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ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR JULY 12, 2005

According to the latest Short Term Energy Outlook, gasoline prices for the summer are estimated to average $2.25/gallon, up 8 cents/gallon from last month's estimate and about 35 cents/gallon on the year. Crude oil prices are expected to remain high enough to keep quarterly average gasoline prices above $2.20/gallon through 2006. Monthly average WTI prices are projected to remain above $55/barrel for the rest of 2005 and 2006. It said several factors are contributing to the expectation of high crude prices. It said world oil demand is projected to grow at an annual average of 2.1 million bpd in 2005 and 2006, representing a 2.5% annul average growth rate compared with 3.4% growth in 2004. World oil demand is estimate at

Market Watch

The DOE released its updated SPR delivery schedule on Monday showing a cut in deliveries in June of 13,000 barrels to 2.462 million barrels. It reported that deliveries in July are expected to increase by 65,000 barrels from its previous estimate to 2.305 million barrels while in August deliveries are expected to increase by 33,000 barrels from is previous estimate to 2.165 million barrels.

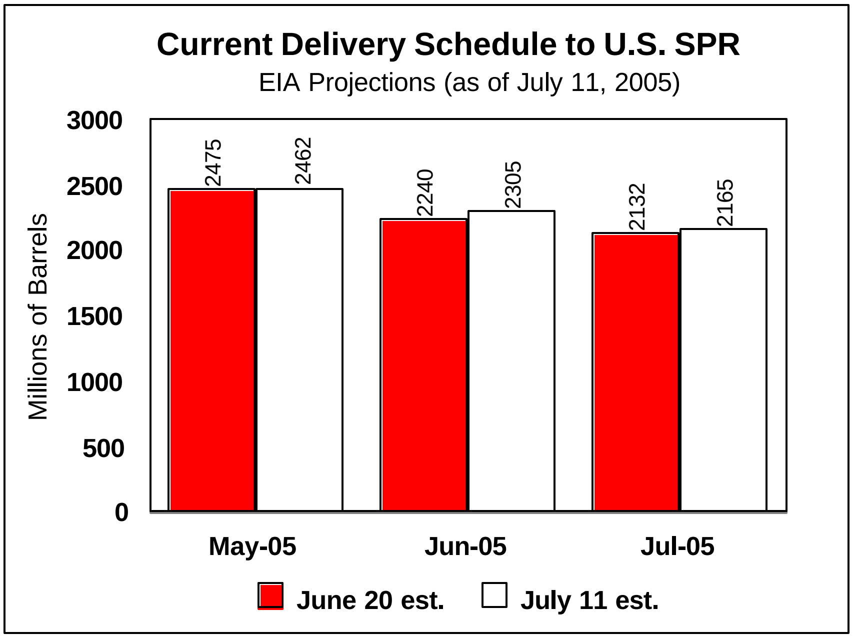
The EPA has granted temporary waivers from federal clean air requirements for gasoline and diesel fuel sold in some counties in Florida to ensure there is sufficient fuel following Hurricane Dennis. The EPA said it is allowing diesel fuel with high sulfur content to be sold in 10 counties. It also said that gasoline that does not meet summer clean air requirements can be sold in Hillsborough and Pinellas counties in central west Florida, which include the cities of Tampa, Clearwater and St. Petersburg. The waivers were granted last Friday and will be in effect until midnight July 18. However service stations can continue to sell the non-compliant gasoline and diesel fuel past that date until their supplies run out.

Saudi Arabia's King Fahd's health is improving. Saudi Arabia's Defense Minister Prince Sultan said he would only leave the hospital when he has fully recovered from pneumonia. He provided no further details.

According to an IEA official, world economic growth could be reduced by as much as 1% this year if oil prices remain at $60/barrel. He called on Asian governments to take steps toward reining in oil consumption growth, which in many countries has been artificially protected from higher costs by state fuel subsidies.

European Central Bank Governing Council member Nicholas Garganas said high oil costs may keep euro zone inflation at 2% at least over the coming months. However he added that there was no evidence of underlying consumer price pressure building up. He said the ECB would continue to watch for the risk of higher inflation, adding that the central bank's anti-inflation credibility was a major reason why higher oil prices had not fed through into the rest of the economy.

The IPE reported that a total of 100,000 tons of gas oil will be physically delivered following the midday expiry of July gasoil futures. It is down from June's expiry when 210,500 tons of gas oil were physically delivered.



85 million bpd in 2005 and 87.1 million bpd in 2006, up from last month's estimate of 84.7 million bpd and 86.7 million bpd, respectively. In the third quarter, world demand is estimated at 84.9 million bpd, up 400,000 bpd from its previous estimate while fourth quarter demand is estimate at 87.2 million bpd, up 500,000 bpd from its previous estimate. It also stated that production growth in countries outside OPEC is not expected to accommodate world demand growth. Non-OPEC supply is estimated to grow at an annual average of 800,000 bpd during 2005 and 2006. Also spare production capacity has declined and downstream sectors, such as refining and shipping are expected to remain tight. In regards to US petroleum demand growth, it said demand growth is estimated to average about 1.3% per year, down from its previous estimate of 1.5%. US petroleum demand is estimated at 20.93 million bpd in 2005 and at 21.26 million bpd, up from its previous estimates of 20.84 million bpd and 21.12 million bpd, respectively. It said gasoline demand in 2005 is estimated at 9.23 million bpd, up from its previous estimate of 9.2 million bpd while demand in 2006 is estimated at 9.37 million bpd, up from 9.35 million bpd reported last month. It also increased its distillate demand by 10,000 bpd from its previous estimate to 4.15 million bpd in 2005 and to 4.22 million bpd. It also stated OPEC production contributed to inventory builds in the OECD countries in the first six months of the year, with stocks moving towards the upper end of its 5 year historical average. It however stated that OECD stocks have not grown in terms of days supply because demand has grown rapidly as well. OPEC produced 30.25 million bpd in June, up 100,000 bpd on the month.

Refinery News

A co-generation plant at Chevron Corp's 325,000 bpd Pascagoula, Mississippi refinery was shut on Tuesday after it was shut on Saturday as a safety precaution ahead of Hurricane Dennis. The plant provides electricity and steam for parts of the refinery's processing.

Production News

According to the MMS, a total of 857,975 bpd of crude oil remained shut as of Tuesday. The shut in production is equivalent to 57.2% of daily oil production in the Gulf of Mexico. It reported that the cumulative shut in oil production is 4.988 million barrels.

BP confirmed late Monday that its Thunder Horse platform was listing following the passage of Hurricane Dennis though the Gulf of Mexico. A BP spokesman said it was surveying any damage to its Thunder Horse platform. On Monday, the company spokesman stated that the listing could be due to excess water in the platform's ballast tanks from Hurricane Dennis and not the result of major structural damage. He said it is too early to determine if the project would be delayed. It was due to start operations in the fourth quarter. A BP spokesman later stated that a 10 ton winch fell from the platform during last week's evacuation. However BP does not believe the incident was a factor in the structure's damaged site. According to a Citigroup report, BP's estimated production growth, without Thunder Horse's output, would fall to 5.4% from 8.9% in 2006 and to 3.8% from 5.2% in 2007. Meanwhile, Goldman Sachs reported that BP would lose 2% of its production volume in 2005 and up to 4.6% in 2006 even if the platform is recoverable. According to Pickering Energy Partners, an energy research firm, the damage at BP's platform will defer for at least 3-6 months 25,000-45,000 bpd of oil that was supposed to hit world oil markets late this year.

ExxonMobil returned an additional 27,000 bpd of oil and 190 mmcf/d of natural gas production that was shut in due to Hurricane Dennis. It still has 13,000 bpd of crude production and 540 mmcf/d of natural gas production shut in, down from the initial amount of 40,000 bpd and 780 mmcf/d, respectively.

Anadarko Petroleum Corp restored oil and gas production at its deepwater Marco Polo platform in the US Gulf of Mexico. It said production has increased almost to pre-storm level of 16,000 barrels of oil equivalent/day. Meanwhile Chevron Corp plans to bring its US Gulf of Mexico oil and gas production up to pre-Hurricane Dennis levels early in the week, though third party pipeline facility operators may delay the effort. Also, Total restarted production late Monday from two of three Gulf of Mexico facilities evacuated during Hurricane Dennis. It restarted production at the Canyon Express system and the Matterhorn platform.

Shipping brokers stated that Saudi Arabia has hired an ultra large and two very large crude carriers to transport 7.3 million barrels of spot crude oil to the US in early August. Saudi Arabia booked five VLCCs to carry 10.5 million barrels of crude to the US in July. The country notified its customers in Europe and the US that it would keep crude supplies steady in August from July. Saudi Arabia is expected to export more than 3 million bpd of crude to Asia in August, mostly steady from the past three months. Several refiners in South Korea, Japan, Taiwan, Thailand and Singapore said they were allocated full volumes for August loading. China's slowing oil demand may have prompted Chinese refiners to request less than full volumes.

OPEC's news agency reported that OPEC's basket of crudes fell by $1.63/barrel to $53.31/barrel on Monday from $54.94/barrel on Friday.

The UK's North Sea Flotta crude oil system plans to load 2.6 million barrels or 84,000 bpd in August, unchanged from July.

Norway's North Sea Gullfaks system is scheduled to load 8 cargoes in August or about 220,000 bpd, down from its July loading rate of 303,000 bpd. Its loadings are less as Statoil continues its maintenance on the Gullfaks A and B platforms.
Norway's Petroleum Safety Authority said a check of lifeboats on all offshore oil platforms revealed no immediate problems that would force production shut ins. It urged all operators last Friday to check their lifeboat systems after problems with two types of boats halted production at Statoil's Veslefrikk field twice in less than three weeks.

Germany's MWV reported that German oil product sales in June totaled 6.27 million tons, down 8.6% on the year. It reported that total gasoline sales fell by 2.1% on the year to 2.05 million tons while heating oil sales fell by 24.1% on the year to 1.38 million tons.

Gas oil exports from the former Soviet Union via Baltic and Black Sea ports increased sharply in June, adding to a prompt supply glut in Northwest Europe. Sources stated that gas oil exports increased to 2.91 million tons, up from 2.42 million tons in May. The surge in shipments comes as refiners move barrels to export terminals by river barge, rather than by railways. Fuel oil exports increased by 1.76 million tons or 51% to 5.22 million tons in June. Meanwhile, gasoline exports fell by 234,000 tons or 26% to 672,000 tons while naphtha shipments fell by 90,000 tons to 381,000 tons.

Russian companies' oil production increased by 0.7% on the year to 12.78 million tons between July 1 and July 10. Oil supplies to refineries fell by 1.5% on the year to 5.96 million tons in the period. Oil exports to countries outside the Commonwealth of Independent States increased by 18.5% on the year to 6.802 million tons in the period. Oil exports to CIS countries fell by 26.2% on the year to 865,000 tons in the period. Separately, the Russian Industry and Energy Ministry reported that the oil exports from Russian refineries amounted to less than 9 million tons in January-June.

Russia's Tatneft produced 12 million tons in January-June, up 1.5% on the year. In June, it produced 2.1 million tons of oil.

Oil transportation via Belarus' pipeline system increased by 2.8% on the year to 52.674 million tons.

Indonesia's Pertamina will skip its regular monthly tender to buy crude for September due to a heavy program of refinery maintenance. It plans to shut a 230,000 bpd crude distillation unit at its Cilacap refinery for maintenance for about 30 days during September. Last week, Pertamina said it would import 14.5 million barrels of oil products in September in a bid to increase depleted national stocks. It also stated that it would import 7 million barrels of crude oil, down from its normal monthly average of 10 million barrels. Separately, Indonesia's oil and gas regulator, BPMIGAS, said the country expects to produce 1.075 million bpd of crude oil and condensate in 2005, below a target of 1.125 million bpd.

The Thai government will end its subsidy on diesel on Wednesday instead of at the end of the year as originally planned.

Venezuela's Oil Minister Rafael Ramirez said Venezuela has drafted the guidelines for joint ventures between PDVSA and private oil firms. Earlier this year, he ordered 32 privately managed oil fields to become joint ventures with PDVSA to bring private oil operations into line with its 2001 hydrocarbon laws. However the oil ministry has not announced the regulations for the law which define how much managerial control private oil firms will retain over the fields. Separately, Venezuela's Oil Minister stated that Venezuela has spent 40% of a development fund that has collected $2.8 billion in windfall oil revenue since the account was created last year. Venezuela's Finance Minister Nelson Merentes said the government will renew the practice of saving oil revenues in an economic stabilization fund starting next year. The plan to renew savings includes changing the rules that regulate how much the government must put away in the fund's coffers. Under the current rules, the government has to save 50% of the difference between a year' revenue and the average oil sales revenues of the last three years.

Venezuela's Finance Ministry reported that the country's 2006 budget is based on an average oil price of $25/barrel and average oil production of 3.4 million bpd.

Unocal Corp is likely to press Chevron Corp to increase its $16 billion bid following a board meeting on Thursday. Unocal's board is due to discuss a rival $18.5 billion cash bid from CNOOC Ltd, following talks with China's oil firm. Chevron, which has won all regulatory approvals for its deal, is expected to try to convince Unocal that a CNOOC deal would fail US regulatory hurdles.

Yukos' major owner, Group Menatep, has won a Dutch court ruling to freeze Yukos' shares in Lithuanian refinery Mazeikiu Nafta. Group Menatep said the move was designed to prevent any transaction with Yukos' 54% stake in Mazekiu Nafta without obtaining permission from the company.

Market Commentary

The oil market on Tuesday found some follow though buying and gapped higher from 59.10 to 59.78 on the opening. The market was supported amid the reports that a BP platform in the Gulf of Mexico was listing. The market was also well supported amid the tropical weather updates stating that a fifth tropical storm, Emily, developed and was heading towards the Caribbean. The market opened at its low and never looked back as it continued to trade higher following Monday's close at its highs. The oil market was well supported by the news of the BP platform listing, even though it was not expected to start production until later this year. The market extended its gains to over $2.30 as it rallied to a high of 61.25 before it settled in a sideways trading pattern during the remainder of the session. It settled up $1.70 at 60.62. Volume in the crude was excellent with over 269,000 lots booked on the day. Similarly, the product markets retraced its losses with the heating oil market settling up 6.97 cents at 175.15 and the gasoline market settling up 4.33 cents at 177.54. The heating oil market also gapped higher from 169.20 to 170.25 on the opening. The market partially backfilled Monday's opening gap from 171.30 to 169.20. It retraced more than 62% of its move from 179.40 to 166.10 as it rallied to a high of 175.40. The market settled in a sideways trading pattern ahead of the close. The gasoline market rallied to a high of 179.00 by mid-day amid the strength in the crude market. It however retraced some of its gains and settled in a sideways trading pattern ahead of the close. Volumes in the product markets were good with 53,000 lots booked in the heating oil market and 55,000 lots booked in the gasoline market.

Technical Analysis

		Levels	Explanation
		61.90	Previous high
	Resistance	61.25	Tuesday's high
CL	60.62, up $1.70		
	Support	60.50	
		59.78 to 59.10	Opening gap (July 12th)
		179.40	Previous high
	Resistance	175.40	Tuesday's high
HO	175.15, up 6.97 cents		
	Support	174.00	
		170.25 to 169.20	Opening gap (July 12th)
		179.35, 181.30, 186.00	Previous highs
	Resistance	179.00	Tuesday's high
HU	177.54, up 4.33 cents		
	Support	175.00	Tuesday's low
		170.05	Previous low

The oil market on Wednesday may retrace some of today's gains. However it will seek further direction from the weekly petroleum stock reports which are expected to show draws in crude stocks of close to 3 million barrels, builds in distillate stocks of about 1.6 million barrels and draws in gasoline stocks of about 1 million barrels. The market will also continue to watch the developments of the Tropical Storm Emily, which is forecast to head towards the Caribbean over the weekend. The National Hurricane Center reported that Hurricane Dennis has made portions of the Caribbean Sea warmer and therefore more favorable for the potential development of Emily. Technically, the market is seen finding support at 60.50 followed by more distant support at its gap from 59.78-59.10. Meanwhile resistance is seen at 61.25 followed by 61.90.