



# West Coast Supply/Demand

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## An Updated Outlook

**West Coast Petroleum Markets 2000**

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# Today's Talk

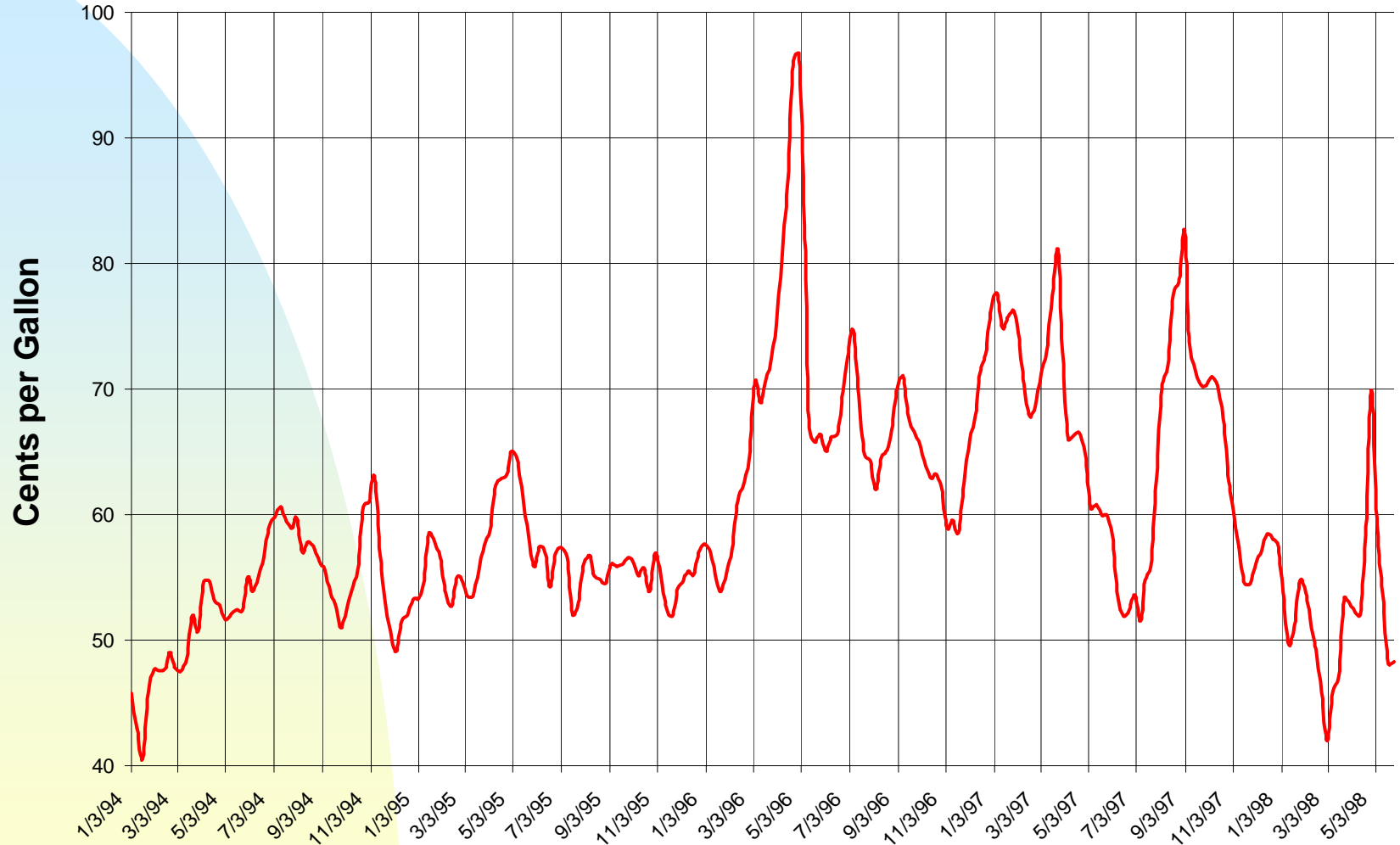
- Focus on refining/trading/distribution
  - ◆ The spot market
  - ◆ Gasoline supply/demand
- The evolving downstream landscape
  - ◆ The players
- The Outlook Ahead

# West Coast Spot Market

- What is the West Coast spot market?
  - ◆ An unregulated, over-the-counter market
  - ◆ 20 or so regular participants - refiners, trading companies, large jobbers, brokers
  - ◆ 3 markets - LA, SF Bay, Pacific Northwest
  - ◆ Quoted by information services, like OPIS
  - ◆ Driven by local supply & demand factors, as well as world wide factors

# Los Angeles Spot Unleaded Gasoline

Opis Data



# Gasoline Supply/Demand

- Seasonal balances are quite different
- The West Coast will continue to be long gasoline in the winter
- In the past, the market was balanced to short in the summer
- In the summer of '97, the market swung from long to short on refinery problems and a surge in demand
- How much capacity creep is left to meet demand?

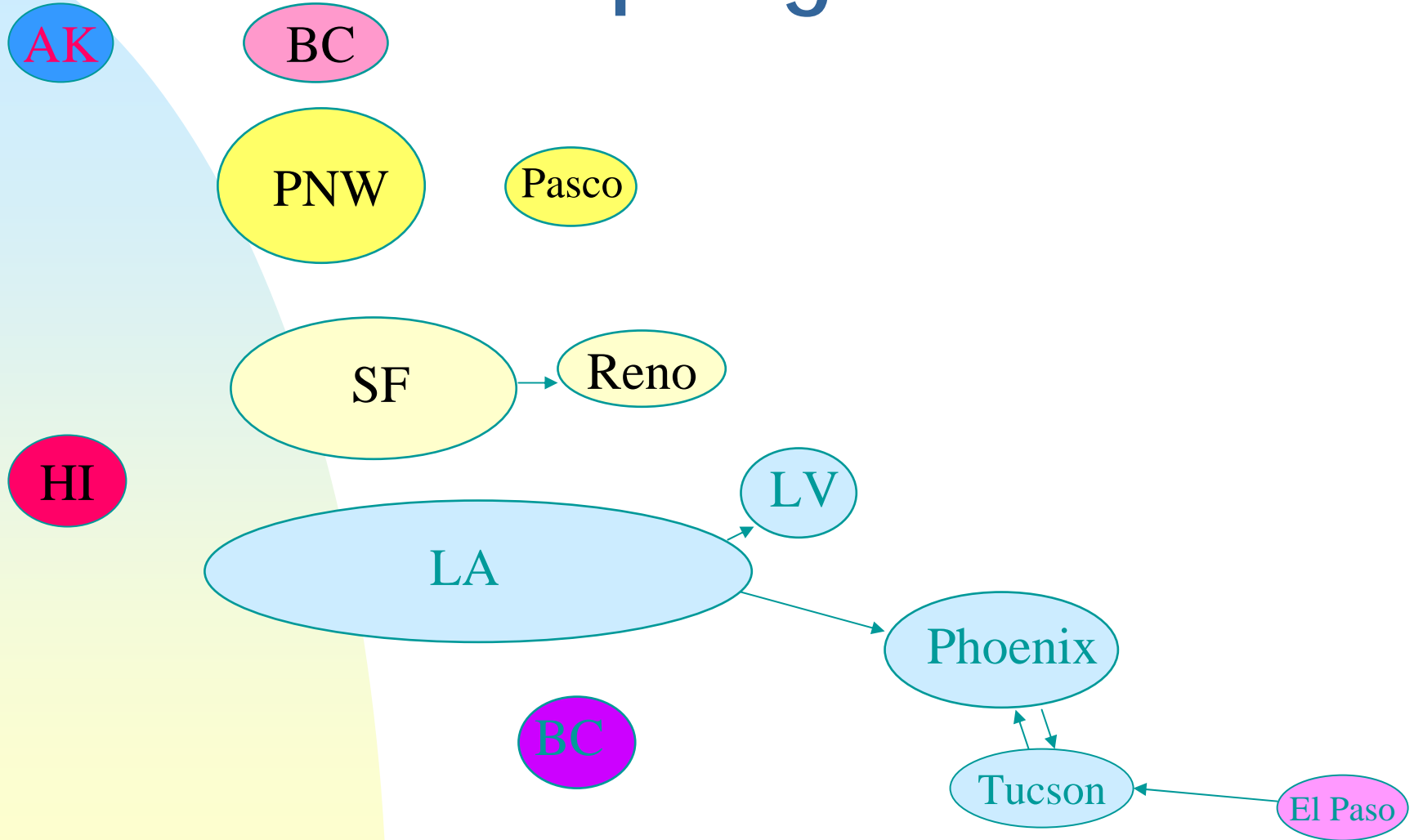
# Gasoline Supply/Demand Outlook

- Demand growth will be met with
  - ◆ capacity creep from existing WC refineries
  - ◆ increased supply into West Texas from the USGC will back Phoenix barrels into LA
- No fuels refineries will be built
- West Texas/New Mexico refineries will have a rough go
- At least one PNW refinery is suspect

# A Geography Lesson

- The U.S. West Coast is an archipelago
  - ◆ Los Angeles
  - ◆ San Francisco Bay
  - ◆ Pacific Northwest
- The island chain includes both Canada & Mexico
  - ◆ Baja California
  - ◆ British Columbia

# The West Coast Archipelago



# Barriers to Entry Exist

- Physical distance from alternate supply
  - ◆ Costs and time
- Tougher specifications reduce imports
  - ◆ Only a few plants outside of California made CARB
- UNOCAL's patents on reformulated gasoline
  - ◆ Tend to reduce supply as refiners blend around
  - ◆ Importers stay away

# The Evolving Downstream Landscape

- Refiners
- Traders
- Pipelines & Terminalling Companies

# The West Coast Refining Scene

- Gone:
  - ◆ Powerine
  - ◆ Pacific
  - ◆ Fletcher
  - ◆ Golden West
- Acquired:
  - ◆ Union 76
  - ◆ BP Ferndale
  - ◆ Shell Anacortes
  - ◆ BHP Hawaii
- Asphalt Only
  - ◆ Paramount
  - ◆ Edgington
  - ◆ Huntway
  - ◆ Petrosource

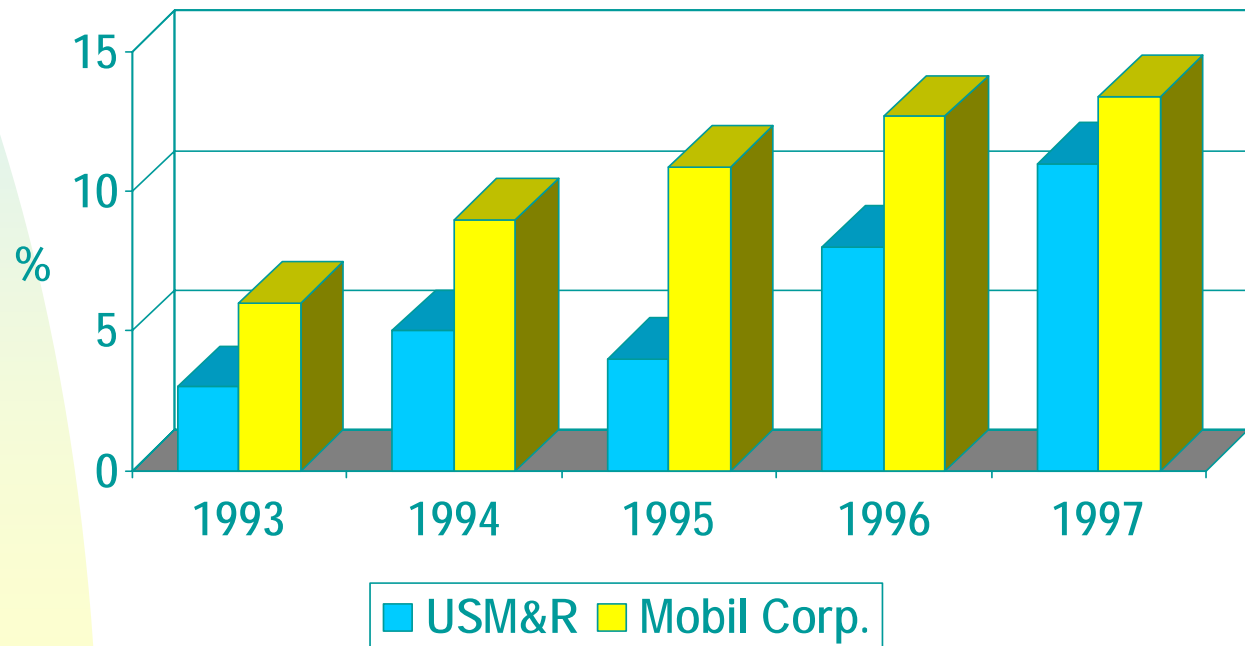
# Mergers & Acquisitions

- Shell/Texaco
- Tosco/BP/76/Circle K
- Ultramar Diamond Shamrock
- Tesoro/BHP/Shell
- Giant/Navajo
- Santa Fe Pacific Pipelines/Kinder Morgan

# M&R Returns Lag

## Mobil's Return on Capital Employed

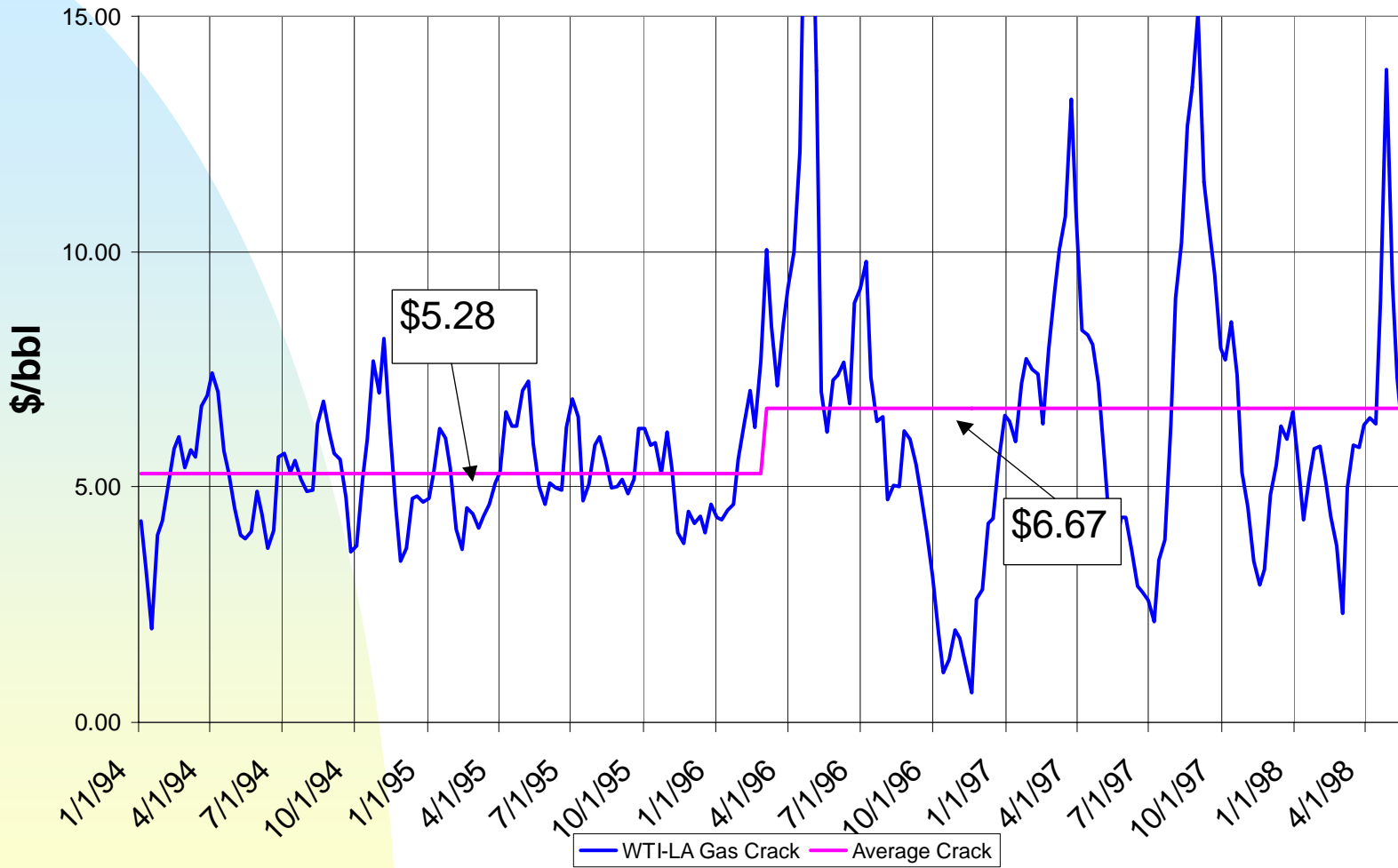
Annual Report



# LA Gas Crack

Spot Unlead - WTI

OPIS Data



# West Coast Trading Community

- Fewer trading companies
  - ◆ The majors have moved into trading
- Reduced volume, thin market
  - ◆ Too much exposure
- The volatility has been a killer

# Gone (or going) from the West Coast Scene

- Traders:

- ◆ TR Trading

- ◆ MG

- ◆ Mock

- ◆ Tesoro in California

- ◆ Wickland Trading

- ◆ J Aaron

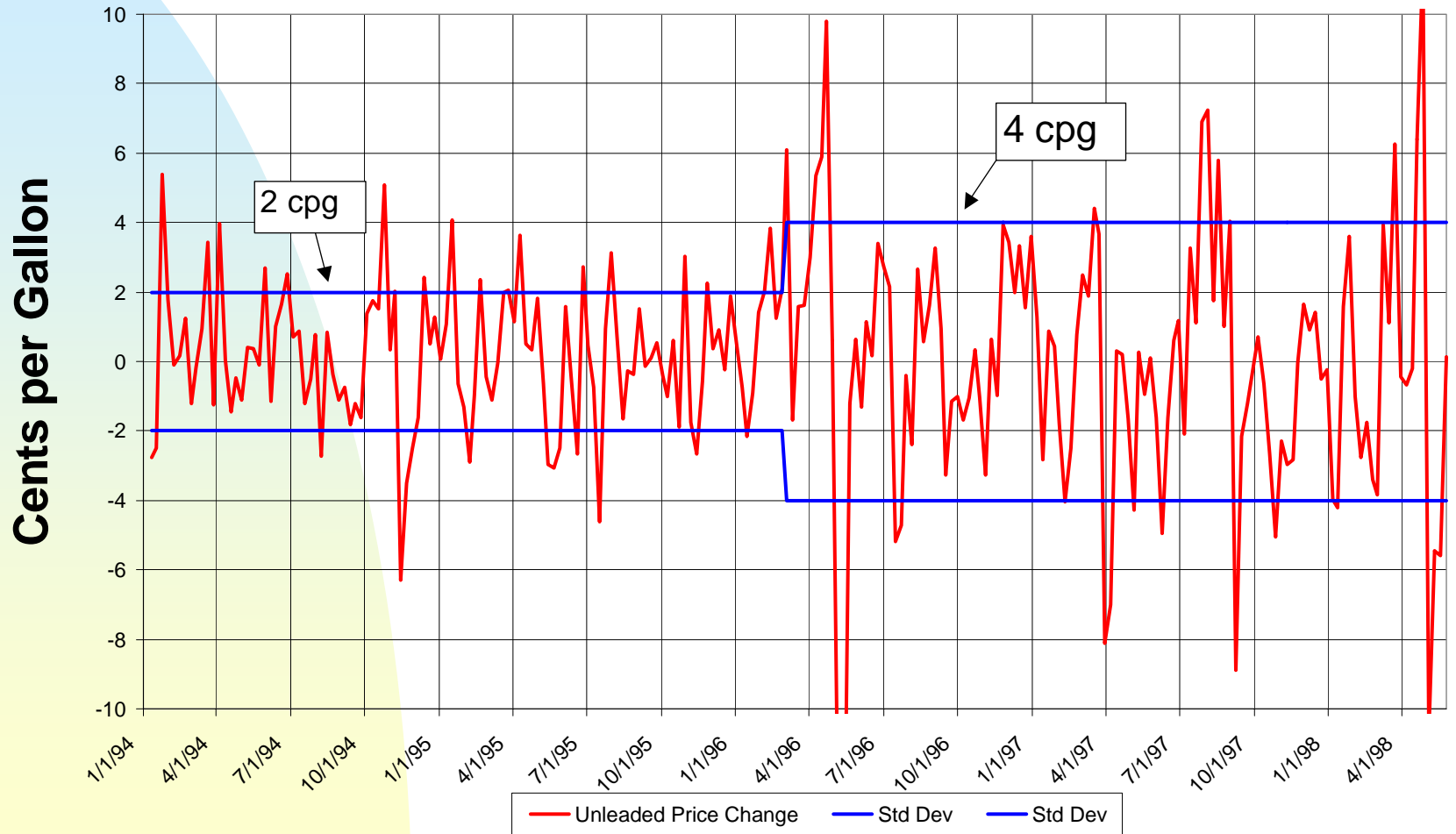
- ◆ Westport light products

- ◆ Coastal

# An Illustration of the Volatility

## Los Angeles Spot Unleaded Price Changes

### Opis Data



# Branding Activity

- Who does a new refiner sell to?
  - ◆ Thrifty/Arco
  - ◆ World/Exxon
  - ◆ Circle K/76/Tosco

# “New” Players

- Neste
- Koch Refining
- Tower Energy
- Northridge
- C&N
- Diamond Shamrock
- Longhorn Pipeline

# The Regulatory Environment

- MTBE Impacts in California
- Diesel Fuel and California
- Cleaner Burning Gasoline's Spread
- Auto industry's long range concerns
- Jet Fuel Specifications

# MTBE Ban - Why?

- MTBE found in Santa Monica's drinking water came from a leaking UST
- Partially burned gasoline from 2 stroke engines puts MTBE into reservoirs
- Legislature has commissioned a study of the issue of MTBE
- Report is due this summer

# MTBE Ban

- Why a big deal for the refiner?
  - ◆ Oxygenates provide the refiner substantial benefits in high octane and low pollutants
  - ◆ CARB Phase II gasoline is very tough to make without an oxygenate
  - ◆ Almost all the oxygenate used in California is imported
  - ◆ Oxygenates are required by the Clean Air Act for gasoline sold in smoggy areas
  - ◆ If MTBE is banned, what to replace it with?

# MTBE Issue Options

- Practice good housekeeping procedures
  - ◆ Keep MTBE out of drinking water
- Reduce the mandatory levels of MTBE
- Ban MTBE & replace with ethanol/ETBE/ TBA/DIPE/TAME or some other oxy
- Costs - 5 cpg is \$750 million per year

# Diesel Fuel Issues

- Scientific Review Panel declared diesel exhaust to be a toxic air contaminant
- Environmental groups have filed suit
- Push for diesel engine ban
- Look for additional diesel cleanliness
- The new Syntroleum process could be big

# The Spread of Cleaner Burning Fuels

- Arizona chose CARB Phase II gasoline for winter sales starting in 2000
  - ◆ Much of Maricopa County is classified as serious non attainment for air pollution
  - ◆ CARBOB will be pumped to Phoenix for blending with ethanol
  - ◆ Area A has been expanded
  - ◆ CARB Diesel may be next

# The Spread of Cleaner Burning Fuels

- Clark County (Las Vegas) is considering CARB gasoline
- Oregon is concerned about lowering gasoline toxicity
- RFG requirements East of the Rockies will consume refiners' capital spending

# Auto Industry's Concerns

- The Autos want more help from the Oils in meeting upcoming emissions regulations
- The technology for emissions reductions include precise control of air-to-fuel ratio and efficient catalytic converter systems
- The Autos are asking for 49-state gasoline to meet California's specifications for sulfur and driveability

# Jet Fuel

- TWA 800 explosion blamed on a short in the center fuel tank
- Some believe that high flash jet fuel will reduce the risk of a similar event
- JP5 would meet the requirement, but the cost to refiners will be substantial
  - ◆ only one refiner in LA makes JP5 today

# Distribution Issues

- Longhorn Pipeline to El Paso and Arizona
  - ◆ Williams/Amoco/Exxon using crude oil lines
  - ◆ Gives USGC players access to WC markets
  - ◆ Pumping by December 1?
- Terminal capacity in Los Angeles
  - ◆ ATS, Shell, GATX, PDI + competing
- A pipeline to Salt Lake City?

# The Outlook Ahead

- Continued volatility in the spot market
- Continued spread of tougher fuel quality regulations
- Continued “nameplate” changes on refineries