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ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR OCTOBER 27, 2006

The UK's Royal Navy stated that coalition naval forces in the Gulf were deployed in support of Bahraini and Saudi units to counter a possible threat to Saudi Arabia's Ras Tanura's terminal. The navy issued a warning to merchant shipping as a precautionary measure after receiving intelligence of a possible threat. Industry sources stated that crude oil exports were continuing normally. Saudi Arabia's Interior Ministry said it was taking

Market Watch

Azerbaijan's President Ilham Aliyev stressed the importance of his country's ties with the US but warned that imposing sanctions against Iran would escalate tension in the region.

The president of the European Commission said Ukraine assured the EU that there would be no repeat this winter of gas supply disruptions from Russia. The EU was alarmed last year by a brief cut in supplies of Russian natural gas from Ukraine following a pricing dispute between the two countries.

Meanwhile, Russia's Gazprom called for the government to step in to prevent a repeat of last year's winter fuel crisis, which it said was likely due to a poor state of readiness in Russian regions. It said it restricted deliveries to some of its European customers last year to ensure there was enough for domestic users. Gazprom said it was concerned by the unsatisfactory current level of reserve fuel stocks in Russia and added that there was a threat of a repeat of last year's events, when regions were unprepared for a sharp decline in temperatures.

In filing with the US Securities and Exchange Commission, the NYMEX said it could end open outcry floor trading in about five years if it was no longer barred from dealing electronically in metals traded on the Comex division. The filing comes as Comex members and NYMEX stakeholders vote soon on a proposal to allow the NYMEX to expand its electronic metals trading in November.

measures to protect its oil and economic installations from a terrorist threat. Meanwhile, a Saudi Aramco official said he had heard a week ago that naval maneuvers were scheduled.

Iran's student news agency ISNA reported that Iran has started enriching uranium in a second network of centrifuges. It quoted a source saying that the injection of gas was carried out in the past week and has successfully enriched uranium. In a separate report, the ISNA reported that Iran's chief nuclear negotiator, Ali Larijani said the expanded enrichment program should not hinder negotiations with the west. He called for an open negotiation on the enrichment issue. Meanwhile, the five permanent members of the UN Security Council and Germany held their first meeting on Thursday on the draft resolution, which would ban Iranian trade in nuclear materials and ballistic missiles. French President

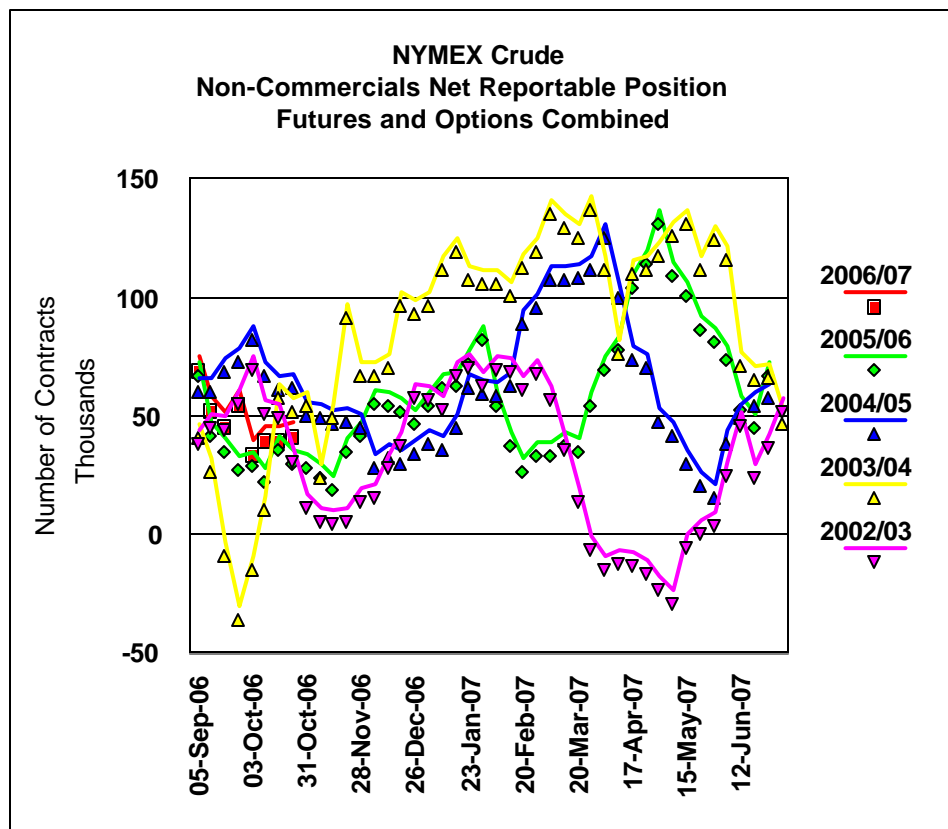
Jacques Chirac said he supported temporary, reversible and specially adapted sanctions against Iran if talks over its nuclear program failed. Russia's Foreign Minister Sergei Lavrov however stated that the draft did not match previous agreements among the major powers and predicted long negotiations before the issue is resolved. Russia and China have been calling for further talks. No agreement on the resolution is expected until sometime next week at the earliest. In regards to Iran's uranium enrichment, Russia's Defense Minister Sergei Ivanov said it was premature to speak about Iran being able to produce weapons grade uranium after Iran launched a second network of centrifuges. Meanwhile US President George W. Bush said he was aware of speculation that Iran has started enriching uranium in a second network of centrifuges and said it was unacceptable for Iran to have a nuclear weapon.

Iran's Oil Minister Kazem Vaziri-Hamaneh said the country's oil exports would fall by 176,000 bpd as it implements its share of OPEC's output cut. However buyers of Iranian crude stated that they had not yet received formal notice of a cut in supplies.

Refinery News

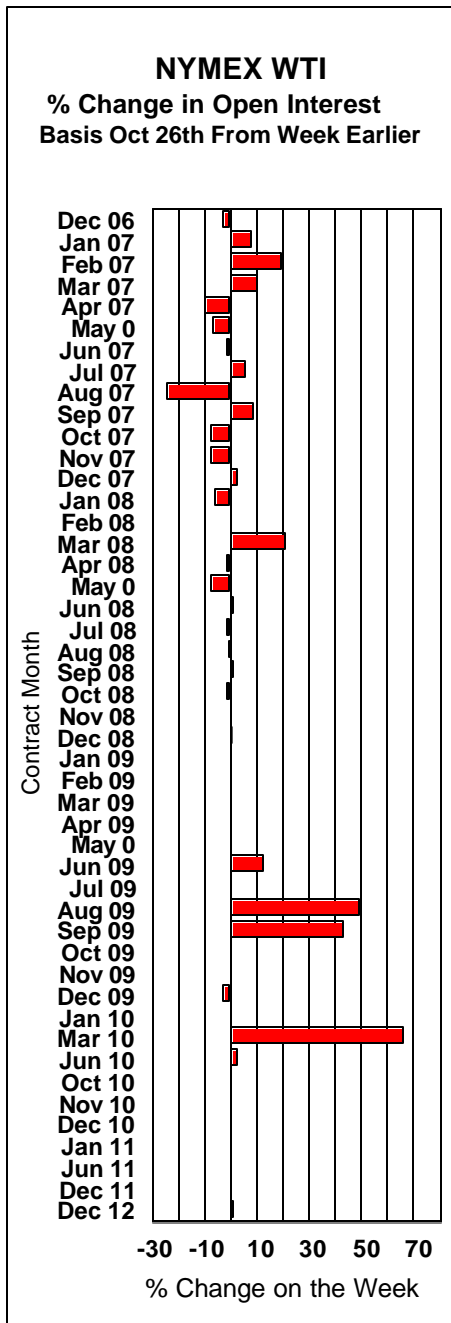
Valero reported a minor problem with a fluid catalytic cracking unit at its refinery in Port Arthur, Texas on Wednesday. In a report filed with the Texas Commission for Environmental Quality, Valero said suspected false instrument readings resulted in a pressure increase on the debutanizer and the depropanizer.

ConocoPhillips started to shutdown a hydrocracker unit at its oil refinery in Rodeo, California on Thursday. The shutdown, ahead of planned maintenance, sent materials to flare, resulting in emissions of nitrogen oxide and sulfur dioxide. Wholesale California diesel prices increased 7 cents on Friday following the news of the refinery problem.



Japan's Nippon Oil Corp said it would refine 4.5 million kiloliters or 943,500 bpd of crude oil in November, unchanged on the year. The volume represents about 77.5% of its total refining capacity of 1.217 million bpd.

Japan's Cosmo Oil Co said there was a fire at its 240,000 bpd refinery in Chiba, Japan on Friday. The fire started at a sulfur recovery unit, which was shutting down for maintenance. Meanwhile, Cosmo restarted its Sakai refinery on Friday after it was shut on August 30 for unplanned repairs and safety checks.



Taiwan's Chinese Petroleum Corp said it was operating at 70-75% of its refining capacity or at a rate of about 520,000 bpd. The lower runs have prompted the company to cut its spot gasoline exports starting in January from its offer of one or two 30,000 ton cargoes for December loading via a monthly tender.

South Korea's SK Corp said it was planning to shut its naphtha cracker unit at its Ulsan refinery in early December due to a technical problem. It would be the second time the unit is shutdown due to a technical problem since October.

The Renewable Fuels Association said Patriot Renewable fuels LLC started construction on a 100 million gallon per year ethanol plant in Annawan, Illinois.

An Iraqi oil official said Iraq's oil exports from its southern oil terminal resumed late Thursday following a suspension of several hours due to bad weather conditions. The rate of loading stood at about 65,000 barrels/hour on Friday. Meanwhile Iraq's northern exports remained suspended.

Russia's Transneft said it planned to cut its exports from its Baltic Sea port of Primorsk due to pipeline maintenance. Its final export schedule showed that Russia would export 5.4 million tons from the port, down from 5.7 million tons planned for October. Shipments from the Black Sea port of Novorossiisk would increase to about 4.1 million tons from 3.8 million tons in October. Russia's total seaborne crude exports are expected to total 11.282 million tons, down from 11.791 million tons planned for October.

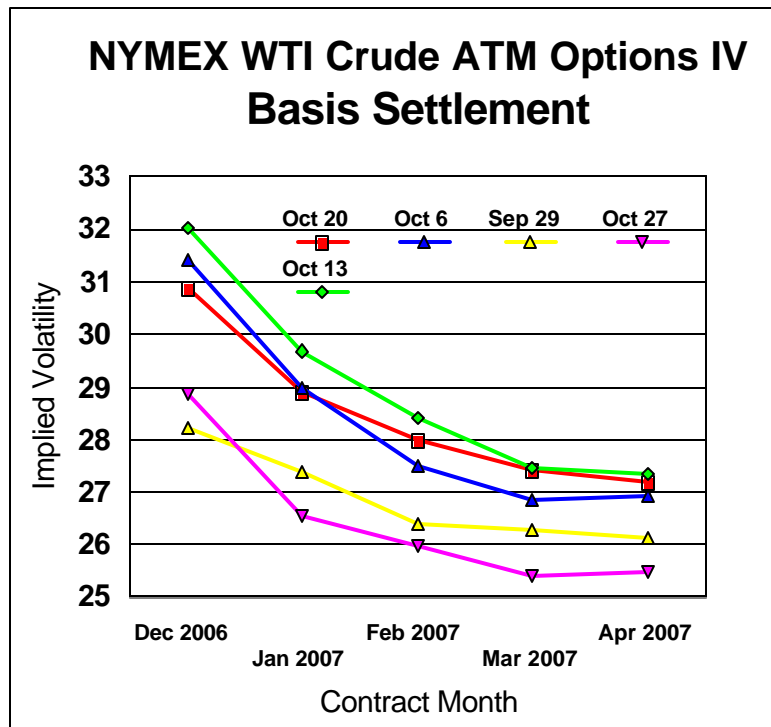
Traders stated that Japan's middle distillates exports are expected to fall sharply in November due to reduced refinery operations ahead of winter demand. Distillate exports are expected to fall to about 500,000-600,000 kiloliters or 3.1 million-3.8 million barrels in November. It is sharply lower from last year's level of 1.42 million kl.

Production News

Villagers occupying four oil pumping stations in Nigeria extended their protest to a third day on Friday. The protesters had agreed to vacate the facilities on the condition that they would be given contracts to supply food and speed boats to the oil platforms. However villagers said Royal Dutch Shell and Chevron had yet to agree to new contracts. Royal Dutch Shell later stated that the villagers left three flow stations they were occupying. An official said it was in the process of restarting operations at the flow stations.

Petrologistics reported that OPEC's oil production is expected to increase to 30.18 million bpd in October, up from a revised 30.15 million bpd in September. Meanwhile, the ten OPEC members produced 28.2 million bpd in October. Saudi Arabia is expected to keep its output steady in October at about 9.15 million bpd. Nigeria increased its production to 2.35 million bpd from 2.19 million bpd in September.

Baker Hughes reported that the number of rigs searching for oil and natural gas in the US increased by 5 to 1,744 in the week ending October 27. The number of rigs searching for oil fell by 2 on the week to 289.



Statoil ASA said production at its Snorre A and Vigdis platforms resumed this week. Production was shut in to repair lifeboats and upgrade the lifeboat capacity.

Nigeria increased the official selling price of its Bonny Light crude and Qua Iboe for November to a premium of \$1.40 over North Sea dated BFO crude. It is up from October's official selling price of dated BFO plus 95 cents.

Chevron said contract changes at its Venezuelan operations were expected to impact its fourth quarter 2006 production by 90,000 bpd. Its production is expected to fall to 2.6 million bpd.

Workers at the Bahrain Petroleum Co said they would hold a brief sit in on

Tuesday if demands for higher pay were not met. However the leader of the workers' union said the protest would not affect refinery output.

The BP-led AIOC consortium is expected to produce an average of 700,000 bpd of oil at its Azeri and Chirag fields in Azerbaijan next year.

	Levels	Explanation
CL Resistance 60.75, up 39 cents Support	61.70, 61.90, 62.75	Previous highs
	61.00	Friday's high
	60.10, 59.90	Friday's low
HO Resistance 169.44, down 56 points Support	59.40, 58.55, 58.15	Previous lows
	174.30, 176.80, 178.10	Double top, Previous highs
	170.50	Friday's high
RB Resistance 155.63, up 1.41 cents Support	168.50, 168.10	Friday's low
	158.75, 159.00, 160.00	Previous highs
	156.50	Friday's high
	153.40	Friday's low
	150.50, 147.50, 147.00	Previous lows

It is more than 50% above this year's output forecast of 458,000 bpd.

According to a top advocate of the peak oil theory, Matthew Simmons said world oil production may have already peaked, setting the stage for declining output that could lag demand. He said US government data showed that the world oil supply has declined through the first half of the year. Meanwhile, other analysts believe that peak production is still a few years out. They also stated that a decline in oil prices was likely to lead to less pressure for oil companies to invest in production.

OPEC's news agency reported that OPEC's basket of crudes increased by \$1.16/barrel on Thursday to \$56.12/barrel.

NYMEX Petroleum Options Most Active Strikes for October 27, 2006

Symbol	Month	Year	Call/Put	Strike	Exp Date	Settle	Volume	IV
GO	12	6	C	1.8	11/27/2006	0.0085	25	38.22
GO	12	6	P	1.3	11/27/2006	0.0025	25	35.99
LO	7	7	P	50	06/15/2007	0.68	6,900	29.67
LO	2	7	P	45	01/17/2007	0.03	2,950	32.05
LO	4	7	P	50	03/15/2007	0.28	2,850	28.66
LO	6	7	P	55	05/17/2007	1.26	2,350	28.57
LO	12	6	C	62	11/14/2006	1.02	2,272	28.89
LO	12	6	P	55	11/14/2006	0.14	2,081	31.46
LO	12	6	P	60	11/14/2006	1.19	1,729	28.81
LO	6	7	P	60	05/17/2007	2.37	1,650	26.98
LO	12	6	C	60.5	11/14/2006	1.67	1,265	28.83
LO	12	6	C	64	11/14/2006	0.47	1,253	28.93
LO	2	7	P	50	01/17/2007	0.15	1,202	30.32
LO	12	6	P	53	11/14/2006	0.05	1,182	32.95
LO	3	7	P	63	02/14/2007	2.76	1,175	25.60
LO	12	6	P	58	11/14/2006	0.53	1,117	29.09
LO	3	7	C	70	02/14/2007	1.59	1,109	25.26
LO	12	6	C	65	11/14/2006	0.3	1,060	28.84
LO	1	7	C	66.5	12/14/2006	0.97	1,030	26.54
LO	1	7	C	79	12/14/2006	0.03	1,025	28.58
LO	12	6	C	62.5	11/14/2006	0.85	890	28.88
LO	12	6	P	58.5	11/14/2006	0.65	875	28.78
LO	1	7	P	60	12/14/2006	1.32	830	26.97
LO	12	6	C	63	11/14/2006	0.69	824	28.60
LO	1	7	C	66	12/14/2006	1.1	823	26.57
LO	1	7	C	65	12/14/2006	1.39	822	26.50
LO	6	7	P	45	05/17/2007	0.26	801	31.88
LO	4	7	C	65	03/15/2007	4.13	751	25.59
OB	12	6	P	1.51	11/27/2006	0.038	100	36.34
OH	12	6	C	1.85	11/27/2006	0.0245	80	31.65
OH	12	6	C	1.9	11/27/2006	0.0155	80	32.15
OH	12	6	C	1.74	11/27/2006	0.0606	44	30.53
OH	3	7	C	1.99	02/23/2007	0.0592	26	29.44
OH	3	7	C	1.93	02/23/2007	0.0746	22	28.84
OH	12	6	C	1.95	11/27/2006	0.0096	20	32.61
OH	2	7	C	2.06	01/26/2007	0.0344	20	30.68
OH	2	7	C	2.21	01/26/2007	0.0174	20	32.18
OH	12	6	P	1.95	11/27/2006	0.2204	20	33.30

Russian prosecutors said they may launch a criminal case over allegations of environmental violations at the Royal Dutch Shell-led Sakhalin-2 project.

Market Commentary

The oil market opened relatively unchanged after it traded higher in overnight trading in light of the news that coalition naval forces were deployed in support of Saudi and Bahraini forces to counter a possible threat against Saudi Arabia's Ras Tanura terminal. The market however held some resistance at 60.50 and posted a low of 59.90 despite the supportive news. The crude market bounced off its low and traded to 60.75 before it settled in a sideways trading pattern with light volume trading. It later found further buying ahead of the close and rallied to a high of 61.00. It settled up 39 cents at 60.75. Volume in the crude market was light with 160,000 lots booked on the day. The heating oil market opened 15 points lower at 169.85 and quickly posted a low of 168.10 as it continued to retrace its previous gains.

The market however bounced off its low and traded to a high of 170.50 before it settled in a sideways trading range ahead of the close. It settled down 56 points at 169.44. The gasoline market also settled down 38 points at 155.99 after the market once again posted an inside trading day. It traded to a high of 157.70 and sold off to a low of 155.40 ahead of the close. The RBOB contract posted a low of 153.40 early in the session before it bounced off that level and rallied to a high of 156.50 on the close. It settled up 1.41 cents to 155.63. Volumes in the product markets remained light with over

32,000 lots booked in the heating oil market, over 4,000 lots booked in the gasoline market and over 17,000 lots booked in the RBOB market.

The latest Commitment of Traders report showed that non-commercials in the crude market increased their net short position by 2,329 contracts to a net short position of 5,025 contracts in the week ending October 24 as the market continued to sell off. The combined futures and options report showed that non-commercials increased their net long position by 1,394 contracts to 41,322 contracts. Meanwhile, non-commercials in the heating oil market increased their net short position by 4,215 contracts to 8,449 contracts while non-commercials in the gasoline market cut their net short position by 2,264 contracts to 1,760 contracts on the week.

The crude market on Monday will be headline driven following the reports that naval forces were deployed to counter a possible threat against Saudi Arabia's Ras Tanura terminal. The market is also seen remaining supported by the news that Iran has started enriching uranium in a second network of centrifuges while the permanent members of the UN Security Council and Germany work on a draft resolution that would impose sanctions against Iran. The market is seen finding support at 60.10 followed by 59.90 and 59.40. More distant support is seen at 58.55 and 58.15. Meanwhile resistance is seen at 61.00, 61.70 and 61.90. More distant resistance is seen at 62.75.