THE
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News and views from
Capital City Petroleum

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When will Alternative Energy take hold?

(Excerpted from "Alternative energy slow to take hold," by John W. Schoen, MSNBC.com, July 28, 2005)

With oil and gasoline prices pushing to new highs and global demand projected to grow faster than production capacity, consumers are understandably puzzled by an ongoing energy enigma. Simply put: Why haven't alternative energy sources - from renewables like solar and wind power to alternative fossil fuels like coal - kicked in to take up the slack? And how long before these non-oil energy sources begin to make a difference?

Thirty years after the "oil shocks" of the 1970s signaled the end of cheap, reliable supplies of oil, the global economy is still dependent on petroleum. And despite billions of dollars in research grants and government subsidies, no alternative energy source has yet been developed to replace it.

Now, with oil prices at $60 a barrel and supplies tighter than they were 30 years ago, analysts, scientists and businesses working to develop alternatives say it will be decades - at least - before the global economy's reliance on oil can be broken.

"There's just no silver bullet here," said Ryan Wiser, a scientist at Lawrence Berkeley National Laboratory who specializes in the economics of renewable energy. "There is no singular technology - renewables, nuclear, what have you - that's going to replace fossil fuels in the near future. We're going to be talking about weaning ourselves from fossil fuels for many, many decades to come. There's no way around it."

Now, with a surge in oil demand coming from huge developing economies like China and India -- on top of continued growth in demand from the developed world - the world's oil producers are struggling to keep up. For the first time in its history, OPEC is producing at just about full capacity and can't keep enough oil flowing to curb the recent rise in prices.

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The New Paradigm of Oil Prices

(Excerpted from "Oil Prices: The New Reality," by Stanley Reed, businessweek.com, Feb. 6, 2006)

Everyone knows it: oil prices have gone through the roof. The price of benchmark crude rose 11% this year alone, to about $67 per barrel, before pulling back a little.

But many in the industry have always figured that prices would sooner or later simmer down. One indication: Even when short-term prices soared to alarming levels, the futures market had until recently valued oil much more modestly.

But the futures market is now sending a radically different, and disturbing, message. Until 2002, oil futures rarely moved above $20 per barrel, and by 2005 they still lagged current prices. But in the last year long-term futures prices have been soaring, reaching $62 per barrel for benchmark West Texas Intermediate crude for delivery seven years out. Paul Horsnell, an analyst at London-based investment bank Barclays Capital (BCS), says the markets are sending a message: "Whatever the long-term price is," he says, "it is not $20 per barrel."

Horsnell and other analysts believe a profound rethink about prices is occurring, with the market trying to figure what price will spur new production without killing demand. As a result, they say, the world has to prepare itself for a long stretch of oil at $50 to $60 or higher. There are plenty of reasons for the shift. New reserves from non-OPEC countries aren't materializing. Countries with big reserves such as Iraq and Iran are either unable or unwilling to develop them. Spare capacity in the world's oil fields is almost nonexistent, as demand continues to soar.

Razor-thin

Short-term and long-term prices would both ease if the world had more excess petroleum capacity. But right now spare capacity is a razor-thin 1.5 million to 2 million barrels a day, nearly all of it in Saudi Arabia. That's around 2.5% of world production, a very small margin for error. And it's even worse than it seems because refiners sneer at the heavy sulphurous crude oil that makes up much of the extra oil supply.

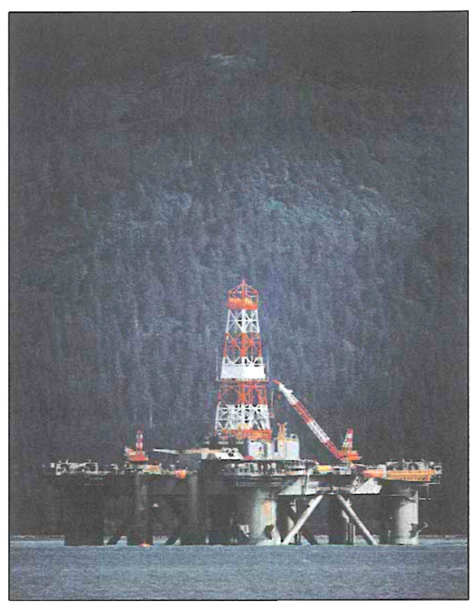
Some observers still think today's prices could come tumbling down. Maybe so, but there seems to be little chance of a quick escape from prices that would have been considered astronomical a few years ago.

Name Change Announcement

The Zenith Energy Funds have now become the Capital City Energy Funds

In order to more effectively brand our identity at Capital City, our energy funds have been renamed the Capital City Energy Funds. This is consistent with our new policy of utilizing multiple, independent oil & gas consultants and advisors for the funds. The funds also share the same ideals and values as our "Capital City" family of companies.

All previous and future energy funds will carry the name Capital City Energy Funds. This change will not effect your distributions or registration.



The Switch from Fossil Fuels to Alternative Energy Sources

(Continued from front page)

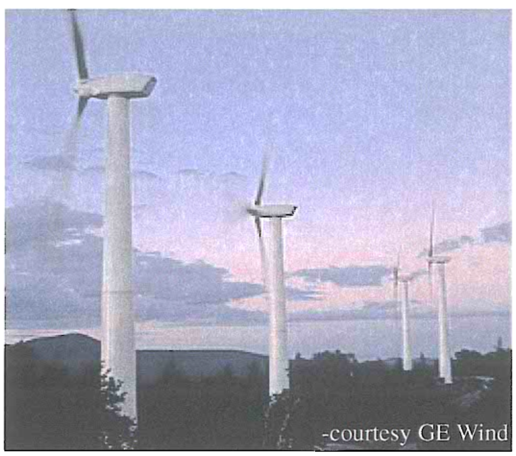
Tight supplies are only part of the story. The recent rise in oil prices has also been fueled by the realization that there are not enough viable alternatives to replace oil as an energy source. That means consumers will pay whatever price they have to.

"Frankly, even if we had the technology right now to supplant the current energy system with something new and sustainable that was cheap and wonderful it would still take us several decades to do it because its such a big enterprise," said Richard Smalley, a Nobel-prize winning physicist at Rice University in Houston. "But we don't even remotely have that right now. And even if we get really intent about this we'd be lucky to get those breakthroughs with the next 10 to 20 years."

Reliance on subsidies

To date, the progress of finding alternatives to replace oil has been frustratingly slow. When U.S. oil production peaked in the 1970s - and a newly-empowered OPEC drove home the point with twin embargoes - the race to develop alternative sources began in earnest. Along the way, alternative energy has advanced as technology and increased production have cut costs. But until recently, most alternative energy sources have not been economically competitive with oil-based alternatives. That has left many promising alternatives - from solar to wind to biofuels like ethanol and biodiesel - dependent on government subsidies to remain in the game. (Proponents of alternatives argue that oil production is already heavily subsidized.)

Alternative energy sources have failed to supplant oil for another very simple reason. About two-thirds of the oil consumed in the U.S. is used as a transportation fuel. So far, only biofuels - like ethanol made from corn - are available to displace petroleum as a vehicle fuel.



-courtesy GE Wind

Other renewable energy sources (like wind and solar) and non-oil fossil fuels (like natural gas or coal) and nuclear will also displace little oil because they are used almost exclusively to generate electricity. Less than 2 percent of the 20 million barrels a day of petroleum products consumed in the U.S. is used to supply power.

Meanwhile hydrogen power, the Holy Grail of alternative energy, is decades away from replacing oil - if it ever does. The promise of a hydrogen-fueled global economy is compelling: Hydrogen is the cleanest energy source imaginable. Whether run through a fuel cell used to generate electricity or burned to propel the Space Shuttle into orbit, hydrogen's only byproduct is water.

But as a fossil fuel substitute, hydrogen has some major drawbacks: To make it, you either have to strip it from a fossil fuel like natural gas with steam or generate electric power to strip it from water. That's why many alternate energy experts say it's better to think of hydrogen as a way of storing energy rather than as a new source of energy.

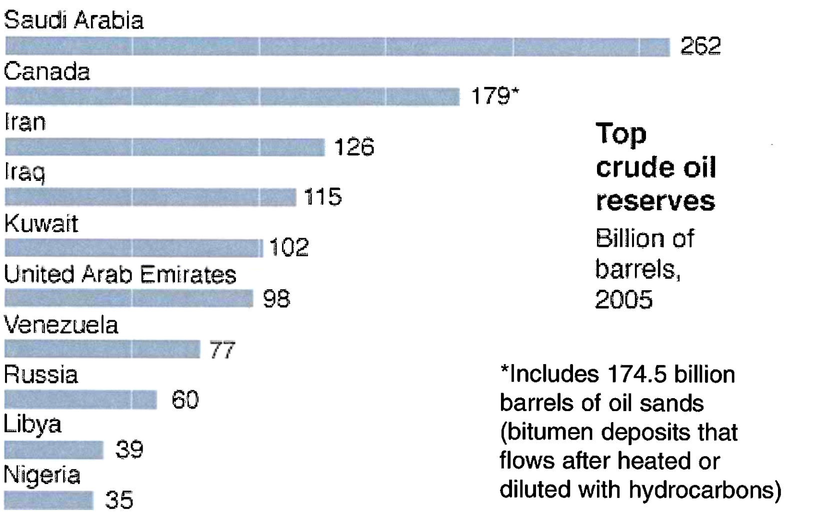
In the meantime, oil demand from developing countries is expected to grow even more rapidly than the developed world. The average American consumes about 25 barrels of oil a year. In China, it's more like 1.3 barrels. Yet China is already the world's second largest energy consumer. Energy demand there has doubled since 1980 and could triple between now and 2020, representing 25 percent of the increase in global demand.

But with world oil production capacity already stretched to the limit, global energy demand over the next decade will be very difficult to meet without shortages and even higher prices.

NYMEX Crude Oil	$61.41 per barrel	Unleaded Gasoline	$1.5556 per gallon
Natural Gas	$6.714 per MMBTU	Heating Oil	$1.7120 per gallon

* Prices as of Market Close on February 28, 2006

Oil reserves



Source: US Energy Information Administration

AP

Our offices will be closed on the following days due to market closures.

Friday, April 14, 2006
Good Friday

Monday, May 29, 2006
Memorial Day

Tuesday, July 4, 2006
Independence Day

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