

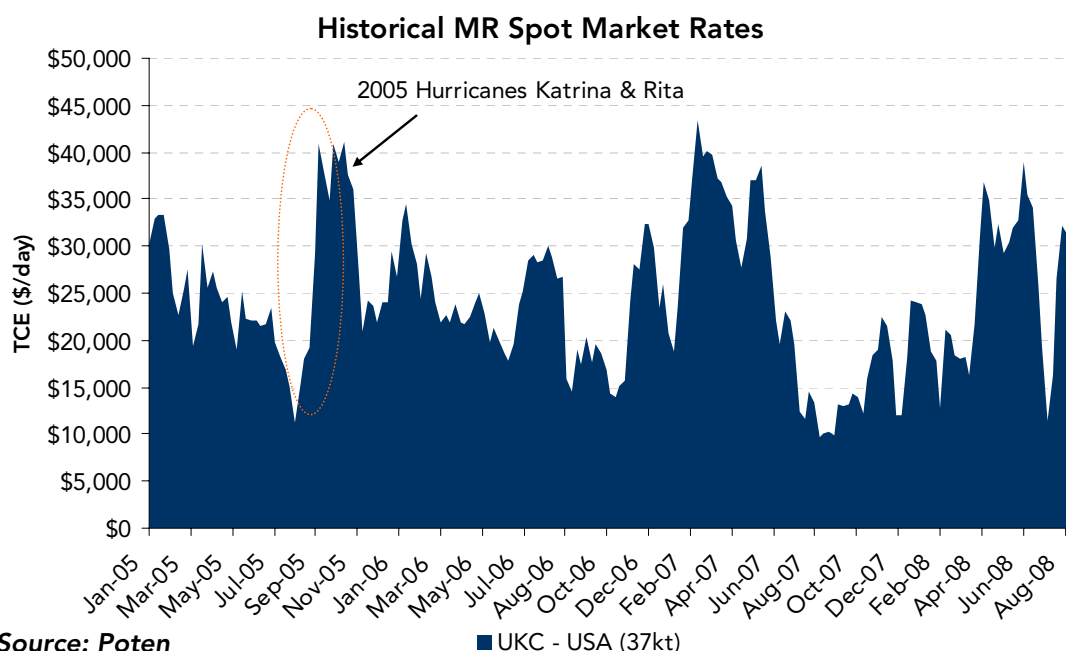


POTEN & PARTNERS

Rough Seas Ahead

September 12, 2008

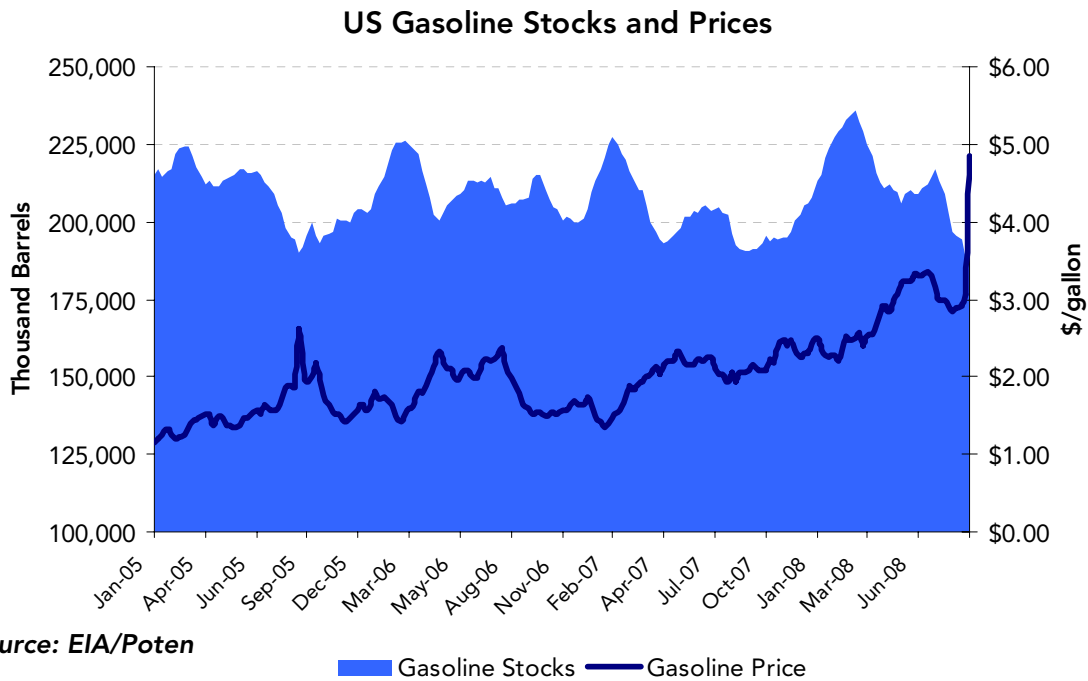
The hurricane season continues full-swing in the Atlantic Basin. Currently, cities along sections of the US Gulf coast are battenning down the hatches and evacuating the region for higher ground. Hurricanes are a force to be reckoned with for the oil and gas industry with their effects rippling through the shipping market, too. The potential exists for the current storm, Hurricane Ike, to have tremendous impact on an already shaken infrastructure still coping with the fallout from last week's Hurricane Gustav. While Hurricane Ike is expected to miss the oil platforms near Louisiana, it is certainly targeting the refineries. The chart below shows the historical trans-Atlantic Medium-Range (MR) spot market rates. With history as a guide, MR spot rates can be expected to significantly increase in the immediate term.



The US Gulf Coast is home to about half of the nation's total refining capacity, or approximately 8 million barrels per day. The Houston area specifically has over 2 million barrels per day of refining capacity. Many refineries in the region are shutting-in capacity as precautionary measures against the storm. With refineries off-line crude oil demand will be significantly reduced in the Gulf Coast (partly evidenced today by futures prices dipping below \$100 per barrel) and available refined product stocks will continue to dwindle.

Already On Thin Ice

Gasoline stocks are also at an all time low for the year at 187 million barrels, down over 10% from merely a month ago. The chart below shows the US gasoline stocks against the gallon price of gasoline.



Although gasoline prices have been on the decline recently, the confluence of current events is already contributing to a dramatic reversal in this trend. The storm's path has already caused gasoline to jump to almost \$5 per gallon in the Gulf Coast in anticipation of continued refinery shut-downs.

Barring any longer-term damage from the storm, the Gulf Coast refineries will be up and running soon, but replacement products will be required from foreign sources in the interim. Product tankers have begun to spring into action and freight rates are already on the ups.