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ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR DECEMBER 9, 2004

Ahead of Friday's OPEC meeting, OPEC members said the ministerial meeting would focus on cutting back oversupply to support falling oil prices. An OPEC delegate said OPEC's ministerial monitoring committee will recommend to Friday's meeting that OPEC comply with existing quotas. Kuwait's Oil Minister Sheikh Ahmad al-Fahd al-Sabah said OPEC will start cutting its overproduction starting in February. He said OPEC members were committed to fully comply with the current production ceiling. Earlier, he said OPEC should cut oil production to its official output ceiling at Friday's meeting and consider cutting the actual quota. He said OPEC is currently overproducing between 1 and 1.5 million bpd over its current ceiling of 27 million bpd. He added that OPEC should cut its output by 500,000 bpd for

Market Watch

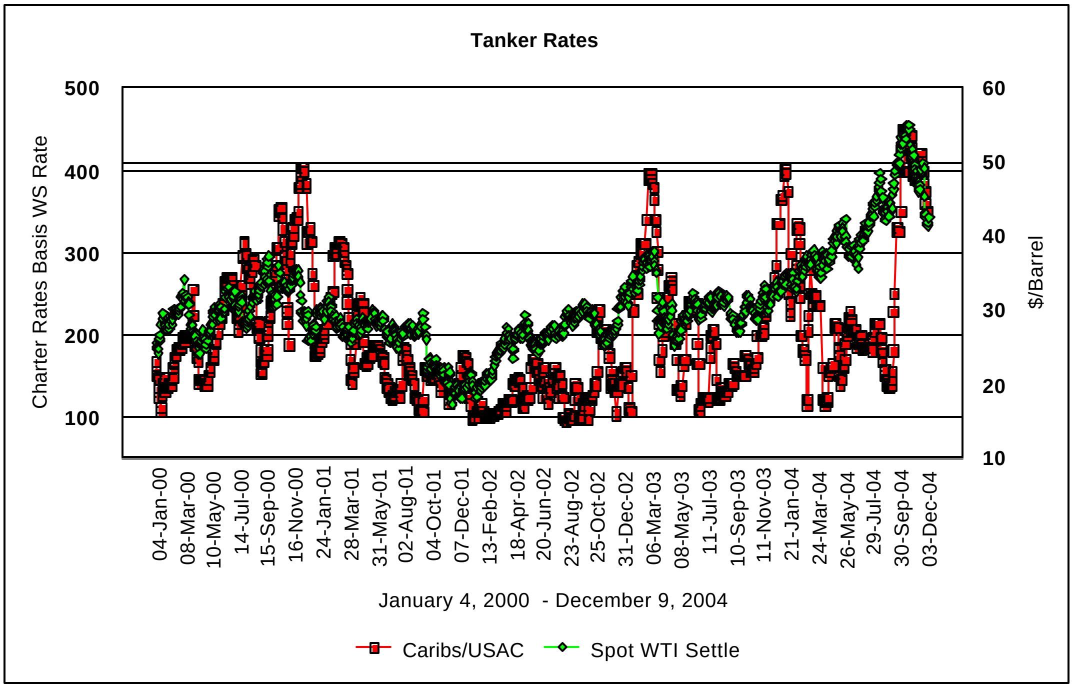
OPEC ministers are scheduled to meet at 9 GMT on Friday with the full plenary session starting at 1200 GMT.

Private weather forecasters stated that arctic air is expected to sweep into the eastern US next week. They stated that temperatures in the Midwest and Northeast would fall next week, putting an end to a streak of abnormally mild weather.

Russia's Yukos has received a claim for a further 3.2 billion rubles or $114.2 million in back taxes, this time against its Tomskneft subsidiary. Yukos is already facing more than $26 billion in back tax bills to be paid partly by a forced sale of Yuganskneftegaz on December 19.

Venezuela's government will resume saving part of its oil revenue next year. However a government official said it must first restructure the economic stabilization fund. The government will seek to make changes to the law concerning the fund, so enough money is saved without disrupting investment plans. The fund currently holds $709 million, down from $7 billion at its peak.

The Niger Delta region has seen an increase in violence as Nigerians scramble for a share of oil wealth. In villages across the region, frustration at the persistence of poverty is boiling over, leading to clashes, calls for revolution and more than 1,000 deaths a year. While surging oil prices have increased government accounts and business profits in Nigeria, the increased oil prices have offered few benefits to people in the region. Meanwhile due to the increasing violence in the region, Shell's consultants said the company may have to move all of its operations offshore by 2009. The consultants' report also concluded that Shell was in part responsible for the violence in the Niger Delta. Shell officials however dispute the conclusion, saying they remain welcome in the region and intend to stay. Meanwhile, a militant leader in the delta, Moujahid Dokubo-Asari, who called for the region's secession as the only way to gain control of the oil wealth, interrupted oil flows for several days before he reached an agreement with the government. He however warned that while negotiations continue he could once again shut down the oil flow.



the second quarter during an extraordinary meeting in February. Meanwhile, Venezuela's Energy Minister Rafael Ramirez said OPEC should cut back oversupply of about 1 million bpd to conform to its output ceiling and defend oil prices when it meets on Friday. OPEC's President Purnomo Yusgiantoro however stated that he was content with the current output level, saying there was not much overproduction and that he expected world oil demand to remain strong through the first quarter of the year.

Separately, a senior Gulf delegate said current OPEC production is 1-1.5 million bpd too high for the first quarter of next year. He said OPEC will have to consider cutting its formal ceiling by the second quarter of 2005 and added that Friday's meeting was unlikely to change its current quota limits. Another senior OPEC source said that there was increasing support for quota compliance among members and added that it would be difficult to cut below the ceiling at this time. Iran's Oil Minister Bijan Zanganeh said that he did not expect a consensus among oil minister to change OPEC's output ceiling during Friday's meeting. He reiterated that OPEC should instead comply with its 27 million bpd quota. Algeria's Energy Minister Chakib Khelil also stated that OPEC should eliminate 2 million bpd of oversupply by adhering to the group's output ceiling. He said he did not believe the group needed to change its 27 million bpd quota. However he added that OPEC may need to meet again before its next scheduled meeting in March to discuss weaker second quarter demand. Qatari Oil Minister Abdullah al-Attiyah said he was concerned by falling oil prices and by the expected fall in demand in the second quarter of next year. He said OPEC should not delay in acting to steady falling oil prices. The UAE's Oil Minister Mohammed bin Dhaen al-Hamili said that OPEC had to cut its overproduction to offset the fall in oil prices but added that it was premature to cut its output ceiling. Nigeria's Presidential Adviser on Petroleum Edmund Daukoru said OPEC's production above its official quotas has succeeded in bringing high oil prices lower.

Saudi Arabia's Oil Minister Ali al-Naimi said no output decision had been made and the outcome on Friday remained open. He said OPEC is concerned about a potential buildup in crude stocks in the first quarter of 2005 but added that it was too soon for OPEC to cut its quota. He also stated that Saudi Arabia's oil production capacity will always surpass demand.

The head of the EIA, Guy Caruso, said OPEC should not cut its output to allow world petroleum inventories to rebuild. He said OPEC needs to keep output at high levels throughout 2005 and added that it would have to increase its production next year by about 500,000 bpd to enable stocks to reach the middle of their normal range.

OPEC's news agency reported that OPEC's basket of crudes fell by $0.43/barrel on Wednesday to $33.78/barrel compared with $34.21/barrel on Tuesday.

Refinery News

ExxonMobil is scheduled to shut a 28,000 bpd hydrocracker unit at its 530,000 bpd Baytown, Texas refinery for 5-6 weeks of planned maintenance starting in early January. It is also scheduled to shut a 31,000 bpd alkylation unit in the first week of February for 5-6 weeks of maintenance. It will also shut catcrackers at its Baton Rouge, La refinery starting in mid-January.

Meanwhile, Valero is also scheduled to shut its 91,000 bpd catcracker at its St. Charles, La refinery for 4-5 weeks of maintenance.

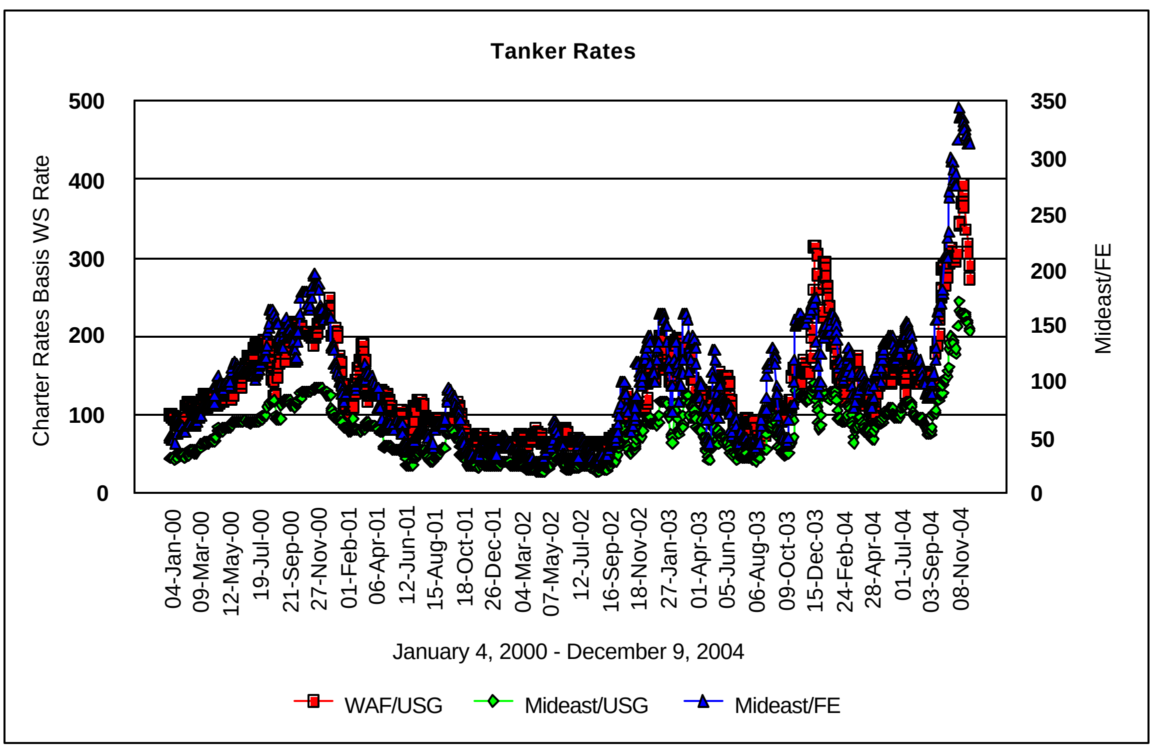
Premcor is scheduled to shut its 80,000 bpd catcracker, 18,000 bpd alkylation unit at its Port Arthur, Texas refinery in late February for four weeks of maintenance.

Indian Oil Corp shut its 120,000 bpd Panipat refinery for scheduled maintenance. The refinery is scheduled to restart in the last week of December. Separately, Indian Oil Corp said it would take at least four months to repair a gasoline and LPG-making unit at its 274,000 bpd refinery in Gujarat.

Production News

The US MMS reported that US oil production in the Gulf of Mexico increased to 91.07% of its normal rate of 1.7 million bpd, from 90.85% on Monday. It said 151,777 bpd of oil remained shut in compared with 155,572 bpd on Monday. Meanwhile, 594.29 mmcf/d of natural gas production remained shut in as of Thursday, down from Monday's level of 599.25 mmcf/d.

Shell reported that it is slightly ahead of schedule in restoring production disrupted by Hurricane Ivan. Ram Powell, the largest of Shell's three fields affected by the storm, is approaching 80% of its pre-Ivan production. It produced 17,000 bpd of crude oil and 244 mmcf/d of natural gas. Cognac, which produces 6,000 bpd of oil and 210 mmcf/d of



natural gas returned to full capacity. Meanwhile, the Main Pass 252 field, which produces 1,800 bpd of oil and 94 mmcf/d of natural gas is on track to return to service by the end of March.

The Norwegian Petroleum Directorate said Norway's oil production in November fell to 2.78 million bpd on average from 2.8 million bpd in October.

North Sea Ekofisk crude loadings are expected to fall to about 548,000 bpd in January from 573,000 bpd in December.

According to an analyst, gasoline stocks in the Amsterdam-Rotterdam-Antwerp area storage tanks increased by 25,000 tons to 725,000 tons in the week ending December 9th. Gas oil stocks increased by 150,000 tons to 1.525 million tons, easing concerns over winter fuel supply. Naphtha stocks in the ARA area increased by 50,000 tons to 150,000 tons while fuel oil stocks increased by 100,000 tons to 500,000 tons and jet fuel stocks increased by 50,000 tons to 225,000 tons.

Nigeria's central bank reported that the country's oil production increased by 100,000 bpd in October to 2.4 million bpd from a revised level of 2.3 million bpd in September. Nigeria's exports increased to 1.95 million bpd from 1.85 million bpd in September.

Singapore's International Enterprise stated that Singapore's residual fuel stocks fell by 1.654 million barrels to 11.067 million barrels in the week ending December 8. Onshore stocks of middle distillates fell by 379,000 barrels to 6.693 million barrels in the same period while light distillate stocks fell by 89,000 barrels to 9.337 million barrels.

China's crude oil imports in January to November increased by 35.3% from a year earlier to 110.6 million tons.

Ecuador's central bank said the country's average oil production increased by 33.3% to 464,000 bpd between January and October from 348,000 bpd in the same period of 2003. Petroecuador said it averaged 135,984 bpd in the first 10 months, while private companies' oil production was 328,016 bpd.

Market Commentary

The oil market opened about 25 cents higher at 42.20 in light of the Kuwaiti Oil Minister's comments that OPEC should cut its overproduction during its meeting on Friday and look to cut its production ceiling by 500,000 bpd in the second quarter. The crude market traded to 42.50 before it rallied to its high of 43.20. The oil complex was mostly supported by the strength in the natural gas market following the

Technical Analysis				
		Levels	**Explanation**
CL		43.60, 44.60	Double top, Previous high
	Resistance	43.00, 43.20	Thursday's high
	42.53, up 59 cents		
	Support	42.05	Thursday's low
		41.25, 40.70	Previous low
HO		132.20, 135.00	Backfills gap (Dec 2), 50% retracement (149.90 to 120.15)
	Resistance	131.50	Thursday's high
	130.01, up 4.02 cents		
	Support	129.10, 127.00	Thursday's low
		123.50, 120.15	Previous low
HU		112.65, 115.70	Backfills gap (Dec 2), Previous high
	Resistance	112.30	Thursday's high
	111.13, up 2.38 cents		
	Support	110.00, 108.50	Thursday's low
		107.50, 106.50	Previous low

release of the EIA natural gas storage report showing a larger than expected draw in stocks of 88 bcf. However similar to the natural gas market, the oil markets erased their gains. The crude market traded to 42.30, where it held some support as it settled in a trading range for most of the session. The market later breached its low of 42.20 and traded to a low of 42.05 late in the session. It however bounced off that level and traded back towards the 42.50 level ahead of the close. It settled up 59 cents at 42.53. Volume was excellent in the crude with over 229,000 lots booked on the day. Meanwhile, the January heating oil contract settled sharply higher for the second consecutive session, at 130.01 up 4.02 cents. The market opened at its intraday low of 127.00 and never looked back as it quickly rallied to a high of 131.50 within the first hour of trading in follow through strength seen in the natural gas market. However similar to the natural gas market, the heating oil market erased some of its gains and traded to 128.60 before settling in a range from 128.60 to 130.80 during the remainder of the session. Unlike the crude and heating oil markets, the gasoline market opened slightly lower at its low of 108.50. The market quickly bounced off that level and rallied to its intraday high of 112.30, partially backfilling its previous gap. The market however erased some of its gains and traded in a range from 110.00 to 111.50 during most of the session. It settled up 2.38 cents at 111.13. Volumes were good in the products, with 57,000 lots booked in the heating oil market and 56,000 lots booked in the gasoline market.

The oil market on Friday will once again be driven by headlines as OPEC meets to decide on its output policy. There seems to be a consensus between OPEC members to cut their overproduction and comply with the 27 million bpd output quota. If there are no surprises and OPEC simply cuts its overproduction, the market may initially trade higher on the news before it finds resistance at its highs of 43.20 followed by 43.60. More distant resistance is seen at 44.60. Meanwhile support is seen at its low of 42.05 followed by 41.25 and 40.70.