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ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR SEPTEMBER 21,2004

Prime Tass reported that Russia's Yukos said it halted oil supplies to Lithuania's Mazeikiu Nafta. This follows Monday's denial that it would halt its oil supplies to Mazeikiu Nafta. Meanwhile, China urged Russia's Yukos fulfill its commitments to export crude to China. On Monday, Yukos said it would cut its supplies to China by 1 million tons or 7.33 million barrels in the remaining months of 2004 as it lacked funds to pay export fees. Analysts believe that the decision by Yukos to cut its exports to China was aimed at embarrassing the Russian government ahead of a visit by Premier Wen Jiabao. China's Premier is due in Russia on Thursday. Separately, Siberian utility Tyumenenergo warned it may reduce electricity supplies to the key unit of Yukos, Yugansk due to non-payments. Tyumenergo said Yugansk responsible for 60% of its total output of 1.7 million bpd, owed some 260 million roubles or $8.9 million for electricity supplies. A Yukos spokesman said the company did not expect any electricity shortage before the end of September.

Market Watch

Chartering sources said finding seaborne transportation for supplies from Russia's Yukos is becoming harder as ship owners become reluctant to move Yukos' exports. The sources stated that while some top shipping firms are still coming forward to load Yukos crude, other firms had signaled that they would prefer to deal with other clients. Despite the concerns, forward bookings show Yukos, through its Swiss based marketing and transportation arm Petroval, has booked up oil tankers to the end of September.

Kuwait's Oil Minister said the country plans to increase its oil production by 150,000-200,000 bpd by the end of October. He said the extra capacity will come from the restart of a fire damaged gathering center at a major oil field.

The Organization for Economic Cooperation and Development chief economist said the recent increase in oil prices will have only modest implications for the world economy in the second half of the year. It cut its forecast for 2004 economic growth in the US to 4.3% from its previous estimate of 4.7% but increased that for the euro zone to 2% from 1.6% and for Japan to 4.4% from 3%.

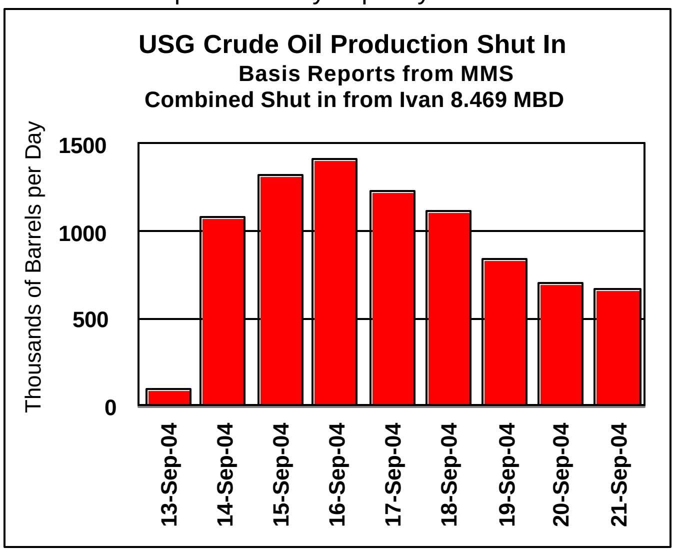
IMF chief Rodrigo Rato sees no immediate reduction in oil prices due to continued strong demand and a lack of investment in oil infrastructure. However he said the oil price of recent weeks is being absorbed by the world economy. He said the IMF was not seeing a new surge in inflation in a significant way and emerging countries are not having problems facing up to the increase.

EU Energy Commissioner Loyola de Palacio said she will withdraw a proposal that EU states raise their minimum level of national oil stocks after failing to attain more support for the proposal. The plan will be withdrawn before her term finishes at the end of October.

US Energy Secretary Spencer Abraham said the US would release its oil reserves only in the event of a major disruption in world petroleum supplies. White House officials have previously stated that there are no plans to stop filling the stockpile to its 700 million barrel capacity.

OPEC's news agency reported that OPEC's basket of crude increased by 70 cents/barrel to $40.20/barrel on Monday, up from $39.50/barrel on Friday.

Euroilstock reported that European refiners increased total production to 13.585 million bpd in August, up 2,000 bpd on the month. It stated that European refiners increased distillate output last month to 6.16 million bpd, up 38,000 bpd on the month and 215,000 bpd on the year. Gasoline production fell by 47,000 bpd on the month to 3.507 million bpd. Refinery capacity utilization stood at 94.27% in August, down from 95.89% in July.



Refinery News

Flint Hills Resources LP plans to decommission a crude unit at its refinery in Corpus Christi, Texas for maintenance in early October. During the shutdown, the company plans to conduct routine maintenance of a crude unit, a sulfur recovery and saturate gas unit.

Valero Energy Corp expects to begin scheduled maintenance on a coker unit component in the East Plant of the Corpus Christi, Texas refinery on September 25. It expects to restart the unit on September 29. Separately, Valero said it began the restart of its 85,000 bpd refinery in Krotz Springs, Louisiana after the plant was due to Hurricane Ivan on September 15. The refinery is expected to reach planned rates by Wednesday.

PDVSA's 140,000 bpd El Palito refinery shut a boiler unit in its 54,000 bpd catalytic cracker unit for 48 hours after the unit ruptured. A company spokesman said the plant has enough fuel in stock to maintain local supplies.

Loadings of oil products from Venezuela's 940,000 bpd Amuay-Cardon refining complex slowed recently due to output difficulties at the plant. Harbor officials said several vessels were backed up waiting to dock at the refinery's port as tankers already loaded with products had not sailed. A source said the refinery's inventory levels were falling because the plant was not receiving sufficient feedstock of crude and natural gas.

Russia's Lukoil has delayed for a second time the restart of its 104,000 bpd Petrotel refinery in Romania until the end of October. A Lukoil spokesman said upgrading work has taken longer than expected.

Production News

The Minerals Management Service reported that Hurricane Ivan has so far shut in nearly 8.5 million barrels of oil and 36.2 billion cubic feet of natural gas. It said nearly 666,000 barrels of oil and nearly 2.8 mmcf of gas remain shut in.

Shell Pipe Co said the Capline duct, which takes oil from the US Gulf of Mexico to Illinois, is running at about 72% of capacity on Tuesday as it ramped up after it was shut due to Hurricane Ivan. It is running at 34,000 barrels per hour or about 816,000 bpd.

ChevronTexaco said crews discovered structural damage at several oil and natural gas production platforms on its Bay Marchand field. Separately, Murphy Oil Co said oil and natural gas production at the Medusa field will be out for as much as five weeks. Also, BP stated that most of its 350,000 bpd Gulf of Mexico crude production was still shut in. However it stated that it will return to full production in two to three weeks.

Russia is planning to increase pipeline crude exports through major ports in October as Novorossisk comes out of repair season and oil starts flowing via Ukraine's Brody-Odessa pipeline. Preliminary programs show crude exports through the Baltic port of Primorsk and Black Sea Novorossisk at 4.2 million tons or 993,000 bpd and 4.092 million tons or 968,000 bpd, respectively.

Caspian oil shipping firm Caspar lowered its 2004 oil shipment forecast on Tuesday, saying tariff problems and increased competition will leave volumes similar to 2003 at between 8.5 and 8.8 million tons. Its cargoes increased by 16% year on year in the first half of the year. Its 36 tankers shipped 1.28 million tons of Kazakh and 1.57 million tons of Turkmen oil to Baku in the first six months.

Ukraine's Yuzhny port will start receiving the first oil from the Brody-Odessa pipeline at the end of the month. The state oil pipeline operator Ukrtransnafta said the shipment of the first 80,000 tons of Russian crude oil to Yuzhny would be completed on September 28.

Shell Canada Ltd said it planned to increase output at its northern Alberta oil sands operations by 29% over the next three years by debottlenecking the plant. It said it planned to increase production from the project to 200,000 bpd from its current capacity of 155,000 bpd. Further expansion plans call for output to reach as much as 290,000 bpd by 2010.

India's Ministry of Petroleum and Natural Gas said the country's refineries processed 10.53 million tons of crude in August compared with 10.11 million tons a year ago. The refinery utilization rate in August stood at 98.4% of capacity, down from 101.8% in the same month last year. It reported that domestic sales of oil products by Indian state firms increased by 5.9% to 39 million tons in April-August and are expected to increase by 4-6% in the remainder of the year.

Russia's OAO Rosneft said it signed a memorandum of understanding with the Korea National Oil Corp on joint development of hydrocarbons off the coast of Russia's Sakhalin Island. Under the preliminary deal, the two companies would establish joint ventures that would ultimately become holders of the licenses to develop reserves in the Veninsky sector of the Sea of Okhotsk. A Rosneft spokesman said the license area is estimated to hold 374 million barrels of oil, 37 million metric tons of gas condensate and 580 billion cubic meters of natural gas.

Separately, Marathon Oil plans to resume talks with Russia's Rosneft over a joint exploration and production venture. Talks to unite their units in northern Russia and Siberia should resume in October after they were temporarily halted in July.

Market Commentary

The energy complex continued its rally on expectations that the weekly petroleum stock reports will show large draws across the board in the aftermath of Hurricane Ivan. The October crude contract gapped higher once again, this time from 46.40 to 46.65, amid reports of damage at some Gulf of Mexico facilities as well as reports that Russia's Yukos will suspend its oil supplies to Lithuania's Mazeikiu Nafta following Monday's announcement that it will halt supplies to China. The market was also well supported by the expectations of draws in crude stocks of over 5 million barrels on the week. The October crude contract, which expired at the close, breached a previous high of 47.10 and traded to a high of 47.20 early in the session. The market however retraced some of its gains and partially backfilled its opening gap as it traded to a low of 46.60. The October crude contract quickly bounced off that level after failing to backfill its gap and traded to a high of 47.40 ahead of the close. It settled up 75 cents at 47.10. The November crude contract also settled up 57 cents at 46.76. Similarly, it gapped higher from 46.25 to 46.50 and partially backfilled the gap as it posted an

Technical Analysis			
		Levels	**Explanation**
		47.90	Previous high
	Resistance	47.15	Tuesday's high
CL	46.76, up 57 cents	Nov	
	Support	46.35 to 46.25	Opening gap
		45.20	Monday's low
		131.00, 131.64	Previous high, trendline
	Resistance	130.90	Tuesday's high
HO	130.29, up 3.7 cents		
	Support	128.30, 127.55-127.50	Opening gap
		124.70	Monday's low
		131.86, 132.30	Basis trendline, Previous high
	Resistance	129.70	Tuesday's high
HU	128.96, up 1.51 cents		
	Support	128.60, 126.30	Tuesday's low

intraday low of 46.35. The market later bounced off that level and traded to a high of 47.15 ahead of the close. Volume in the crude market was excellent with over 227,000 lots booked on the day, of which 131,000 lots traded via spreads. Meanwhile, the product markets also settled sharply higher with the heating oil market settling up 3.7 cents at 130.29 and the gasoline market settling up 1.51 cents at 128.96. The heating oil market gapped higher on the opening from 127.50 to 127.55 and never looked back as it continued to rally. The market traded to 129.20 and held some resistance at that level. However the market found further buying and was pushed to a high of 130.90 ahead of the close. The gasoline market also gapped higher from 127.90 to 128.00 but quickly backfilled it before the market traded to an early high of 128.80. The market however erased its gains and traded to a low of 126.30 before it continued to trend higher. It posted a high of 129.70 late in the session. Volumes in the product markets were good with 47,000 lots traded in the heating oil and 41,000 lots traded in the gasoline market.

The crude market on Wednesday will be driven by the weekly petroleum stock reports, which are expected to show draws of 5 million barrels in crude stocks, 1 million barrels in distillate stocks and 2 million barrels in gasoline stocks. The market, which has priced in large draws in inventories, will likely retrace its gains if the draws fall short of expectations. However the market may also be supported by reports on remnants of former Tropical Depression Ivan possibly becoming a tropical system in the Gulf of Mexico. The National Hurricane Center stated that remnants of Ivan is moving westward across Florida. It stated that upper level winds are currently unfavorable for any significant development. However conditions may become more favorable in the next couple of days as the system moves into the warm waters of the Gulf of Mexico. The disturbance is expected to affect the western Gulf toward the end of the week.

Technically, the crude market is seen finding initial resistance at its high of 47.15 followed by its previous high of 47.90. Support is however seen at its gap from 46.35 to 46.25 followed by its previous low of 45.20.