ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR DECEMBER 13, 2006

OPEC appeared willing to pull back from more oil production cuts. OPEC's President Edmund Daukoru said OPEC may maintain its current production targets and postpone a decision on further output cuts. Also, the head of Libya's OPEC delegation, Shokri Ghanem said there was support for a rollover of OPEC's current cuts. Saudi Arabia's Oil Minister Ali al-Naimi said the oil market supply and demand situation has moved towards equilibrium following OPEC's decision to cut its output by 1.2 million bpd. He said OPEC's agreement to cut production has taken 50 million barrels of oversupply from the oil market. He added that a little more work was needed to stabilize the market further. He said OPEC was ready to take further action if necessary to stabilize oil markets. However he did not state whether he would support a further cut. Meanwhile, Iran's Oil Minister Kazem Vaziri-Hamaneh said Iran was uncomfortable with a price below $60/barrel for OPEC crude. He said OPEC did not like the prospect of its reference price falling below $60/barrel. Algeria's Energy and Mines Minister Chakib Khelil said Algeria would

Market Watch

The New York Times reported that Saudi Arabia notified the Bush administration that it may provide financial support to Iraqi Sunnis in a war against Iraqi Shi'ites if the US withdrew from Iraq. It stated that King Abdullah delivered the message to Vice President Dick Cheney during his visit to Riyadh. During the visit, King Abdullah expressed strong opposition to diplomatic talks between the US and Iran. The Saudi leader also pushed the US to encourage the resumption of peace talks between Israel and the Palestinians.

The World Bank reported that high world oil prices were likely to fall to $56/barrel in 2007 and fall further to just below $53/barrel in 2008 as supplies increase and demand growth eases. It said investments to expand production already in progress were likely to increase world output capacity by about 15 million bpd by 2010, implying a 3 million bpd annual increase, well above expected increases in demand of between 1.2 million and 2 million bpd annually.

ExxonMobil stated that world energy demand is likely to increase an average of 1.6% per year to reach about 325 million barrels of oil equivalent/day by 2030. Demand would be 60% higher from 2000 levels.

Iran called on the UN Security Council and the Organization of the Islamic Conference to combat Israeli threats. The statement by Iran's Foreign Ministry spokesman Mohammed Ali Hosseini was the first Iranian response to Israeli Prime Minister Ehud Olmert's indication that Israel has a nuclear weapon.

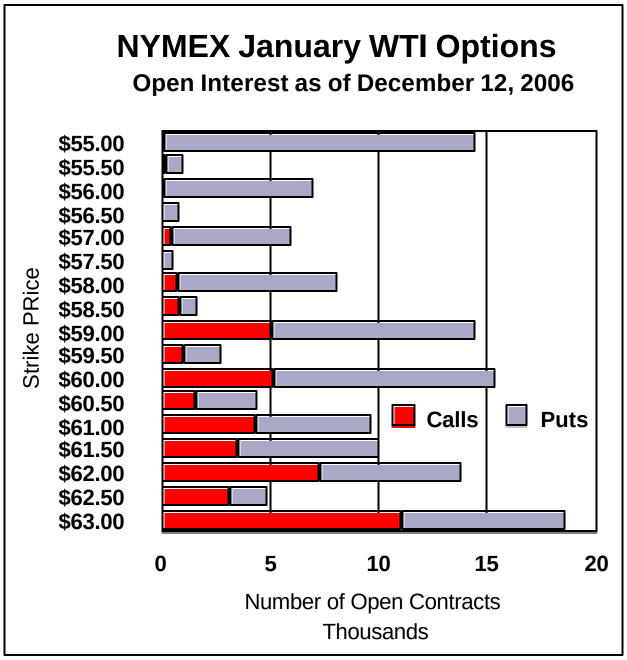
Russia is expected to start delivering fuel to Iran's nuclear reactor at Bushehr in March. The Bushehr power plant is expected to be ready for operation in September.

DOE Stocks
Crude – down 4.3 million barrels
Distillate – down 500,000 barrels
Gasoline – down 100,000 barrels
Refinery runs – down 1.55%, at 89.1%

support a further cut in output. He said OPEC needed to cut its output further to balance the oil market next year. Also Venezuela's Energy and Mines Minister Rafael Ramirez said that he would support any decision to cut production further by 500,000 bpd despite indications that some of his counterparts were stepping back from supporting a cut.

OPEC's research director, Hasan Qabazard said OPEC should be able to balance the market by fully complying with its output cut agreed to in October. He said compliance with the 1.2 million bpd cut was high at an estimated 80-85%, leaving a slack of 200,000-300,000 bpd. He said the members of the Ministerial Monitoring Committee were split on the need for a further production cut. However an OPEC delegate later stated that the committee was proposing a plan to cut oil production by 300,000 bpd immediately or 500,000 bpd starting February 1 in a bid to further stabilize the market.

Lloyd's Marine Intelligence Unit indicated that OPEC's seaborne crude exports fell by 2.6 million bpd or 10.4% to 22.1 million bpd in the week ending December 10.



The IEA's executive director, Claude Mandil stated that OPEC oil cuts already in place were tightening the market ahead of winter and may prevent a recovery in stocks. He said OPEC should not cut its production further as world demand nears its annual peak and supply from non-OPEC producers falls short of expectations. He said the timing of OPEC's discussion on production cuts was unfortunate as winter demand id difficult to ascertain. In its monthly report, the IEA maintained previous forecasts calling for world oil demand to increase by 1.1% in 2006 and by 1.7% in 2007 to 85.9 million bpd. It said world oil demand in the fourth quarter is expected to increase by 2.6% on the year. It stated that oil inventories in the OECD fell by 40 million barrels in October to 2.721 billion barrels. Days of forward demand cover equaled 54 days in October, down 1 day from its estimate for September. Meanwhile a lower estimate of supply from producers outside OPEC prompted the IEA to increase an estimate of demand for OPEC's crude in 2007 by 100,000 bpd to 28.4 million bpd. Non-OPEC production is expected to average 52.63 million bpd next year, 115,000 bpd less than expected due to weaker supply expectations from regions including Russia. The IEA reported that OPEC's production fell by 335,000 bpd in October to 29.4 million bpd due mostly to Iraq, Saudi Arabia Iran and Venezuela. Iraq's production fell below 2 million bpd to 1.92 million bpd as southern exports were disrupted by bad weather and northern exports remained halted due to sabotage. Saudi Arabia's oil production fell by 100,000 bpd to 9.05 million bpd while Iran's production also fell by 100,000 bpd to 3.75 million bpd and Venezuela's production fell to 2.51 million bpd.

Refinery News

The National Iranian Oil Co said Iran planned to start a $1.2 billion project to double the capacity of its 110,000 bpd Tabriz refinery in the second half of next year. The Tabriz expansion should allow the refinery to double gasoline production to 50,000 bpd. The Tabriz refinery is also expected to undergo a 20-30 day turnaround next year.

A senior Iranian oil official raised the possibility of rationing gasoline in Iran after March. Deputy Oil Minister Mohammed Reza Nematzadeh said Iran would start rationing gasoline from the next Iranian year because it would otherwise have to increase its gasoline imports. Iran produces about 4 million bpd of crude however it lacks refining capacity and has to import about 40% of its demand for 70 million liters/day of gasoline.

China's National Statistics Bureau stated that China's refiners processed 26.1 million tons or 6.35 million bpd, up 6.4% on the year.

The Petroleum Association of Japan reported that kerosene stocks fell for the sixth consecutive week to 4.84 million kiloliters or 30.5 million barrels, down 2.8% or 880,000 barrels on the week. It reported that crude stocks fell by 7.29 million barrels on the week to 107.93 million barrels while gasoline stocks increased by 70,000 barrels to 13.29 million barrels. Japanese refiners ran their facilities at an average of 86.7% of total capacity of 4.8 million bpd, up from 84.2% on the week.

Production News

The Shetland Island Council reported that Brent crude liftings increased to 374,572 tons in the week ending December 12, up from 304,521 tons in the previous week.

Danish Underground Consortium's oil production from the Danish part of the North Sea fell about 2% on the month to 303,800 bpd in November. Total oil production during January to November stood at 97.2 million barrels.

Kazakhstan's State Statistics Agency reported that Kazakhstan increased its oil and gas condensate production by 5.2% on the year in the January-November period to 58.935 million tons. Oil production increased by 6.7% to 49.372 million tons. Kazakhstan's crude oil exports increased by 3.6% to 45.6 million tons in the January-October period while its oil product exports fell by 4.4% to 2.931 million tons.

China increased its oil production by 3% to 15.1 million tons or 3.7 million bpd in November as PetroChina Co and CNOOC Ltd pumped more crude to meet demand.

OPEC's news agency reported that OPEC's basket of crudes fell further to $57.41/barrel on Tuesday from $57.74/barrel on Monday.

Technical levels

		Levels	Explanation
		62.00, 62.15, 63.65, 63.75	Previous highs
	Resistance	61.85	Wednesday's high
CL	61.37, up 35 cents		
	Support	60.80	Wednesday's low
		60.65, 60.35, 60.20, 59.55	Previous lows, 62% (58.00 and 63.75), Previous low
		175.50, 181.90	Backfills remaining gap, Previous high
	Resistance	174.00, 175.20	Wednesday's high
HO	173.20, up 96 points		
	Support	172.30, 171.60	Wednesday's low
		171.00, 169.15, 168.80	Previous lows
		167.00, 168.00	Previous highs
	Resistance	162.75, 163.25	Wednesday's high
RB	162.21, up 2.51 cents		
	Support	160.50, 160.00	Wednesday's low
		158.25, 158.00, 157.71, 155.25	Previous lows, 62%(149.50 and 171.00), Previous low

NYMEX Petroleum Options Most Active Strikes for December 13,2006								
Symbol	**Month**	**Year**	**Call/Put**	**Strike**	**Exp Date**	**Settle**	**Volume**	**IV**
LO	1	7	P	61.5	12/14/2006	0.56	4,746	38.38
LO	1	7	P	60	12/14/2006	0.09	3,620	39.87
LO	1	7	C	62	12/14/2006	0.24	3,500	38.22
LO	12	10	P	50	11/16/2010	3.19	2,900	23.74
LO	12	10	C	75	11/16/2010	5.73	2,900	20.49
LO	2	7	C	62	01/17/2007	2.1	2,637	26.48
LO	3	7	C	85	02/14/2007	0.02	2,159	29.26
LO	1	7	P	60.5	12/14/2006	0.18	2,154	39.21
LO	3	7	C	80	02/14/2007	0.06	2,152	27.94
LO	1	7	P	61	12/14/2006	0.33	2,138	38.60
LO	5	7	C	75	04/17/2007	0.9	2,135	26.63
LO	5	7	C	67.5	04/17/2007	2.55	2,100	26.10
LO	1	7	P	59	12/14/2006	0.02	2,098	42.30
LO	2	7	P	55	01/17/2007	0.22	2,050	29.48
LO	2	7	C	68	01/17/2007	0.37	2,046	26.53
LO	1	7	C	62.5	12/14/2006	0.12	1,891	38.02
LO	1	7	P	63	12/14/2006	1.68	1,749	37.30
LO	1	7	C	64	12/14/2006	0.01	1,531	39.38
LO	3	7	P	58	02/14/2007	0.94	1,462	27.72
LO	12	8	C	100	11/17/2008	0.97	1,300	21.40
LO	1	7	P	58	12/14/2006	0.01	1,228	51.14
LO	3	7	C	72	02/14/2007	0.42	1,097	26.77
LO	1	7	C	61	12/14/2006	0.7	1,068	38.61
LO	1	7	C	63	12/14/2006	0.06	1,033	39.05
LO	6	7	P	50	05/17/2007	0.53	1,000	31.18
LO	9	7	P	66.5	08/16/2007	5.58	825	26.33
LO	1	7	C	61.5	12/14/2006	0.43	819	38.38
LO	6	8	C	90	05/15/2008	1.35	800	22.15
LO	6	8	P	58	05/15/2008	3.36	800	26.01
LO	9	7	C	66.5	08/16/2007	5.23	800	26.28
LO	2	7	C	62.5	01/17/2007	1.86	737	26.43
LO	1	7	P	62	12/14/2006	0.87	734	38.22
LO	2	7	P	61	01/17/2007	1.48	713	26.60
LO	6	7	P	57	05/17/2007	1.6	700	28.74
OB	7	7	C	2	06/26/2007	0.1133	350	29.72
OB	7	7	C	2.5	06/26/2007	0.0384	100	35.53
OH	1	7	P	1.6	12/26/2006	0.0025	505	27.69
OH	1	7	C	1.9	12/26/2006	0.0025	450	30.76
OH	2	7	P	1.75	01/26/2007	0.0642	405	30.53
OH	3	7	P	1.65	02/23/2007	0.0331	405	29.07
OH	2	7	C	1.9	01/26/2007	0.0314	400	31.72
OH	3	7	C	2.05	02/23/2007	0.0232	379	30.76
OH	1	7	P	1.95	12/26/2006	0.2192	200	35.07
OH	2	7	P	1.86	01/26/2007	0.1309	200	31.53
OH	3	7	C	2.4	02/23/2007	0.0035	200	34.30
OH	3	7	C	1.84	02/23/2007	0.07	200	28.11
OH	3	7	P	1.4	02/23/2007	0.0026	200	30.45
OH	4	7	C	1.9	03/27/2007	0.0683	200	28.53

Market Commentary

The oil market opened down 17 cents at 60.85 and quickly rallied higher following the release of the weekly petroleum stock reports. The market rallied to a high of 61.85 in light of the large draw in crude stocks of over 4 million barrels reported by the DOE. The DOE also reported a draw of 7.5 million barrels in total petroleum stocks, which helped support the market. The market however failed to test its resistance at its previous high of 62.00 and settled in a sideways trading pattern. The market later sold off to a low of 60.80 late in the session. The market bounced off its low and settled up 35 cents at 61.37 as the market remained supported ahead of OPEC's meeting on Thursday. Volume in the crude market remained light with 170,000 lots booked on the day. Volume was better on Globex with over 246,000 lots booked during the open outcry session. The heating oil market traded to a low 171.60 early in the session before it quickly rallied to a high of 175.20 amid the unexpected draw reported in distillate stocks. The market however erased most of its gains late in the session and settled up 96 points at 173.20. Meanwhile, the RBOB market opened at a low of 160.00 and rallied to a high of 163.25 in light of the draw reported in gasoline stocks and the strength in the crude market. The RBOB market retraced some of its gains ahead of the close before it traded back towards its high. It settled up 2.51 cents at 162.21. Volumes in the product markets were better today with over 46,000 lots booked in the heating oil market and over 25,000 lots booked in the RBOB market.

The oil market will remain headline driven as OPEC members are scheduled to meet in Nigeria on Thursday to decide whether they should cut their production further or roll over their current output cut. Members of the Ministerial Monitoring Committee, which were divided on whether or not to recommend a further cut in production were expected to propose a plan to cut production by 300,000 bpd immediately or cut 500,000 bpd starting in February. If OPEC does decide to simply roll over its current cuts, the market is seen testing the 60.00 level. Initial support is seen at its low of 60.80 followed by 60.65, 60.35 and 60.20. More distant support is seen at 59.55. Meanwhile resistance is seen at 61.85 followed by 62.00 and 62.15. More distant resistance is seen at 63.65 followed by 63.75.

The January crude oil options expire tomorrow and given that it is also an OPEC meeting day it could make for a rather volatile trading session. It is interesting to note that Tuesday trading saw only the $63 calls in the expiring contract to post any significant gains in open interest, jumping by 1,374 lots. Today saw the January $61.50 and $60 Puts and the January $62 calls as the three most active strikes in the oil complex.