



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR AUGUST 31, 2005

The Bush administration will release oil from the SPR to offset production losses in the Gulf of Mexico in the wake of Hurricane Katrina. Energy Secretary Samuel Bodman said it will loan oil from the SPR as soon as Thursday. He said three companies have made enquiries. The Energy Secretary also stated that he was concerned about gasoline shortages and added that the emphasis was on supplying power to restart the product pipelines. He rejected the idea of imposing a nationwide cap on the price of gasoline. The DOE stated that extensive flooding may pose a major obstacle to electricity restoration.

The US EPA late Tuesday agreed to waive federal air quality requirements for gasoline and motor vehicle diesel fuel for

Market Watch

The NYMEX announced that it would temporarily allow deliveries of winter grade gasoline against its gasoline contract due to an easing of environmental regulations by the US EPA. It allow reformulated gasoline with a maximum of 13.5 psi RVP to be delivered from September 1-15.

Gasoline traders in Europe have provisionally booked 12 vessels to ship gasoline to the US in the wake of Hurricane Katrina.

Texas Governor Rick Perry said Texas will sent gasoline to Florida to ease a supply crunch for two weeks. It will send 700,000 barrels of gasoline by tanker directly to Florida, bypassing Gulf coast pipelines shut by Hurricane Katrina.

The Republican head of the House Energy and Commerce Committee, Joe Barton said incidents of retail gasoline price gouging in the wake of Hurricane Katrina are occurring throughout the US.

Citgo has pledged \$1 million for Hurricane Katrina relief efforts. The donation follows offers from Venezuela's President Hugo Chavez to send cheap fuel and humanitarian aid following Hurricane Katrina.

Some disruption in jet fuel supply is inevitable with refineries and pipelines still shut. Certain airports which get nearly all of its jet fuel supply from the Gulf Coast via pipeline are bound to be affected in the future. Separately, the increasing fuel costs could have some benefits for those airlines that are able to survive while others file for bankruptcy. The head of AirTran Airways said if a major US airline files for bankruptcy, less capacity in the market allows carriers that serve them to raise fares, pushing some of the fuel costs onto travelers.

The Commerce Department reported that US economic growth was weaker in the second quarter than previously reported. US GDP grew at a revised 3.3% annual rate in the April-June period after a 3.8% first quarter gain. In its previous report, the Commerce Department estimated second quarter growth at 3.4%. It also stated that inflation was somewhat lower than first reported, with the price index for consumer spending rising at 3.2% annual rate compared with an initial 3.3% estimate.

The National Association of Purchasing Management-Chicago said its Business Barometer fell to 49.2 this month from 63.5 in July, suggesting high oil prices are slowing factory demand.

areas in Alabama, Florida, Louisiana and Mississippi affected by Hurricane Katrina. The waiver is effective immediately and will continue through September 15. On Wednesday it announced that it would waive certain air quality requirements for gasoline and diesel in all 50 states. The waivers will allow gasoline with higher evaporation rates and diesel fuel with higher sulfur content to be sold. The policy change will allow more imports of high sulfur diesel into the US market. Refiners will also be able to immediately sell gasoline intended for use in the autumn and winter.

The IEA said it is in touch with Washington in the wake of Hurricane Katrina and the US government's decision to tap into its SPR. It said it will await the outcome of hurricane damage assessments before deciding whether a release of IEA oil reserves is appropriate. It said the US, Europe and Japan have enough strategic emergency stockpiles of crude oil to wait a week to assess the damage before having to decide whether to release oil to damp prices. It may recommend a release of stocks by member states, including the UK. The UK holds stocks of oil and oil products for use in the event of such disruption. European IEA members could make stocks of oil products available to the market at three days' notice.

Qatar's Oil Minister Abdullah bin Hamad al-Attiyah said OPEC has the ability to pump more oil to help bring stability to world oil markets. He said Saudi Arabia and other OPEC members with spare capacity would meet the needs of all consumers.

The API said some US Gulf coast energy companies were unable to submit inventory data for inclusion in today's report for the week ending August 26. It stated that estimates were used. Meanwhile an analyst at the EIA said most of the impact from Hurricane Katrina would be seen in next week's report because hurricane had already reported before the hurricane hit. The EIA said commercial stocks of gasoline fell closer to the record low of 185.6 million barrels, falling 500,000 barrels to 194.4 million barrels. It said retail gasoline prices, already hovering near their inflation adjusted March 1981 high of \$3.11/gallon could challenge that peak, if gasoline supplies continue to tighten.

The DOE reported that US inventories of propane totaled 65.401 million barrels in the week ending August 26, down 146,000 barrels. Propane inventories in the East coast fell by 133,000 barrels to 4.501 million barrels while inventories in the Midwest built by 234,000 barrels to 22.838 million barrels and inventories in the Gulf coast fell by 496,000 barrels to 36.304 million barrels.

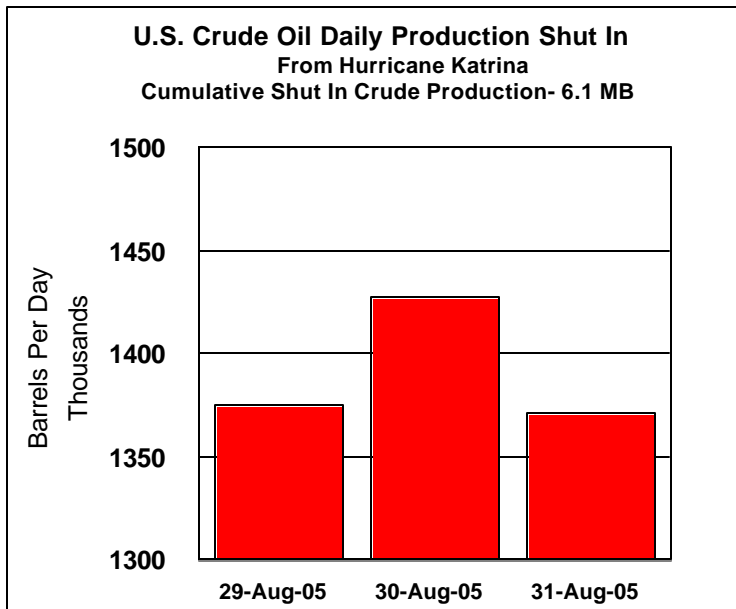
Refinery News

Royal Dutch/Shell reconfirmed that damage at its Convent refinery, owned by its Motiva joint venture appeared minimal. It however said limited access to Motiva's Norco refinery has delayed an assessment of damage at that facility.

Valero Energy Corp said that a lack of power at its St. Charles refinery is limiting what the company can do to restore its Norco, Louisiana facility to normal operations. Its Krotz Springs refinery remains at reduced rates due to pipeline power problems that are limiting its crude supply.

Placid Refining Co said it requested 1 million barrels of crude oil from the SPR to keep its Port Allen, Louisiana refinery running. The 50,000 bpd refinery was running at 70% of capacity and had enough crude on hand to stay at that rate for 9-10 days. Citgo Petroleum has also asked for crude from the reserve for its refinery in Lake Charles, Louisiana.

ConocoPhillips' 239,400 bpd Lake Charles, Louisiana refinery is operating at reduced rates. The run cuts is due to a loss of supply.



Marathon Oil Corp said it found no significant damage at its 245,000 bpd refinery in Garyville, Louisiana. However no start up date has been planned yet.

Holly Corp's 58,000 bpd Navajo refinery in Artesia, New Mexico is operating normally following snags last week. The refinery supplies Arizona markets, where supply shortages have been reported. Several gasoline stations reported product shortages but state officials assured consumers that plenty of supply was available.

Production News

The MMS reported that most of the US oil and natural gas production in the Gulf of Mexico remained shut down with no real

improvement from the previous day. It reported that 1.371 million bpd of crude production was shut in or 92% of the total oil production in the Gulf. The cumulative amount of crude production shut in totaled 6 million barrels of oil.

Crude oil may start flowing later on Wednesday in the Louisiana Offshore Oil Port system. He said crude oil could be transferred from tankers to LOOP's storage facilities onshore and eventually transferred through a pipeline linked to the Capline system. He said some crude from Canada was making its way through other pipelines in the Midwest but it was not enough to supply the region's needs. Later, the LOOP's scheduling manager said it regained power in St. James, Louisiana and is in the process of starting an oil delivery to ExxonMobil's Corp's refinery in Baton Rouge, Louisiana.

Shell said the Capline pipeline system is undamaged but remains shut due to the lack of power on several pump stations.

Colonial Pipeline Co expects to have some limited service back on sections of its key petroleum products pipeline that was shut over the weekend. The company is bringing in power generators to compensate for the loss of electricity that shutdown the mainline of the system from Houston to Greensboro, North Carolina.

Uncertainties about when power may be restored to pump stations make it impossible for Kinder Morgan to set a restart date of its Plantation fuel pipeline.

Murphy Oil Corp said its two Gulf of Mexico oil production facilities escaped serious damage from Hurricane Katrina. It said a helicopter flyover revealed only minimal damage to the Medusa and Front Runner platforms in the Gulf of Mexico. Meanwhile, the 120,000 bpd Meraux, Louisiana refinery suffered some flooding.

Royal Dutch/ Shell's Mars platform in the Gulf of Mexico was severely damaged by Hurricane Katrina, according to the US Coast Guard. The platform is designed to produce 220,000 bpd and 220 mmcf/d of natural gas.

Initial aerial inspections of Anadarko Petroleum Corp's Marco Polo platform in the US Gulf appear to indicate that the facility has not been seriously damaged by Hurricane Katrina. The platform normally produces 20,000 barrels of oil equivalent/day.

Kerr-McGee Corp said it has resumed Gulf of Mexico operations following Hurricane Katrina, with all major facilities intact and no observed structural damage. It said it restarted 50,000 barrels of oil equivalent/day and expects another 35,000 boe/d to be online within a week as pipelines become operational again.

Nexen Inc has restarted a third of its Gulf of Mexico oil and gas production but has yet to fully assess how much damage Hurricane Katrina caused at production facilities. It has restarted 17,000 barrels of oil equivalent/day.

Plains All American Pipeline said it lost the ship docking facilities at its Mobile Bay terminal in Hurricane Katrina. The terminal is otherwise intact.

According to Diamond Offshore Drilling Inc, a runaway oil drilling platform that beached at Dauphin Island was carried more than 60 miles during Hurricane Katrina from its original location.

Pemex said a platform it had dry docked in Mobile, Alabama for repairs was swept up and is now lodged against a bridge.

Norsk Hydro expects at least 100,000 bpd of production from its Anaran oil discovery in Iran, which is scheduled to start up in 2010.

Japan's Ministry of Economy, Trade and Industry reported that oil product sales fell 3.5% to 18.47 million kl or 3.75 million bpd in July, led by a 9.5% decline in fuel oil sales and a 4.5% fall in gasoline sales. Refineries ran at 83.7% of their total capacity, up from 78.5% in June. Refiners increased crude imports by 9.1% to 4.12 million bpd. Imports of oil products fell by 7.5% to 637,000 bpd. Crude inventories fell to 19.12 million kl or 120 million barrels at the end of July, down 1.3% on the month.

French oil product consumption in July fell 3.5% year on year to 7.77 million tons due to record high oil prices.

Ecuador's central bank reported that the country's oil product export revenues between January and June increased to \$261.93 million from \$146.81 million reported last year. It exported a total of 7.59 million barrels in the first six months, up 18% on the year from 6.42 million barrels.

Market Commentary

The oil market, which traded to a high of 70.65 in overnight trading, opened down 46 cents at 69.35 in light of the news that the Bush administration was releasing oil from the SPR to offset the production losses. The US Energy Secretary announced that it would loan oil from the SPR as soon as Thursday. The market traded to a high of 70.25 but failed to trade back towards its previous highs amid the news of the SPR oil release as well as on reports that crude flows were expected to start through the LOOP later on Wednesday. The market was holding some support at 69.00, which it later breached following the announcement that the EPA would waive clean air requirements for gasoline and diesel for all of the US until September 15. The market sold off to a low of 67.80 before it retraced its losses ahead of the close. It settled down 87 cents at 68.94. Volume in the crude was lighter today, with 221,000 lots booked on the day. Unlike the crude market, the gasoline market remained in positive territory. It gapped higher from 250 to 258 on the opening and continued to trend higher. It extended its gains to over 44 cents as it traded to a high of 292 as refineries remained shut due to lack of power and the

problems with restarting the pipeline. It however sold off to a low of 255 in light of the EPA announcement on the waiver. It settled up 14 cents at 261.45. The October gasoline contract settled up 5.56 cents at 225.53. The September heating oil contract settled down 2.29 cents at 205.30 after it posted an inside trading day. It sold off to a low of 201.00 after it rallied to a high of 208.50 in follow through strength seen in the gasoline market. Volumes in the product markets were good with over 70,000 lots booked in the gasoline and 53,000 lots in the heating oil market.

Even though the market erased its gains and settled in negative territory, the market is seen trending higher. The market will remain supported as the refineries remain

Technical Analysis		
	Levels	Explanation
CL 68.94, down 87 cents	Resistance 70.85 69.80, 70.25	Previous high Wednesday's high
	Support 67.80 66.30, 65.90	Wednesday's low Previous lows
HO 207.65, down 85 points	Resistance 211.38 210.00 Oct	basis trendline Double top
	Support 204.00 199.00	Wednesday's low Tuesday's low
HU 225.53, up 5.56 cents	Resistance 250.00 231.00 Oct	Previous high(continuation chart) Wednesday's high
	Support 220.00, 215.00 213.75, 204.70	Wednesday's low, Previous low

shutdown amid the lack of power and the shutin pipelines. There are also reports of as many as 20 platforms missing, adrift or sunken as a result of Hurricane Katrina. The market is seen finding resistance at 69.80, its high of 70.25 and 70.85. Meanwhile support is seen at its low of 67.80 followed by its previous lows of 66.30 and 65.90.