ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR OCTOBER 3, 2007

US President George W. Bush warned of a nuclear armed Iran but said the US would talk to Iranian President Mahmoud Ahmadinejad if Iran suspended its nuclear enrichment program. He also said it was important for the US to stay engaged in Iraq to convince Iran that the US was committed to democratic reform in the region.

Market Watch

US Energy Secretary Samuel Bodman said development of cellulosic ethanol was the only way to meet Bush administration goals to reduce oil use in the US by 20% in 10 years. He said corn based ethanol volumes would not be sufficient to cut oil consumption as sought. He rejected the notion of raising taxes on fuels as a way to reduce demand.

ConocoPhillips' chief executive James Mulva said the company continued to seek a settlement with Venezuela over compensation for its stake in an oil project in the Orinoco region.

Former Federal Reserve chief Alan Greenspan said the odds of a recession in the US is between a third and a half due to the credit crisis sparked by problems in the US subprime mortgage sector. He said the mostly likely scenario was a slowing down of economic growth in the US. He said the credit crisis was beginning to dissipate.

Iran's Foreign Minister Manouchehr Mottaki said Iran warned the US two years ago that it would retaliate if the US made a decision to attack the country. He refused to disclose what Iran's response would be and stressed that the government was not expecting the Bush administration to launch an attack.

EU Foreign Policy Chief Javier Solana warned Iran that the EU wanted to see progress in international negotiations over its nuclear program or risk new sanctions by the end of the year. He said talks with the UN's IAEA and talks he was conducting with a top Iranian official needed to move ahead. He said he was attempting to arrange talks with Iran's top nuclear negotiator, Ali Larijani as soon as possible with other meetings to follow.

DOE Stocks

Crude – up 1.2 million barrels
Distillate – down 1.2 million barrels
Gasoline – down 100,000 barrels
Refinery runs – up 0.6%, at 87.5%

French diplomatic officials said Iran was set to run almost 3,000 centrifuges by the end of the month, nearing the threshold for industrial scale uranium enrichment in its nuclear program. Iran has previously declared a goal of operating 3,000 centrifuges, which western diplomats said would be enough to product a nuclear bomb per year.

Saudi Arabia's Oil Minister Ali Naimi said the country would continue to work toward stability in international oil markets. Saudi Arabia is scheduled to host the OPEC heads of state summit on November 17-18. He said the summit would focus on the provision of energy supplies, support for world prosperity and environment protection.

Iraq resumed the pumping of crude from its Kirkuk oilfields to the Turkey's export terminal in Ceyhan on Wednesday. The oil was flowing at 84,000 bpd. A shipping agent said the total inventory available at Ceyhan was 5.3 million barrels.

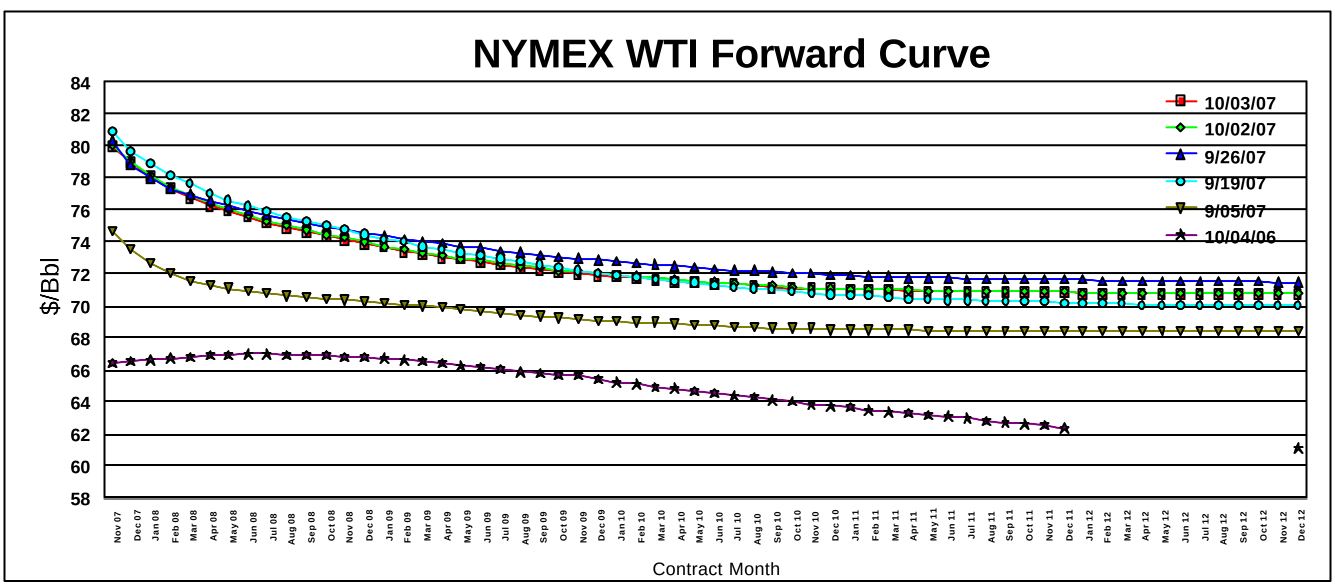
The EIA reported that ethanol production in the US increased by 4% on the month in July to 13.051 million barrels. It was a record high for the third consecutive month. Demand for ethanol also reached a record high in July of 450,000 bpd, up 7,000 bpd on the month or 90,000 bpd on the year. US ethanol inventories stood at 9.696 million barrels in July, up 7% on the month and 25% on the year. Imports of ethanol stood at 1.523 million barrels in July. Brazil remained the largest supplier, with 1.051 million barrels in eight shipments.

Refinery News

TEPPCO Partners LP said oil storage capacity at its Cushing, Oklahoma facility increased by about 50% to 2.8 million barrels after it placed three new crude oil storage tanks into service. The company said it planned to place another 250,000 barrels of crude oil storage capacity in service in 2008.

BP Plc announced it would seek binding commitments from crude oil shippers to proceed with its planned reversal of its Cushing, Oklahoma to Chicago crude oil pipeline. BP said it expected the line to start as soon as the fourth quarter of 2009, if enough customers sign up for capacity on the proposed 100,000 bpd Viridian pipeline.

Valero Energy Corp's 135,000 bpd and ConocoPhillips' 139,000 bpd refineries in Wilmington, California were restarting or preparing to restart on Wednesday after a brief power outage. Valero said its refinery was completely shut by the power failure but was restarting while ConocoPhillips said it had restored power to the refinery and work to restart was underway. There was no estimate available for how long the restart would last. Meanwhile wholesale gasoline differentials increased by 7 cents in early Wednesday trading on the Los Angeles market following the refinery outages. Gasoline traded between 24 cents and 28 cents over NYMEX November RBOB gasoline contracts.



Separately, ConocoPhillips shut a fluid catalytic cracking unit at its 247,000 bpd Sweeny refinery in Texas for planned maintenance. Work on the unit is expected to begin Wednesday.

ConocoPhillips said its third quarter profit from its refineries would be significantly lower as margins fell. It said refining margins fell by about 50% in many regions from record levels in the second quarter. Output for the quarter is expected to fall by 180,000 barrels of oil equivalent/day, mostly because of the loss of its Venezuelan operations.

Tesoro Petroleum Corp's oil refinery in Wilmington, California is operating normally, unaffected by a power outage in the area earlier on Wednesday.

According to a report filed with California's State Office of Emergency Services and South Coast Air Quality Management District, a compressor failed at Chevron's 260,000 bpd refinery in El Segundo, California for the third time in two weeks.

PDVSA shut a fluid catalytic cracking unit and alkylation unit at its El Palito refinery as a preventive measure following an electric system outage. It said it would restart the units in the next few hours on Wednesday afternoon. PDVSA said the outage would not affect gasoline supply to local and international markets.

A trader said ExxonMobil's 326,000 bpd Fawley refinery's catalytic cracking unit was having production problems.

Japan's Kyokuto Petroleum Industries Ltd has restarted a refining unit after an unplanned outage for about a week. The outage had suspended most of the operations at its 175,000 bpd Chiba plant.

Production News

US Gulf of Mexico crude oil and natural gas production continued as thunderstorms associated with a low pressure system began moving across offshore production areas on Wednesday. Producers and the Louisiana Offshore Oil Port said they had no plans to shut production or evacuate workers from the offshore platforms. The National Hurricane Center said the low pressure system became less organized but added that it could still develop into a tropical cyclone on Thursday or Friday. It canceled the reconnaissance aircraft mission scheduled to investigate the system later on Wednesday. Most of the weather models show the Gulf system would move toward the northern Gulf coast between eastern Texas and Mississippi by the end of the week. Planalytics noted some models show the Gulf system strengthening to a tropical storm just prior to landfall along the upper Texas or Louisiana coastline on Friday.

Suncor Energy Inc said it expected to resume full operations at its Alberta oil sands project by the weekend after a fire on Tuesday cut production by 85,000 bpd to 175,000 bpd. A preliminary investigation showed damage to one of its tow oil sands upgraders from the small fire was minimal.

Enbridge Inc said that proposed higher royalties and taxes for oil sands projects in Alberta were unlikely to be the deciding factor in whether to proceed with the projects. The company still expects oil sands output to triple to 3 million bpd by the middle of the next decade. It said profit margins and construction costs remain the key drivers for oil sands projects.

Saudi Aramco cut its November official selling prices for crude grades bound for the US. It cut its Arab Light crude by $1.80 to WTI minus $6.90. Saudi Aramco also cut its November official selling prices for crude bound for Europe. It set its Arab Extra Light at BWAVE plus 35 cents, down 75 cents on the month. Its Arab Light was cut by 90 cents to BWAVE minus $3.35, its Arab Medium was cut by $1.20

to BWAVE minus $5.30 and its Arab Heavy was cut by $1.20 to BWAVE minus $6.75. It however increased the price of its crude bound for Asia. It increased its Arab Extra Light crude price by $1.20 to the Oman/Dubai average plus $5.45. Its Arab Light crude was set at the Oman/Dubai average plus $2.35, up $1.00, its Arab Medium crude was set at the Oman/Dubai average minus 50 cents, up 55 cents and its Arab Heavy was set at the Oman/Dubai average minus $3.10, up 25 cents.

The Shetland Islands Council reported that Brent crude oil exports from Sullom Voe fell to 251,567 tons in the week ending October 2 from 300,464 tons in the previous week.

Georgia's Black Sea port of Butumi shipped 754,700 tons of crude oil and refined products in September 2007, up from 733,500 tons last year.

Belarus Prime Minister Sergei Sikorsky said his country was considering importing crude oil via Lithuanian oil terminals Klaipedos Nafta and Butinge. He said he was planning to discuss the issue of crude imports with Lithuanian Prime Minister Gediminas Kirkilas. Lithuania suggested that Belarus import crude via Klaipedos after Russia halted supplies to Belarus for several days in January following a dispute over a newly introduced export duty.

The Petroleum Association of Japan reported that the country's crude oil inventories fell once again by 5.21% to 98.14 million barrels in the week ending September 29. It reported that Japan's gasoline stocks were unchanged on the week at 11.43 million barrels while kerosene stocks fell by 500,000 barrels to 26.13 million barrels. It reported that crude runs fell by 120,000 bpd to 3.72 million bpd while refinery utilization fell by 2.4% to 76.9% on the week.

According to a Reuters survey, China is expected to halt its gasoline and cut its diesel imports in October, a move likely reflecting refiners' return from maintenance than a decline in demand. China is expected to increase its exports of gasoline to 150,000 tons in October from 90,000 tons in September. Its October diesel imports are expected to fall to 30,000 tons from about 160,000 tons in September.

Indonesia's Pertamina said the oil reserves in the Banyu Urip field in the Cepu block are estimated at 350 million barrels, up from ExxonMobil's initial estimate of 250 million barrels. Production from the Banyu Urip field is expected to start at the end of 2008 or early 2009.

Singapore is expected to increase its underground petroleum storage capacity at Jurong Island's Jurong Rock Cavern by 90% and would likely build the country's first Very Large Floating Structures to plug an expected shortfall in oil product storage capacity. It is expected to expand its underground storage capacity to 2.79 million cubic meters or 17.5 million barrels.

OPEC's news agency reported that OPEC's basket of crudes fell further to $74.66/barrel on Tuesday from a revised $75.97/barrel on Monday.

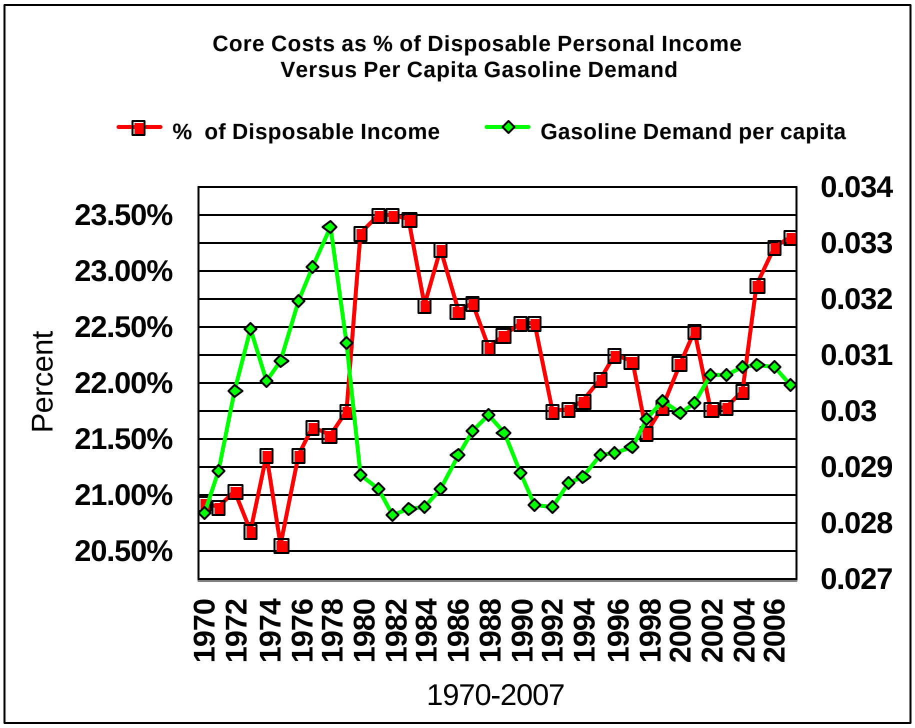
Market Commentary

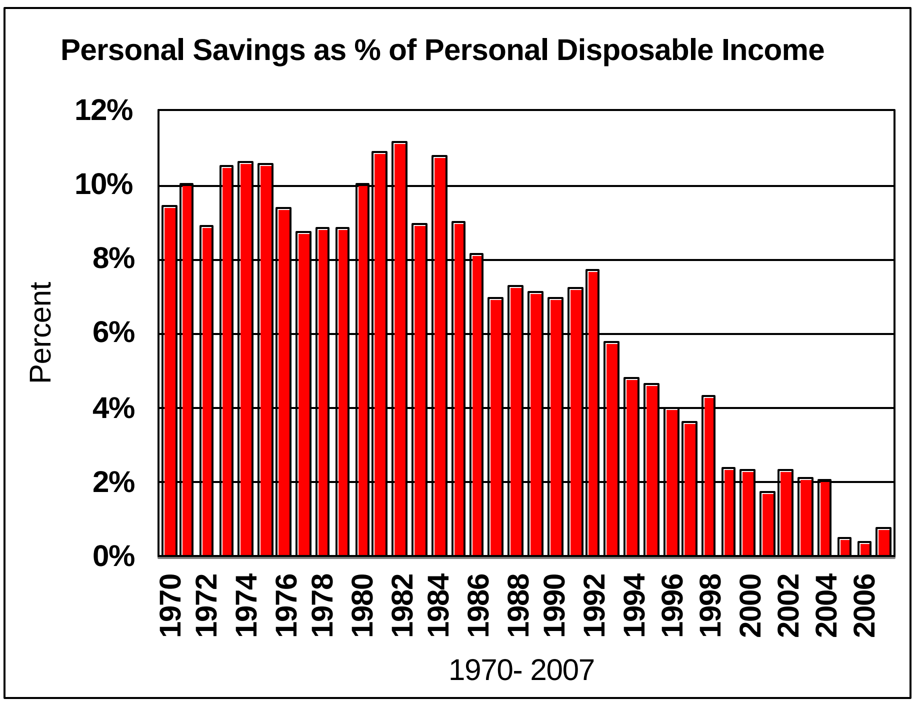
Unexpected builds in inventory stocks left crude oil slightly lower on the day. This is the lowest close in six sessions. Crude oil stocks reflected a build of 1.2 million barrels, with runs set at 87.5%. Although stock levels were 686,000 below this period last year, they remain in the upper end of the 5-year average. Gasoline stocks had a slight draw of 100,000 barrels and are well below the 5-year average, with demand set at 9.2 million barrels a day, which is up 0.1% on the year. Stock levels for distillates fell by 1.2 million barrels, with demand running 0.4% below this period last year. This puts distillate stock levels in the upper end of the 5-year average range. At this point, we would look for sideways price activity in crude oil, with this market trying to find direction. Until a direction is established we would have to settle with buying and selling the listed support and resistance numbers. Total open interest in crude oil was 1,426,044 up 5,214, November 317,969 down 9,091 and December 243,543 up 6,623. Support for November, comes in at 78.85, 78.40, 77.30, 76.79 and 75.70. Resistance is set at 80.80, 81.24, 82.00, 83.85, 84.10, 84.58 and 86.70. Unlike the crude market, the product markets ended the session in positive territory in light of the draws reported in product stocks. The RBOB market posted a low of 197.65 ahead of the release of the weekly petroleum stocks. However the market bounced off that level and posted a high of 201.74 following the release of the DOE, which reported an unexpected draw in gasoline stocks. The market later traded mostly sideways before a late bout of profit taking pushed the market back towards the 199.00 level. It settled up 1.31 cents at 199.59. The heating oil market also settled up 1.64 cents at 217.87. Similar to the RBOB market, the heating oil market sold off to a low of 214.98 ahead of the release of the weekly petroleum stock report. It however bounced off that level and rallied to a high of 219.18 later in the session in light of the draw reported in distillate stocks. The product markets still appear to have some more downside and will likely continue to retrace its early upmove after they failed to sustain their gains. The RBOB market is seen finding support at 197.65 followed by 194.85, 192.52, 191.94 and 191.53. Meanwhile resistance is seen at 199.90, 201.74 followed by more distant resistance at 205.24, 208.40 and 208.55.

			Explanation
		81.24, 82.02, 83.85, 84.10, 84.58, 86.70	Previous highs
	Resistance	80.15, 80.80, 80.88	Wednesday's high
CL	80.05, down 19 cents		
	Support	79.57	Wednesday's low
		78.85, 78.40, 77.30, 76.79, 75.70	Previous lows
		223.99, 228.25	Previous high
	Resistance	218.20, 219.18	Wednesday's high
HO	216.23, down 1.84 cents		
	Support	216.75, 214.98	Wednesday's low
		214.52, 214.40, 213.34, 212.88, 211.58	Previous lows, 50% (197.50 and 228.25), Previous low
		205.24, 208.40, 208.55	Previous highs
	Resistance	199.90, 201.74	Wednesday's high
RB	198.28, up 15 points		
	Support	197.65	Wednesday's low
		194.85, 192.52, 191.94, 191.53	Previous low, 62% retracement

The December gasoline futures market this past August plunged to its lowest level in four months as fears that the sub prime mortgage crisis would plunge the U.S economy into a recession and as a result drag the whole world economy lower. But the oil markets fears of contracting demand appeared to be erased as the Fed began to calm the credit markets through repos and by a formal federal funds rate cut on September 18th. As a result by the end of September the December contract was floating some 30 cents above its mid August lows.

We feel though that this bullish glow for the economy and thus gasoline demand may be on shaky ground. First the fact that the sub prime mortgage crisis is far from over. These mortgages account for $1.3 trillion outstanding loans, with $600 billion made last year, which accounted for 20% of the U.S. home market. Many of the so called sub prime mortgages will reset to much higher interest rates over the next 18 months with the peak of them hitting the market this October. Some analysts estimate that when it is over, nearly two and a half million people who bought homes through these mortgages could lose them. The debt burden on these homeowners is evidenced by one example in which a homeowner will see their monthly payment go up from $3300 to $4200. While the past escalation of real estate values would have helped some borrower's by allowing them to refinance into yet another loan, the recent declines in home values in many parts of the country has eliminated this option for many homeowners. Compound this by an interesting development recorded earlier this year in which direct mail credit card offers to sub prime customers in the United States jumped 41% in the first half of the year when compared to 2006. As a result with these homeowners unable to tap into home equity for cash leaves them with credit cards as their only option. These credit cards not only have a higher interest rate but will be further increased upon the customer missing or late in a monthly payment.





As a result we look for this market to have a high degree of difficulty of moving substantially higher at the pump. We have attempted to take a slightly different spin on it looking at not just the consumer retail gasoline price but looking at a core set of costs that consumers have had to deal with over the years and the percentage that these core costs have had out of total disposable income. We have looked at gasoline costs, home utilities, mortgage payments and non-mortgage interest payments as a core costs. The percentage of these costs has consumed anywhere 21% to 24% of total personal disposable income over the past four decades. The oil price shock of 1980-1983 resulted in the percentage of these costs being at the upper end of this range and resulted in a per capita decline in gasoline consumption by 10%. These rebound in these core costs in the last year have pushed the percentage of the core costs to over 23% and has had its impact on the per capita gasoline consumption during the first half of this year.

Looking forward we see a top to retail gasoline prices averaging $3.00 for the year. This would result in us seeing the core cost percent of disposable income reaching a level equal to the 1980-1983 peak. A $3.50 retail gasoline price level would send us soaring to new historic highs. This is factoring in all other core costs to the consumer remaining equal to current levels but this in our mind would be a Pollyanna outlook. We are looking for mortgage payments and non-mortgage interest payments will also record significant increases that should act as a drag on gasoline demand as disposable income will be further restricted.(In a side note the energy price shock at the beginning of the 1980's saw U.S.

consumers have the ability to buffer the sudden jump in their core costs given their ability to dip into their savings or decreasing their rate of savings over the period. Unfortunately the U.S. savings rate has been in a steep decline basically for the last two decades, and in fact was negative for one quarter last year.)