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## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR AUGUST 2, 2005**

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The Washington Post reported that while the immediate future of Saudi Arabia's royal family appears stable and carefully planned, its long term outlook appears fogged by unresolved problems of personality, power sharing and generational change. Saudis and outsiders will be carefully watching for developments over the next few months, looking

#### Market Watch

The Bank of Spain stated that Euro zone growth appeared to slow in the second quarter. However it stated that high oil prices and a depreciation of the euro meant inflation could remain above 2% for the rest of the year.

China's CNOOC abandoned its \$18.5 billion take over of Unocal Corp after the bid ran into political opposition from US lawmakers. The decision leaves Chevron Corp as the sole bidder for Unocal Corp. CNOOC's efforts to take over Unocal stoked concern among politicians about compromising economic and national security.

Kinder Morgan will pay \$3.1 billion cash and stock to acquire a Canadian pipeline company, Terasen which is a key player in the country's booming oil sands region. The deal will create a company worth an estimated \$19 billion with 40,000 miles of natural gas and oil transportation pipelines, 150 transportation terminals, 875,000 natural gas customers and 9,000 employees.

Platts reported that a Standard and Poor's analysis found that collar contracts, which allow a seller to lock in its selling price within a floor and ceiling band, may be a more effective hedging strategy for oil and gas producers in a bull market, where heavy reliance on swaps limits upside potential.

for clues about stability an individual ambition within the royal family as well as for signs of broader political change in Saudi Arabia. It reported that since King Abdullah and Prince Sultan have both suffered from ill health and are believed to be 82 and 81, respectively, a new number three could expect to move up to the throne fairly quickly. Saudi officials believe the post may be left vacant indefinitely since there is no known consensus within the royal family about who should follow the crown prince. One concern among western governments is whether Prince Nayef, a younger brother of Prince Sultan and Saudi Arabia's often outspoken and controversial interior minister will try to get in line for the throne.

#### Refinery News

Sources stated that Exxon Mobil's 245,000 bpd refinery in Joliet, Illinois is expected to begin restart procedures Thursday and resume shipping oil products from the plant on August 7. The plant was shut on July 30 when there were problems with the plant's cooling water system.

BP will perform maintenance on an electrostatic precipitator of its 62,000 bpd fluid catalytic cracking unit at its refinery in Texas City, Texas on Tuesday. According to a notice filed with the Texas Commission on Environmental Quality, BP expects to complete repairs and return the 36,000 bpd fluid catalytic cracking unit No. 2 to service on Wednesday. The unit was shut on July 31 after a hole was discovered in a regenerator dome nozzle.

Traders stated that Chevron Corp is cutting sales of diesel to West Coast customers on Tuesday due to a crude unit shutdown at its Los Angeles area refinery.

Motiva shut a crude unit at its 240,000 bpd Norco, Louisiana refinery for unplanned maintenance. The unit is expected to remain down for 7-10 days.

Murphy Oil Corp plans to restart a distillate unit at its Meraux, Louisiana refinery next week. The outage of the kerosene desulfurization unit has not impacted crude runs at the 120,000 bpd refinery.

China's Lanzhou Petrochemical Corp plans to increase its August crude runs by 3% from July to 780,000 tons or 184,000 bpd despite losses.

### **Production News**

Marathon said its gas and oil production from its Brae fields in the UK North Sea will be reduced in mid-September when it undergoes routine maintenance. The Alpha oil platform will be shut completely for 36-48 hours.

The Forties crude pipeline will halt production this Saturday for 36 hours of planned maintenance. A Nexen spokeswoman said it will halt production at its 40,000 bpd Scott field complex, which feeds into the Forties pipeline, during the maintenance.

BP reiterated that the resumption of production at BP's Schiehallion oil field in the UK North Sea is expected to take days.

Statoil's 193,000 bpd Snorre oilfield in the North Sea has shut in 50,000 bpd of its crude production due to well problems. The problem is seen lasting into September. Buyers of crude oil from the Statfjord oil stream were sent a revised loading program informing them that five cargoes had been cut from the August program. The scheduled loadings have been cut by 138,000 bpd. Output was also cut at the 71,000 bpd Vigdis oilfield for five days.

Russia's oil production reached a new post-Soviet high of 9.45 million bpd in July, increasing for the second consecutive month after 8 months of stagnation. Russia's Yukos produced 449,000 bpd in July from 468,000 bpd in June and from 600,000 bpd at the start of 2005. Meanwhile Sibneft produced 653,000 bpd in July, down from 672,000 bpd in June and 698,000 bpd last year. Lukoil however increased its output by 0.5% month on month and by 4.5% year on year while TNK-BP increased its production by 0.6% on the month and by 8% on the year. Separately, Russia's Energy Ministry reported that Russian oil and gas condensate production increased to 270.28 million tons or 9.35 million bpd in January-July 2005, up 3.3% from 263.06 million tons or 9.05 million bpd last year.

Russia's oil exports to CIS countries fell 22.6% on the year to 2.814 million tons in July. Separately, oil transit through Russia increased by 13.7% on the year to 13.5 million tons in January-July. Russia's oil exports via seaports increased 5% on the year to 9.313 million tons in July. It exported 3.445 million tons via the Black Sea port of Novorossiisk, 505,000 tons via Tuapse, 4.544 million tons via the Baltic Sea port of Primorsk, 484,000 tons via Ukraine's port of Yuzhny and 334,000 tons via Lithuania's port of Butinge.

The Caspian Pipeline Consortium exported 485,200 tons of Russian produced oil in July.

According to a survey by China's Commerce Ministry, China's demand for crude oil will increase about 6% on the year to 310 million tons or 6.2 million bpd in 2005. Domestic crude production is expected to increase 3% to 180 million tons or 3.6 million bpd, leaving a shortfall of 130 million tons or 2.6 million bpd. China's demand for oil products are expected to increase by 5% to 230 million tons in 2005. Of the total, gasoline demand is expected to exceed 54 million tons or 1.25 million bpd, up 4% from last year while diesel demand is expected to increase 6.5% to 110 million tons or 2.25 million bpd. Fuel oil demand is expected to increase 5% to 54 million tons or 950,000 bpd.

The Caspian Sea port of Aktau handled 5.3 million tons of oil and oil products in January-July compared with 4.6 million tons in the same year ago period.

Indonesia's Pertamina has issued its regular tender to buy sweet crude for October arrival after skipping one for September. It did not issue a tender for September loading due to refinery maintenance.

High inventories of fuel oil in Singapore are unlikely to ease in the near term as Chinese consumption has slowed. Singapore usually imports about 1.6 million to 2 million tons of fuel oil every month from the West, in addition to another 700,000 tons imported from the Middle East and 600,000-800,000 tons produced monthly by local refineries. The local bunker market consumes about 1.9-2 million tons while the rest is mostly exported to countries in the region, with China being the largest market.

OPEC's news agency reported that OPEC's basket of crudes increased further to \$55.12/barrel on Monday, up from \$54.20/barrel on Friday.

Ecuador's central bank reported that the country's oil product exports revenue in May totaled \$34.82 million, down from \$37.43 million last year. In terms of volume, Ecuador exported 948,000 barrels in May, down 29% from 1.34 million barrels exported last year.

### **Market Commentary**

The oil market opened in negative territory as the market continued to retrace Monday's gains. It seemed ready to post an inside trading day before it breached Monday's low of 61.00 and posted a low of 60.93.

The market however bounced off its low and settled in a sideways trading pattern as it held some resistance at 61.50. The oil market later breached that level and rallied to

<b>Technical Analysis</b>		
	<b>Levels</b>	<b>Explanation</b>
<b>CL</b> 61.89, up 32 cents	<b>Resistance</b> 62.10, 62.30, 62.80	Previous highs
	<b>Support</b> 61.95	Tuesday's high
	61.50	
	60.93, 60.10	Tuesday's low, Previous low
<b>HO</b> 172.51, up 82 points	<b>Resistance</b> 173.75, 175.70	Previous high, Basis trendline
	<b>Support</b> 173.10, 173.25	Tuesday's high, Monday's high
	170.20	Tuesday's low
	169.25, 166.80	Monday's low, Previous low
<b>HU</b> 178.16, up 3.45 cents	<b>Resistance</b> 179.20	Monday's high
	<b>Support</b> 178.45	Tuesday's high
	177.00, 174.20	Tuesday's low
	173.00, 171.00	Backfills opening gap, Previous low

a high of 61.95 ahead of the close amid the strength in the gasoline market. It settled up 32 cents at 61.89, the highest settlement since early July. Volume in the crude market was light with 163,000 lots booked on the day. Meanwhile the gasoline, which lent support to the rest of the oil complex, rallied off its low and settled up 3.45 cents at 178.16. The market posted an intraday low of 174.20 as it backfilled some of Monday's opening gap. However the market bounced off its low and rallied to a high of 178.45 ahead of the close. The market was well supported amid several reports of refinery problems. The heating oil market however posted an inside trading day after it failed to breach Monday's trading range. It posted a low of 170.20 and settled in a range before it rallied to its high of 173.10 ahead of the close. It however failed to find the momentum to test its previous high. It settled up 82 points at 172.51. Volume in the product markets were lighter with 42,000 lots booked in the gasoline market and 31,000 lots booked in the heating oil market.

The oil market on Wednesday will be driven by the weekly petroleum stock reports, which are expected to show draws in crude stocks of less than 1.5 million barrels on the week, a draw of less than 1 million barrels in gasoline stocks and a build of more than 1.5 million barrels in distillate stocks. The market, which failed to trade much lower today and continue to take profits, is seen retracing today's gains if the reports fail to show an expected draw in crude stocks. The market is seen finding resistance at 61.95, 62.10 and 62.30. Meanwhile support is seen at 61.50 followed by 60.93 and 60.10.