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ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR SEPTEMBER 16, 2005

The director of the Minerals Management Service this morning said that offshore energy companies will have the ability to produce at about 90% of pre-storm oil and gas output levels in 30-40 days from now. But this projection was moderated by the estimate that 90% of this returning production capacity will not make it to the market due to infrastructure problems with the delivery systems such as pipelines and processing facilities. In addition the agency noted that there is a shortage of helicopters, boats, divers and power in the region to facilitate repairs. The agency estimated at 35% of USG crude oil production or 295,000 b/d, can not go anywhere due to problems with pipelines and onshore refineries and it would take up to 90 days for this production to find its way finally to market. The government agency pledged to act quickly in helping energy companies to use tankers to transport oil to market as a stop gap measure as well as possibly waiving environmental rules that normally prevent offshore operators from burning unwanted natural gas that is

<u>Market Watch</u>

Goldman Sachs analyst Arjun Murti reiterated the world is in the initial stages of a multiyear oil price “super-spike”. The analyst in March had warned that oil prices could move to $105 a barrel. He warned again that prices will have to keep climbing and stay high long enough to kill off enough demand to restore the now shrinking cushion of spare production capacity. He said he does not know high that price is, and he has been surprised by how resilient demand has been to this point. He noted that the last oil price super-spike occurred in 1979-1985, when oil prices reached between $50-$85 in today’s prices.

Murphy Oil reported today that two class action lawsuits have been filed against the company in federal court seeking damages for the residents of St. Bernard Parish that suffered additional damages from the flood waters due to a 890,000 gallon oil spill at the refinery.

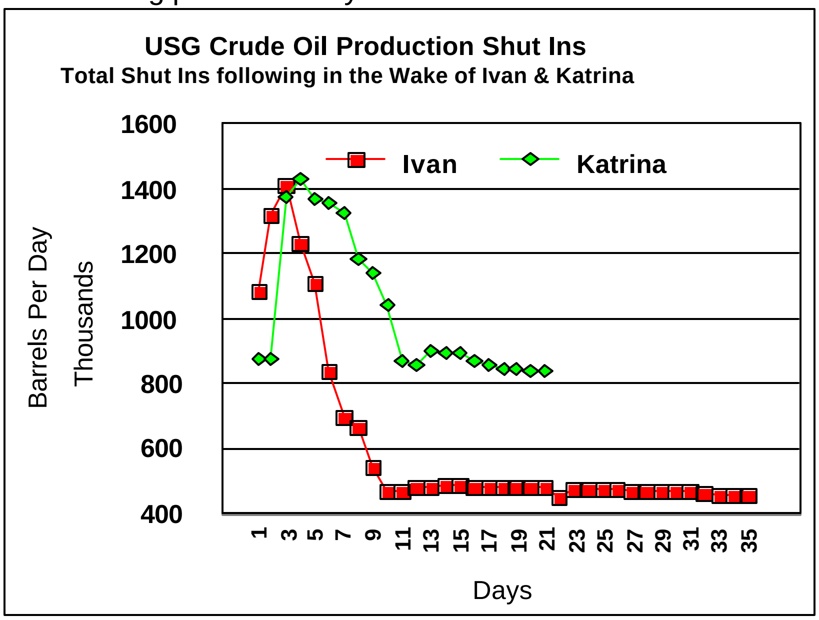
Oil companies pledged to French officials Friday that they would help shield French consumers from high fuel costs. Total led the group by promising to wait three weeks before raising pump prices due to any sharp rise in oil market spot prices and would reduce pump prices within three days if oil prices fell. In addition a group of 10 companies pledged to invest an extra 3.5 billion euros in French oil refining in the next five years. Government officials had threatened the companies that the government was considering taxing exceptional profits that companies make during periods of high oil prices. Meanwhile BP and Shell also said they would lower their retail prices in the UK this weekend.

Chinese net imports of oil products, excluding LNG dropped in August by 47.4% to 710,000 tonnes versus August 2004 levels and was off some 40% from July 2005 levels. Some observers believe this drop is the result of Chinese refiners exporting product production due to poor domestic retail margins as well as declining power sector demand due to expanding hydro electric and coal generating output. But due to a domestic supply crunch in August that resulted in massive petrol station queues, Chinese refiners are expected to drastically cut product exports, especially gasoline in September by upwards of 70%.

Indonesian government officials continue to warn that the government could let domestic fuel prices rise by 30% and possibly even by as much as 70-80% next month when it changes domestic prices next month.

often found when drilling for oil. MMS noted that while preliminary reports suggest that Hurricane Katrina did not cause the same extensive mudslide damage to underwater pipelines as Ivan did, its findings are still preliminary. The agency reported that Katrina destroyed 46 "mostly low producing" platforms and extensively damaged 20 others. Four drilling rigs were also destroyed and nine others suffered extensive damage. Six rigs were also still adrift but production crews were in the process of re-powering them. An energy economist from Ohio Northern University though contradicted the government's relatively positive outlook, by saying it would take until at least June 2006 to restore production in the Gulf of Mexico and any additional hurricanes in the region would push this recover effort back by another 3 or so months.

Impact of high gasoline prices continues to be quantified. The Washington Metropolitan Area Transit Authority said today that ridership there is up 4% from August and some 10% higher than this time a year ago. The Metro-North Railroad in New York reports that its commuter rail ridership jumped 3.8% in August after being relatively flat since September 2001. Los Angeles transit officials reported a 7.8% jump in ridership in August on city buses and subways and a 6% increase in suburban rail ridership A transportation economist at Depaul University said that the $3.00 per gallon price level proved to be the breaking point for many U.S. consumers to alter their driving habits.



Refinery News

Motiva reported today that its 240,000 b/d Norco, Louisiana refinery is "nearly fully operational". The company reported at the beginning of the week that operations had reached 95% of capacity. Also earlier this week the company reported that its 225,000 b/d Convent, LA refinery had returned to "normal operation".

Shell Chemical's 55,000 b/d crude refinery in St. Rose, LA was reported to be running at full capacity

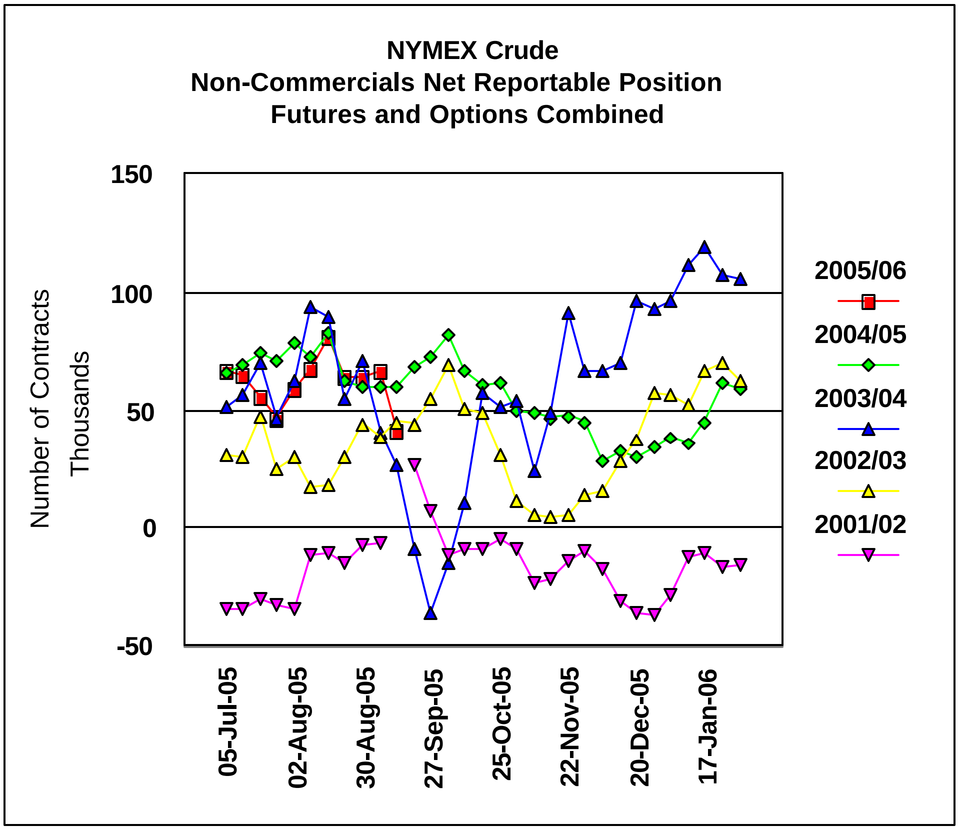
The 54,000 b/d cat cracker at the 130,000 b/d El Palito refinery in Venezuela was seeing operations improve this morning. The refinery experienced a power outage Thursday morning that impacted the operations at the cat cracker. PDVSA reported that they expected operations at the unit would return to full operation by Saturday morning. All other units at the facility were operating at normal rates.

Valero Energy said it has restarted its 78,000 b/d cat cracker at its Wilmington, CA refinery, with steam from a third-party supplier. The refinery lost power during Monday's Southern Californian blackout. Capacity at the unit was expected to reach 40,000 b/d by the end of Friday. One crude processing unit has also been restarted while repair work continues on the second crude processing unit and coker.

Management at the 80,000 b/d NCRA refinery in Kansas said today that it has delayed its planned five week maintenance work planned for October 2005, and pushed it back until October 2006. Management said the delay was in the best interest of the nation and its customers that the maintenance work be delayed and refinery production be maintained at full operating levels.

BP's 175,000 b/d Coryton refinery in the Britain was hit by a power outage briefly on Thursday morning for some 3-4 hours. Operators said some units were interrupted, but declined to specify which units were affected.

A shipment of 300,000 b/d of Venezuelan gasoline is reported on the way to the U.S., according to Venezuelan President Chavez. The president said late Thursday that shipment was to alleviate the gasoline deficit along the USG. Venezuelan and U.S. officials though have said the 300,000 barrels shipment is not a gift but rather additional supply to be sold on the market. Venezuela has pledge to send 1 million barrels of gasoline to the disaster zone.



Production News

MMS reported this afternoon that U.S. crude and natural gas production from the Gulf of Mexico saw only modest gains in returning shut in production. Only some 1170 b/d of crude oil production and 27 Mmcf/d of natural gas shut in production returned to service in the last 24 hours. Some 840,921 b/d of crude oil production and 3.383 bcf/d of natural gas production remained shut in as of Friday mid day.

Shell Oil reported this morning that its net production of crude oil and natural gas in the Gulf of Mexico remained at about 160,000 b/d oil equivalent, unchanged from a week ago. The company had been averaging some 450,000 b/d of oil equivalent production earlier this year. The company said that it was continuing to assess the damage to its Mars, Ursa, Cognac and West Delta 143 platforms.

Louisiana's Department of Natural Resources reported today that at least 77,305 b/d of crude oil production in state waters remains shut in following the wake of Hurricane Katrina. This production loss would account for 33.9% of the state's typical oil output from the coastal region. State officials said the status of some 128,443 b/d of production or 56% of the state's production total remains unknown. Only 22,505 b/d of production is listed as being back in production. State water production levels are separate from the MMS reported production levels in federal water of the US Gulf of Mexico.

OPEC officials again today repeated the cartel's assurances that it would consider raising its oil output next week when oil ministers convene in Vienna on Monday and Tuesday. The cartel's secretariat said the group is "…ready to supply additional oil to the market when necessary." It repeated OPEC's policy of "ensuring that supply is at or above demand." Meanwhile Venezuelan President Chavez said crude oil production capacity in OPEC is almost at its capacity. He warned that the world is facing an oil crisis that will not abate anytime soon, with prices possibly reaching $100 per barrel in the next 18-24 months.

Russian government officials said that they see Russian oil production will continue to rise at a modest pace and in the fourth quarter and should average 9.56 mbd, some 70,000 b/d higher than August reported production levels.

The Russian pipeline company, Transneft reported that oil loadings at Novorossisk and Primorsk are likely to be flat in October when compared to September loading rates. Novorossiisk is expected to load some 922,000 b/d in October while Primorsk some 1.17 mbd. September loading rates at these two ports in September are pegged at 919,000 b/d and1.2 mbd respectively.

Chevron said today that it was currently producing some 500,000 b/d of crude oil from its Angolan oilfields, but current expansion work should boost this production total to 700,000 b/d by the end of 2007, as some 100,000 b/d of production is added each year. The first of two new platforms are expected to come on line in January 2006.

Petroleum product feight prices for tankers headed to the U.S from Europe and the Caribbean dropped sharply from earlier in the week levels. Some talk was heard of some European gasoline cargoes that were originally headed to the U.S. are now being potentially diverted to West Africa.

Market Commentary

This morning's announcement by the Minerals Management Service that 90% of current shut in offshore crude oil production could be back in service by mid October sent the bulls running for the exits. It appeared that this pace of this exodus was so quick no one appeared to read the remainder of the agency officials comments that due to damage to transportation and delivery infrastructure this production may not find its way to the market until possibly the end of the year. It did not matter, the stampeded was on, as it appeared speculative longs continued to rush to cash out and this was seen especially in the products as the October heat cracks and gasoline cracks dropped by $1.40 and $3.02 respectively. Overall flat prices settled at their lowest levels in five weeks.

This evening's Commitment of Traders Report appeared to confirm the rumors of sizeable reduction by commodity funds in the oil markets, especially in the crude oil. For the week ending September 13th, the commodity funds appear to have had a swing of more than 32,000 contracts in just futures, as the group now holds a net short position of 8,248 contracts, the first net short position since late May. The combined futures and options report shows that this group cut its net long position by over 25,000 contracts to stand at its smallest net long position since early June. While through Tuesday this group showed only a modest net decline in net length of 2700-3300 lots in gasoline depending on which report one is looking at, the net decline in heating oil market was a bit more significant with a 6,852 lot decline in heat net length in just the futures market report and over a 11,300 lot decline in net length in the combined futures and options market. Given the significant decline in crack spreads since Tuesday, we feel that the length in the product markets has even further eroded.

This market continues to seize hold of bearish news reports and overlook any supportive news on the extent of long-term damage there may be to the U.S. energy infrastructure. We were a bit surprised that this market failed to focus on the potential length of delivery problems of crude oil and natural gas from offshore production facilities, as well as demonstrating a willingness of the market to go home short over the weekend with the potential of two tropical systems developing over the next several days with one possibly moving into the Gulf of Mexico early next week.

We would look for the oil markets on Monday to retest the lows recorded earlier this week, but at this point we feel that they should hold and rebound off these levels. The November crude oil contract tested this low late in the day today and settled just above the support of $63.25 at $63.34. In the October contract this support is at $62.55-$62.65. In the December heating oil contract this support level would be seen at $1.8750. We would also keep an eye on natural gas values. This is a market where prices have not been inflated by speculative commodity fund buying in recent months, in fact funds have been short this market. Despite today's hard sell off across the energy markets, natural gas values, especially in the winter months held firm and thus we would look for this price stability to rub off on heating oil prices.