

BAKER & O'BRIEN
I N C O R P O R A T E D

Contact: Benjamin F. Schrader
832-358-1453
ben.schrader@bakero'Brien.com

CAN U.S. REFINERS MAINTAIN STRONG 2ND QUARTER PERFORMANCE?
Baker & O'Brien's Second Quarter 2010 PRISM™ Reports Continued Margin Improvement
Houston, August 9, 2010

Baker & O'Brien, Inc.'s second quarter 2010 (10Q2) release to PRISM¹ subscribers indicates that refinery cash margins have increased, on average, by almost \$3 per barrel versus the previous quarter, with the strongest improvement noted in the West Coast (PADD 5). Countering the general improvement trend was the East Coast (PADD 1), where margins declined slightly because of a widening light-heavy crude oil discount and general market conditions. Overall U.S. first half 2010 (10H1) cash margins were much stronger than the last half of 2009.

PRISM Cash Margins vs. Previous Periods (\$/Bbl.)

	<u>10Q2 vs. 10Q1</u>	<u>10H1 vs. 09H2</u>
PADD 1	(0.54)	+0.55
PADD 2	+4.04	+2.83
PADD 3	+2.40	+3.73
PADD 4	+4.28	+3.22
PADD 5	+5.41	+1.82
U.S. Total	+2.94	+2.86

However, during the second quarter of 2010 (10Q2), refining crack spreads began to slip relative to the previous quarter (10Q1), with further weakening noted in July.

Key Refining Margin Metrics, \$/Bbl.

	<u>2010</u>	<u>2010</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
	<u>July</u>	<u>Q2</u>	<u>Q1</u>	<u>Annual</u>	<u>Annual</u>
LLS crude price	78.85	82.15	80.02	64.34	102.54
LLS – Maya	12.16	14.15	10.27	7.80	18.55
USGC LLS 321*	4.88	5.26	6.07	5.16	7.95
USGC LLS 6321**	2.12	2.33	3.47	2.85	2.56

* LLS deemed conversion to 67% conventional 87R gasoline and 33% ULSD

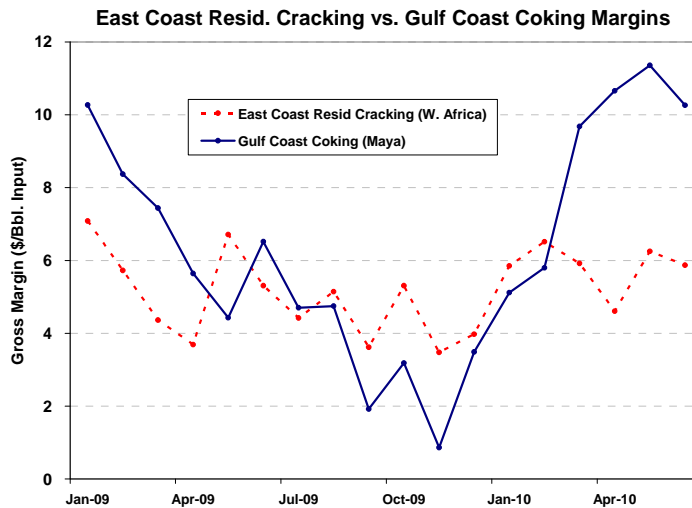
** LLS deemed conversion to 50% conventional 87R gasoline, 33% ULSD and 17% Fuel Oil

The light-heavy differential increased in the first half of 2010 resulting in the improvement of margins for Gulf Coast coking refineries. However, margins for East Coast cracking refineries remained stuck at depressed 2009 levels, even with the previous shutdown of two area refineries (Valero - Delaware City, DE and Sunoco - Westville, NJ). With the recent announcement by

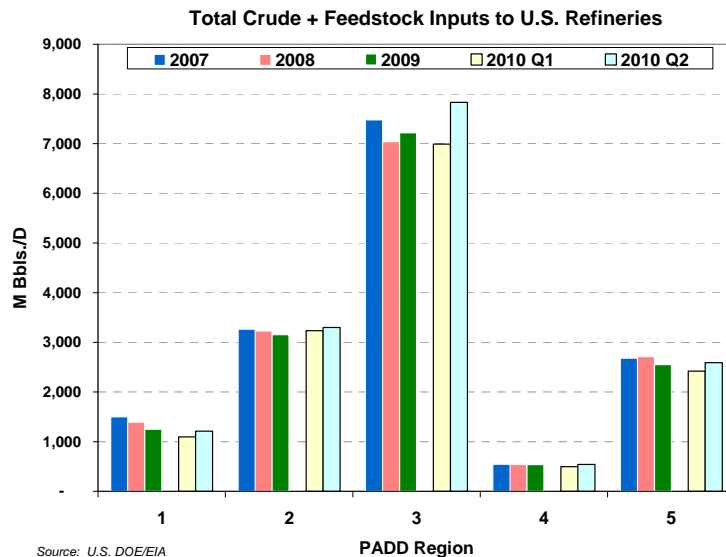
¹ PRISM is Baker & O'Brien's refining database system that models the operational and economic performance details for all of the refineries in the U.S. Recently the PRISM software was enhanced to allow studies of refinery economic issues surrounding biodiesel blending and the proposed E15 grades of gasoline.

Western Refining of plans to close the Yorktown refinery, PADD 1 refinery capacity will soon be reduced by a cumulative total of almost 400,000 B/D (23%) of total PADD 1 atmospheric distillation capacity operating in November, 2009.

While low-cost imports to NY Harbor might be suspected of being the primary cause of margin erosion in PADD 1, a review of recent gasoline and diesel import volumes, as well as an assessment of product price differentials for NY Harbor and the USGC, indicates that low-cost imports are likely *not* the primary driver. While lower light product demand has reduced utilization in almost every refinery in the world, at this time it appears that throughput in PADD 1 refineries is being shifted primarily to other U.S. refineries (mostly in PADD 3), more so than off-shore refineries.



Recent margin improvements have encouraged U.S. refineries to increase throughputs, with overall refinery utilization rates increasing during the quarter from 82.2% to 88.7%. The increases in throughput varied widely across regions, with PADD 2 (the Midwest) only increasing by 2% vs. an increase of 12% in PADD 3 (Gulf Coast). However on an annualized basis, first-half 2010 throughputs remain just 1% higher than 2009 average.



Source: U.S. DOE/EIA

During the second quarter of 2010, U.S. refiners exhibited much stronger performance. Whether the industry can *sustain* this performance for any extended period depends upon strengthening demand for transportation fuels. Supply side challenges in the medium term include currently high gasoline and diesel inventory levels, additional capacity from new projects that are near completion, and announced plans to restart idled refining capacity.

About Baker & O'Brien, Inc.

Baker & O'Brien is an independent professional consulting firm specializing in technology, economics, and management practice for the international oil, gas, chemical, and related industries. With offices in Dallas, Houston, and London, the firm focuses primarily on the downstream industry and assists clients with strategic studies, mergers and acquisitions, and technology evaluations. The firm also provides expert services to support insurance claims and a wide range of commercial disputes in the energy industry.

About PRISM

Baker & O'Brien's *PRISM* software is used to perform detailed analysis of individual refineries and the refining value chain from crude load port to truck rack. The system combines a large historical database with a robust refinery simulator to provide analytical support to competitive analysis, strategic planning, crude oil valuation, and delivered cost of supply. The *PRISM* database currently includes operational and economic performance details for all refineries in the U.S. and Canada, most refineries in Europe, and selected refineries in the Asia Pacific region. The *PRISM* system is available for license and is used in consulting assignments for Baker & O'Brien clients.