



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR SEPTEMBER 28, 2006

Iran's President Mahmoud Ahmadinejad rejected the call to suspend its uranium enrichment program and said that his government was determined to continue using nuclear energy for peaceful purposes. He said Iran was ready for fair negotiations. His comments came after representatives from Iran and the EU failed to reach a deal in their latest round of talks. Iran's chief nuclear negotiator, Ali Larijani, stated that they came to some positive conclusions. However

Market Watch

Saudi Arabia said it was proceeding with plans to build a 900 km fence along its border with Iraq in attempt to improve security. A Saudi security adviser, Nawaf Obaid said the border would take between five and six years to complete and would have electronic sensors to protect the country from external threats. Its plan reflects increasing alarm in Saudi Arabia over the situation in Iraq, where the government is struggling to prevent sectarian violence from escalating to a civil war. Saudi Arabia also wants to prevent drug smugglers, weapons dealers and illegal immigrants from using Iraq as a way of reaching Saudi Arabia.

According to the Commerce Department, GDP grew by 2.6% in the April-June period, down from a previous estimate of 2.9%. Economic growth is expected to remain somewhat subdued through the rest of the year. The National Association for Business Economics has estimated a growth rate of 2.6% in the current third quarter and in the fourth quarter.

neither Iran's chief nuclear negotiator or the EU's foreign policy chief Javier Solana gave any details of what had been achieved. Iran's chief nuclear negotiator indicated they had discussed how future negotiations could proceed and expressed hope that they could begin the main negotiations as soon as possible. The EU's foreign policy chief said he hoped to have further telephone contact with Iran later this week. Meanwhile, The Washington Times reported that the Bush administration postponed its pursuit of UN sanctions against Iran for a few weeks to allow the EU to negotiate a suspension of Iran's nuclear program. The US has previously stated that it would join the EU in direct negotiations with Iran on incentives only if it halted its uranium enrichment. Secretary of State Condoleezza Rice however warned that despite her willingness to wait a few more weeks, it would not go on very much longer. State Department spokesman Sean McCormack said Iran has not yet agreed to suspend its uranium enrichment. However he said neither the US nor other major powers want to impose sanctions and it remained up to Iran to halt its uranium enrichment program.

A senior Nigerian oil industry source said Nigeria was cutting its production starting October following discussions with fellow OPEC members on how to stem a price decline. The source said Nigeria would cut its supplies by 5% from October 1. He stated that Saudi Arabia and Kuwait were also involved in an informal pact to cut supply. Saudi officials could not be reached for immediate comment while a Gulf oil source said Kuwait's oil production was steady at 2.5 million bpd and there had been

NYMEX Petroleum Options Most Active Strikes for September 28, 2006

Symbol	Month	Year	Call/Put	Strike	Exp Date	Settle	Prev Settle	Volume	IV
GO	1	7	C	2	12/26/2006	0.0174	0.0192	55	36.84
GO	1	7	C	1.9	12/26/2006	0.0273	0.03	55	35.80
GO	1	7	C	2.2	12/26/2006	0.0073	0.0082	25	38.76
GO	1	7	C	2.16	12/26/2006	0.0086	0.0096	25	38.38
LO	1	7	P	57	12/14/2006	0.89	0.96	6,103	31.07
LO	12	6	C	70	11/14/2006	0.72	0.8	5,326	29.38
LO	12	6	C	37	11/14/2006	26.77	26.86	4,300	88.95
LO	12	6	C	40	11/14/2006	23.77	23.86	3,350	76.13
LO	11	6	C	65	10/17/2006	0.87	1.05	3,291	30.50
LO	3	7	P	62	02/14/2007	2.56	2.63	3,038	27.47
LO	3	7	C	75	02/14/2007	1.38	1.4	3,000	26.63
LO	12	6	C	36.5	11/14/2006	27.27	27.36	3,000	91.20
LO	1	7	P	62	12/14/2006	2.18	2.24	2,950	28.98
LO	12	7	P	60	11/13/2007	3.5	3.59	2,667	26.68
LO	6	7	C	70	05/17/2007	4.12	4.09	2,552	25.92
LO	1	7	C	75	12/14/2006	0.63	0.68	2,530	29.45
LO	12	6	C	29.5	11/14/2006	34.27	34.36	2,500	126.51
LO	2	7	P	60	01/17/2007	1.77	1.82	2,430	28.44
LO	11	6	P	60	10/17/2006	0.71	0.76	2,233	31.50
LO	12	6	P	60	11/14/2006	1.19	1.26	2,170	30.22
LO	1	7	C	68	12/14/2006	1.99	2.07	2,153	28.52
LO	12	6	C	43.5	11/14/2006	20.27	20.36	2,050	62.37
LO	2	7	C	70	01/17/2007	2.12	2.14	1,901	27.51
LO	1	7	P	60	12/14/2006	1.55	1.62	1,800	29.75
LO	11	6	C	72	10/17/2006	0.06	0.1	1,709	32.31
LO	1	7	P	63	12/14/2006	2.57	2.63	1,700	28.71
LO	12	6	C	41.5	11/14/2006	22.27	22.36	1,650	70.09
LO	12	7	C	75	11/13/2007	4.05	4.01	1,612	24.26
LO	11	6	C	70	10/17/2006	0.13	0.19	1,567	31.34
LO	12	6	P	50	11/14/2006	0.1	0.12	1,560	37.17
LO	12	6	C	39.5	11/14/2006	24.27	24.36	1,500	78.19
OB	2	7	C	1.68	01/26/2007	0.119		200	32.53
OB	2	7	P	1.68	01/26/2007	0.1239		200	32.55
OH	11	6	P	1.77	10/26/2006	0.061	0.0713	539	28.57
OH	11	6	C	1.77	10/26/2006	0.05	0.0583	537	28.57
OH	12	6	C	2.19	11/27/2006	0.0162	0.0127	418	38.07
OH	12	6	C	2.18	11/27/2006	0.0169	0.0133	418	37.91
OH	2	7	C	2	01/26/2007	0.0755	0.0728	249	28.34
OH	2	7	C	2.06	01/26/2007	0.0575	0.0573	244	28.20
OH	12	6	C	1.96	11/27/2006	0.0473	0.0393	225	34.65
OH	11	6	C	1.78	10/26/2006	0.048		180	29.80
OH	11	6	C	1.85	10/26/2006	0.0256	0.0319	174	30.45
OH	11	6	C	1.95	10/26/2006	0.0093	0.0141	158	31.45
OH	6	7	P	1.8	05/25/2007	0.1259	0.1283	105	26.90
OH	11	6	C	2	10/26/2006	0.0054	0.0093	100	31.99
OH	2	7	C	1.88	01/26/2007	0.119	0.1159	100	27.51
OH	2	7	P	1.88	01/26/2007	0.1117	0.1149	100	27.49

no order to cut its supply. On Wednesday, Kuwait's Energy Minister Sheik Ali al-Jarrah al-Sabah said OPEC was not inclined to cut its output. Meanwhile, two senior OPEC officials dismissed speculation that several OPEC members had reached an informal agreement to cut its production. OPEC's President Edmund Daukoru dismissed the reports and said he was unaware that an agreement had been reached.

Separately, Algeria's Oil Minister Chakib Khelil said OPEC did not see any reason to hold an emergency meeting to implement a production cut. He said OPEC members were in regular consultations and if necessary the group's president would call an emergency meeting. He also stated that crude prices may hold steady or fall slightly this year before rebounding in early 2007 on higher demand. Another senior OPEC source also dismissed suggestions of an emergency meeting.

According to Oil Movements, OPEC's oil exports are expected to increase by 50,000 bpd to 25.23 million bpd in the four weeks ending October 14.

The EIA reported that US oil demand in July fell by 1.3% on the year to 20.582 million bpd. The EIA had previously stated that oil demand in July stood at 20.832 million bpd. Meanwhile gasoline demand was revised down to 9.583 million bpd, up 1.4% on the year but below its previous estimate of growth of 1.7%. It also reported that distillate demand increased by 1% on the year in July to 3.906 million bpd. It is down from its previous estimate of 4.125 million bpd.

Refinery News

The restart of Shell's 40,000 bpd delayed coker unit at its 100,000 bpd Wilmington, California refinery has been moved to Friday following an unsuccessful attempt to restart on Monday. Shell reported that it suffered an electrical failure at the facility early Thursday. Meanwhile, a 15,000 bpd alkylation unit at ConocoPhillips' 128,000 bpd Wilmington, California refinery has been shutdown for repairs. It is impacting throughput into the fluid catalytic cracking unit. The alkylation unit is expected to return to service over the weekend. As a result of the refinery problems, spot carbob gasoline differential increased from 15 cents/gallon to 18 cents/gallon over November NYMEX RBOB gasoline.

Sunoco Inc is expected to shut the larger of two crude units at its 330,000 bpd refinery in Philadelphia for 15 days of unplanned maintenance starting on Saturday. Unit operators are expected to start reducing rates at the 200,000 bpd unit on Friday and feed would be halted on Saturday. Separately, a 33,000 bpd reformer unit at the refinery is scheduled to undergo seven to ten days of maintenance starting October 8.

PDVSA's 54,000 bpd fluid catalytic cracking unit at its El Palito refinery has resumed full operation following an outage this week.

Workers at Total's Carling refinery started a 24 hour strike over jobs on Thursday. A strike is scheduled to start at its Gonfreville refinery on Friday.

ExxonMobil confirmed it was scheduled to shut its 75,000 bpd catalytic cracker at its Fawley refinery in England for planned maintenance on Friday for more than a month. The shutdown would coincide with a six week turnaround at Ineos' 36,000 bpd hydrocracker at its Grangemouth refinery in Scotland. The shutdowns add to an already heavy autumn refinery maintenance season in northwest Europe, where 464,000 barrels or 5% of the region's total refining capacity of 9.2 million bpd are scheduled to shutin.

An oil pipeline in Iraq, connecting refineries in Baiji and Baghdad, was blown up and caught fire on Thursday.

Platts reported that Mexico's increasing gasoline imports were increasing calls for Pemex to build new refineries in Mexico to cope with demand. Mexico's crude production has remained steady at just under 3.4 million bpd and exports at about 1.85 million bpd since 2003. Meanwhile gasoline imports have increased from 54,500 bpd in 2003 to 215,600 bpd so far this year as demand has increased from 600,000 bpd to 709,000 bpd. An analyst stated that the first priority of President elect Felipe Calderon should be complete the updates of the existing refineries. Mexico's Energy Secretary Fernando Canales said that the current Pemex administration would leave its successors the basic engineering for two possible new refineries.

Lithuania's Prime Minister Gediminas Kirkilas said the Mazeikiu Nafta refinery would receive reliable crude supplies despite being cut off from Russian crude via a Belarus pipeline in July. Poland's PKN

Orlen SA, which agreed to buy the refinery, has obtained solid guarantees of future crude supply. The refinery has been importing feedstock by tanker via a terminal on the Baltic Sea.

Japan's refining capacity is expected to fall by about one-sixth in October due to regular maintenance. Nippon Oil Corp is expected to process 3.9 million kiloliters of crude in October, down 19% on the year. Nippon Oil's 150,000 bpd crude distillation unit at its Negishi refinery and its 140,000 bpd crude distillation unit at its Mizushima refinery have been shut since September. The units are scheduled to remain down until late October. It is expected to produce 1.07 million kl of gasoline and 390,000 kl of c-fuel oil in October, down 7.8% and 48.7% on the year. Showa Shell is scheduled to shut its 75,000 bpd crude distillation unit at its Yokkaichi refinery from October 5-November 7 while TonenGeneral is scheduled to shut a 130,000 bpd crude distillation unit at its Wakayama refinery from October 4-26. Idemitsu Kosan shut a 120,000 bpd crude distillation unit at its Tokuyama refinery on September 28 until November 7. Meanwhile Cosmo Oil, which shut an 80,000 bpd crude distillation unit at its Sakai refinery on August 30, is also expected to shut an 80,000 bpd crude distillation unit at its Yokkaichi refinery on October 11-November 2.

Singapore Refining Co shutdown a hydrogen plant at its 285,000 bpd refinery on September 15 for 12 days due to a refinery wide steam failure. The hydrogen plant is scheduled to restart soon.

Singapore's International Enterprise said the country's residual fuel stocks fell by 1.299 million barrels to 10.882 million barrels in the week ending September 27. It reported that light distillate stocks fell by 291,000 barrels to 7.31 million barrels while middle distillate stocks fell by 688,000 barrels to 6.764 million barrels.

South Korean refiners plan to cut their October exports of fuel oil to 340,000 tons from 450,000 tons in September.

Production News

A senior Petroleum Ministry official said India's oil product exports increased by 61.11% on the year in August to 2.9 million tons. Its diesel exports increased to 1.2 million tons from last year's level of 700,000 tons. Its gasoline exports increased to 300,000 tons from 240,000 tons the previous year while naphtha exports increased to 700,000 tons from 470,000 tons last year.

ExxonMobil Corp is scheduled to start loading its first crude cargo at the Sakhalin-1 terminal on October 4. It is due to pump 250,000 bpd of light, sweet Sokol crude by the end of the year.

Sakhalin Energy Ltd said it may be willing to negotiate the amount of costs it can recover from its Sakhalin-2 oil and gas project before sharing the profits with the Russian government. Under the terms of the agreement, Sakhalin Energy has right to recoup all of its costs before sharing the profits. It said the costs would total \$20 billion.

OPEC's news agency reported that OPEC's basket of crudes increased by 4 cents/barrel to \$55.90/barrel on Wednesday from Tuesday's revised level of \$55.86/barrel.

Market Commentary

The crude market opened slightly lower at 62.90 and quickly posted a low of 62.60. The market's losses were limited amid the reports that Iran's chief nuclear negotiator and the EU's foreign policy chief failed to strike an agreement. Also, Iran's President Mahmoud Ahmadinejad said Iran would not halt its uranium enrichment program. The market later rallied over \$1 to a high of 64.00 amid the reports that Nigeria was cutting its production by 5% starting October 1 following discussions with fellow OPEC members to stem the decline in oil prices. A source stated that Saudi Arabia and Kuwait

were joining the informal pact to cut production. However the market erased its gains as OPEC officials dismissed the reports of any cut in production. The market ended in negative territory as it traded back below the 63.00 level to 62.70 ahead of the close. It settled down 20 cents at 62.76. Volume in the crude market remained light with 168,000 lots booked on the day. The gasoline market posted an inside trading day after failing to breach its previous high as the complex rallied on news that Nigeria, Saudi Arabia and Kuwait would cut their production. The market, which held support at 150.25 early in the session, bounced off that level and rallied to a high of 153.90 before it settled in a sideways trading pattern. The market sold off to a low of 149.00 on a late bout of selling and settled down 3.88 cents at 150. 11. Meanwhile, the heating oil market posted a low of 170.80 and rallied to a high of 174.60 amid the strength in the crude market. It however erased its gains and traded back towards its low amid some late selling pressure. The market posted a mostly neutral trading session as it settled down 3 points at 171.38. Volume in the gasoline market remained light with 16,000 lots booked on the day while better volume was seen in the heating oil market with 54,000 lots booked on the day.

The option market continued to see calls account for the majority of the interest again today in the crude,

Technical Analysis		
	Levels	Explanation
CL 62.76, down 20 cents	Resistance 65.15, 65.20 63.75, 64.00	Previous highs Thursday's high
	Support 62.60 60.10, 59.65-59.55, 59.25	Thursday's low Previous lows
	Resistance 176.20, 177.50 174.60	Previous highs Thursday's high
HO 171.38, down 3 points	Support 170.80 164.40, 164.20, 163.20	Thursday's low Previous lows
	Resistance 159.00, 162.00, 162.25 153.90, 154.50	Previous highs Thursday's high, Wednesday's high
	Support 149.00, 146.00 144.75, 143.40, 138.50	Thursday's low, Wednesday's low Previous lows

gasoline and heating oil markets. In the crude oil market most traders interest was shifted to closer in the money options and away from far out of the money strikes, as it appeared traders began to narrow their focus in what appeared to be expectations for a tighter trading beginning to emerge.

The oil market, which ended in negative territory, is seen trading in a range after OPEC officials denied reports of an informal agreement to cut production. However the market's losses will be limited as the talks between Iran and the EU are expected to continue and Iran's President continues to reject the calls for Iran to halt its uranium enrichment program. The market is seen finding support at its low of 62.60 followed by more distant support at 60.10, 59.65-59.55 and 59.25. Meanwhile resistance is seen at 63.75, 64.00 and its previous highs of 65.15 and 65.20.