



## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR AUGUST 26, 2005**

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Insurgents sabotaged an oil well in Iraq on Friday. The flames threatened to halt output from the well, which pumps 7,000 bpd to 10,000 bpd and feeds a pipeline to Turkey.

According to Oil Movements, OPEC oil shipments are expected to fall by 190,000 bpd to 24.32 million bpd in the four weeks ending September 10. It said most the decline is in westbound shipments of oil.

#### **Refinery News**

ConocoPhillips notified the Texas Commission on Environmental Quality that its Borger, Texas refinery emitted sulfur dioxide on Thursday evening. The report did not identify any processing units as having problems or as a source of the emission.

The 70,000 bpd fluid catalytic cracking unit at

#### **Market Watch**

The NYMEX will list a futures contract for reformulated gasoline blendstock for oxygenate blending or RBOB, starting in October. The contract would initially cover January through December 2006. Separately, the NYMEX announced that it expected to open its energy trading pits in London on September 12. It plans to offer Brent crude oil futures and options and northwest Europe gasoil futures and options contracts, the two main products traded on the IPE. The deal breaker for the NYMEX will be its ability to take business away from the IPE and provide a liquid and accessible market. Its Dublin operations has attracted meager volumes and seen low open interest.

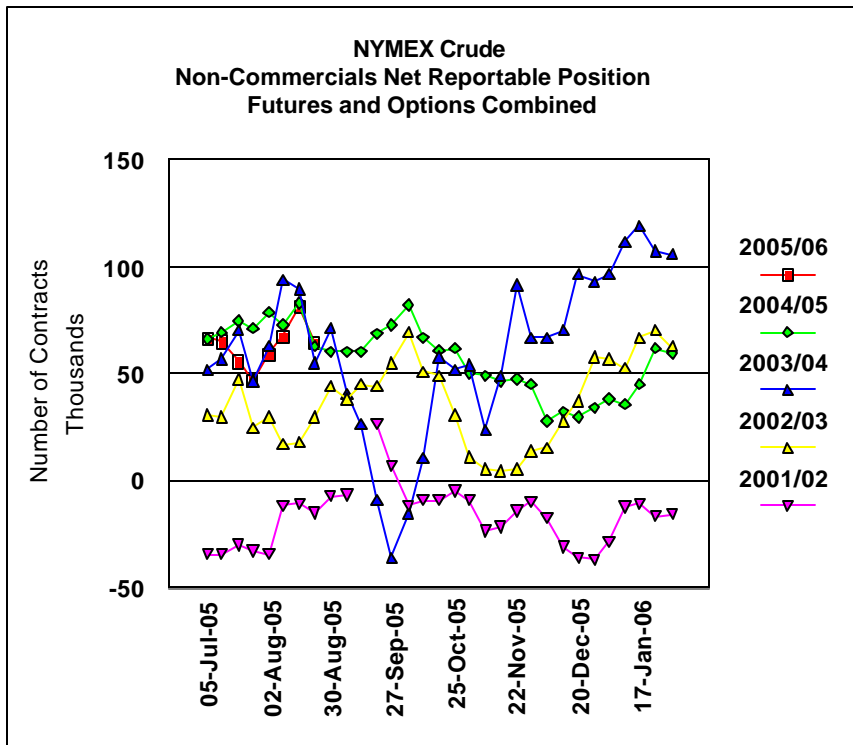
Federal Reserve chairman, Alan Greenspan said that the US economy has weathered rallies in oil and gas prices over the past two years reasonably well, an indication that the strong demand driving the rally may continue to hold up. However he stated that investors may be accepting too much risk.

Hawaii's Governor Linda Lingle said that she would suspend the gas price cap due to go into effect next week if either or both of the state's two refineries were shut. She said she would also halt the law if the state noticed wholesale or retail gas shortages stemming from curtailed shipments. Separately, Hawaii's two oil refineries, operated by Chevron Corp and Tesoro Corp said they will continue to supply the islands with gasoline despite the price caps. However Tesoro said it opposed the price ceilings.

France's Industry Minister Francois Loos said the price of oil is set to remain high for a long time. Meanwhile, Prime Minister Dominique de Villepin reiterated his call on oil companies to invest in new refining capacity to cope with rising demand.

Indonesia said it is preparing a schedule to begin cutting domestic fuel subsidies and is seeking ways to limit oil imports by reducing demand in effort to stop the fall of the rupiah. On Friday, the rupiah fell to a new three year low of 10,460 rupiah to the dollar. Record oil prices are pushing the rupiah lower as Indonesia is forced to buy dollars to pay for costly oil imports and are increasing inflation. Indonesia's Pertamina pays up to \$1.8 billion a month to fund oil imports. Pertamina has come under scrutiny in recent months for its alleged role in accelerating an increase of about 10% in the exchange rate since January due to dollar purchases to fund oil imports.

American Trucking Associations' Truck Tonnage Index fell 0.6% in July. It is the second consecutive monthly contraction after falling 0.2% in June. On a seasonally adjusted basis, the tonnage index fell to 114.3 from 114.9 in June. It attributed the fall to a 0.1% drop in manufacturing durable goods shipments and relative weakness in manufacturing production.



Tesoro Corp's 168,000 bpd Golden Eagle refinery in Martinez, California remained shut on Friday. This followed a fire on Wednesday afternoon.

Statoil is planning to initiate a partial turnaround at its Kalundborg refinery in Denmark starting in the middle of the week. The work will focus on a condensate unit used in the production of gasoline and diesel and will reduce output of the two products by about 50% for a week.

ExxonMobil will not shut its 246,000 bpd Antwerp refinery for maintenance work until the second half of next year. It was expected to undergo turnaround next month.

Indian Oil Corp said it will build new facilities to raise the proportion of sour crude grades it uses. It will build a new delayed coking unit at its 275,000 bpd Koyali refinery to raise the proportion of sour crudes to 58% from 20% in a project that it will implement in three years. It also stated that by the end of September, it will commission a hydrotreating unit at its Panipat refinery to help produce low sulfur diesel.

### **Production News**

According to EarthSat, the threat to Gulf of Mexico oil and gas production from Hurricane Katrina has increased substantially as the storm strengthens and moves further west than previously expected. It estimated that there is a 40% chance that Hurricane Katrina will impact production in the Gulf of Mexico. Separately, Weather 2000 said potential damage to Gulf of Mexico platforms from Hurricane Katrina could be minimal judging by wave heights. It said Hurricane Katrina could generate maximum wave heights of 20-30 feet, less than Hurricane Dennis' waves of 25-35 feet. However, Planalytics stated that Hurricane Katrina may strengthen to a category 4 storm.

The Minerals Management Service reported that Hurricane Katrina prompted the evacuation of 12 offshore platforms and rigs in the Gulf of Mexico. Apache Corp started evacuating some workers but was not cutting production in the eastern Gulf of Mexico as Hurricane Katrina approached. Apache has a total offshore Gulf crude production rate of 64,000 bpd and 610 mmcf/d of natural gas production. Murphy Oil Corp also started evacuating non-essential workers from its Gulf of Mexico oil and gas operations. It said it plans to shut in 38,000 bpd of crude production and 45 mmcf/d of natural gas production. Royal Dutch/Shell said it evacuated 146 workers but added that it has not shut in any production. Also, Kerr-McGee Corp said it was evacuating workers from its Gulf of Mexico operations. Total also stated that it is evacuating its offshore staff and completely shutting its Gulf of Mexico production. Its shut in production amounts to 259 mmcf/d of natural gas and 16,500 bpd of crude. Transocean Inc said it is evacuating seven Gulf of Mexico rigs. It expects to evacuate 180 workers on Friday and an additional 56 workers over the weekend. Anadarko Petroleum Corp is evacuating all its

non-essential workers from its Marco Polo platform in the Gulf of Mexico. The move will not impact production, according to a company spokeswoman.

The Louisiana Offshore Oil Port is evacuating nonessential workers off its offshore platform. It said the LOOP expects to stop operations on Saturday afternoon.

According to an order issued by the US Department of Transportation, Kinder Morgan Energy Partners must submit a new plan to improve its pipeline integrity procedures. The action follows 44 accidents at its Pacific Operations network since the start of 2003.

Petrologistics reported that OPEC's crude oil production increased by 200,000 bpd on the month to 30.5 million bpd in August. It said Saudi Arabia, Nigeria and the UAE increased their production by 50,000 bpd each. Meanwhile, Iraq cut its production by 50,000 bpd to 1.9 million bpd due to lost exports out of the northern oil fields of Kirkuk.

Protestors in Ecuador reached a deal with energy companies on Thursday under which they will end their protests in exchange for an increase in investment by oil companies in the poor communities where they operate. Under the deal, oil companies such as Occidental Petroleum Corp, Petrobras and EnCana Corp are expected to pave 160 miles of new roads in the provinces of Sucumbios and Orellana. Also, about two-thirds of the 25% income tax paid by oil companies is to be steered toward local health, environment and development projects. Separately, Petroecuador said it is pumping 185,000 bpd of crude oil, down 8% from its normal level of 201,000 bpd. It said the company will still need several weeks to normalize all operations, including pipeline operations and refining. It said it could lift the force majeure as soon as next week. Ecuador's total oil production on Friday totaled 516,732 bpd. Ecuador had been pumping about 530,000 bpd before the protests started.

Ecuador's central bank reported that the country's oil export revenues total \$486.8 million in June, up from \$349.1 million reported last year. In terms of volume, it exported a total of 11.5 million barrels in June, down 1% on the year.

Norway's Statoil said it started oil production at a new part of its Asgard field in the North Sea on Friday, which could yield up to 18 million barrels. It said it will produce a maximum of 12,600 bpd in a few days.

PDVSA said its crude sales last year had not recovered fully from the oil sector strike in late 2002 and early 2003. It reported annual oil sales of 888.1 million barrels or 2.43 million bpd of oil in 2004, down from 1.03 billion barrels or 2.81 million bpd in 2001. Its report to the SEC contradicts assertions by government officials who said the stoppage cut sales for those two years but insisted that operations were fully restored by the end of 2003.

OPEC's news agency reported that OPEC's basket of crudes increased to \$59.75/barrel on Thursday, up from Wednesday's \$58.90/barrel.

China is expected to cut gasoline exports by 70% to 130,000 tons in September as refiners bow to pressure to ease a domestic shortage. Sinopec is expected to export 20,000 tons of gasoline next month, down from 150,000 tons in August. PetroChina is expected to cut gasoline exports to 50,000 tons from 180,000 tons this month while West Pacific PetroChemical Corp will cut exports by 50% to 60,000 tons.

Indonesia's President Susilo Bambang Yudhoyono is seeking to finalize talks on the revenue sharing deal with Exxon Mobil Corp over East Java province's Cepu oil block by September 25. On June 25,

Indonesia's government agreed to give Exxon Mobil 6.75% of Cepu revenues if world oil prices are above \$45/barrel and 9% of revenue if oil prices are between \$40 and \$45/barrel.

**Market Commentary**

The oil market sold off sharply ahead of the close amid a late wave of selling as concerns over Hurricane Katrina eased. The market opened slightly lower at 67.40 and traded to a low of 67.10 before the market rallied to a new high of 67.95 amid concerns over the storm and some further refinery glitches, which kept the gasoline market well supported. The oil market however erased its early gains and tumbled to a low of 65.90 amid some reports that the potential damage generated by Hurricane Katrina to the Gulf of Mexico platforms would be minimal. The market surprisingly was not able to hold onto its gains ahead of the weekend even though the storms ultimate path was still uncertain. The market settled down \$1.36 at 66.13. Volume in the crude was better today with 162,000 lots booked on the day. The gasoline market also sold off sharply and settled down 3.68 cents at 192.69. The market opened down 1.87 cents at 194.50 but rallied to a high of 198.30 amid reports that a catcracker unit at Tesoro's Golden Eagle refinery remained down following a fire on Wednesday. The market however erased its gains and sold off to a low of 192.00 ahead of the close. Similarly, the heating oil market settled down 3.29 cents at 183.66 after the market sold off 3.7 cents from its intraday high of 187.20 to its low of 183.50 ahead of the close. Volumes in the product markets were good with 38,000 lots booked in each the gasoline and heating oil markets.

The latest Commitment of Traders report showed that non-commercials in the crude market cut their net long positions by 24,675 contracts to 15,720 contracts in the week ending August 23 as the market retraced its gains. The combined futures and options report also showed that non-commercials in the crude market cut their net long positions by 16,216 contracts to 64,727 contracts on the week. However it is likely that they have increased their net long positions in the past few trading sessions as it traded to new highs. Meanwhile, non-commercials also cut their net long positions by 2,650 contracts to 15,556 contracts in the heating oil market and by 2,110 contracts to 41,795 contracts in the gasoline market.

The oil market on Monday will be supported if the latest National Hurricane Center update holds true. The NHC said its forecast track for Hurricane Katrina shifted 150 nautical miles west of its previous forecast track. It is forecast to move into the central Gulf of Mexico and make landfall in Mississippi on Monday. The NHC said it could intensify and reach category 4 status before making landfall. Technically, the market is seen holding support at 65.90 followed by 65.30 and 64.65. Its resistance is seen at 66.40,

66.80 followed by its high of 67.95, 68.00 and 69.50.

Technical Analysis		
	Levels	Explanation
<b>CL</b> 66.13, down \$1.36	<b>Resistance</b> 67.95, 68.00, 69.50	Friday's high, Overnight high, basis trendline
	<b>Support</b> 66.40, 66.80	
<b>HO</b> 183.66, down 3.29 cents	<b>Resistance</b> 187.20, 187.50, 188.50 184.00, 186.00	Friday's high, Previous highs
	<b>Support</b> 183.50 180.20	
<b>HU</b> 192.69, down 3.68 cents	<b>Resistance</b> 198.30, 202.90 194.00, 196.00	Friday's high, Previous high
	<b>Support</b> 192.00 184.50	