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ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR JUNE 19, 2006

Market Watch

Morgan Stanley raised its offer by 3% in a bidding war for oil products marketer TransMontaigne Inc, valuing the company at $634 million. Morgan Stanley offered to pay $11.35/share, up from its previous $11/share bid for the nearly 90% of TransMontaigne it does not already own. It is more than the $11.25/share bid by SemGroup LP.

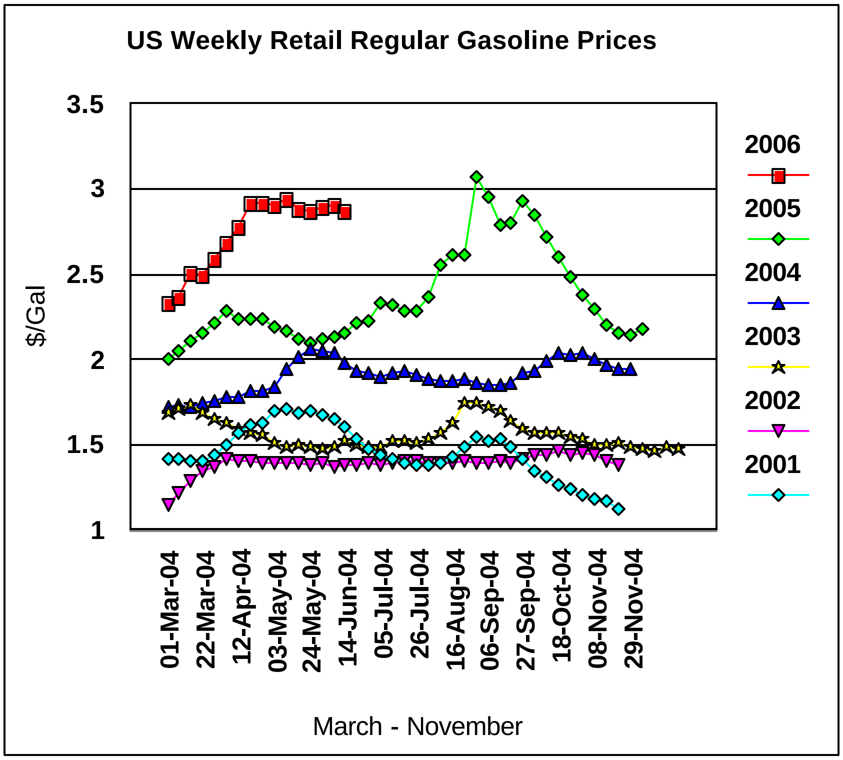
UBS on Monday launched a new oil investment index. The UBS Oilfield Strategy Index would provide long only exposure to US light sweet crude contracts spanning the next five years.

Executives from Chevron Corp, Royal Dutch Shell and ConocoPhillips blamed higher demand and higher crude costs for the increase in retail gasoline prices. The executives called for drilling in prohibited areas of the US, improved dialogue with producer nations and an increased investment in technology to drive alternative energy ventures. ConocoPhillips' chairman and chief executive James Mulva said increasing supply was becoming more challenging because many nations with extensive oil reserves have unstable governments.

Iran's Foreign Minister Manouchehr Mottaki said a positive atmosphere had been created that could help resolve the dispute over Iran's nuclear program. However he did not state when Iran would respond to the offer made by the world powers to end the dispute. He stated that any deal would have to be discussed with the US, China, Russia, Britain, France and Germany. Senior Iranian officials, including Iran's President Mahmoud Ahmadinejad, have recently made positive comments but have not yet given any indication that Iran is ready to give up its uranium enrichment. Meanwhile, Iranian sources stated that Iran was ready to limit its nuclear program but would not halt its enrichment as a precondition for international talks. A source stated that Iran would give the international community objective guarantees of the peaceful nature of its nuclear program. Separately, US President George W. Bush said Iran faced the prospect of UN Security Council action and progressively stronger sanctions if it rejected the offer.

In its monthly Oil Market Report, OPEC said $70/barrel oil was already cutting oil demand and the full effects of higher interest rates would be felts next year. It maintained its forecast for 2006 world oil demand growth at 1.6% or 1.4 million bpd to 84.6 million bpd. It reported that demand for its oil in the third quarter was estimated at 28.3 million bpd while demand for oil in the fourth quarter estimated at 28.6 million bpd. OPEC's ten members bound by quotas produced 27.555 million bpd. OPEC's total production in May stood at 29.479 million bpd. It reported that Saudi Arabia's production fell to 9.161 million bpd in May from 9.194 million bpd in April.

Algeria's Oil Minister Chakib Khelil said oil prices are likely to remain high through the end of the year and added that there was nothing OPEC could do about it. He said oil prices reflected the international situation and were more influenced by political and security conditions than by economic and market factors.



The EIA reported that the average retail price of gasoline fell by 3.5 cents/gallon to $2.871/gallon in the week ending June 19th. The EIA also reported that the average retail price of diesel fell by 0.3 cents/gallon to $2.915/gallon on the week.

Refinery News

A dispatcher for the Houston Pilots said two terminals at the Houston Ship Channel were shut due to flooding. Dynegy Inc and the Magellan Terminals Holdings both shut the docks of their shipping terminals over the weekend after the docks flooded. The ship channel remains open despite the inclement weather. There was up to 10 inches of rain in parts of Houston. Meanwhile, oil tanker traffic in the Port of Houston, Texas was not affected by the sinking of a barge containing steel coils in the Green Bayou section of the port.

Total SA said sulfur units at its 233,000 bpd Port Arthur, Texas refinery returned to service on Monday afternoon following a weather related outage earlier in the day. The refinery shut two units amid flooding caused by heavy rain. It reported that six more refining units were operating at reduced rates following the outage. Other refineries in the in the area did not report any impact to their production due to the weather.

Citgo Petroleum Corp's Lake Charles, Louisiana refinery was returning to normal operations after experiencing problems due to heavy rainfall early Monday.

Valero Energy Corp said a brief release of oil to the atmosphere over the weekend at its refinery in Paulsboro, NJ had no impact to production. Separately, the failure of an air blower in a fluid catalytic cracking unit at Valero's 250,000 bpd Port Arthur, Texas refinery led to flaring and emissions releases on Sunday. Valero said the failure of the blower caused an upset of the unit and that workers had been unable to repair the blower.

ExxonMobil reported that a catalytic cracking unit at its Baytown, Texas refinery tripped offline Friday. According to a filing with the Texas Commission on Environmental Quality, complications associated with the unit's piping system may prolong the outage. The report did not state whether production was affected.

The Texas Commission on Environmental Quality reported that equipment in the sulfur recovery unit at Delek's Holdings' Tyler, Texas refinery was shut on Friday. The report did not specify whether the disruption interrupted production or reduced crude throughput.

According to a report filed with the Texas Commission on Environmental Quality, feed to an olefins unit at the Deer Park Refining LP was cut for five hours on Saturday after the associated chemical plant lost hydrogen power. Separately, Shell reported that a storage tank at its Deer Park, Texas refinery released fuel vapors that triggered a shelter in place alert in the surrounding community. Shell said the gasoline storage tank leak was brought under control.

According to Credit Suisse, US refining margins fell last week as gasoline inventories increased and refineries returning from maintenance increased production. US Gulf Coast refining margins fell by $1.95 to $17.06/barrel while margins in the Midwest fell by $6.62/barrel to $13.34/barrel. Margin in the Northeast fell by $1.50 to $12.09/barrel while margins in the Rockies fell 11 cents to $30.72/barrel and $1.36 to $26.36.

South Korea's SK Corp is scheduled to restart a 40,000 bpd middle distillation unit at its 840,000 bpd Ulsan refinery in early July following scheduled turnaround. The refiner is also set to start routine maintenance on its 240,000 bpd no. 4 crude unit for 33 days starting June 19.

Sinopec Maoming Refining & Chemical Co said it was working towards becoming the first refinery in China to produce 99 RON gasoline. It is building a 1 million ton/year reformer unit to produce 99 RON and 95 RON gasoline.

A shipping agent and a senior Iraqi oil official said Iraqi oil stocks in the Turkish port of Ceyhan reached 5.25 million barrels. The agent said the flow from Kirkuk to Ceyhan was continuing at a rate of about 360,000 bpd. Iraq is able to store up to 8 million barrels. Iraq's SOMO issued a tender to sell six million barrels of oil from its Kirkuk field. The tender would offer oil loading between June 27 and July 1.

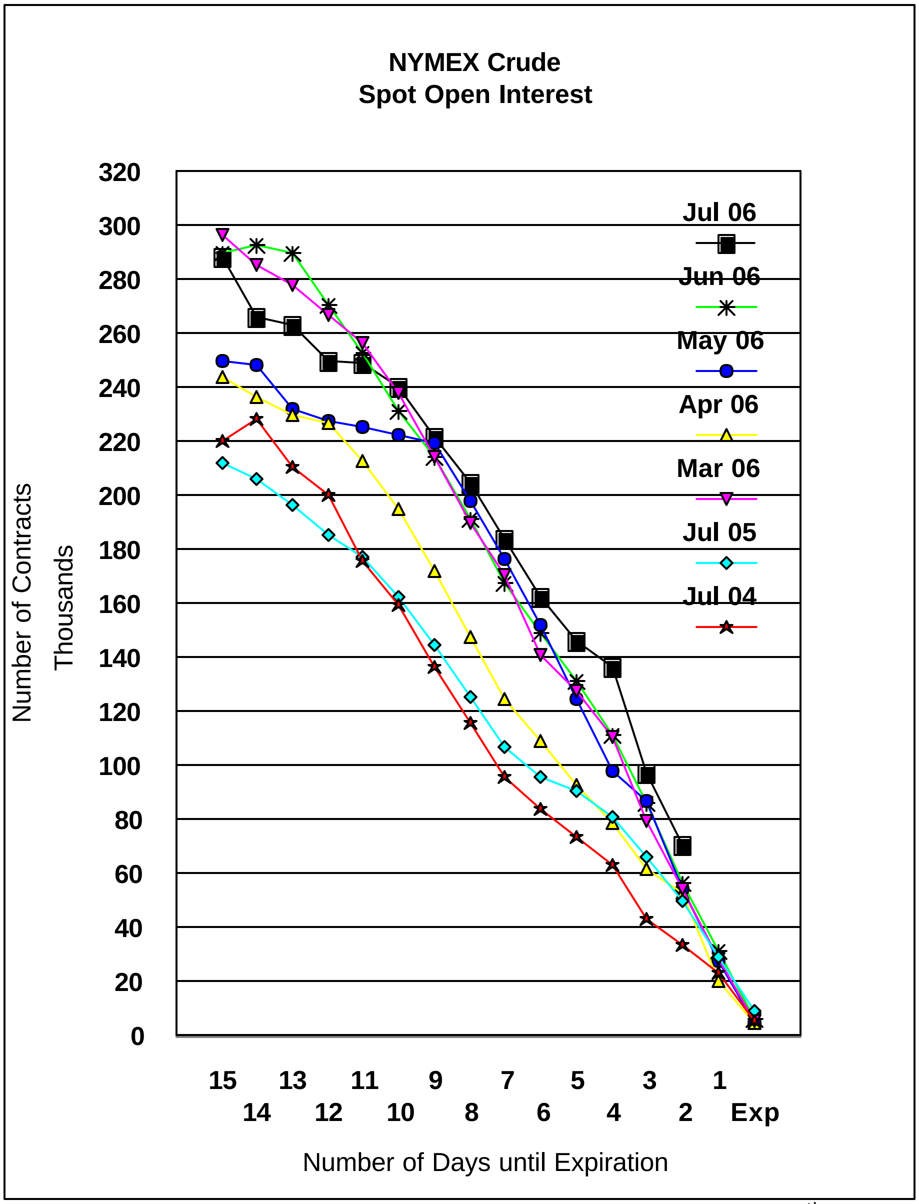
An Iraqi Oil Ministry spokesman, Assem Jihad, said the Iraqi cabinet has decided to increase fuel prices for the second time in six months to curb the smuggling of oil products. He said the price of super gasoline produced locally would remain unchanged at IQD250 while the price of regular gasoline would increase to IQD175 from the current level of IQD150. The price of gasoil would increase to IQD125/liter from IQD90 while kerosene prices would increase to IQD75 from IQD25 and the price for cooking gas cylinder would increase to IQD1,000 from IQD600.

Iran's Oil Minister Kazem Vaziri Hamaneh said that Iran was searching for potential partners to build refineries to process its heavy sour crude oil. Iran's Oil Minister also stated that Iran has been marketing for the refining of its heavy crude in countries other than Indonesia as well. Indonesia said it was planning to invest $14 billion in new facilities to increase its refining capacity from 1.2 million bpd to about 2.2 million bpd by 2011.

India's Mangalore Refinery and Petrochemicals Ltd is likely to export about 6 million tons of petroleum products in the year ending March 2007. The company signed an agreement with the State Trading Corp. of Mauritius to supply more than 1 million tons of petroleum projects in 2006/07, which includes supply of 350,000 tons of gas oil, 260,000 tons of aviation fuel and 90,000 tons of gasoline. It would also supply 330,000 tons of fuel oil as part of the deal signed last week.

South Korea's SK Corp is expected to increase spot jet fuel exports to 150,000 tons in July, more than double the levels in June.

Russia's Sakhalin 1 oil and gas project is expected to export its first crude cargo in mid-August. The first cargo is expected to arrive at a refinery operated by Japan's TonenGeneral Sekiyu KK in mid-August. A second cargo has been allocated to Japanese consortium Sodeco. The Sakhalin 1 oil and gas project is expected to pump about 250,000 bpd by the end of the year.



Production News

China's Sinopec is scheduled to sign an agreement to explore Iran's onshore Garmsar block for oil and gas on Tuesday. In 2005, China imported 300,000 bpd of Iranian crude.

Statoil ASA chief financial officer Eldar Saetre said Norway is expected to produce 1.1 million bpd of oil until 2015.

OPEC's news agency reported that OPEC's basket of crudes fell slightly to \$63.02/barrel on Friday compared with \$63.10/barrel on Thursday. It also reported that OPEC's basket of crudes fell by \$1.83/barrel to \$63.48/barrel in the week ending June 16th.

Market Commentary

The oil market retraced Friday's late gains and opened down 63 cents at 69.25 amid renewed hopes of a resolution to the Iranian nuclear standoff. Iran's Foreign Minister Manouchehr Mottaki said a positive atmosphere had been created that could help resolve the dispute over its nuclear program. The market quickly posted a high of 69.35 on the opening. However the market continued to find further profit taking as it breached its previous low of 68.80 and posted a low of 68.55. The market later retraced its losses and settled in a sideways trading pattern. It settled down 90 cents at 68.98. Volume in the crude market was good with 203,000 lots booked on the day. Open interest in the crude market continued to fall by a total of 15,212 lots as of Friday. Open interest in the July contract fell by 27,125 lots as traders continued to liquidate their position ahead of its expiration on Tuesday. Open interest remains high when compared to the previous expiring contracts. Meanwhile, the gasoline market settled down 4.68 cents at 199.14 as the market shrugged off reports of refinery problems.

The gasoline market opened down 3.52 at 200.30 and quickly posted a high of 201.50. However the market continued to sell off and posted a low of 196.50 despite the reports that heavy floods in the Houston area forced at least one refinery to reduce operations. Traders shrugged off the news because the impact from the floods would be temporary. The market later retraced its losses and traded mostly sideways after it failed to test its high. The heating oil market also opened down 1.74 cents at 191.50 and quickly posted its high of 192.00. However the market sold off to a low of 188.70 in follow through selling seen in the gasoline market. The heating oil market later bounced off its low and retraced its losses ahead of the close. It settled down 3.76 cents at 189.48. Volumes in the product markets were light with 31,000 lots booked in the gasoline market and 41,000 lots booked in the heating oil market.

The oil market on Tuesday will be driven by the expiration of the July crude contract. The market is seen testing its support at 68.55 and its double bottom at 68.30 ahead of its expiration amid the lack of any major news. More distant support is seen at 67.85. Meanwhile resistance is seen at 69.20 and 69.35. More distant resistance is seen at 70.15 followed by 70.25 and 71.90.

Technical Analysis

		Levels	Explanation
		70.15, 70.25, 71.90	Previous highs
	Resistance	69.20, 69.35	Monday's high
CL	68.98, down 90 cents		
	Support	68.55	Monday's low
		68.30, 67.85	Double bottom, Previous low
		194.25, 196.00	Previous highs
	Resistance	190.50, 192.00	Monday's high
HO	189.48, down 3.76 cents		
	Support	188.70	Monday's low
		188.00, 187.75, 187.25, 185.00	Previous lows
		205.00, 207.50	Previous highs
	Resistance	201.50	Monday's high
HU	199.14, down 4.68 cents		
	Support	198.50, 196.50	Monday's low
		194.80, 194.50	Previous low