



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR SEPTEMBER 21, 2005

OPEC's Secretary General said the world oil market could handle a potential loss of crude supply due to Hurricane Rita. He said there could be greater concerns on the refining side but gave no further details. Meanwhile, Nigeria's Oil Minister Edmund Daukoru said that OPEC's ability to ease any oil market turmoil if Hurricane Rita disrupts US oil facilities was limited.

The US DOE has not received any new requests from refiners to borrow crude oil from the SPR. Earlier this week, the DOE granted a seventh loan of SPR crude, bringing the total crude awarded from the SPR to refiners asking for short term loans to 13.2 million barrels.

The head of the EIA, Guy Caruso, said Hurricane Rita threatens to have a substantial impact on refineries at a time when the US cannot afford further disruption to fuel supply. He said the SPR is available, even though it

Market Watch

Valero Energy Corp's chairman and chief executive, Bill Greehey, said Hurricane Rita's impact on US crude oil production and refining could be a national disaster. He said if it hits refineries, gasoline prices will increase to over \$3/gallon.

Nigeria's Oil Minister Edmund Daukoru said it was too early to say whether a threat by militants to cause mayhem in the oil industry would be a real threat to crude production. The Niger Delta People's Volunteer Force said it was preparing to take up arms over the arrest of its leader but police said they had made security arrangements and were not expecting problems. Meanwhile, Shell sent its staff home from its offices in Port Harcourt due to "general insecurity." A company spokesman said other facilities in the delta were operating although the staff was being careful.

Total SA's chief executive, Thierry Desmarest, said that recent record oil prices have started to affect demand. He said the floor for oil prices in the coming years would be between \$40 and \$45/barrel.

The International Monetary Fund said the world economy is absorbing the impact of rising energy prices without slowing much. It said inflation in both the industrialized and developing economies remained well contained. It maintained its 2005 world growth forecast at 4.3% while its 2006 forecast was cut to 4.3% from its previous forecast of 4.4%. It lowered the growth forecast for the US to 3.5% from 3.6% in 2005 while its 2006 estimate was cut to 3.3% from 3.6%. The IMF said the US economy should bounce back quickly from Hurricane Katrina, unless high energy prices derail other spending. It increased its forecast for average world oil prices to \$54.23/barrel in 2005 and \$61.75/barrel in 2006, up 16.6% and 41%, respectively. It said prices for gasoline, heating oil, jet fuel and other refined products will remain high for sometime because of Hurricane Katrina's damage to US refineries. In regards to China, the IMF raised the country's growth forecast to 9%, up from 8.5%. In 2006, Chinese growth is likely to reach 8.2%, up from its previous forecast of 8%.

The US FTC is investigating whether gasoline price profiteering has occurred and if oil companies have constrained refinery capacity to manipulate fuel prices. US oil companies have denied that they have acted to constrain gasoline or crude oil supplies.

The NYMEX signed a nonbinding letter of intent to sell a 10% equity stake to private equity firm General Atlantic LLC for \$135 million. The deal, subject to NYMEX seaholder and regulatory approval, valued the equity of the entire exchange at \$1.35 billion, excluding trading rights. Sources close to the NYMEX said General Atlantic agreed to keep NYMEX's open outcry trading open for the next 10 years.

will not help with refined products. Meanwhile an EIA analyst said US retail gasoline prices could return to \$3/gallon in light of the second major hurricane in a month to threaten to damage oil infrastructure. Separately, the head of the EIA stated that OPEC has colluded to push up oil prices by restricting supply. He said OPEC's policies have contributed to soaring oil prices.

Refinery News

Hurricane Rita's threat to Texas coast refineries increased overnight as the storm strengthened into a category 4 storm. BP Plc, Valero Energy Corp and Marathon Oil Corp are cutting operations at their Texas City refineries. BP Plc has started to shut units at its 470,000 bpd Texas City, Texas refinery. It is in phase 2 and is shutting down many of its units. It also started releasing its nonessential employees at the Texas City refinery. Its next phase entails continued unit shutdowns. The refinery is located in Galveston county, which has declared a mandatory evacuation. It said a skeleton crew would remain at the refinery either to keep it in operation during the storm or shut it down completely. Valero was cutting operations at its 210,000 bpd Texas City refinery and at its 90,000 bpd Houston refinery to minimum rates to prepare for a possible shutdown. Marathon said it started to shut its 72,000 bpd Texas City, Texas refinery. ExxonMobil Corp, Pasadena Refining and Deer Park Refining have also started prestorm preparations. ExxonMobil activated its hurricane preparedness plan at its Gulf coast refineries and chemical plants.

Gasoline producing units are being shut at Flint Hills' Corpus Christi, Texas refinery ahead of Hurricane Rita. Flint Hills said it will shut units at its West Plant and has shut several units at its East Plant, including a catalytic cracking unit and two sulfur recovery units.

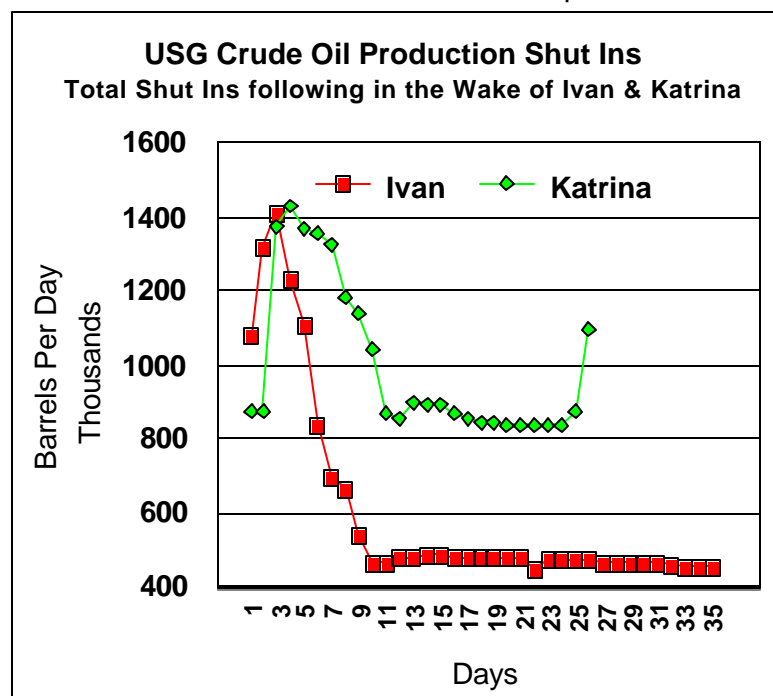
Meanwhile, Lyondell Citgo's 270,000 bpd refinery in Houston will halt its production ahead of Hurricane Rita. The refinery will either shut all units or leave them on circulation, running them without production.

Saudi Arabia hopes to complete two new export oriented refineries with a combined capacity of 800,000 bpd by 2010. A senior Saudi Aramco official said several potential partners expressed interest in the projects but Aramco had not settled on investment or start date specifics for the refineries, both of which would be designed to run on Saudi Arabia's heavy sour crude.

A senior official at Kuwait Petroleum Corp said Kuwait is taking steps to ease a crunch in refined product supply. He said Kuwait's Prime Minister had offered to build an oil refinery in the US during a visit to Washington earlier this year. The offer was renewed after Hurricane Katrina impacted the industry last month. The refinery is expected to have a capacity of about 250,000-350,000 bpd. Kuwait is also preparing to build a new 650,000 bpd refinery in Kuwait.

Production News

The MMS reported that shut in oil and gas production in the US Gulf of Mexico increased significantly as producers



evacuated offshore facilities in the face of Hurricane Rita. Shut in oil production reached 1.097 million bpd or 73% of total Gulf oil production. It is up from 877,275 bpd reported on Tuesday.

ExxonMobil said it was evacuating 425 employees and contractors from platforms in the Gulf. It said it shut a total of 35,000 bpd of liquids and 265,000 mmcf/d of natural gas production in the Gulf. Chevron also said it had evacuated 2,200 workers from all of its Gulf of Mexico operations while Marathon Oil said it evacuated about 50 workers from its Ewing Bank platform in the Gulf of Mexico, shutting in about 17,000 bpd of oil and 7.5 mmcf/d of natural gas production. The company also evacuated workers working on the three platforms in the South Pass block which were damaged by Hurricane Katrina and have not operated since. BP Plc said it is evacuating all its remaining workers from the Gulf of Mexico offshore facilities due to the threat of Hurricane Rita. Also, Murphy Oil said it evacuated all 100 repair and production crew members from its two operating Gulf of Mexico platforms.

Colonial Pipeline announced that closing dates for product nominations that would schedule on Friday and Monday were suspended until further notice as part of the measures the company is taking in anticipation of Hurricane Rita. It said the pipeline are operating and will continue to operate.

Euroilstock said total product output in Europe increased 3.3% or 426,000 bpd on the month in August to 13.26 million bpd while refineries increased their crude intake by 1.8% on the month to 12.22 million bpd. It reported that distillate production increased by 1.8% on the month to 6.152 million bpd while gasoline production increased by 3% to 3.395 million bpd.

The Shetland Island Council reported that there were no Brent crude liftings in the week ending September

20. It is down from 256,250 tons in the previous week.

Nigeria has increased its October official selling price for Bonny Light and

Technical Analysis			
		Levels	Explanation
CL	Resistance	68.10, 69.10	Wednesday's high, Previous high
	66.80, up 60 cents	67.00, 67.70	
	Support	66.60, 65.00	Wednesday's low, Tuesday's low Opening gap
	64.85 to 64.80		
HO	Resistance	214.50	Previous high
	203.87, up 2.74 cents	206.00, 209.50	Wednesday's high
	Support	202.25, 200.50	Wednesday's low
		192.50, 192.00 to 188.50	Previous low, Opening gap
HU	Resistance	214.50, 217.00	Wednesday's high, Previous high
	205.31, up 7.65 cents	208.50, 210.00	
	Support	203.50 to 201.00	Opening gap
		191.50, 188.00 to 186.00	Previous low, Opening gap

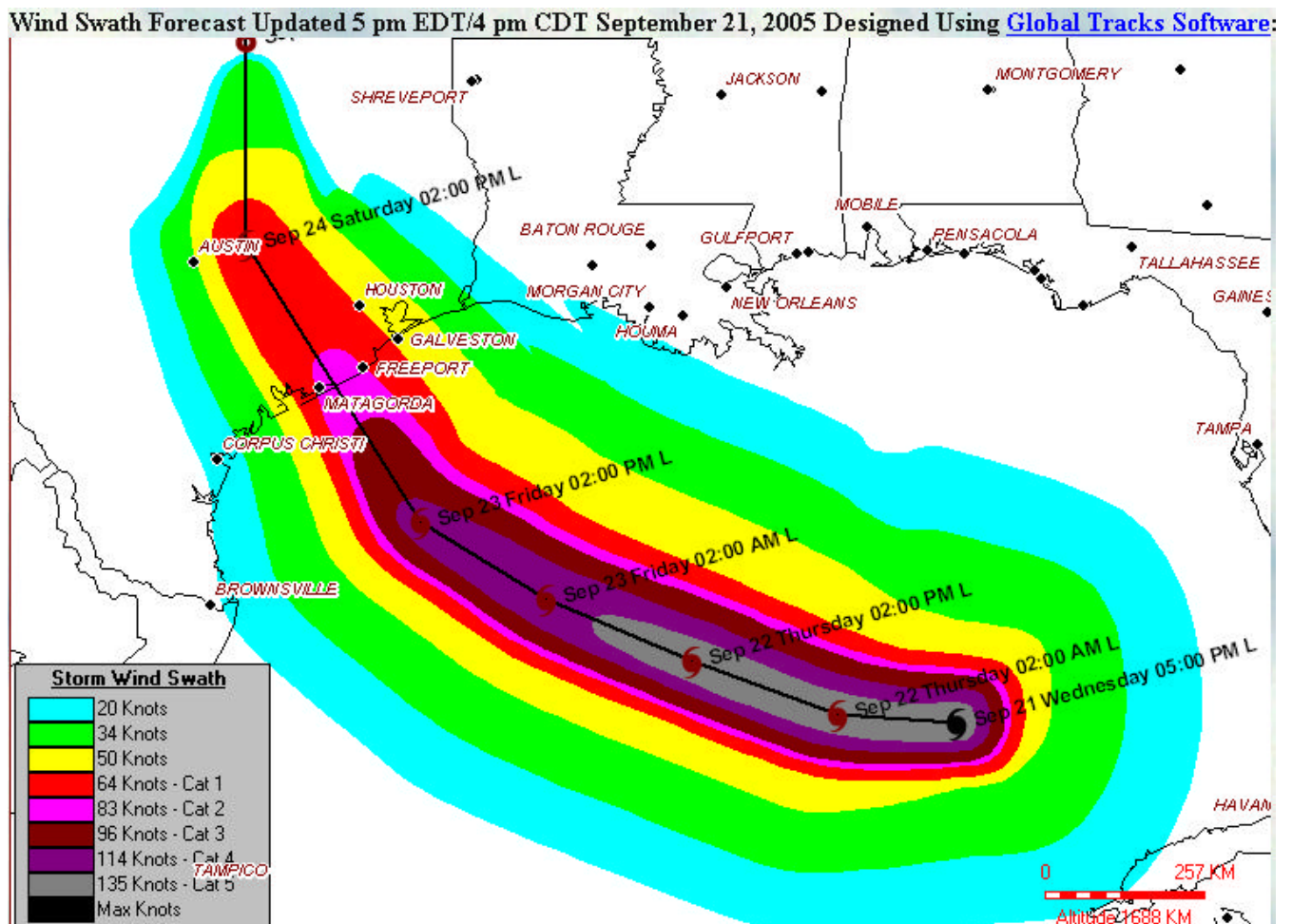
Qua Iboe crude oil to Dated plus \$2.35, up 85 cents from September. It increased its price of Forcados crude by 90 cents to Dated plus \$2.20 while the price for its Escravos crude was increased by 70 cents to Dated plus \$1.80.

OPEC's news agency reported that OPEC's basket of crudes increased to \$58.30/barrel on Tuesday from \$57.56/barrel on Monday.

Market Commentary

The oil market ended the session with modest gains after the market gave up some of its early gains. The market gapped higher from 66.75 to 67.95 as Hurricane Rita strengthened overnight and raised

further concerns in the market. The November crude contract rallied to a high of 68.10 on the opening but quickly gave up its gains amid the mostly bearish DOE and API reports, which showed unexpected builds in product stocks. The market partially backfilled its gap as it sold off to a low of 67.00. The market held support at that level and settled in a sideways trading pattern as it awaited for further developments on the hurricane. The market however breached its support and backfilled its gap as it sold off to a low of 66.60 on the close. It settled up 60 cents at 66.80. Volume in the crude was light with 167,000 lots booked on the day. Meanwhile, the gasoline market also settled up 7.65 cents at 205.31 but it was well off its high of 214.50. The market posted its high on the opening after it gapped higher from 201.00-212.50 as it remained supported by the hurricane forecast. The market however sold off to its low of 203.50 following the release of the weekly petroleum stocks reports, which showed the unexpected builds in gasoline stocks. It later retraced some of its losses and remained rangebound ahead of the close. The heating oil market also gapped higher on the opening from 202.00-207.00 and quickly posted a high of 209.50. However the market backfilled its gap as it sold off to a low of 200.50 following the reports. It retraced some of its losses ahead of the close and settled up 2.74 cents at 203.87. Volume in the product markets were light with 43,000 lots booked in



the gasoline and 37,000 lots booked in the heating oil market.

The oil market on Thursday will remain driven by the hurricane updates. According to the latest National Hurricane Center update, Hurricane Rita strengthened to category 5 hurricane and is expected to maintain its strength. It is expected to make landfall as a major hurricane, at least a category 3. It stated that there was no change in its track and is moving westward. The market is

seen remaining supported as production in the Gulf of Mexico and refineries continue to shutdown ahead of the approaching hurricane. The market technically is seen finding support at 66.60, 65.00 followed by its gap from 64.85-64.80. Meanwhile resistance is seen at 67.00, 67.70, 68.10 and 69.10.