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ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR DECEMBER 16, 2008

OPEC Secretary General, Abdalla Salem El-Badri said OPEC had almost reached a consensus on whether to cut 2 million bpd. He also said non-OPEC producers should cut no less than 600,000 bpd of crude production in support of OPEC's output cuts. Earlier, OPEC President Chakib Khelil said OPEC should cut oil production by much more than 1 million bpd amid high inventories. He said it should be much more to stabilize the market, adding that the \$75/barrel price target set by Saudi Arabia's King Abdullah was a fair price.

An OPEC delegate said OPEC's Ministerial Monitoring Committee said the world oil market is oversupplied but it will not make a recommendation to

Market Watch

The Labor Department said the consumer price index on a seasonally adjusted basis fell by 1.7% in November, the largest decline since the government started compiling the figures in 1947 and well in excess of the expected 1.3% decline. The core CPI was unchanged last month following October's decline. It reported that energy prices fell by 17% in November compared with 8.6% in October.

The Commerce Department reported that new US housing starts and permits fell to record lows in November. Housing starts fell 18.9% to a seasonally adjusted annual rate of 625,000 units from 771,000 units in October. New building permits fell by 15.6% to 616,000 units from 730,000 units in October.

Saudi Arabia's oil export revenues could fall by 41% to \$172 billion in 2009 due to lower production and prices. Saudi Arabia's average daily production is expected to fall by 8.7% to 8.4 million bpd in 2009, down from an average 9.2 million bpd in 2008. The lower oil export revenues will cause Saudi Arabia's current account surplus to fall to 8.4% of 2009, down from 32.6% of GDP this year.

Indonesia plans to cut subsidized gasoline prices further in January, depending on developments in the crude price. On Sunday, Indonesia cut gasoline and diesel prices by 9% and 13%, respectively.

ExxonMobil Refining & Supply announced it will invest more than \$1 billion in three refineries to increase the supply of cleaner burning diesel by about 6 million gallons/day. It will construct new units and modify existing facilities at its Baton Rouge, Louisiana refinery, its Baytown, Texas refinery and its Antwerp, Belgium refinery.

China's Chamber of Commerce for Petroleum Industry applied to participate in the country's strategic oil reserve program to allow the expansion of reserves at current low oil prices. It said the plan, if approved, will utilize more than 200 million metric tons of storage capacity currently idle with private oil firms. China is close to completing its first phase of strategic oil reserves, which have been built up at four facilities with a combined capacity of about 100 million barrels.

Britain's energy regulator threatened to ban unfair pricing by suppliers, saying they were not moving fast enough to cut the bills of households unable to take advantage of the best price discounts available. Ofgem said it would launch a six week consultation in January on proposed changes to the licenses of the UK's six main energy suppliers to ensure differences in prices paid by customers on pre-payment meters and those paying by other methods. It said it wants firm commitments by February from the UK's six main energy suppliers that they will reduce tariffs in response to falling wholesale oil and gas prices.

December Calendar Averages**CL – \$44.93****HO –\$1.4974****RB – \$ 1.0152**

ministers at Wednesday's meeting.

Saudi Arabia's Oil Minister Ali al-Naimi confirmed the country had cut January supplies to its major customers in preparation for a further reduction at Wednesday's meeting. He said he expects

OPEC to cut its output by about 2 million bpd. He also said that producers outside OPEC could cut up to 600,000 bpd along with any cuts agreed by OPEC.

Venezuela's Minister of Energy and Petroleum Rafael Ramirez said OPEC should make a strong output cut of 1 million to 2 million bpd when it meets on Wednesday. He said he would support an OPEC cut of 2 million bpd and would support Russia joining OPEC. Meanwhile, Iran's Oil Minister Gholamhossein Nozari said market stability could be restored if OPEC decides to cut output by between 1.5 and 2 million bpd at its meeting on Wednesday. He said he would support an output cut of 2 million bpd. Iran's OPEC Governor Mohammad Ali Khatibi said oil stocks were rising because of oversupply and reiterated Iran's call for OPEC to cut production by 1.5 million to 2 million bpd from its output to lower stocks. An Iranian OPEC delegate said OPEC should agree to cut its oil output by at least 2 million bpd when it meets Wednesday. He also stated that OPEC should plan to meet more often in 2009 to address falling oil prices. The head of Libya's OPEC delegation Shokri Ghanem also said OPEC needs to cut oil output significantly. He said an OPEC output cut of 2 million bpd would be a good number. Separately, Angola's Oil Minister Botelho de Vasconcelos said oil producers are aiming for an oil price of \$70-\$75/barrel. He also said OPEC is likely to cut oil production by 1.5 to 2 million bpd. Nigeria's Minister of State for Oil Odein Ajumogobia said OPEC needs to cut its oil output more when it meets on Wednesday. Qatar's Oil Minister Abdullah bin Hamad Al Attiyah said OPEC is discussing a possible cut of 1.5 million to 2 million bpd. He also called on non-OPEC producers to cut their own production as well. Kuwait said OPEC would not agree on a reduction of less than 1.5 million bpd. An industry source said Kuwait has notified its customers of further supply cuts for January. Non-OPEC member, Oman is attending the OPEC meeting just to listen. Oman's Oil Minister said Mohammed Bin Hamad Al Rumhi said the country plans to increase its oil output by 10,000 bpd in 2009.

In its monthly oil market report, OPEC forecast world oil demand would contract in 2009, due to the large decline in demand from recession hit industrialized nations. It predicted world oil demand would average 85.7 million bpd in 2009, down 150,000 bpd or 0.2% on the year. It estimated that demand from OECD members would fall by an average of 1.3 million bpd in the first half of 2009 compared with the previous year as some economies fall deeper into recession. It reported that forward demand cover in the OECD stood at 56.3 days of cover or about 4 days over the five year average. Demand for its crude is expected to fall by an average of 1.4 million bpd next year. It also reported that onshore stocks were increased by 45 million barrels of crude oil currently being stored in oil tankers at sea. OPEC also reported that its production in November averaged 31.1 million bpd, down 740,000 bpd from the previous month.

A Russian official said Russia will likely discuss the possibility of entry into OPEC during meetings with OPEC members this week. The official said members of the Russian delegation, including Deputy Prime Minister Igor Sechin, will meet Algeria's Oil Minister Chakib Khelil as well as Saudi Arabian officials.

Brazil's Oil Workers Federation said about 25,000 oil workers at Petrobras started a 24 hour strike to protest an auction of oil and natural gas concession blocks. The union is also trying to secure court injunctions to halt the auction. Petrobras said that all units were functioning normally and that the company guaranteed fuel supplies would be unaffected.

According to a report by MasterCard Advisors LLC, US gasoline demand fell by 2.5% to 9.098 million bpd in the week ending December 12th. Demand is at the lowest level since November 14th. Demand in the last four weeks averaged 9.25 million bpd, down 1.7% on the year. It also reported that on a nationwide average, gasoline retail prices fell for the 12th consecutive week by 11 cents or 6.2% to \$1.67/gallon on the week.

Refinery News

BP Plc shut an ultracracker unit at its 467,000 bpd Texas City, Texas refinery on Monday for planned work. The shutdown was expected to last about 48 hours. BP has no estimate on how long repairs will last on a 60,000 bpd ultracracker at its Texas City, Texas refinery.

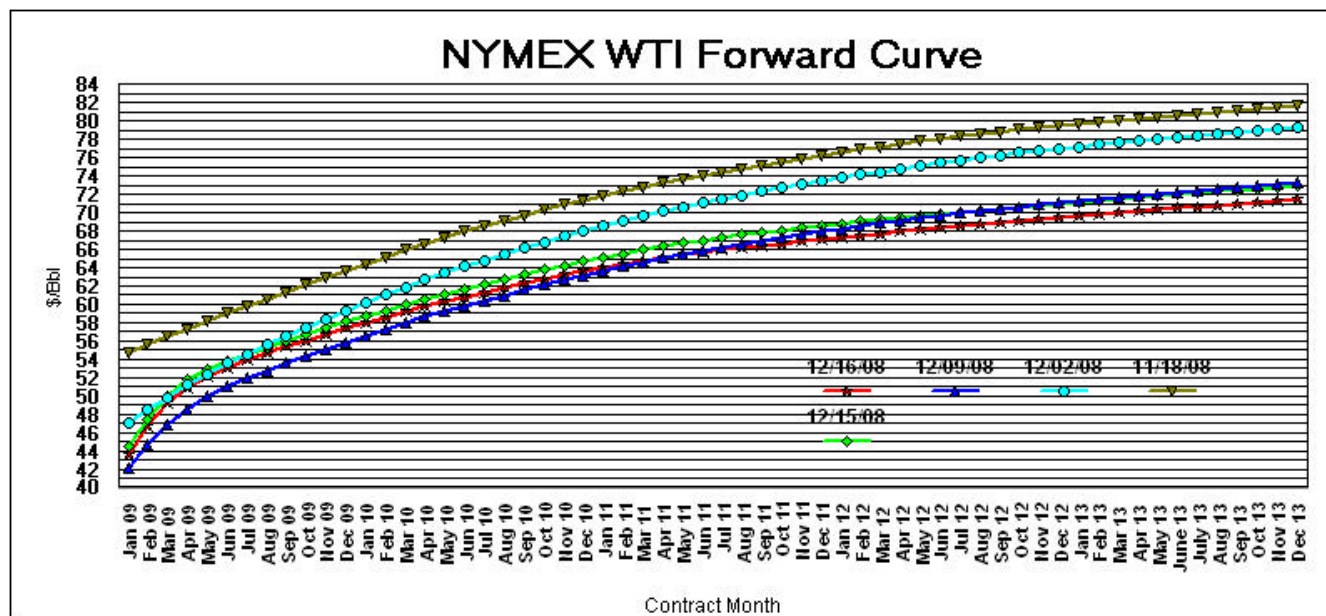
Valero Energy Corp said a gas oil hydrotreater was shut after a steam header failed on Monday morning at its 135,000 bpd Los Angeles refinery in Wilmington, California. Meanwhile, Valero's 100,000 bpd fluid catalytic cracking unit at its 250,000 bpd St. Charles refinery in Norco, Louisiana was shut on Sunday for unplanned repairs. Also, according to a report filed with the Texas Commission on Environmental Quality, Valero had to perform some unplanned maintenance Monday at its 142,000 bpd Corpus Christi, Texas refinery. Separately, Valero stated that it reduced gasoline production at 10 US refineries. It shut several fluid catalytic cracking units and reduced rates at other units. It is operating its fluid catalytic cracking units at an average of 70% and will continue to operate the units at reduced rates until gasoline margins improve.

According to a report filed with the Texas Commission on Environmental Quality, a sulfur recovery unit incinerator at Alon USA's 67,000 bpd Big Spring, Texas refinery encountered a problem Monday afternoon.

Tesoro Corp will shut its 120,000 bpd Anacortes, Washington refinery for 45 days of work starting in January. It will shut the plant to conduct maintenance on the crude unit and other process units at the refinery. Tesoro Corp expects the margin environment for refiners in 2009 to be equally challenging or even more difficult than it was in 2008.

ExxonMobil Corp plans to shut its fluid catalytic cracking unit No. 3 at its 503,000 bpd Baton Rouge, Louisiana refinery for a four week overhaul from early February into early March.

Royal Dutch Shell is considering delaying the restart of a fluid catalytic cracking unit at its Pernis



refinery until the end of January due to economic circumstances. The unit was scheduled to restart at the end of last week.

Japan's Showa Shell Sekiyu is aiming to increase its oil export capacity to make up for declining demand in Japan. It is aiming to double its export capacity to about 5 million kiloliters/year or 86,000 bpd.

China's Sinopec has shut down a 70,000 bpd crude unit at its 110,000 bpd Anqing refinery for one month of regular maintenance.

China's apparent oil demand fell last month for the first time in nearly three years as the country succumbed to the world economic crisis. According to Reuters, China's demand contracted by about 3.5% on the year in November. China's refiners cut back operations last month to 2.3% below a year ago, the largest decline since mid-2003.

China's fuel suppliers are rushing to cut pump prices to increase sales before an upcoming official reduction and a fuel tax increase erode their profits. The government is expected to cut retail oil prices while charging refiners much more in consumption tax to offset most of the fall.

Production News

The MMS reported that crude oil and natural gas production shut in the Gulf of Mexico following Hurricanes Gustav and Ike continued to come back to the market in the past two weeks ending December 16th. It reported that 10,049 bpd of shut in production returned to the market, still leaving 183,861 bpd of oil production shut in. It also reported that 83 mmcf/d of natural gas production resumed, still leaving 1.461 bcf/d of natural gas production shut in.

A shipping source said Iraq's Kirkuk oil exports through its pipeline to Turkey is pumping at over 400,000 bpd following a brief shutdown earlier this month. The flow rate through the line was about 18,000 bpd or about 432,000 bpd.

The provisional February loading program for Angolan crude oil exports lists 54 standard 950,000 barrel cargoes or 1.83 million bpd. The provisional February loading program for Angolan crude oil exports includes six cargoes of Girassol crude and seven cargoes of Kissanje grade. It also includes five cargoes of Cabinda, seven cargoes of Dalia, six cargoes of Hungo, three cargoes of Mondo, seven cargoes of Nemba, two of Palanca, five cargoes of Plutonio, three cargoes of Saxi and one cargo of Xikomba.

Russia's Deputy Prime Minister Igor Sechin said Russia's oil production fell in November by 1.5 million tons. He also said Russia may cut its output further in the future if the oil market remains uncertain.

Russia will cut its oil exports from its port of Primorsk by at least three cargoes in January and increase shipments from its port of Novorossiisk by one. According to its export plan, the port of Primorsk will export volumes below 6.5 million tons, down from 6.8 million tons in December while the port of Novorossiisk will export 3.7 million tons, up from 3.6 million tons in December.

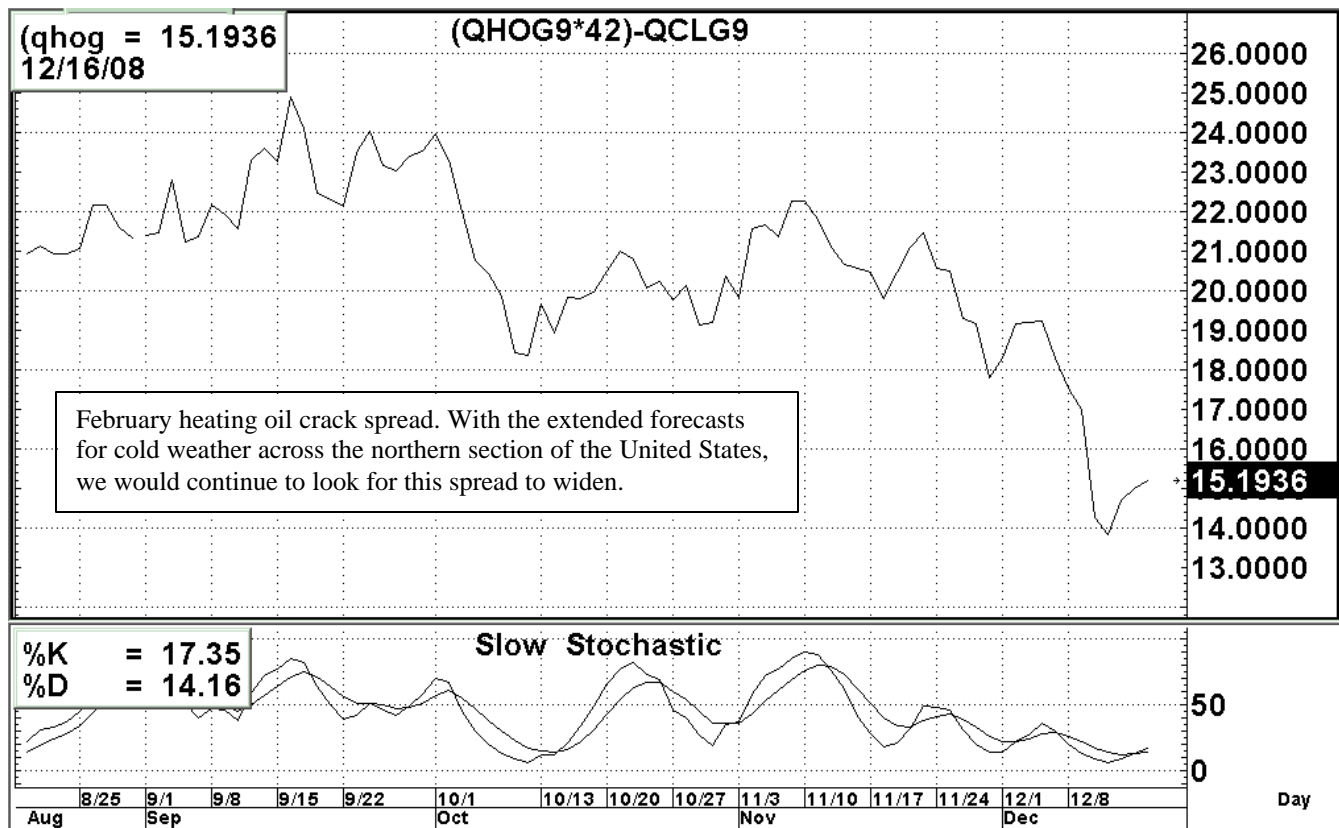
OPEC's news agency reported that OPEC's basket of crudes increased to \$42.53/barrel on Monday from \$41.32/barrel on Friday.

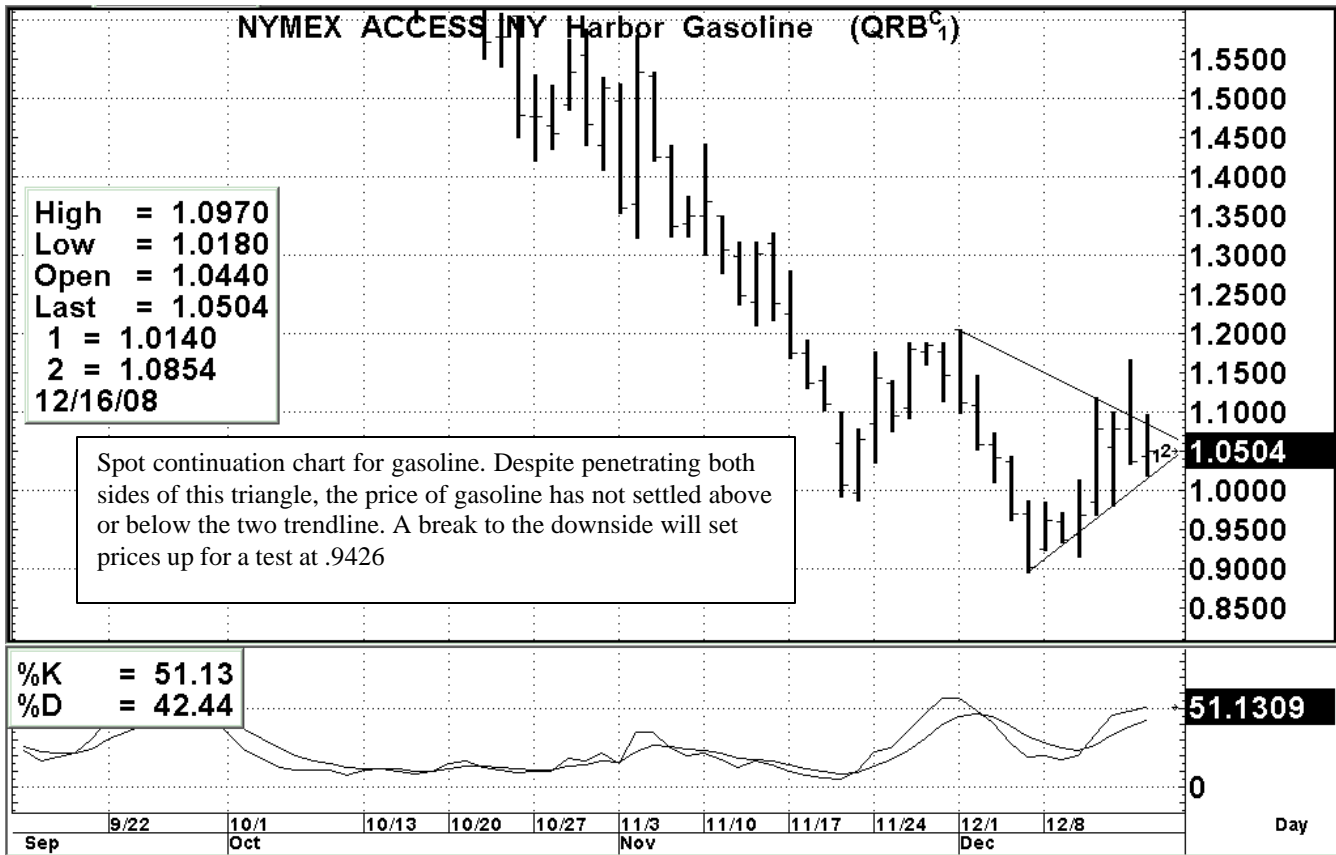
Market Commentary

The energy markets extended yesterday's losses amidst proposed output cuts of up 2 million barrels a day by OPEC. Shrinking demand continues to dominate center stage even as the dollar weakens and the Federal Reserve slashes the Fed Fund rate to close to zero. Option expiration in crude oil today

had little direction, as open interest carried no significant strike level. All eyes and ears will be on tomorrow's OPEC meeting and the release of the DOE/API numbers. Indications are calling for builds across the board with crude oil expected to increase by 1 million barrels, gasoline by 1 million barrels and distillates by 900,000 barrels. Key to all of this will be the demand numbers. Any bearish hue should cause prices to retreat with a test at the \$40.00 level. Should the demand factor improve, we would look for a test up at \$50.00. The shape of the forward curve has not changed, still reflecting an oversupplied market under waning demand. Based on a spot continuation chart, gasoline has been bouncing off of an ascending trend line. Should tomorrow's numbers come out on the bearish side of things, the January contract will set for a test at .9426. Expectations for cold weather across the northern part of the United States should help bolster the price of heating oil. For this reason we continue to look favorable on the February heating oil crack spread. Our expectations for this crack spread remains at \$19.24.

Open interest: Crude oil (JAN.09 107,149 -11,679 FEB.09 234,944 +8,742 MAR.09 106,273 +4,935 APR.09 52,348 +1,033 Totals: 1,167,259 +2,556 Heating oil (HO) JAN.09 31,837 -990 FEB.09 44,276 +1,448 MAR.09 29,499 -253 Totals: 224,134 + 538 NEW YORK HARBOR RBOB GASOLINE (RB) JAN.09 45,534 -4,716 FEB.09 60,881 +3,480 MAR.09 25,058 -20 Totals: 201,541 + 235.





Crude Support	Crude Resistance
43.30, 40.45, 38.20, 36.75	47.50, 50.07, 52.75, 53.75, 57.23, 60.01, 62.79, 65.56, 67.00, 72.53, 74.30,
Heat Support`	Heat resistance
1.3450, 1.3005, 1.1895	167.15, 171.85, 176.70, 2.2796, 2.3720
Gasoline support	Gasoline resistance
7760, .6840	115.75, 120.50, 121.90, 136.14

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