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ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR JUNE 23, 2008

The meeting of top energy policy makers in Saudi Arabia over the weekend offered little hope of a quick fix. The participants noted their concern that oil prices have risen sharply and become more volatile due to several factors. They also noted that the current oil prices and their volatility was detrimental to the world economy and in particular the economies of least developed countries. They agreed that the situation required concerted efforts from all parties, including the producing and consuming countries and the oil

Market Watch

The EIA said it is seeking to purchase heating oil for the Northeast Home Heating Oil Reserve, using \$3 million in appropriated funds. It said that because of the modest volume of heating oil expected to be purchased, no impact on market prices is expected. The oil is expected to be delivered during the week of July 7.

The Commodity Futures Trading Commission said the agency will provide Congress with a report by mid-September on the role commodity index funds have played in the rally in energy prices. The House Subcommittee on Oversight and Investigations said it found that CFTC data showed that speculators accounted for the vast majority of oil futures contracts held by traders at the NYMEX. It said speculators have increased their share of NYMEX oil futures contracts to 71% in April from 37% in 2000.

US Democratic presidential candidate Barack Obama offered new steps on Sunday to crackdown on speculation in the oil markets. His plan would require US energy futures to trade on regulated exchanges. The campaign also said he supported legislation that would direct the Commodity Futures Trading Commission to investigate proposals such as increasing margin requirements in the market. He would also like to see more transparency and oversight of institutional investors in commodities markets.

China's National Development and Reform Commission said China will cap price increases by manufacturers to keep consumer inflation stable following the country's fuel price increase.

Mexico's Deputy Finance Minister Alejandro Werner said Mexico does not plan to reduce subsidies on gasoline, even though the government faces increasing costs from high world oil prices. Mexico's government is expected to spend close to \$20 billion this year to subsidize prices for gasoline, diesel and domestic gas.

June Calendar Averages

CL – 132.68
HO – 379.98
RB – 340.99

industry to bring stability to the world oil market. World oil producers and consumers who met on Sunday are scheduled to meet again in London this October. Meanwhile, Saudi Arabia's Oil Minister Ali al-Naimi said the country is ready to pump more oil for the rest of the year, although it is unlikely to tame record prices. Saudi Arabia has already said it will

Saudi Arabia will pump at or above that level for the rest of customers. He said in the longer term, Saudi Arabia could increase its available capacity by an extra 2.5 million bpd above a current plan to reach 12.5 million bpd by the end of next year. Saudi Arabia's King Abdullah on Sunday proposed creating a \$1 billion OPEC fund and offered \$500 million in Saudi soft loans to help poor countries cope with high oil prices.

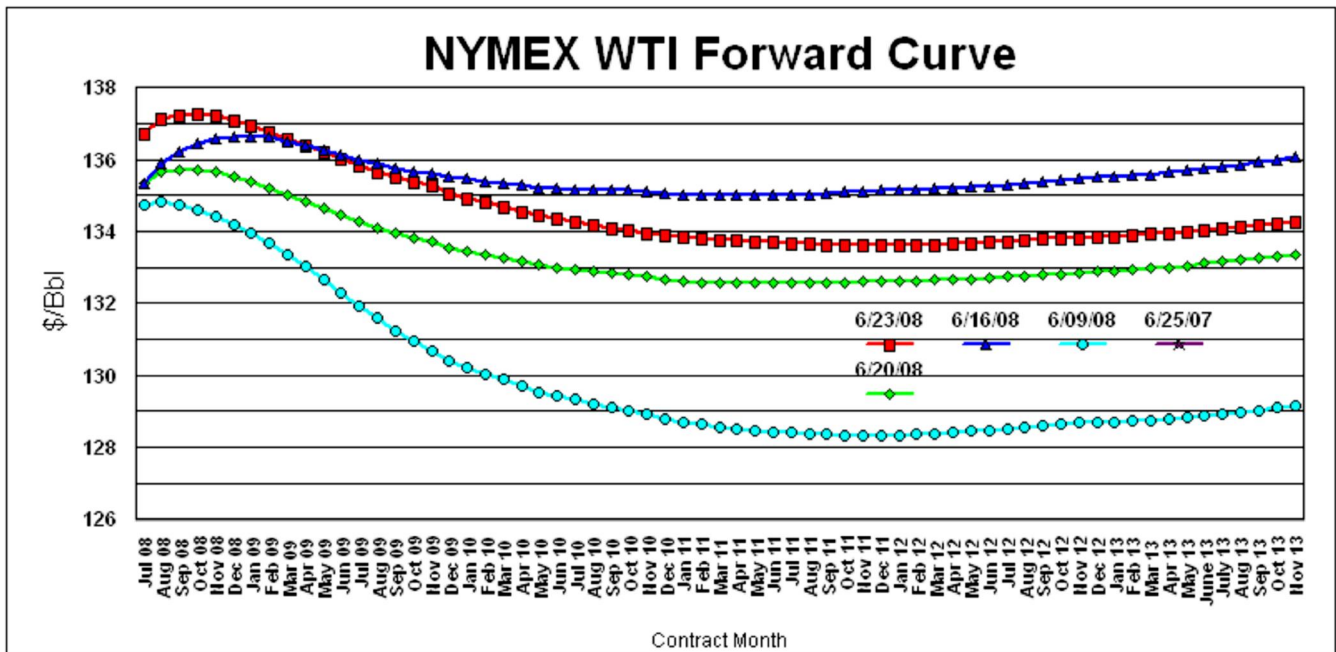
The White House on Monday welcomed Saudi Arabia's pledge to increase oil output and pump more oil if needed. However the Bush administration spokeswoman Dana Perino said it is unclear if the meeting would ease pressure on prices. She reiterated the White House's view that the laws of supply and demand are responsible for high energy prices.

OPEC President Chakib Khelil said OPEC producers should wait until September to decide any change to current oil output levels as supply was adequate. He said oil producers cannot produce more without demand for extra supply. He said supply and demand was balanced and prices would remain high until year end due to speculation, developments in the dollar and possible policy decisions by the European central bank. Qatar's Oil Minister Abdullah al-Attiyah said the world market was well supplied with crude and added that the near record oil prices were the result of speculation.

A senior Iranian oil official, Hojjatollah Ghanimifard said he expected crude oil prices to rise in coming days with the start of summer. Iran's OPEC governor Mohammad Ali Khatibi said OPEC did not see any need to increase output ahead of the producer-consumer summit in Saudi Arabia on Sunday. Meanwhile, Iran's President Mahmoud Ahmadinejad dismissed calls for oil producers to increase their production in response to high prices. He said the market is oversaturated with more crude than it is consuming.

The IEA's executive director, Nobuo Tanaka said that while the oil market supply was tight it did not warrant the release of stockpiles from the world's top industrialized countries. He reiterated that a severe disruption to physical oil supplies would be needed for such a move from its member states.

Nigeria's senior oil workers' union, Pengassan, began strike action at Chevron on Monday after negotiations with Chevron management reached a deadlock. However it said it has not yet shutdown any production, pending further talks with the government. It said the union members have not shut



Administrative functions were affected. Chevron confirmed that work stoppage but said it was continuing to engage all the stakeholders through dialogue. Chevron said it was still too early to comment on any potential impact of the declared work stoppage. The Pengassan union has been demanding the removal of the company's expatriate director, saying he has too many foreign staff. Separately, a crude pipeline connected to Chevron's Escravos oil wells was damaged by a militant attack on Thursday night, prompting the shutdown of some production. Meanwhile, Nigeria's Oil Minister Odein Ajumogobia said Nigeria was producing around 1.8 million bpd before the most recent attacks. Nigeria's central bank said that oil production in the first three months of the year totaled just under 187 million barrels or about 2.05 million bpd.

Militants in Nigeria's southern Niger Delta announced a ceasefire on Sunday but stopped short of agreeing to participate in peace talks. The Movement for the Emancipation of the Niger Delta declared the ceasefire just days after one of its attacks, which forced Royal Dutch Shell to halt its output from its main offshore oilfield, Bonga. The announcement also comes weeks ahead of a peace summit called by President Umaru Yar'Adua's government. Separately, Royal Dutch Shell said it would like to resume its production at the Bonga oilfield as soon as possible but gave no indication how long it may take.

Iran said it was encouraged by common points between its and world powers' separate proposals aimed at defusing its nuclear dispute. However Iran's Foreign Ministry spokesman Mohammad Ali Hosseini again dismissed any suggestion of suspending uranium enrichment. He said Iran was studying an offer of economic and other incentives by six major powers however he did not say when Iran would respond. Iran has put forward its own package of proposals aimed at resolving the dispute but diplomats say it ignores concerns about its enrichment program.

Separately, an aide to Iran's President Mahmoud Ahmadinejad, said the Iranian President was the target of an assassination plot at the UN food summit in Rome earlier this month as well as on his trip to Iraq in March.

The EIA reported that the US average retail price of gasoline was unchanged at \$4.08/gallon in the week ending June 23. It also reported that the US average retail price of diesel fell by 4.4 cents in the latest week to \$4.648/gallon.

Refinery News

BP is restarting a crude unit at its 265,000 bpd refinery in Carson, California after it was shut over the weekend due to a power outage.

Sunoco Inc said it expects a fluid catalytic cracking unit at its 175,000 bpd refinery in Marcus Hook, Pennsylvania to return to normal operations following maintenance work. The unit, which has been down for several weeks, is expected to be at normal rates by the end of the week.

Units at PDVSA's 300,000 bpd Cardon oil refinery went offline for several hours on Friday due to a power outage. A source said its catalytic cracking unit continued operations during the outage. Japan's Nihonkai Oil Co Ltd said it had restarted its 60,000 bpd crude distillation unit at its refinery in Toyama on Saturday as scheduled following its maintenance shutdown.

Japan's Taiyo Oil Co said it would conduct planned maintenance on its Kikuma plant starting Tuesday until mid-July.

Sunday to build a new 400,000 bpd refinery in Saudi Arabia. The end of 2012.

China's apparent oil demand increased 2.3% in May, the slowest rate in six months. According to Reuters, China consumed 7.23 million bpd of oil last month. The marginal increase came as state refiners Sinopec and PetroChina cut production due to maintenance while many small scale refiners remained shut in the face of massive losses caused by below cost domestic pump rates. China's diesel demand increased by 9.9% on the year to 2.76 million bpd while fuel oil demand fell by 6.5% on the year to 820,000 bpd and gasoline demand increased by 7.2% on the year to 1.36 million bpd. It also reported that China's crude imports increased by 24.9% on the year to 3.81 million bpd.

Shipbrokers and traders said another 120,000 tons of diesel have been booked for Australia from Singapore, Japan and South Korea to cover fuel shortfalls following an explosion at an Australian gas plant. Four 30,000 ton cargoes will be loaded between June 28 and the first half of July. The bookings bring total shipments to Australia after the Apache gas plant explosion in early June to 330,000 tons.

Brazil's Cane Industry Association reported that the country's ethanol exports will increase to 5 billion liters for the 2008/09 cane harvest, up from the 3.1 billion liters last season due to strong demand from the US.

Production News

Saudi Arabia's 500,000 bpd Khursaniyah oilfield expansion project is due on line in August. Saudi Aramco will increase its production capacity further by year end, adding a combined 350,000 bpd of crude from its onshore Nuayyim and Shaybah oilfield. A Saudi Aramco official said production from the 1.2 million bpd Khurais field will start in June 2009 as planned. Output will increase a further 900,000 bpd in the fourth quarter of 2009 when Aramco starts its Manifa heavy oilfield. The field developments are part of Saudi Arabia's plan to increase its daily production capacity to 12.5 million bpd by the end of 2009 from 11.3 million bpd.

Norway's StatoilHydro said its Oseberg A field in the North Sea was not yet back at full production after a fire earlier this month forced a curtailment in production.

Iraq's Oil Ministry reported that the country's oil exports reached a high of 2.01 million bpd in May, up 151,000 bpd from April's 1.86 million bpd due to fewer militant attacks on pipelines and better security. Exports from Iraq's northern Kirkuk oilfields increased to 444,000 bpd in May while exports from Iraq's Basra terminal increased to 1.567 million bpd, up from April's 1.43 million bpd.

Colombia's Cano Limon-Covenas pipeline was shut in due to rebel bomb attacks carried out on Saturday and Sunday. The pipeline, which has a capacity to transport 225,000 bpd, was transporting an average of 96,000 bpd from Arauca province to the Caribbean coast.

OPEC's news agency reported that OPEC's basket of crudes fell to \$128.56/barrel on Friday from \$129.44/barrel on Thursday.

Market Commentary

This weekend's producer-consumer meeting was basically a non-event, as Saudi Arabia's plans to increase production meant little to the price of crude oil. Concerns about shortages in production out of Nigeria due to strikes, overshadowed any promises to up output elsewhere. Although crude oil experienced wide swings, volume was extremely light. The appearance of the forward curve for crude oil over that past four - weeks has not changed much in shape, although it has moved up on the scale.

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an indication of forward supply and demand. With the front of indication that immediate demand is not strong. With demand weak, refining activity should be moderate, thereby building crude oil stocks and thinning product stocks. The rally in this market can be seen as a product driven one, especially from ULSD diesel. The August08 crude oil contract has been trading sideways since the beginning of June and technically, appears to be setting up for another move towards the upside. Based upon the aforementioned supply/demand situation, this move higher could be a failed one. For now we would continue to stick with buying and selling against the listed support and resistance numbers. As for the August08/September08 crude oil spread, we would expect for the September contract to gain against the August and would sell, selling the August and buying the September, with a break below -.66, looking for a test at -.95. Our longer - term outlook for both heating oil and gasoline, remains somewhat bullish, considering that we expect refinery runs to slow, at a time when demand for diesel remains strong. Basis the spot continuation chart for gasoline, we would look for a test at the top of the ascending channel, which comes into tomorrow set up at \$3.6243. There is a flag formation that has formed on the July08 heating oil chart, which has a breakout point for tomorrow is set at \$3.9250. The initial upside objective upon a breakout of this level, would be \$4.1455, and the ultimate upside objective is \$4.3850. Open interest for crude oil is 1,301,941 down 7,901, August08 321,220 up 5,514, Septmeber08 143,319 up 10,138 and December 08 180,104 down 3,818. Total open interest for heating oil is 221,539 up 3,063, July08, 27,818 down 2,957, August08, 50,677 up 4,231. Total open interest for gasoline, 263,996 down 2,376, July 37,846 down 2,872, August08, 66,186 up 723.

August Crude Support	July Crude Resistance
131.30, 127.76, 126.77, 122.05, 120.60, 114.85, 108.95, 98.20, 85.40	137.35, 141.00, 143.29, 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, 4.1200
Gasoline support	Gasoline resistance
3.3400, 3.3250, 3.3000, 3.1760, 3.0920, 3.0730, 3.0400, 3.0250, 2.9255	3.6345, 3.755, 3.8655