THE ANGUS ENERGY REPORT

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Opening Calls:		HEATING OIL (DEC)	GASOLINE-RBOB (DEC)	NATURAL GAS (DEC)	CRUDE OIL (DEC)
Crude -------	HIGH	1.6715	1.4935	7.610	58.80
.50 lower	LOW	1.6340	1.4425	7.060	57.05
Products ------	**SETTLE**	**1.6670**	**1.4888**	**7.534**	**58.73**
Heat-275 lower	CHANGE	*+.0070*	*+.0088*	*+.118*	*+.37*
Gasoline 150 lower					
Natural Gas ---	14 DAY RSI	37	39	43	40
.075 higher	5 DAY MA	1.7166	1.5400	7.834	59.92
	9 DAY MA	1.7228	1.5387	7.901	59.73
	14 DAY MA	1.7357	1.5371	7.801	59.94

NYH Barge (est.)		NYMEX #2 Oil		NYMEX #2 Oil	Jan '07 futures
10/25/06	**1.6990**	10/25/06	**1.7390**	10/25/06	**1.8239**
10/26/06	1.6613	10/26/06	1.7000	10/26/06	1.7905
10/27/06	1.6607	10/27/06	1.6944	10/27/06	1.7905
10/30/06	**1.5715**	10/30/06	1.6015	10/30/06	**1.7165**
10/31/06	1.5719	10/31/06	**1.5869**	10/31/06	1.7255

-D.O.E. stats…. **Crude oil stocks** rose 1.91 mmbls. **Distillate stocks** fell 2.723 mmbls. **Gasoline stocks** fell 2.799 mmbls. **Operating capacity** rose 2.7% to 88.9%. Following the release of the inventory data, traders are continuing to see things through "bearish-colored glasses". Despite estimations of possible sizable builds in crude oil – thanks to the reopening of some receipt points – crude oil showed a build on the lower end of estimations. On the products side of things, the draws were more than anticipated, and that might have been worse had refinery activity not jumped almost 3%. After factoring in all of those things, traders still seem to want to drive prices lower. As I write this, heating oil is a full 3.4 cents lower, but a turnaround later in the session would not come as a shock. This market continues to be one that trades without conventional logic, with the news stories continuing to act as a means to rationalize what the markets seem to have already decided to do!!

-After a late-session show of strength on Friday, on word of threats against the Ras Tanura refinery in Saudi Arabia, prices sold off – and then collapsed – on Monday, as "the event" never came to fruition. Crude oil was unable to "print" new lows – and actually bounced off of the sell-off, but heating oil continued to set new year-to-date lows. Yesterday's expiration of the November futures contracts for heating oil and gasoline, also may have contributed to the excessive volatility over the past few days.

-Gasoline futures, despite being "out of season" had one of their wildest days in recent memory. From low to high, the expiring contract had a range of 38 cents per gallon!! It usually takes a hurricane (and more) to create those kinds of swings in prices. Maybe the realization of NO hurricanes can have as much of an impact as actually having hurricanes. As the Merc transitions to the RBOB futures contract as the item that is traded, we have switched our pricing coverage (see above) to the RBOB contract, as well.

-Too far, too fast? The most recent sell-off has finally taken next winter's prices down to levels that seem palatable (and almost 40 cents cheaper than they were trading at this past summer). Not that we are making any recommendations – we leave the speculation to others – but we have fielded some pricing and trading requests to start to ease into positions for next winter. As you know by now, we are big fans of ratable buying. The end of the buying period should be around the time that your program offer is made. However, when to start (and what percentage of volume should be done each month) will vary based upon a number of factors – and need to be discussed. Interestingly, even those who made their offers at the peak time of the year (late July/ early August) were ahead of the game by ratable buying, as the March-July average was more than 10 cents per gallon LOWER than the price at the end of July. What would have been "smarter"? While some will argue that waiting

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till September (in hindsight – and only THIS YEAR) would have been better, it is hard to believe that the proper way to protect your business would be to make an offer in June, July or August, and then to buy in September. Speculation can be profitable, but can also be very costly (we all know the examples). Proper hedging, if not "speculatively profitable", will be predictable. ***If you want to speculate, you won't be predictable. If you want to be predictable, you need to give up speculating.*** It shouldn't be that hard to understand.

-Start to enjoy the margins. Many (too many, if you ask me – not that anyone did!!) companies that offered caps have been trending lower with the recent price declines, without regard to the expenses (option premiums, etc.) that were incurred in order to make the cap offers. Without a doubt, anything that you show as a price to cap customers will blow away the competitors who offers fixed-prices. However, while in years past you were able to beat the variable priced (rack-plus) guys, that was because you were in a high-price environment, since you were charging the full cap price. This year is different, and should represent a SIGNIFICANT opportunity. Costs should be well below the "max" level that you should have used to set your cap. Even though some customers will complain that they can get it cheaper elsewhere, you (and your staff) need to know that you are charging customers 30, 50, or even 70 cents per gallon less than their cap level. And that is in addition to charging them less than "average retail" for the past 5 or 6 years. I'm probably preaching to the choir about customers wanting to have their cake, and eat it too, but declining prices (as we have now) are EXACTLY why you offer a cap. It is a way to both lower prices to customers, and to increase your margins. If you give ALL of the benefits away, what will you do if prices rise? Think this issue through, and make sure that your staff is up to speed on this. If you need some discussion on specifics, please call us.

-North Korea, apparently under some pressure from China announced that it plans to rejoin the 6-party negotiations over their nuclear plans. Japan, while welcoming (as did all parties) the "return" of Korea to the table, the economic sanctions will stay in place. Call me crazy, but hard to trust the North Koreans. Too much ink has been spilled over the back and forth with the Iranians, so we'll save comment until something more concrete happens.

-At least one member of the Miami Heat still seems to remember how to play the game.

The chart below is of the January 2008 futures contract.

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