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ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR JULY 17, 2006

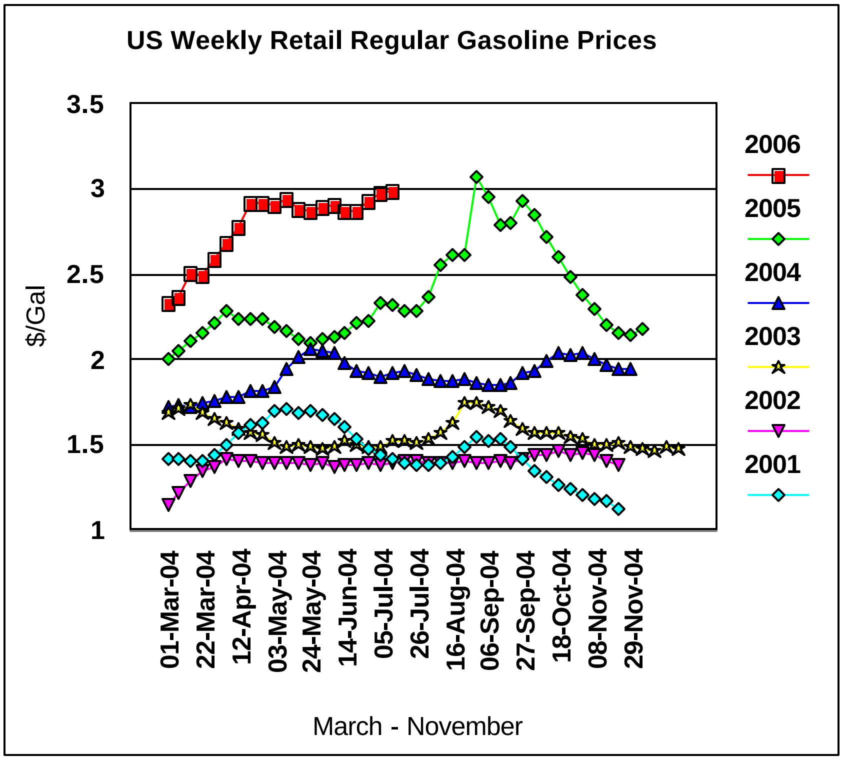
An Israeli airstrike in Lebanon destroyed at least one long range Iranian missile capable of reaching Tel Aviv. Military officials stated that Israeli aircraft targeted a truck carrying the weapons before they could be launched. Israeli warplanes fired at Hezbollah bases in the eastern city of Baalbek and a fuel tank in Beirut's port as about 20 Hezbollah rockets hit northern Israel. Israel said it would bomb Lebanon's electricity grid if Hezbollah continued its rocket attacks. Separately, a senior Israeli official said Israel would agree to a ceasefire in its offensive against Hezbollah if the Lebanese guerillas withdrew from the border area with Israel and release of captured Israeli soldiers. The official said Israeli Prime Minister Ehud Olmert conveyed Israel's position to Italy's Prime Minister, who was attempting to broker a ceasefire deal. Earlier, Iran's Foreign Minister Manouchehr Mottaki said a cease fire and an exchange of prisoners is feasible in the Israeli-Lebanese conflict. Lebanese officials on Sunday said Israel had sent the terms of a possible cease fire. The terms included the release of two captured Israeli soldiers and a Hezbollah pullback to about 20 miles from the Israeli-Lebanese border. UN Secretary General Kofi Annan and UK Prime Minister Tony Blair called for an international force to be sent to Lebanon to stop its attacks against Israel. The call was made on the sidelines of the G8 summit. The leaders of the G8 nations called for an end to attacks on Israel followed by Israel pulling its troops out of Gaza and ending military operations in Lebanon.

Market Watch

US Comptroller General David M. Walker said there was massive corruption in Iraq's oil industry that was hampering the country's ability to govern itself. He said one of the failures of the US program was related to the prewar assumption that Iraq would be able to pay for its reconstruction in large part through oil revenues. He said about 10% of Iraq's refined fuels and 30% of its import fuels are stolen. He noted that Iraq's production was below prewar levels due to insurgency and difficulties in maintaining the oil infrastructure. The Government Accountability Office criticized the administration's strategy for not identifying which US agencies are responsible for implementation, for not integrating US goals and objectives with the Iraqi government and for failing to identify future costs.

Sources from power companies in China said high oil prices were forcing power generators in southern China to operate plants at only 70-80% of capacity, causing a power shortage.

OPEC stated that high oil prices and slower economic expansion would help moderate world oil demand growth in 2007. Oil demand is expected to increase by 1.3 million bpd in 2007, less than this year's expansion of 1.4 million bpd. OPEC forecast world oil demand next year would average 85.9 million bpd. It stated that the slowdown in demand and increase in supply would lower the need for OPEC's oil next year. Demand for OPEC oil in 2007 would fall by 700,000 bpd to 28.3 million bpd. It expects supply from non-OPEC producers would increase next year by 1.7 million bpd, up from an expansion of 1.2 million bpd in 2006.



An Iraqi Oil Ministry official said the head of Iraq's North Oil Co, Adel Qazaz, was kidnapped in Baghdad on Sunday. The head of the oil company was traveling in an unofficial car to avoid attention following a meeting at the Oil Ministry when gunmen in two cars forced his vehicle to stop in northern Baghdad.

The EIA reported that the US average retail price of diesel increased by 0.8 cents/gallon to $2.926/gallon in the week ending July 17. It also reported that the US average retail price of gasoline increased by 1.6 cents/gallon to $2.989/gallon on the week.

Refinery News

Citgo Petroleum Corp partially shut a sulfur recovery unit at its 157,000 bpd Corpus Christi, Texas refinery on Monday. It was shutdown as an electrical fault was repaired. Separately, the Texas Commission on Environmental Quality stated that Citgo planned to shut a CO boiler at the No. 1 fluid catalytic cracking unit at its Corpus Christi, Texas refinery. The shutdown would facilitate maintenance and a state inspection.

According to a filing with the Texas Commission on Environmental Quality, BP Plc started about five days of work on Sunday to clean a vapor recovery unit associated with a crude unit at its Texas City, Texas refinery.

Venezuela's 640,000 bpd Amuay refinery was forced to reduce operations at its 100,000 bpd catalytic cracking unit following a fire at its crude distillation unit on Monday. Its production level was reduced as a safety precaution. Meanwhile, the Cardon refinery was still loading as operations remained normal.

Iraq has canceled its latest Kirkuk crude sale tender as it failed to pump enough oil through its pipeline to Turkey to be able to make the sales. The flow through the line to the Turkish terminal of Ceyhan was still on hold after Iraq halted exports on July 7. A shipping source said 600,000-700,000 barrels were in storage at Ceyhan.

Indonesia's Pertamina's 348,000 bpd Cilacap refinery was not affected by an earthquake south of Java Island. The refinery is operating as usual.

China's state refiners are expected to skip diesel imports for the seventh consecutive month in August. However exports of the fuel may increase as record high prices were prompting refiners to divert some barrels amid a seasonal lull in domestic demand.

Thailand's Energy Ministry reported that demand for diesel in June fell by 13.5% on the year to its lowest level in six months after the end of government subsidies last year. High world oil prices and the end of domestic fuel subsidies cut sales of premium and regular gasoline by 19.1% in June. Daily demand for diesel in June averaged 48.95 million liters while gasoline demand averaged 16.08 million liters/day and ethanol-mixed gasoline, gasohol, averaged 3.42 million liters/day. It reported that imports of crude oil in the first six months of the year fell by 1.7% to 833,000 bpd.

Russia's Rosneft said it was considering buying some oil refineries from Yukos, which faces bankruptcy.

Production News

BP Plc confirmed that the UK's North Sea Forties crude pipeline system would be shutdown for seven days of maintenance starting July 29. It said the work has been scheduled to coincide with planned oil and gas field shutdowns to minimize impact of the maintenance on customers. It said the pipeline was currently averaging 650,000 boe/d, which is expected to fall to 200,000 boe/d shortly before the maintenance begins.

The September loading program for Australian Cossack crude may be limited to three cargoes, instead of the usual five to six, if the field undergoes maintenance as planned.

PetroChina Co pumped more oil and gas in the second quarter to meet China's demands. Worldwide oil and gas production at PetroChina by capitalization increased to 265.5 million barrels of oil equivalent in the quarter, up 7.4% from the same period of 2005. It exceeded its first quarter growth of 6.3% and its full year target of 5% worldwide.

Petrobras said its Brazilian oil production returned to normal levels of about 1.85 million bpd on July 9. Its production fell by 6.2% on the month in June to 1.682 million bpd due to a scheduled stoppage for programmed maintenance. The fall in Brazilian production cut Petrobras' overall oil and gas production to 2.205 million barrels of oil equivalent/day, down from 2.32 million boe/d in May.

OPEC's news agency reported that OPEC's basket of crudes increased to $71.71/barrel on Friday from $70.38/barrel on Thursday. It reported that OPEC's basket of crudes increased by $1.04/barrel to $69.35/barrel in the week ending July 14.

Market Commentary

The crude market settled sharply lower amid the diplomatic efforts to end Israel's offensive against Lebanon. The market gapped lower 76.90 to 76.55 following reports that Israel could end its offensive in Lebanon

Technical Analysis

		Levels	Explanation
		76.75 to 76.90, 77.95	Remaining gap (July 17th), Previous high
	Resistance	76.00, 76.30	
CL	75.30, down $1.73		
	Support	75.20 to 75.05	Remaining gap (July 13th)
		73.80	Previous low
		208.70, 212.90, 214.00	Monday's high, Previous highs
	Resistance	204.00, 206.50	
HO	201.94, down 5.66 cents		
	Support	201.50	Monday's low
		198.20, 195.30	Previous lows
		235.00	Monday's high
	Resistance	232.00, 234.00	
HU	228.53, down 3.96 cents		
	Support	228.00	Monday's low
		226.50 to 226.00, 218.00	Remaining gap (July 13th), Previous low

within days. The market partially backfilled its gap as it traded to a high of 76.75. The market however continued to sell off and traded to 75.50, where it found some support. The oil market traded mostly sideways before further selling ahead of the close pushed the market to a low of 75.20. The market's concern over the conflict eased as Israel stated that it would ceasefire if Hezbollah withdrew from its border and released its two soldiers. The crude market settled down $1.73 at 75.30. Volume was good with 233,000 lots booked on the day. Meanwhile, the product markets also settled sharply lower. The gasoline market posted its high of 235.00 early in the session but quickly extended its losses to 3.49 cents as it traded to 229.00. The market retraced some of its losses before it once again sold off to a low of 228.00 ahead of the close. It settled down 3.96 cents at 228.53. The heating oil market settled down 5.66 cents at 201.94 after it sold off to a low of 201.50 ahead of the close. The market retraced more than 50% of its move from a low of 193.00 to a recent high of 211.10 after the market traded to a high of 208.70 on the opening. Volumes in the product markets were good with 44,000 lots booked in the gasoline market and 49,000 lots booked in the heating oil market.

The oil market will remain headline driven amid the continuing conflict in the Middle East. The market will sell off further following its recent rally if talks of a ceasefire continue. The market is seen finding support at its remaining gap from 75.20 to 75.05 and its previous low of 73.80. Meanwhile resistance is seen at 76.00, 76.30 followed by its gap from 76.75 to 76.90 and 77.95.