THE ANGUS ENERGY REPORT

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April 12, 2007

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Post-report Calls:		HEATING OIL (MAY)	GASOLINE-RBOB (MAY)	NATURAL GAS (MAY)	CRUDE OIL (MAY)
Crude -------	HIGH	1.8880	2.1700	8.010	62.56
	LOW	1.8559	2.1274	7.757	61.53
Products ------	**SETTLE**	**1.8747**	**2.1587**	**7.855**	**62.01**
	CHANGE	***+.0186***	***+.0357***	***-.014***	***+.12***
Natural Gas ---	14 DAY RSI	64	72	61	47
	5 DAY MA	1.8544	2.1221	7.678	62.81
	9 DAY MA	1.8587	2.0892	7.648	64.06
	14 DAY MA	1.8252	2.0518	7.596	63.60

NYH Barge (est.)		NYMEX #2 Oil		NYMEX #2 Oil	Jan '08 futures
04/04/07	1.8600	04/04/07	1.8644	04/04/07	2.0454
04/05/07	1.8585	04/05/07	1.8609	04/05/07	2.0489
04/09/07	1.8157	04/09/07	1.8157	04/09/07	2.0112
04/10/07	1.8576	04/10/07	1.8561	04/10/07	2.0446
04/11/07	1.8757	04/11/07	1.8747	04/11/07	2.0547

-D.O.E. stats…. **Crude oil stocks** rose .68 mmbls. **Distillate stocks** rose .17 mmbls. **Gasoline stocks** fell 5.48 mmbls. **Operating capacity** rose 1.3% to 88.4%. Gasoline futures led the markets higher on the surprising size of the inventory draw-down. Gasoline demand, despite cries of higher prices causing conservation, is unseasonably high, at almost 9 mbd.

-Crude oil not as strong as it could be? Despite the most recent of rallies in U.S. Crude oil prices, with futures prices for next winter now above $70.00/bbl., on a relative basis, prices are fairly low. Thanks to a variety of mostly maintenance-related issues, there is plenty of "light sweet" crude in the U.S. (inventories are below year-ago levels, but within acceptable "historical" levels). As a reference, Brent Crude Oil, which generally sells at a discount to WTI (the NYMEX contract for crude), is currently at a PREMIUM of almost $6.00/bbl. Contrast this with the 10-year average of a discount (Brent to WTI) of $1.62/bbl., the writing may be on the wall as far as price direction for crude oil over the next few months, as demand for crude oil increases with the arrival of the high-demand "driving season" for gasoline. At present, some of the crude normally destined for our shores, may end up going to the European market, as they are currently the "highest payer".

-But the secret must be out..... Despite the "relative" weakness in WTI crude oil, U.S. product prices are NOT showing weakness. Gasoline futures are at their highest levels since last summer's peaks (over $2.15/gallon), and have rebounded 80 cents per gallon since mid-January's lows. Heating oil futures are also at their highest prices since the summer, and are more than 50 cents per gallon over the lows in January. The much anticipated sell-off after the release of the 15 British sailors (a number of oil dealers actually delayed implementing some of their "ratable" hedging, in anticipation of a sharp correction lower when the inevitable release came), caused a sell-off in the oil markets on Monday – crude oil had it's biggest one-day decline in over a year – but even with the 4+ cent sell-off in product prices, the following days' rally (and the increase yesterday, after the inventory reports) has prices back at new highs.

-OPEC sticking to their guns? The International Energy Agency (IEA) is stating that OPEC production is at a 2-year low. While they are certainly not producing at their quotas, the notion of "acceptable cheating" still has shown a drop in their producing.

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-Back in line? After bucking the trend for much of the winter, natural gas prices have started to mimic the direction of the rest of the energy complex. Futures contracts for next winter (NYMEX) are now trading above the $10.00/dkt. level. As nat gas is not an "international" market, the concern is that (a) if we are finishing our second consecutive "warm" winter, and (b) if the economy has really slowed – decreasing large commercial/industrial demand, what will happen to gas prices in a cold winter?!? And, more to the point, what effect would spiking natural gas prices have on the distillates markets (considering the plethora of dual-fuel customers)?

- Programs for next winter... Even through prices have strengthened significantly since the middle of January (not coincidentally, with the sudden reversal in the weather), fixed-price programs are being seriously "re-thought" by many companies. As most of you know, we are big believers in the long-term benefits (to the company, and to the consumer) of price-caps, but given the choice of offering a fixed-price, or offering no program at all, we still believe that the fixed-price offering (if done properly – both on the hedging side, and on the clarity-of-program side) is the better choice. We spend a good deal of time emphasizing that hedging is meant to AVOID speculation, and that is the message that is supposedly conveyed to the customer, however, in the real world, WE spend too much time trying to guess WHERE oil prices are going, WHEN they are going there, HOW LONG they will be there for, etc. We also spend not nearly enough time understanding the realities of the utter unpredictability of HDD's. They might end up showing up in February, after it was balmy in December – or the exact opposite might occur.

-As far as the offering of caps goes – there is no doubt that premiums are expensive. Spending between 15 and 20 cents per gallon is A LOT to swallow. However, we have seen prices move up 50 cents in the last 3 months, after falling by almost 90 cents (Feb NYMEX contract) in the prior 5 months, after increasing by more than 50 cents from the prices during the prior winter, explains much of the high cost. If you knew that prices were likely to move by about a dollar per gallon – but had not idea when, or in which direction – how much would YOU sell an option for?

-What can be learned? If there has been a lesson from the extreme volatility over the past few years is that giving away oil at low-ball prices is utterly foolish. If you offer a real cheap price as a carrot to entice the new customer, all you have done is convinced the customer that loyalty (and likely service) is secondary to "the cheapest price". Many nod their heads at that concept, yet they continue to do the same thing, and the spiral continues. The oil dealers have, themselves, placed the customer in the drivers' seat, and ignored what makes each company the best at what they do. If you let customers re-negotiate fixed-price contracts, or opt-into a cap program midway through a heating season, are you actually making money on those customers? If the answer is, "well not this year, but the customer will be profitable in upcoming years..." what if the customer isn't there, because he/she has been taught to shop around each year?

- There is a legitimate fear that the "cost" of hedging is making things harder and harder. That is true. So is the cost of insurance, and equipment, and labor, and... Yet all of these costs NEED to be factored into the sales price to the customer. If oil prices moved from $1.00 per gallon to $2.50 per gallon, you wouldn't hesitate (for those NOT on a program) to raise your selling prices by $1.50 per gallon (not to mention factoring in for the increased cost of money, collections, etc.). However, if the cost of hedging increases by a nickel per gallon, there seems to be a terrible fear that THAT nickel will be the straw that breaks the camel's (customer's) back. No one is saying that every customer WANTS a fixed or capped price. But, those who want the pricing certainty do need to pay for the cost of that program. If they choose to not participate in a program, that is their decision. An extra nickel is a great deal to spend, if it is coming out of profit margins - that, I would certainly agree with. Gasoline retail prices are back to $3.00 per gallon, with Boone Pickens calling for costs to possibly increase to over $4.00 per gallon. What will your customer base look like if heating oil follows the same path, and your customers are simply paying "rack-plus"? How many of those customers will seek refuge with

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companies (competitors) who offer a program – perhaps with a higher "cost" than yours – that made sure that the price spike didn't effect the customer – or who lowered prices, while you couldn't/wouldn't?

-That time of year again. Although last years' predictions turned out to be incredibly far from accurate, the hurricane-predicting pundits are at it again. Forecasters, thanks in part to predictions that the North Atlantic "sea surface temperatures" will be well above normal, are calling for a very active Atlantic hurricane season. The estimates include 9 hurricanes (normal is 5.9), 17 named storms (9.6), 85 named "storm days" (49.1), 5 intense (Category 3-4-5) hurricanes (2.3) and 11 intense "hurricane days" (5.0). So, although we are all somewhat skeptical about long-term hurricane forecasting, we all need to be aware of the impact on oil prices (and on trees, power lines and roofs) of the storms, if the predictions are correct.

-If Yankee fans don't like A-Rod now, it's never gonna happen!!

The chart below shows the NYMEX gasoline prices from last August to the present....

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