ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR JULY 13, 2006

Market Watch

Goldman Sachs has decided that for the roll occurring in September 2006 in relation to the GSCI futures contract expiring in October 2006 it would roll the existing portion of the GSCI that is attributable to the RBOB contract but would not roll the portion of the index that is attributable to the HU contract in the RB contract. It stated that for the September roll, one half of the portion of the GSCI that is attributable to the HU contract would be distributed to other contracts included in the non-RB petroleum product complex of the index.

Traders stated that more heating oil cargoes in the US were set to head for Europe in the coming days amid the widening transatlantic arbitrage window. The shipments follow the Europe bound cargoes booked for late June and early July loading in the Caribbean and US Gulf Coast. At least five cargoes bound for Europe have been booked this week. With large amounts of gasoline supplies heading to the US to meet demand, freight rates for US bound vessels were pegged at W315. However rates for the return voyage to Europe were less than half that level, adding to the attraction of shipping heating oil to the region.

US antitrust authorities approved Morgan Stanley's acquisition of oil products marketer, TransMontaigne. Antitrust authorities completed their review of the deal without taking any action to block it. Closing of the merger is still subject to other conditions, including approval by TransMontaigne stockholders.

The NYMEX said it would increase margins for its WTI-Brent calendar swap futures contract on the NYMEX Clearport platform, beginning with the close of business on Friday. Margins would increase to $700 from $350 for clearing members, to $770 from $385 for members and to $945 from $473 for customers.

The NYMEX also announced that it would migrate its energy futures contracts traded on ACCESS to the CME Globex electronic trading platform beginning August 6 for trade date August 7.

Iran's President Mahmoud Ahmadinejad said Iran would not abandon its right to nuclear technology in a defiant statement after Iran's case was referred back to the UN Security Council. The five permanent Security Council members and Germany supported a nuclear package aimed at ending the standoff over its nuclear program. Iran's President reiterated that Iran would give its final response to the incentive package by August 22, despite pressure for a swifter response. Meanwhile, French Foreign Minister Philippe Douste-Blazy said world powers would propose a UN resolution over Iran's nuclear activities that could include sanctions if Iran did not give them a positive response by mid-August. It would be part of a two stage process.

US President George W. Bush promised to work with Israel and criticized Hezbollah for thwarting efforts for peace in the Middle East. His comments came as Israel intensified its attacks in Lebanon in response to a cross border raid by Hezbollah guerillas during which two Israeli soldiers were captured.

Israel shelled Beirut's airport for a second time Thursday in an intensification of an attack on Lebanon after Hezbollah guerillas attacked the major Israeli port of Haifa.

Japan on Thursday demanded a prompt UN Security Council vote on sanctions against North Korea. A government spokesman said there was no change in its view that the resolution incorporating sanctions should be voted on promptly. Supporters of Japan's resolution have postponed a vote as China attempts to use its influence to stop North Korea from more tests and to draw the country back to six nation talks on its nuclear program. Meanwhile China and Russia have introduced a rival resolution that would cut mandatory sanctions along with language in the Japanese measure that some believe could lead to possible military action against North Korea.

Saudi Arabia's Oil Minister Ali al-Naimi said geopolitical risk was the main factor pushing oil prices higher. He reiterated the country's commitment to increase its production and refinery capacity. Separately, Qatari Oil Minister Abdullah al-Attiyah said there was no shortage of crude oil in the world markets and blamed geopolitical tensions for the high oil prices.

According to Oil Movements, OPEC's crude oil exports are expected to increase by 70,000 bpd to 24.9 million bpd in the four weeks ending July 29. It was the fourth week it reported an increase, with all the extra barrels heading to Asia to meet demand as refineries increase their output late in the second quarter.

Refinery News

A 200,000 bpd crude unit at Sunoco Inc's Philadelphia refinery started a restart process early Thursday following two weeks of unplanned maintenance. The unit is expected to resume normal operations within a few days.

PDVSA's 300,000 bpd Cardon refinery was hit by an explosion at its alkylation unit. The incident occurred Wednesday night. Meanwhile, PDVSA reported an accident at its 640,000 bpd Amuay refinery. It said two workers were burned by hot oil while they carried out maintenance on the refinery's delayed coker unit. The refinery's operations are not affected by the incident.

A fire at Austria's OMV's Schwechat refinery near Vienna has forced the shutdown of one of the site's crude distillation units for the second time this year. The cause of the fire was yet unclear and it was too early to say how long the unit would be shut.

According to Platts, Iran is not expected to halt its gasoline imports from September even though the current budgetary allocation would cover imports only until the end of August. Traders and analysts said Iran would find a way to continue funding its gasoline imports, with parliament expected to make a clear decision by late July or mid-August on whether to make further funding available. Iran imports under 30 million liters/day of gasoline or 188,700 bpd to cover the shortfall in domestic supply. Parliament allocated $2.5 billion for gasoline imports in the current Iranian year, which started on March 22, but the government has argued that the amount was enough for the first half of the year and has already been used up.

Russia's St. Petersburg port halted shipments on Thursday morning due to security restrictions before the Group of Eight summit. It has restricted navigation in the eastern part of the Gulf of Finland and on the Neva River during the July 15-17 summit in St. Petersburg, halting fuel oil and metals shipments via the Volgo-Balt canal system to the city's port.

Turkey inaugurated a $4 billion pipeline carrying oil from the Caspian Sea to the Mediterranean. Turkish, Azeri and Georgian heads of state were joined by ministers from around the world for a ceremony at the port of Ceyhan to mark the opening of the pipeline from Azerbaijan's Baku to Tbilsi in Georgia and Ceyhan, Turkey. The pipeline's capacity is expected to reach 1 million bpd by 2008. The project is also designed to reduce Western dependence on Middle East oil.

Turkey's Calik Enerji said it was in talks with Italy's Eni and an Indian oil firm on building a refinery in the Turkish port of Ceyhan with a capacity of more than 10 million tons. The company planned to start construction of an oil pipeline between the Black Sea port of Samsun and Ceyhan on the Mediterranean in the spring of 2007.

Azerbaijan's Socar has tendered to sell 1 million barrels of Azeri Light crude to load for the first time at the Turkish port of Ceyhan. The cargo is expected to load on August 11-13.

Singapore's International Enterprise reported that the country's light distillate stocks fell by 135,000 barrels to 7.306 million barrels in the week ending July 12. Its middle distillate stocks increased by 179,000 barrels to 6.893 million barrels while residual fuel stocks increased by 451,000 barrels to 12.524 million barrels on the week.

Production News

Two explosions hit oil installations owned by Italy's Agip in Nigeria's Delta region. Officials suspected sabotage in the explosions along two pipelines in Bayelsa. However Italy's Eni said damage to a pipeline it operates was not material and would soon be repaired. It denied a report by Nigeria's daily Guardian Lagos that suspected militants attacked and destroyed a pipeline, with an estimated loss of 120,000 bpd of oil. The company did not specify the cause of the damage or the impact on production from the Brass area of Bayelsa state. Separately, heavily armed militants killed four soldiers protecting a convoy of Chevron supplies on its way from the city of Warri to oilfields in Escravos. A Chevron spokesman said operations at the oilfields were unaffected.

Ecuador has given Venezuela's PDVSA until Monday to clarify the benefits of an oil for products swap deal or it would call off the agreement. Ecuador's Energy Minister Ivan Rodriguez said if PDVSA failed to respond, Ecuador would auction the crude earmarked for the deal, which is a six month supply of about 70,000 bpd.

OPEC's news agency reported that OPEC's basket of crudes increased by 56 cents to $68.66/barrel on Wednesday from $68.10/barrel on Thursday.

Market Commentary

The crude market gapped higher from 75.05 to 75.90 amid the escalation in the Middle East tension. Even though the latest developments would not directly threaten security of the Middle East oil supplies, the violence could drag in other surrounding oil producing countries. The market, which posted a high of 75.92 in overnight trading, settled in a sideways trading pattern from 76.40 to a low of 75.85 early in the session. However the market remained well supported by the tension in the Middle East as well as the reports of pipeline explosions in Nigeria. The market was further supported later in the session by the news of problems at PDVSA's Amuay refinery. The crude market continued to hold good support and later rallied to a high of 76.85 ahead of the close. It settled up $1.75 at 76.70. Volume in the crude market was good with 280,000 lots booked on the day. The gasoline market also gapped higher from 226.00 to 228.00 in follow through strength seen on Access. The market traded to 230.00 and partially backfilled its gap as it posted a low of 226.50. The market however held its support amid the strength in the crude market and the refinery news. The gasoline market rallied to a high of 231.50 ahead of the close and settled up 4.54 cents at 230.13. The heating oil market also gapped higher from 202.00 to 205.60, its intraday low. The market extended its gains to over 8.6 cents as it rallied to a high of 210.50 ahead of the close. The market later erased some of its gains ahead of the close and settled up 6.15 cents at 207.99. The market may have been pressured late in the session amid reports that more heating oil cargoes were heading to Europe. Volume in the gasoline market remained light with 36,000 lots booked on the day while better volume was reported in the heating oil, with 62,000 lots booked on the day.

The oil market, which continued to rally in overnight trading, is seen remaining supported ahead of the weekend in light of the escalating tension in the Middle East. The market is seen finding resistance at 76.85 followed by 78.09, basis its resistance line and the 80.00 level. Support is seen at 76.00 followed by its remaining gap from 75.85 to 75.05 and its previous lows of 73.80 and 72.90.

Technical Analysis			
		Levels	**Explanation**
		78.09, 80.00	Basis trendline
	Resistance	76.85	Thursday's high
CL	76.70, up $1.75		
	Support	76.00, 75.85 to 75.05	Remaining gap (July 13th)
		73.80, 72.90	Previous lows
		212.90, 214.00	Previous high
	Resistance	210.50	Thursday's high
HO	207.99, up 6.15 cents		
	Support	207.00, 205.60 to 202.00	Opening gap (July 13th)
		198.20, 195.30	Previous lows
		237.00	Previous high
	Resistance	231.50	Thursday's high
HU	230.13, up 4.54 cents		
	Support	229.00, 226.50 to 226.00	Remaining gap (July 13th)
		218.00	Previous lows