Prime Minister Gordon Brown and US Energy Secretary Samuel Bodman are also scheduled to attend. An official said executives from Goldman Sachs and Morgan Stanley will not attend the meeting.

IntercontinentalExchange Inc said it will comply with amended US federal rules setting limits to energy trading. The Commodity Futures Trading Commission announced it intends to condition ICE's access to US traders on the company's acceptance of position limits on benchmark US crude oil futures contracts traded on the ICE platform. ICE Futures Europe President David J. Peniket said the proposal ensures the exchange is subject to equivalent regulations as that applied to US exchanges. The new CFTC rule will make ICE oil trading consistent with practices on NYMEX with a 3,000 contract position limit in the last three days of trading and a 20,000 contract accountability level. ICE said it plans to comply with the amended rules within 120 days, subject to the approval of the UK's FSA. On a quarterly basis, ICE will inform the CFTC whether traders have exceeded position limits and whether it has given them exemptions form those limits because they are hedging their positions elsewhere. Separately, the CFTC said it was concerned that investment banks like Goldman Sachs and Morgan Stanley could be attempting to evade position limits on oil trading through swap deals. The CFTC chairman, Walter Lukken said raising trading margins on crude oil contracts as some in the US Congress have advocated, could set a dangerous precedent and drive players to less regulated markets.

NYMEX chief executive James Newsome said that a WTI crude oil contract could launch on the exchange's joint venture Dubai Mercantile Exchange within the next several months. The contract will have the same position and accountability limits as other NYMEX contracts.

T. Boone Pickens said world crude oil capacity has reached 85 million bpd. He also said rising oil prices reflected increased demand rather than forces such as the flow of money from institutional investors into commodities markets.

The Movement for the Emancipation of the Niger Delta said it would not participate in a peace summit called by the government next month. The militant group said the summit was bound to fail. It also said that militant leader Henry Okah had to be released so he could take part in any peace process. Nigeria's President Umaru Yar'Adua's administration has promised to address the underlying causes of the unrest in the Niger Delta but also warned that it would tolerate the presence of armed militants and criminal gangs in the delta.

China's energy use to generate each dollar of national income in the first quarter fell 2.62% on the year, representing an increase in its energy efficiency. China set a goal of cutting energy intensity 20% in the five years through 2010 but fell short of the annual 4% target for the first year in 2006, when energy intensity fell 1.33%.

According to MasterCard Advisors LLC, US gasoline demand increased by 2.4% on the week but fell by 3.2% on the year to 9.305 million bpd in the week ending June 13. In the latest four weeks, demand was down 4.3% on the year. It reported that the US average retail price of gasoline increased by 1.7% or 7 cents/gallon on the week to a record $4.04/gallon.

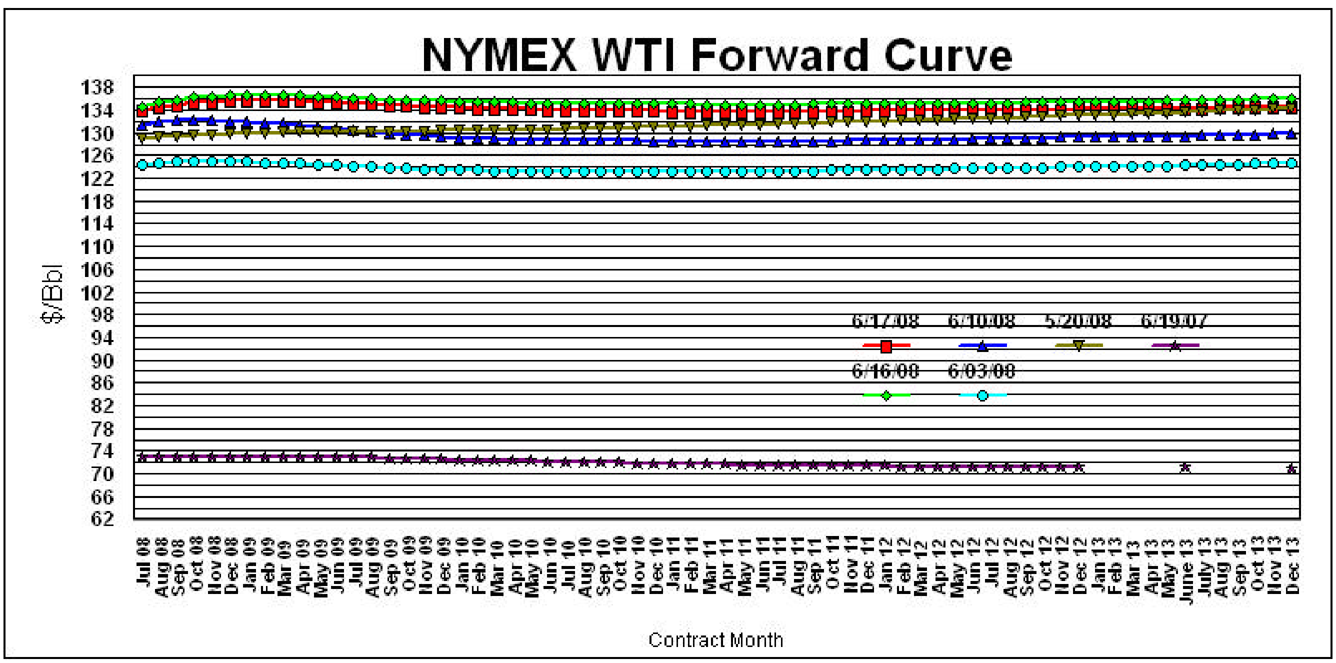
Refinery News

Tesoro Corp said it expects second quarter results to be hurt by higher than expected energy costs and hedging losses. It said its regional operating costs would be 30 cents to 50 cents/barrel higher than previously forecast. It said it closed its crude derivatives positions associated with hedging, which it expects to result in a second quarter hedging loss of $125 million. It said it is reviewing its hedging strategy in light of the recent surge in oil prices.

France's Autonomous Port of Marseille said 37 petroleum products tankers were waiting at the port on Tuesday due to continuing strike action.

Petroecuador and PDVSA will begin construction next month of a new 300,000 bpd refinery and petrochemical complex in Manabi. The new refinery could require at least a $5 billion investment and take between three and four years to complete.

China's Sinopec has started commercial operations of its 10 million ton/year refinery in Qingdao. The start up of the plant may enable Sinopec to reduce imports of high priced oil products. The Qingdao refinery will produce 7.08 million tons of gasoline, diesel and jet fuel annually and 2.03 million tons of petrochemical products.



Reliance Industries Ltd said it will buy about 30% of the additional 300,000 bpd of Saudi crude production in June and July.

VeraSun Energy Co is delaying the opening of a new ethanol plant in Minnesota because of high corm prices. The facility is one of the largest ethanol plants in the US, built to turn 39 million bushes of corn a year into 110 million gallons of ethanol.

Brazil's Petrobras will begin sales of gasoline blended with 3% ethanol in Japan as early as this year. Petrobras plans to mix gasoline and ethanol in Okinawa Prefecture at Nansei Sekiyu KK and sell the blended product at some 10,000 gas stations not affiliated with the major oil distributors. Overall output is estimated at up to 30,000 bpd or about 3% of domestic consumption.

Production News

Iraqi oil officials said today that oil exports from Basra have been disrupted for the past four days due to high wind conditions in the region. Exports were completely halted on Monday morning and are expected to be restarted later Tuesday as conditions are expected to improve. Only one of eight ships waiting to dock since Saturday had managed to berth. Normally Basra exports 1.5 mbd of crude oil. Meanwhile Kuwait confirmed that its exports had been suspended over the weekend due to bad weather, but that its exports had resumed late Monday night. Kuwaiti oil officials said that during the stoppage it pumped crude into storage tanks. Shipping sources stated that oil exports from Saudi Arabia's terminal at Ras Tanura were unaffected by bad weather that has impacted shipments from other Gulf producers. Qatar's oil exports were also flowing without disruption.

Shut in crude production at StatoilHydro's Oseberg oilfields is expected to have little impact on the North Sea market unless a prolonged outage occurs. StatoilHydro said it may resume 150,000 bpd of oil production from its Oseberg fields this week following a fire on Sunday. Output from the Tune, Oseberg South and Oseberg East fields, which use the Oseberg field center for both processing and transport, remains shut while production from the Brage and Veslefrikk platforms was restarted on Monday morning.

BP Plc said it started to commission its Thunder Horse platform in the Gulf of Mexico on June 14 and added that it would be in continuous production by year end. The platform will produce a maximum of 250,000 bpd of oil and 200 million cubic feet/day of natural gas when it reaches its peak production.

Saudi Aramco may start producing crude oil from its Khursaniyah oil field in early August but not at full capacity, with initial production not expected to exceed 250,000 bpd. Output is expected to reach full capacity of 500,000 bpd after the completion of the gas facilities in the fourth quarter.

Royal Dutch Shell said it would not legally challenge the Nigerian government's plan to take over its oilfields in Ogoniland later this year. Nigeria's President Umaru Yar'Adua earlier this month announced the government would give the oilfields to another company after they were abandoned by Shell in 1993. Shell's oil production from the Ogoniland oilfields averaged 28,000 bpd at the time.

The director of Nigeria's department of petroleum resources, Tony Chukwueke, has been suspended pending an investigation into oil licenses awarded last year former president Olusegun Obansanjo. The ministry noted that its decision was not due to specific findings of impropriety by the director. The investigation relates to an auction held in May 2007.

The BP led Baku-Tbilisi-Ceyhan pipeline shipped a record amount of oil in May due to rising production in Azerbaijan. It said it pumped 949,393 barrels on May 11. It is currently pumping about 850,000 bpd and will reach a flow rate of 1 million bpd later this year.

India's Oil & Natural Gas Corp, Reliance Industries Ltd and BG India may resume production from their jointly owned field off India's west coast by Tuesday evening. Production from the Panna-Mukta field has been shut since June 3 due to an accident in which one person was killed. It will initially produce 15,000 bpd however it will take a few weeks to restore gas production. The field normally produces 40,000 bpd of oil and 17.3 million metric standard cubic meters/day of gas.

OPEC's news agency reported that OPEC's basket of crudes fell 74 cents/barrel to $129.78/barrel on Monday from $130.52/barrel on Friday.

Market Commentary

The energy complex is focusing more and more on the demand factor as economic woes are expected to further impact the consumer. Housing starts in the U.S. were the lowest in 17 years, falling 3.3% in May, further fostering economic worries. Kuwait's finance minister made statements concerning the price of crude oil and how he believes prices are too high. These factors led to the second sell off in row, pushing the July contract closer to the $128.77 weekly channel low. Both the slow stochastics and the RSI have fallen slightly, but remain in over bought territory. Tomorrow's API/DOE numbers are calling for builds in both the gasoline and distillate stock levels and for a slight draw in crude oil. At this point we would anticipate the builds in products to add further pressure on the marketplace, bring July crude oil to a test of the aforementioned weekly channel low. We would look to sell any break of this channel hoping for prices to reach the $124.25 support level. The July/August spread did strengthen as we had expected, only a day later. We would continue to look for further strength in this spread, based mostly on length lightening in the August contract. A build in gasoline will most certainly weigh on this market tomorrow, especially if demand does not show signs of recovering. For tomorrow, we show support at $3.3250 and would look for a test at that level. We do not feel this market will turn to the downside until it can break and settle below $3.1750. Gasoline crack spreads firmed today, however, we would not be overly confident that this trend would continue, until demand reflects unforeseen strength. Heating oil dipped lower today, penetrating the bottom of a congestion area, however prices gained at the end of the session, putting the July contract back above the $3.8045 congestion low. At this point, we would look to use this number as a pivotal area, selling breaks below and buying breaks above. We would not look for a change in trend until prices can settle below $3.5450. Total open interest for crude oil is 1,376,799 down 17,430, July08 150,124 down 22,285, August08 270,338 down 2,058, December 08 189,661 up 2,306. Total open interest for heating oil is 217,831 up 1,863 July08, 40,137 down 3,204, August08, 42,160 up 1,430. Total open interest for gasoline, 257,107 up 1,802, July 54,825 down 4,200, August08, 54,946 up 3,827.

July Crude Support	July Crude Resistance
127.80, 124.25, 122.54, 120.65, 119.36, 109.60, 98.60, **85.40**	141.00, 147.54, 150.00
Heating oil support	**Heating oil resistance**
3.8000, 3.6800, 3.5450, 3.5100, 3.3500, 3.1680, 3.0980	4.0338, 4.0475, 4.0640
Gasoline support	**Gasoline resistance**
3.3690, 3.3250, 3.3075, 3.1760, 309.20, 3.0730, 3.0400, 3.0250, 2.9255	3.63.45, 3.755, 34655