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ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR SEPTEMBER 28,2004

Saudi Arabia's Oil Minister Ali al-Naimi announced that Saudi Arabia is increasing its oil output capacity to 11 million bpd in a bid to reassure world oil markets. He said it would increase its spare capacity to 1.5 million bpd by intensifying well-drilling in producing fields. He said it is ready and able to meet any production shortfall that could further increase oil prices. He said Saudi Arabia is ready to pump more than 9.5 million bpd next month. Sources close to Saudi production policy said the country will continue to produce at 9.5 million bpd in October. Late Tuesday, foreign policy adviser to Saudi Crown Prince Abdullah, Adel al-Jubeir, said Saudi Arabia believes current oil prices are too high and is willing to bring more production on line to meet customers' needs if required. He said prices are being driven higher by speculation and concerns about instability in the Middle East.

Meanwhile, OPEC's President Purnomo Yusgiantoro said OPEC has no plan yet to bring forward its meeting scheduled for later this

Market Watch

US Treasury Secretary John Snow said the rally in world crude oil prices will be one of the main issues discussed at the Group of Seven meeting this week. He called the increase in world oil prices a short term phenomenon brought on by geopolitical uncertainties.

The head of the IEA, Claude Mandil said the oil market's surge above $50/barrel is not justified by supply and demand fundamentals and added that there is no need for a release of emergency stocks. However he welcomed the Saudi pledge to increase its output capacity.

Germany's Chancellor Gerhard Schroeder expressed concern over record high oil prices but added that there had been no major affect on the world economy. France's Budget Minister also said he was not yet concerned about high world oil prices. Separately, Spain's Economy Minister Pedro Solbes said that the high oil price may affect the economy but he believed 3% economic growth next year remained possible.

Meanwhile, the European Monetary Affairs Commissioner Joaquin Almunia said the European economy could suffer if oil prices stay at current record highs. He said the economy may suffer slightly in terms of lower growth and higher inflation if oil prices remain high. The European Union Energy Commissioner Loyola de Palacio said that the current pressure on oil prices will ease after the US presidential elections in November.

Hedge fund manager, Global Advisors said it is seeing large inflows of capital into commodities due to demand, depletion and the dollar. A portfolio manager at Global Advisors said oil was the best example, with demand rising at an unprecedented pace led by Far Easter and US growth, while depletion of mature oil and natural gas fields meant new sources of energy would need to be found to meet increasing demand. The weak dollar serves to exacerbate demand for commodities when expressed in foreign currency.

JP Morgan said oil prices will come down next year to the high $30 range from current record highs given high crude production levels. JP Morgan's global energy strategist Katherine Spector said she is keeping her oil price forecast unchanged for now and expects an average price of $37.73/barrel in 2005.

year. OPEC is expected to meet in Cairo on December 10. Separately, Algeria's Oil Minister Chakib Khelil said oil market fundamentals justify crude prices at $28/barrel rather than $50/barrel. He said that investment funds had been attracted to energy markets and away from equities, helping inflate prices.

Nigeria's military dismissed a threat from a militant group in the Niger Delta which said it will start an all out war on the Nigerian state starting October 1. A military spokesman said all oil installations are being manned by the armed forces and oil workers are safe. Nigeria's senior oil adviser, Edmund Dakoru said he is confident that foreign oil firms will not succumb to threats by militia that they must halt production in the country. He also played down talk of possible strike action unless the government rescinds a recent increase in the country's fuel prices. Meanwhile, multinational energy companies said oil should continue to flow from Nigeria despite a rebel threat to attack foreign oil workers. They have increased security around Nigerian oilfields. Shell has evacuated 235 staff fro two oilfields to address specific threats of violence. It confirmed that it cut oil production by 30,000 bpd at the Santa Barbara flow station due to security restrictions in the delta. Italy's Agip said it does not plan to halt its oil output in Nigeria. ChevronTexaco also said it has not shut in any additional oil production as a result of the rising conflict in the Niger Delta. It said 140,000 bpd of onshore oil production remained shut since March 2003, however it continues to produce 350,000 bpd from its offshore fields. Separately, militant leader Mujahid Dokubo-Asari said the uprising will be sustained until the government agrees to discuss self determination for the Ijaw people but he also said he was open for dialogue and nominated the Ijaw National Congress as a mediator in any talks with the government.

Iraq has signed its fifth term contract for the sale of Kirkuk crude this time with ExxonMobil Corp. The three month deal from October-December is for 650,000 barrels a month bound for Europe. Iraq's SOMO will sell 5.15 million barrels a month of Kirkuk crude through term deals with Turkey's Tupras lifting 1.5 million barrels and Spain's Cepsa and Repsol and France's Total lifting 1 million barrels each.

OPEC's news agency reported that OPEC's basket of crudes increased 59 cents/barrel to $42.90/barrel on Monday, up from $42.31/barrel on Friday.

The EIA stated that the average retail gasoline price is likely to increase above $2/gallon in the next three weeks as the effect of higher crude prices filters through from refiners to drivers. The national price for regular unleaded gasoline averaged $1.917/gallon this week, the highest since mid-July.

Refinery News

Shell Oil Co is working to bring several conversion units at its 98,500 bpd Wilmington, Calif refinery back to normal operations on Tuesday after they were shut over the weekend by a power interruption.

Deer Park Refining, Ltd said it plans to shut a hydrocracker unit at its 340,000 bpd Deer Park, Texas refinery to repair a faulty valve on October 6.

Valero Energy Corp said an earthquake in central California had no impact on its 180,000 bpd refinery in Benicia. An earthquake measuring 5.9 on the Richter scale struck California on Tuesday.

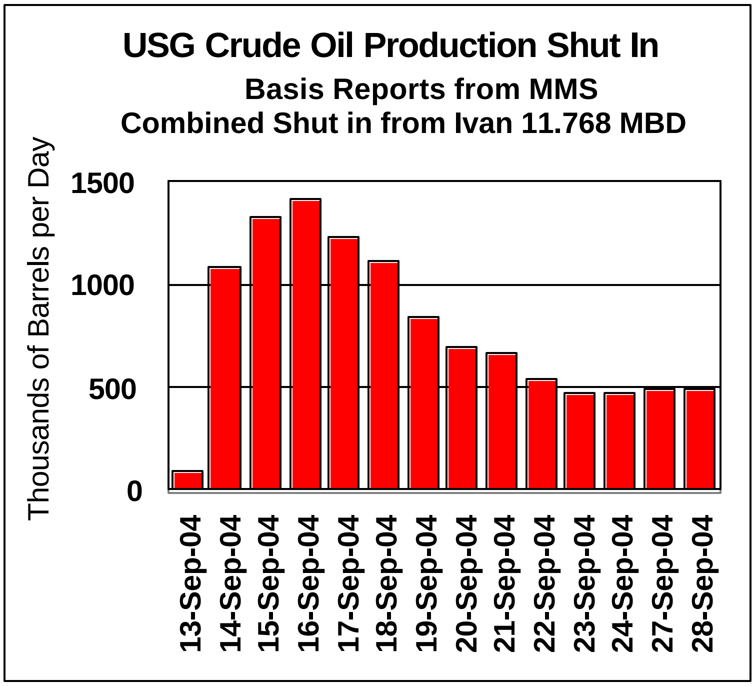
Kuwait's 200,000 bpd Shuaiba oil refinery is returning to normal operations after its was forced shut on Monday due to a power failure. The power cut also briefly affected the nearby 270,000 bpd Mina Abdullah and the 460,000 bpd Mina al-Ahmadi refineries, which have already returned to normal operations.

Venezuela's Sincor heavy crude oil project will shut an upgrading unit for 48 days starting on October 13 for scheduled maintenance and upgrade of the facility. Sincor officials said the upgrade will allow the plant to produce a maximum of 214,000 bpd.

Total's 223,000 bpd refinery in Immingham will be back up and running early next week after a month long maintenance shutdown that affected 50% of the refinery's crude distillation capacity. Meanwhile several units at its 153,000 bpd Vlissingen refinery has been down since earlier this month for maintenance. Total's 160,000 bpd Mardyck refinery has also been shut since September 10 for a full seven week maintenance program.

Japan's Nippon Oil Corp said it will process a total of 4.8 million kiloliters or 973,935 bpd of crude oil in October, up 9% on the year. Separately, Japan Energy Corp said it will increase its crude oil processing volume by 8% on the year to 7.47 million kl of 511,000 bpd for the October to December period. Idemitsu Kosan Co said it plans to refine 2.2 million kl of 446,000 bpd of crude in October compared with 2.5 million kl or 524,000 bpd this month.

Valero Energy Corp is considering increasing the capacity of its Aruba refinery to as much as 800,000 bpd from the current capacity of 225,000 bpd. By 2005, the Aruba refinery will be processing between 275,000 and 285,000 bpd of crude oil.



Production News

The US MMS reported that 11.768 million barrels of oil and 52.383 bcf of natural gas has been shut in since September 13th due to Hurricane Ivan. It stated that 490,493 bpd of oil production is still shut in while 2.341 bcf/d of natural gas production is still shut in.

Royal Dutch/Shell Group said it would be several weeks before its US Gulf oil and gas operations returned to normal after suffering damage from Hurricane Ivan. It is assessing damage at the affected installations and believes the damage can be repaired. It was unable to say exactly how much of its production was offline.

Pogo Producing Co said a significant amount of its Gulf of Mexico oil and natural gas production was still off line due to damage caused by Hurricane Ivan. It estimated that its third quarter production will be reduced by about 900 million cubic feet of natural gas and 400,000 barrels of oil. It said its own platforms did not sustain major damage as a result of the hurricane but damages to outside owned and operated platforms, pipelines and onshore terminals forced much of its production to remain shut in. It does not expect output to be restored from most of these fields for about one more month.

The Explorer Pipeline shut the Gulf Coast to Tulsa, Oklahoma section of its oil products pipeline due to a leak on Tuesday. It said it will take an estimated two days to repair the leak and resume operations on the 660,000 bpd line to Tulsa.

Kinder Morgan Energy Partners LP said all of its California refined products pipelines were operating normally on Tuesday after it temporarily halted shipments on two California refined products pipelines following an earthquake in California.

Officials stated that a weekend pipeline explosion that authorities suspect resulted from criminal mischief may be related to a previous equipment theft nearby. The Sunday pipeline blast in New Caney caused $1 million in damage.

Russia's Surgutneftegaz will increase its output to 63 million tons or 1.27 million bpd in 2005, up from 59.5 million tons this year.

Kazakhstan and China started the construction of an oil pipeline on Tuesday that is expected to ship up to 20 million tons or 400,000 barrels of Russian and Kazkh oil a year to help feed China's economy. Its completion is planned by December 2005. The pipeline will link China to Kazakhstan's pipeline network, including a branch shipping oil from Russia's Siberian fields. It will have an initial annual capacity of 10 million tons or 200,000 bpd and a peak level of 20 million tons.

Market Commentary

The NYMEX oil market settled in positive territory for the ninth consecutive session amid concerns over supplies. The market gapped higher on the opening from 49.75 to 49.95 after the market traded to a record high of 50.47 in overnight trading in light of the news that militants seeking autonomy for the Niger Delta threatened an all out war against the Nigerian government starting October 1. Just as quickly the market backfilled it gap as it traded to an early low of 49.75 amid reports that Saudi Arabia was increasing its output capacity to 11 million bpd and would be able to meet any supply shortfall. However the uncertainty over the situation in Nigeria seemed to have overshadowed Saudi Arabia's promise to increase its capacity as the market bounced off its low and traded to its intraday high of 50.25. The oil market failed to test its overnight high and settled in a range from 50.10 to 49.55 for most of the session before it traded back towards its high ahead of the close. It erased some of its gains and settled up 26 points at 49.90. Volumes in the crude market were excellent with over 220,000 lots booked on the day, of which 123,000 lots traded via spreads. The product markets also ended in positive territory with the heating oil market settling up 98 points at 137.78 and the gasoline market settling up 1.16 cents at 135.79. The heating oil market opened up 70 points at 137.50 and quickly posted the day's range. The market traded to a high of 138.00 before it erased its gains and traded to a low of 135.80 after it too failed to test its overnight high of 138.31. The market traded off its low and rallied to its high of 138.00 ahead of the close. Meanwhile, the gasoline market opened relatively unchanged at 134.65 and posted an early high of 135.25 before it retraced its gains and traded to a low of 133.40. However the market bounced off that level and rallied to its intraday high of 136.60 ahead of the close. Volumes in the product markets were also good with 56,000 lots booked in the heating oil market and 50,000 lots traded in the gasoline market.

The crude market will seek further direction from the weekly petroleum stock reports, which are expected to show draws of about 3 million barrels in crude stocks and draws of 1.5 million barrels each in distillate and gasoline stocks. The market will also be driven by any news out of Nigeria after the market mostly ignored the comments made by Saudi Arabia. Technically, the crude market is seen finding resistance at 50.25 followed by 50.47. Meanwhile support is seen at its low of 49.55 followed by its gap from 49.10 to 48.90.

Technical Analysis			
		Levels	**Explanation**
		50.47, 51.36	Overnight high, Upper bollinger band
	Resistance	50.25	Tuesday's high
CL	49.90, up 26 cents		
	Support	49.55	Tuesday's low
		49.10 to 48.90, 47.90	Remaining gap, Previous low
		140.00	
	Resistance	138.00	Tuesday's high
HO	137.78, up 98 points		
	Support	135.80	Tuesday's low
		135.30, 133.10	Monday's low, Previous low
		138.00	
	Resistance	136.60	Tuesday's high
HU	135.79, up 1.16 cents		
	Support	133.40, 133.30	Double bottom
		131.00, 127.00	Previous lows