

THE ANGUS ENERGY REPORT

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| | HEATING OIL (DEC) | GASOLINE-RBOB (DEC) | NATURAL GAS (JAN) | CRUDE OIL (JAN) |
|-------------------------------------|----------------------|------------------------|----------------------|--------------------|
| Today's pricing | | | | |
| Crude - 1.10 higher | HIGH 1.7850 | 1.1401 | 6.863 | 54.66 |
| | LOW 1.6969 | 1.0748 | 6.347 | 50.52 |
| Products - .0350 higher | SETTLE 1.6988 | 1.0949 | 6.386 | 50.77 |
| | CHANGE -.0856 | -.0476 | -.441 | -3.73 |
| Natural Gas - .05 higher | 14 DAY RSI 34 | 33 | 41 | 33 |
| | 5 DAY MA 1.7237 | 1.0831 | 6.583 | 51.74 |
| | 9 DAY MA 1.7638 | 1.1410 | 6.567 | 53.96 |
| | 14 DAY MA 1.8261 | 1.2054 | 6.722 | 56.39 |

D.O.E. stats... Crude oil stocks rose 7.28 mmbbls. Distillate stocks fell .19 mmbbls. Gasoline stocks rose 1.84 mmbbls. Refinery runs rose 1.25% to 86.2% of capacity. The report – all by itself – should be viewed in a slightly bearish light, and it is taking prices down off of the highs of the day, but with daily swings in the 5 to 10 cent per gallon range, it is hard to really tell what IS moving oil prices. If demand for oil (from the industrial sector, not from residential heating accounts) is, indeed, a leading economic indicator, it's quite clear that we are deeply mired in a recession. The question is whether this will lead to a depression. The latest moves out of President-elect Obama's camp seem to indicate an acute awareness of the gravity of our economic situation, and the understanding that policy moves may have to be tempered by the realities of the situation.

-Will wonders never cease? Back in the Spring and into the early part of the Summer, the "spokespeople" for our industry – understandably concerned about oil prices that were spiraling upwards and out of control – spent a good deal of time pointing fingers at hedge funds, U.S. Treasury policy and price manipulation. All the while pleading for some regulatory help (which, by the way, never came – fortunately) to lower oil prices. After all, \$4.00 wholesale prices would be the death knell for the heating oil industry. All that was wanted was lower oil prices, and nothing but lower oil prices. At that time, we agreed that lower prices would be beneficial to all, but warned what it might take in order to GET lower oil prices – i.e. a collapsing economy. Well, as they say, "don't wish for things". Prices have fallen sharply, and now – get this – there are complaints that prices are too low!! Yes, we all understand that if a company offered a fixed-price, and the customer accepted the fixed-price, and the company (as they should have) hedged that fixed-price, then there are customers who might feel that they are paying prices that are well higher than their neighbors. That IS the fact and that should have been

| NYH Barge (est.) | NYMEX #2 Oil | NYMEX #2 Oil | Jan '10 futures |
|------------------------|-----------------|-----------------|--------------------|
| 11/19/08 | 1.7605 | 11/19/08 1.7597 | 11/19/08 2.0067 |
| 11/20/08 | 1.6784 | 11/20/08 1.6759 | 11/20/08 1.9215 |
| 11/21/08 | 1.6961 | 11/21/08 1.6996 | 11/21/08 1.9406 |
| 11/24/08 | 1.7845 | 11/24/08 1.7844 | 11/24/08 2.0291 |
| 11/25/08 | 1.6953 | 11/25/08 1.6988 | 11/25/08 1.9524 |

explained at the time that the fixed-price offer was made. No fixed-price customers would be complaining if retail heating oil prices were \$7.00 per gallon (although THAT might have caused a severe financing/banking problem for oil companies, in addition to the inability for many, many people to heat their homes, fill up their gas tanks, etc.). So, what is it that we are after? We want prices to go up only when we sell fixed prices, and down when we don't? We all want perfect kids, with perfect teeth, who go on to get full scholarships to Harvard and return home with beautiful families and 7-figure incomes. Unfortunately, life doesn't always work that way – actually, it rarely does. Oil prices will swing all over the place, and that is NOT going to stop. Blaming others because some customers are not happy, or because you made a bad decision in your hedging (or not hedging) is nothing but misplaced blame. Heating oil dealers should be smiling ear to ear right now. If you have customers on a cap or who "got lucky" (this year) and are buying at rack-plus, you are selling a necessary commodity, in an environment with falling prices, widening margins, and increasing (for those with budget plans) budget balances. Can you name another industry with that kind of "good news" in today's environment? (and your brother-in-law's next door neighbor's son who in an attorney specializing in foreclosures doesn't count!!).

-Yes, I'm off my soapbox.

- So, what's next? There is already a good deal of "nibbling" for next winters' program offerings. The good news is that even with the crazy swings in prices and the fact

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that next winter doesn't end for another 17+ months, premiums for hedging are not more expensive than the levels that they had gotten to this past summer. The bad news is that they are not that much cheaper. With prices for next winter in the \$2.00/gallon range, we must bear in mind where prices MIGHT go (at this point, if someone really believes in their ability to successfully and consistently predict long-term price movements, you are wasting your time reading my plebian writings). Although \$2.00/gallon looks awfully cheap – in light of the \$4.00/gallon prices of just a few months ago - let's not forget that the last time that the Dow Jones industrial average touched down towards 7500, in 2002 (and NOT during a recession), heating oil prices (in 2002) were as low as 50 cents per gallon (actually .52/gallon). On the one hand – much as we saw during the summer – I would love to see prices prod down towards those levels, I shudder to think about the state that the economy would have to be in to cause such a continued drop. Unfortunately, there are those out there that can “see” this happening. So, \$.50/gallon on the low side and \$4.00/gallon-plus on the high side...what do you do? What do customers want and what are they willing to pay for it? We have seen unprecedented moves in pricing and sentiment (and loyalty) – in addition to some unfortunate aggressive marketing by some oil companies who seem intent to make sure that good margins eventually disappear for all (but I digress...). This “volatility” doesn't seem to be going

anywhere, and you know what they say about those who do not learn from history....

- **On the bright side of things...** I have to say that after spending exactly \$100 to fill up my car with gasoline in the first week of it was a pleasure having the pump turn off when the tank was full this morning at a charge of \$41.00!! That gives me \$59 to buy one share of Goldman Sachs stock (oh, that was 2 days ago!!).

- **As the winter is hitting us,** and the industrial demand for diesel fuel and heating oil dropping (even without a commensurate drop in residential demand for heating oil), OPEC is again talking about pulling another million barrels per day off of the market. It is hard to know whether the news will have any impact, and that is primarily due to the fact that as prices drop, they simply need to move more barrels to keep their cash-flow “flowing”. If you think that your company might be suffering a bit from the price drop, try to be an unhedged producer (of any commodity) seeing your sales price dropping by 65% in a few months, without any drop in operating overhead. No one is breaking out the violins for OPEC and other producing nations, but it is something to take note of, as they will try to “defend” oil prices.

- **NY football teams @18-4.** What were the odds of that? Maybe as good as having heating oil swing by about \$2.50 per gallon over this past year!!

Happy Thanksgiving!



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