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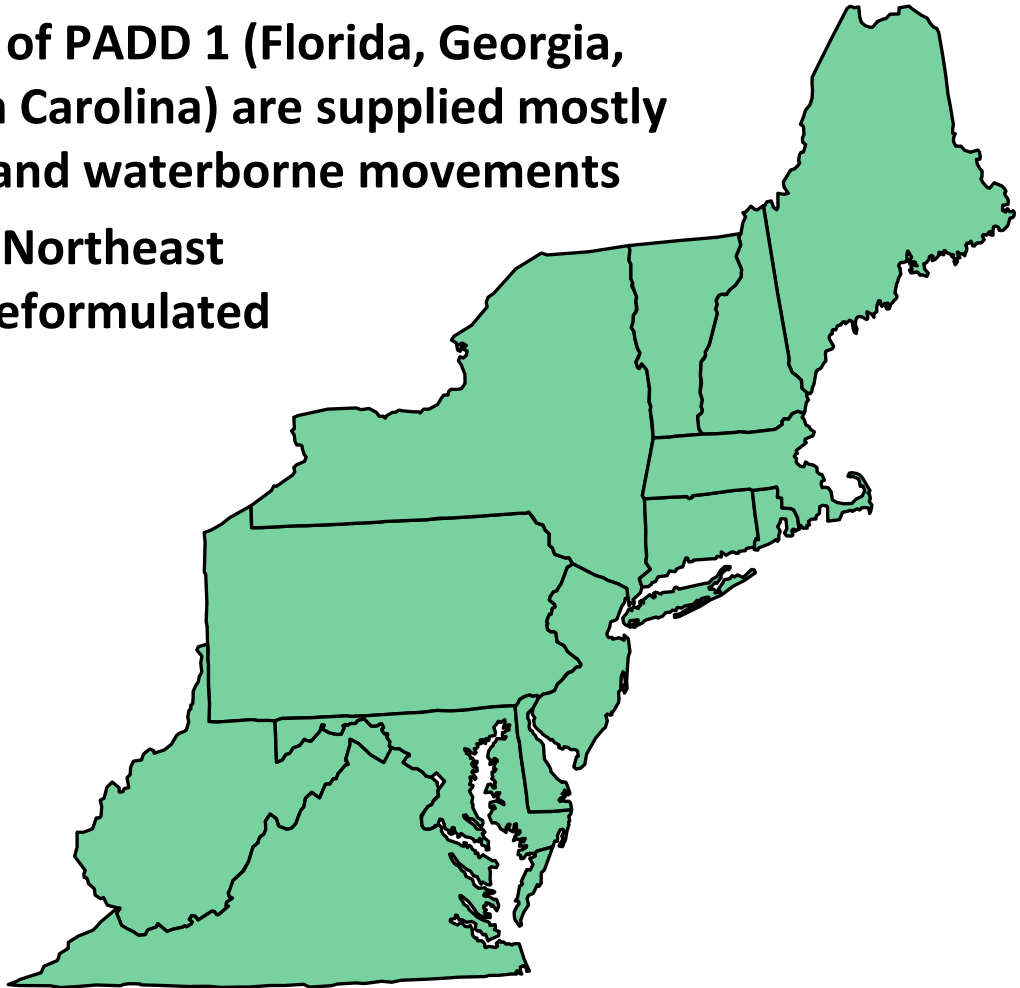


## Northeast Gasoline and Distillate Supply and Demand Issues

**Platts 3<sup>rd</sup> Annual North American  
Refined Products Conference  
Houston, Texas  
May 21, 2014**

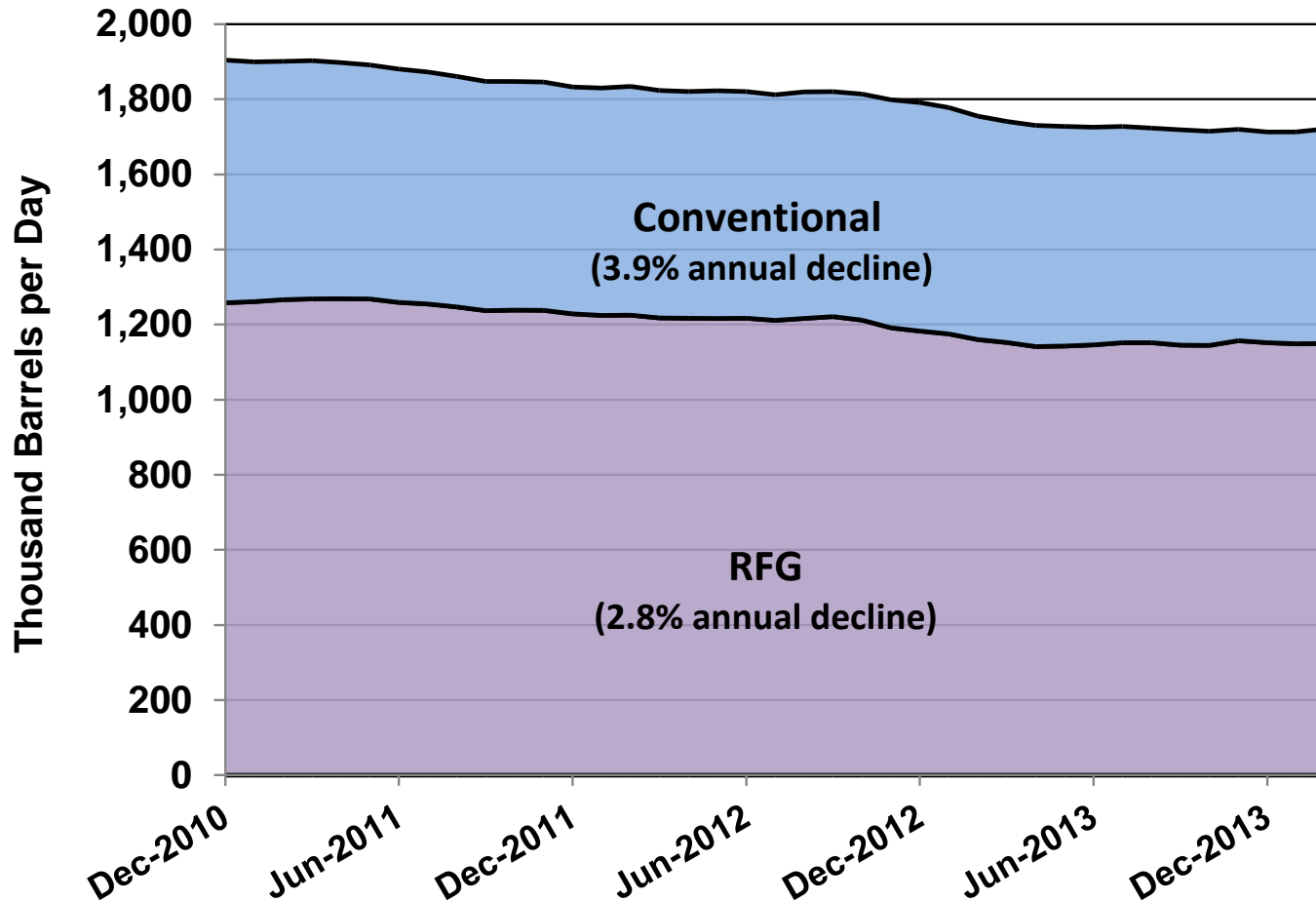
- **Review of Northeast Gasoline Supply and Demand**
  - ❖ Demand history and outlook
  - ❖ Review sources of supply
  - ❖ Import Issues
    - Northwest Europe supply stability
    - New competition from the Bahamas
- **Review of Northeast Distillate Supply and Demand**
  - ❖ Demand history and outlook
  - ❖ Review sources of supply
- **East Coast and Northwest Europe margin history and outlook**
- **All graphics will be presented on a 12-month rolling average basis to enhance the viewing of trends**
- **Reviewed historical data starting January 2010**

- The Northeast (NE) is defined in this presentation as the PADD 1 states that are north of North Carolina
- The most southern states of PADD 1 (Florida, Georgia, South Carolina, and North Carolina) are supplied mostly from PADD 3 by pipeline and waterborne movements
- Virginia is included in the Northeast definition because of its reformulated gasoline usage



# Northeast Gasoline Demand is Declining

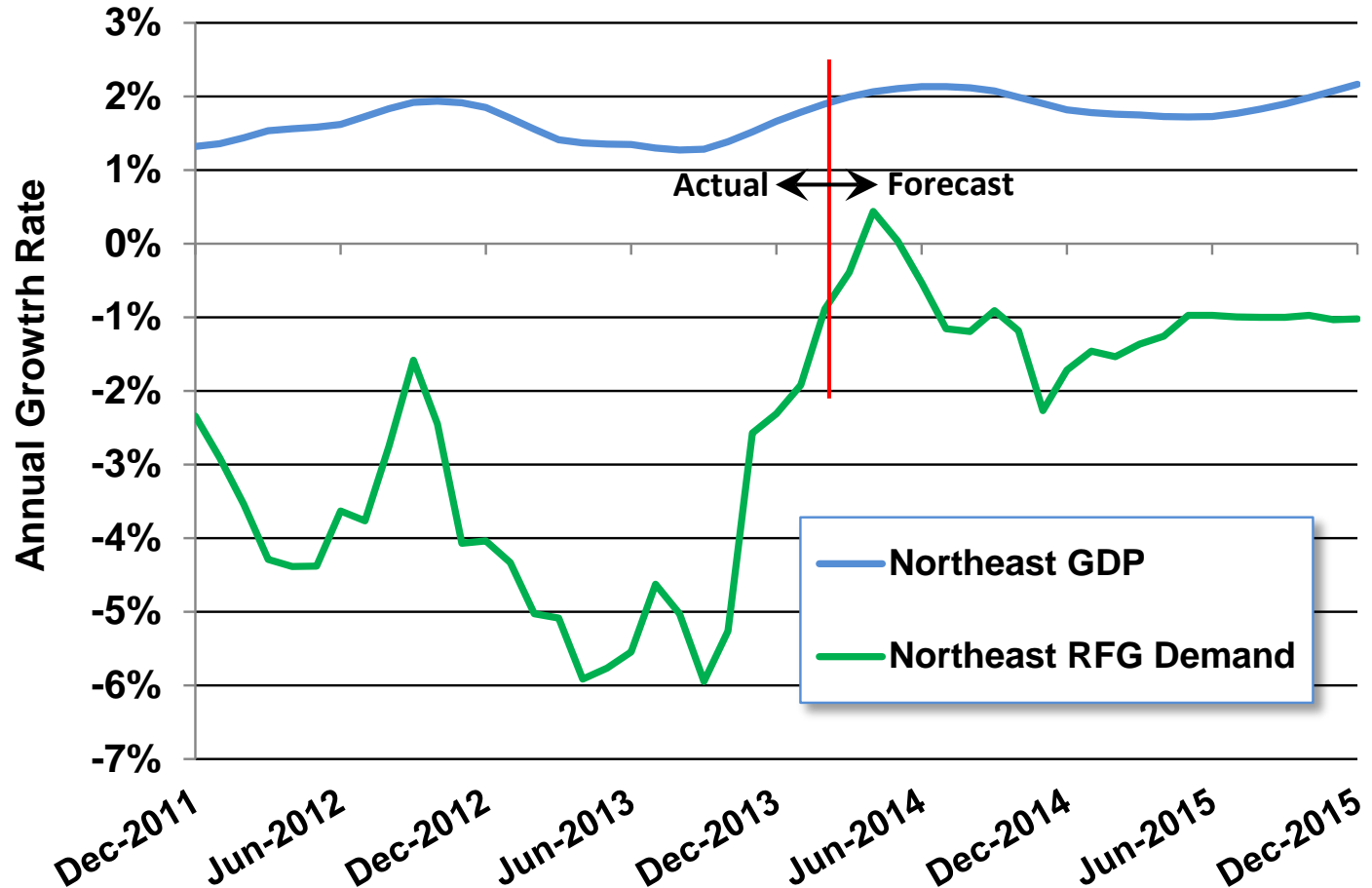
- Since 2010, total NE gasoline demand has declined 3.2% annually compared to a 0.7% decline nationally



Sources: EIA, Product Supplied; Prime Supplier

# Northeast RFG Demand Showing Recent Improvement

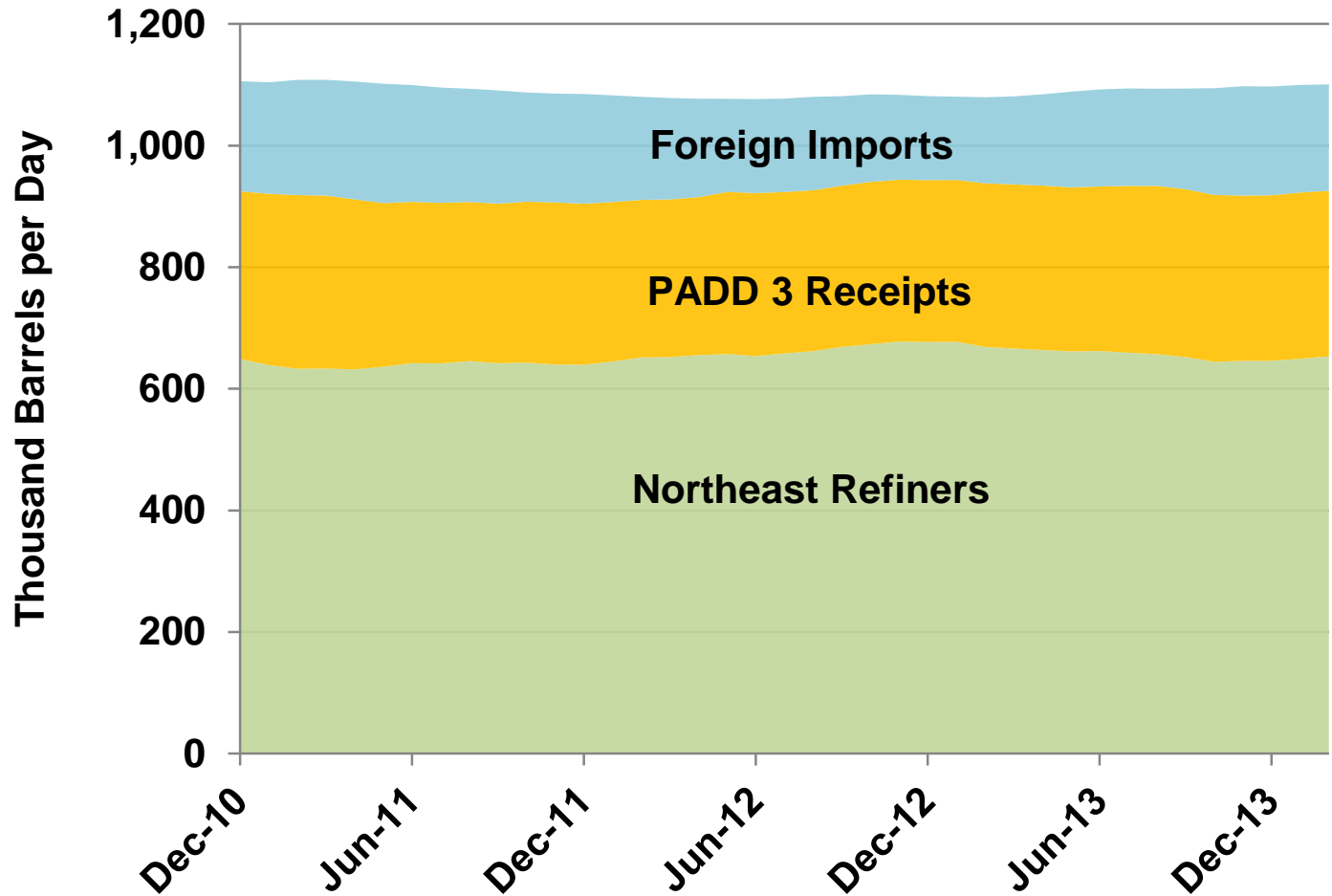
- RFG demand growth has improved over the last 4 months, but annual growth still remains negative
- Our forecast is for a 1.0-1.5% annual decline in RFG demand through 2015



Sources: EIA: GDP, RFG history; RFG forecast: Baker & O'Brien, Inc.

# Northeast RBOB Supply Sources Have Been Stable

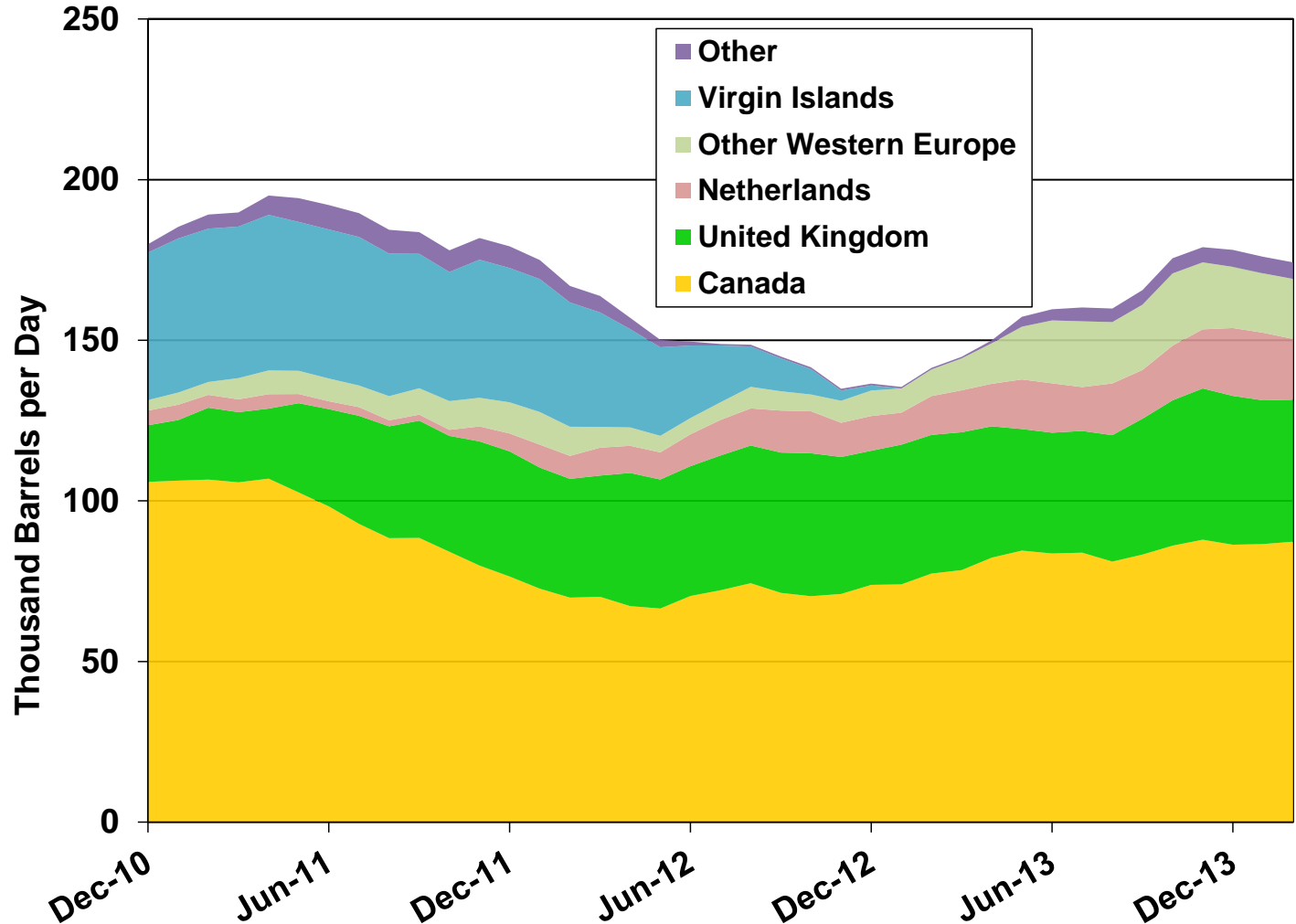
- Currently, Northeast refiners account for 59% of RBOB
- PADD 3 supplies 25%
- Foreign imports supply 16%



Sources: EIA Petroleum Supply Monthly; Company Level Imports

# RBOB Imports Show Recovery from Hovensa Closure

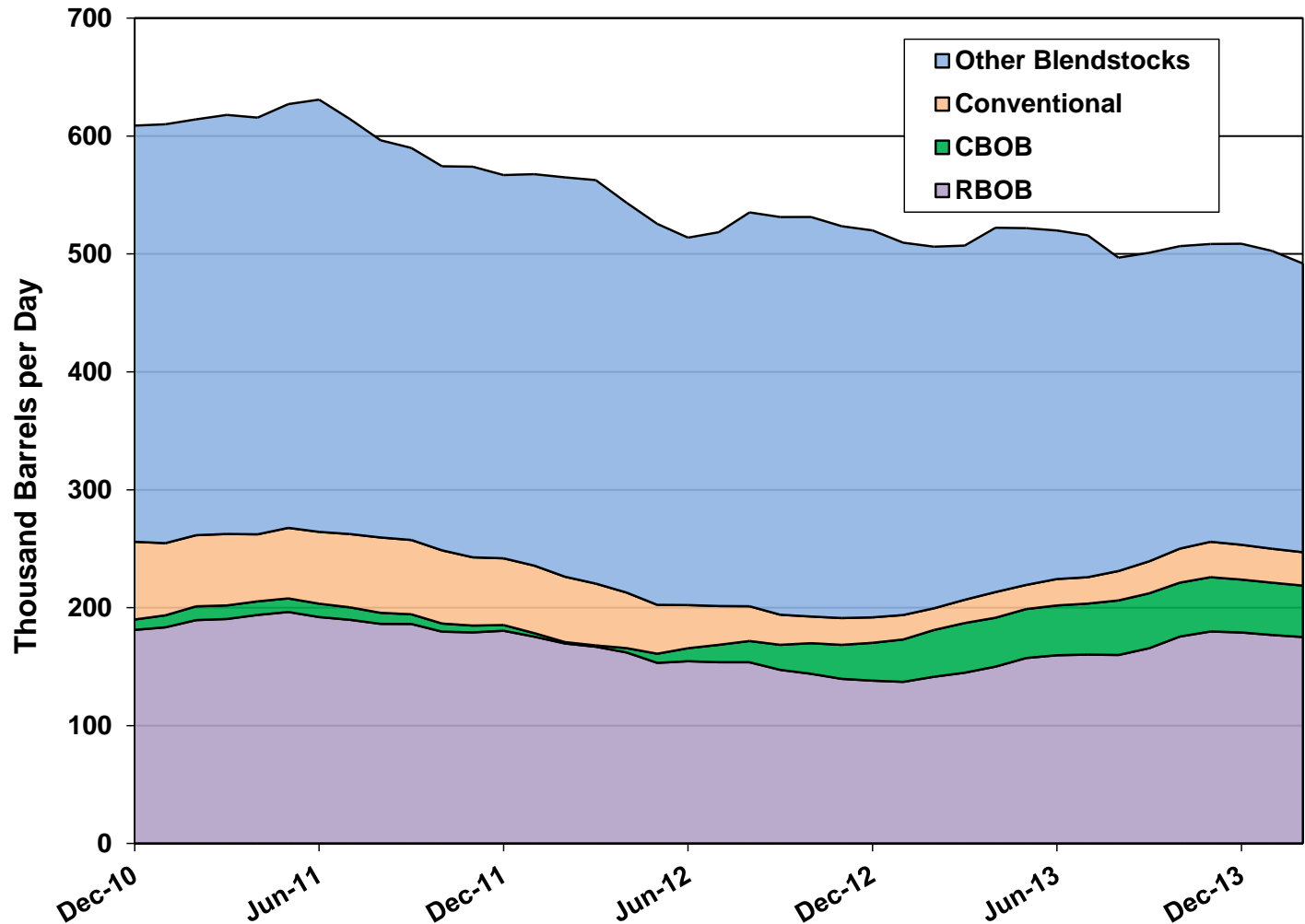
- Western Europe RBOB supply has more than tripled from 26 MB/D in 2010 to 82 MB/D now, about half of total foreign imports
- Loss of Hovensa supply was replaced mostly from the UK



SOURCE: EIA, Company level imports.

# Blendstocks Dominate Gasoline Imports

- Blendstock imports have dropped from about 350 MB/D in 2010 to 250 MB/D now
- Finished conventional and CBOB imports have held fairly constant with CBOB now 60% of the mix



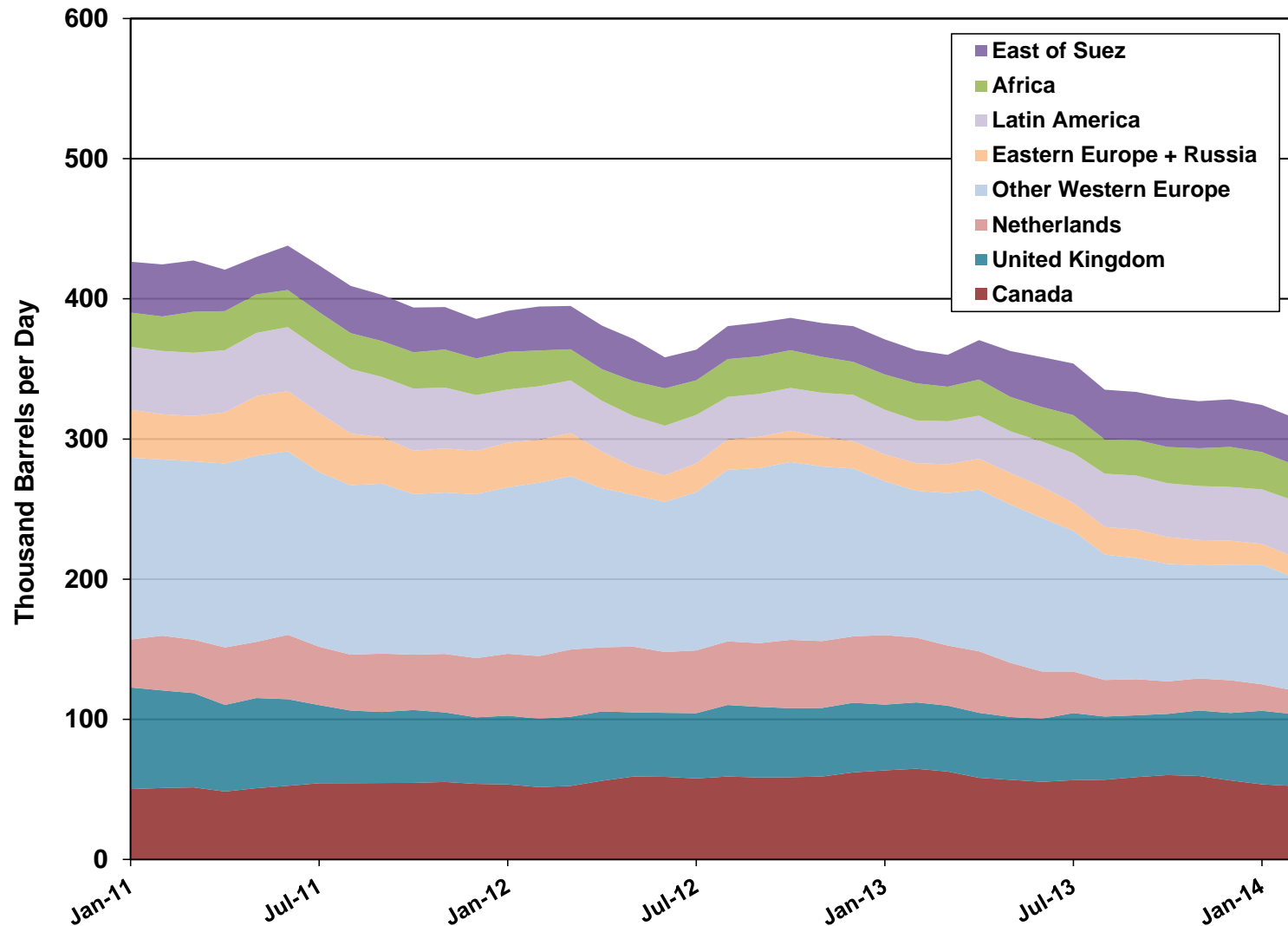
SOURCE: EIA, Company level imports.



# Imports From Bahamas Will Be Increasing

- **On March 6, U.S. Customs ruled that certain gasoline components can be exported to the Bahamas on foreign-flagged ships, blended into RBOB, CBOB or finished conventional, and imported back to the U.S. in foreign-flagged ships**
- **This is a huge freight advantage versus Jones Act shipping costs, about  $\frac{1}{3}$  to  $\frac{1}{2}$  as much**
- **Significant win for Buckeye which owns the 21 million barrel BORCO storage terminal in the Bahamas**
- **Greatest impact will be in finished conventional and CBOB imports to Florida east coast**
  - ❖ **Unknown status of EPA registration for BORCO to produce RBOB, but this can be accomplished in due course**
- **Timing for RBOB imports from BORCO hard to predict, but there is significant economic incentive if the certifications can be met**

# Conventional Gasoline and Blendstock Imports Are Diverse



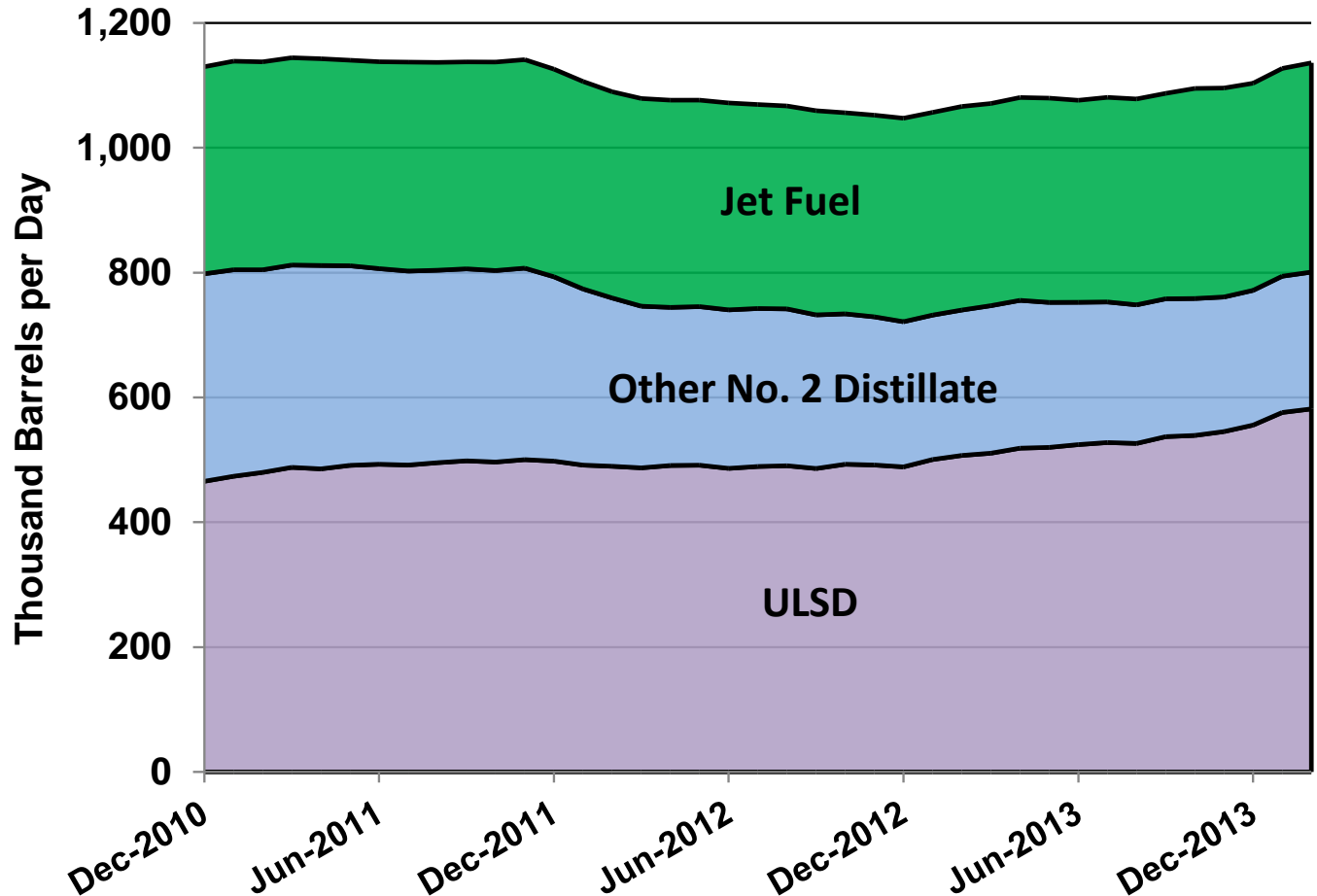
SOURCE: EIA, Company level imports.

# Gasoline Supply Sources Appear Flexible

- **There appears to be additional capacity to increase gasoline supply from Northeast refiners, PADD 3, or imports if margins dictate**
  - ❖ Recent Colonial Pipeline expansions have added supply capacity from PADD 3
  - ❖ In light of decreasing gasoline demand, no supply issues are expected
  - ❖ Bahamas gasoline supply will add competition eventually into New York Harbor

# Northeast Distillate Demand is Slowly Recovering

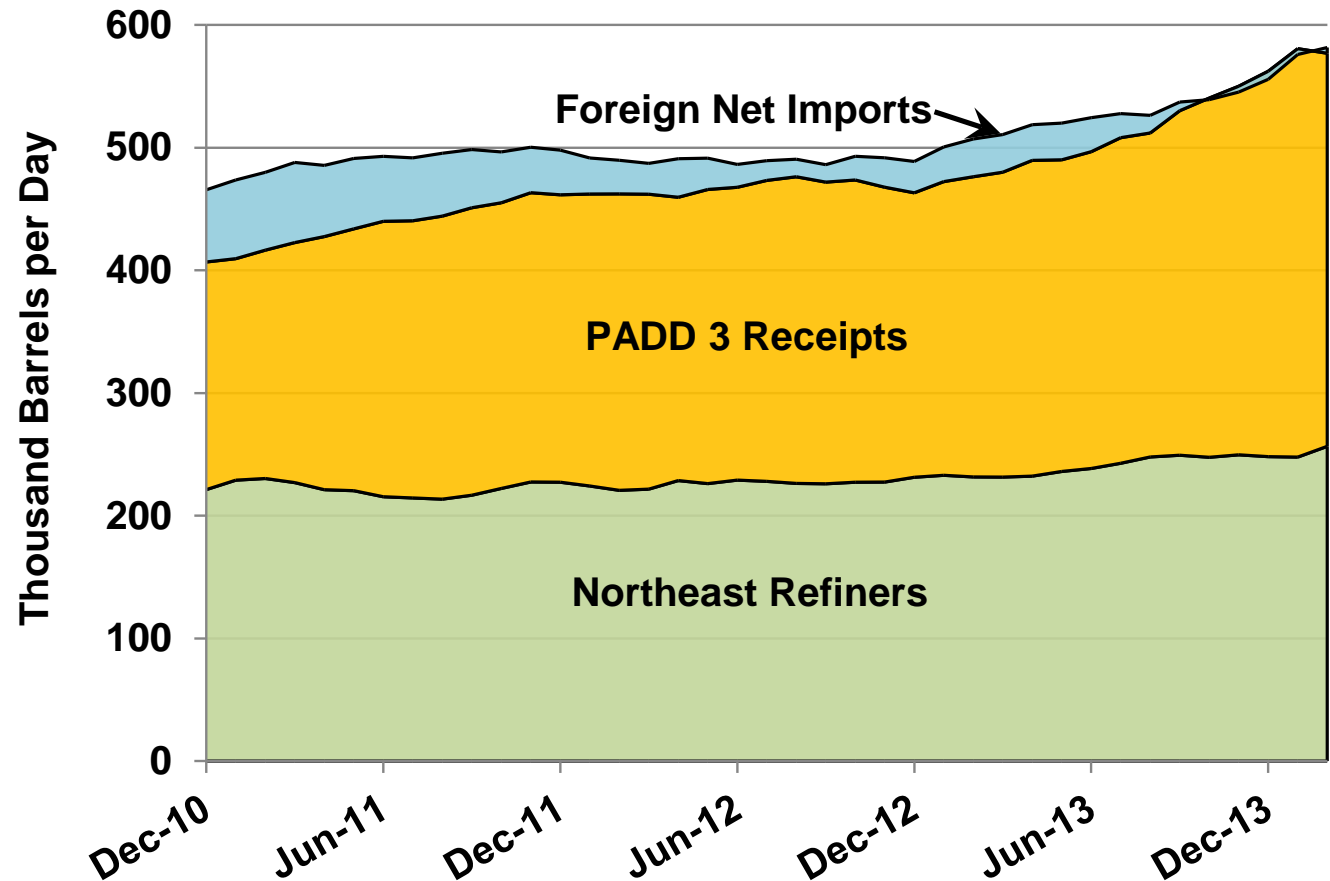
- Since 2010, ULSD demand has increased by 7.0% yearly
- About half of this growth is by replacing high sulfur heating oil in New York in June 2012
- ULSD demand should grow by 3% AGR to 2016



Source: EIA Product Supplied; Prime Supplier

# Northeast Refiners Are Lagging ULSD Supply Growth

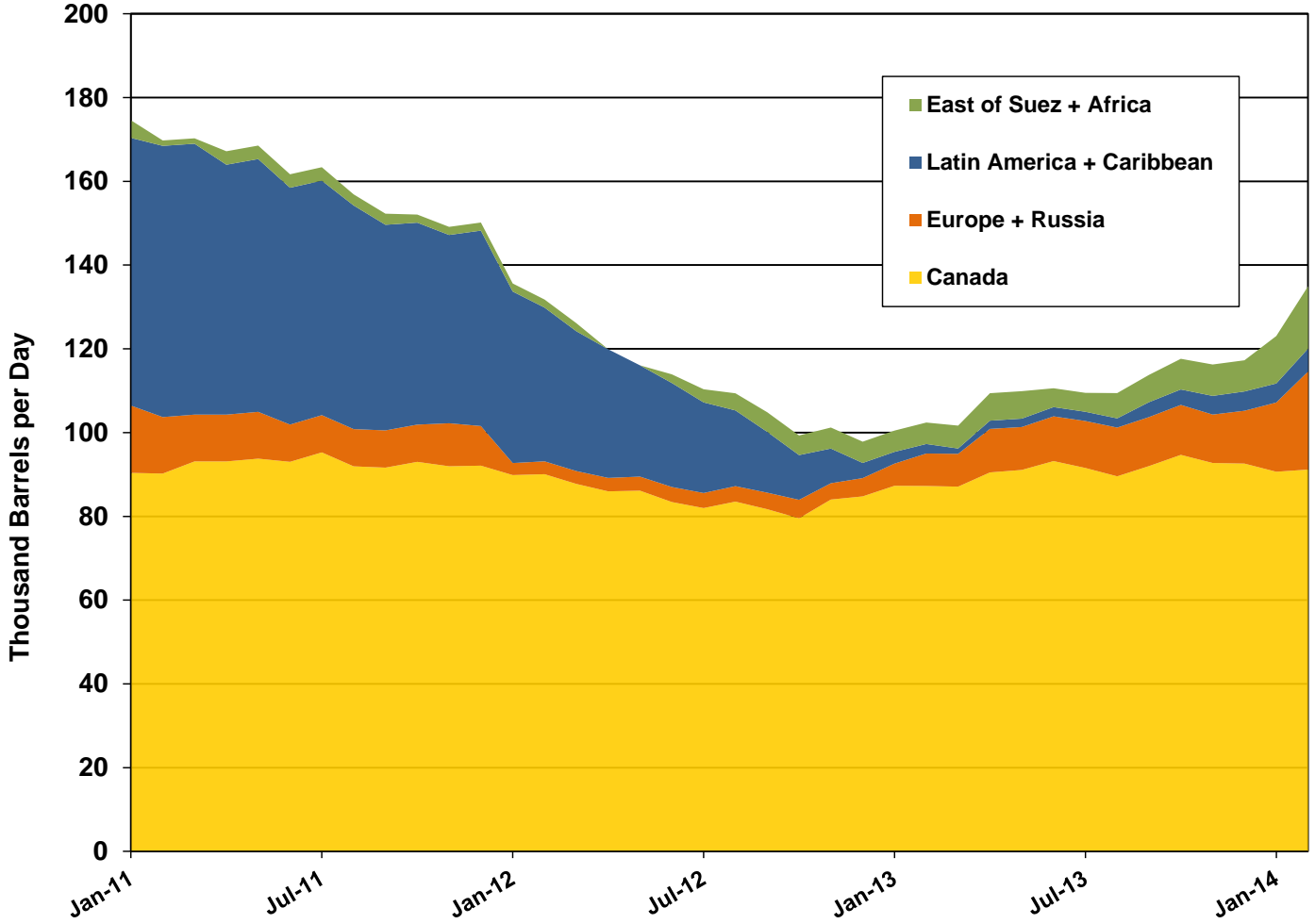
- PADD 3 is filling most of the ULSD demand growth
- NE refiner production increased at 5% AGR since 2010, but PADD 3 receipts have grown by 17% AGR
- Imports and exports are balanced



Source: EIA, Petroleum Supply Monthly; Company Level Imports

# Distillate Imports Have Rebounded

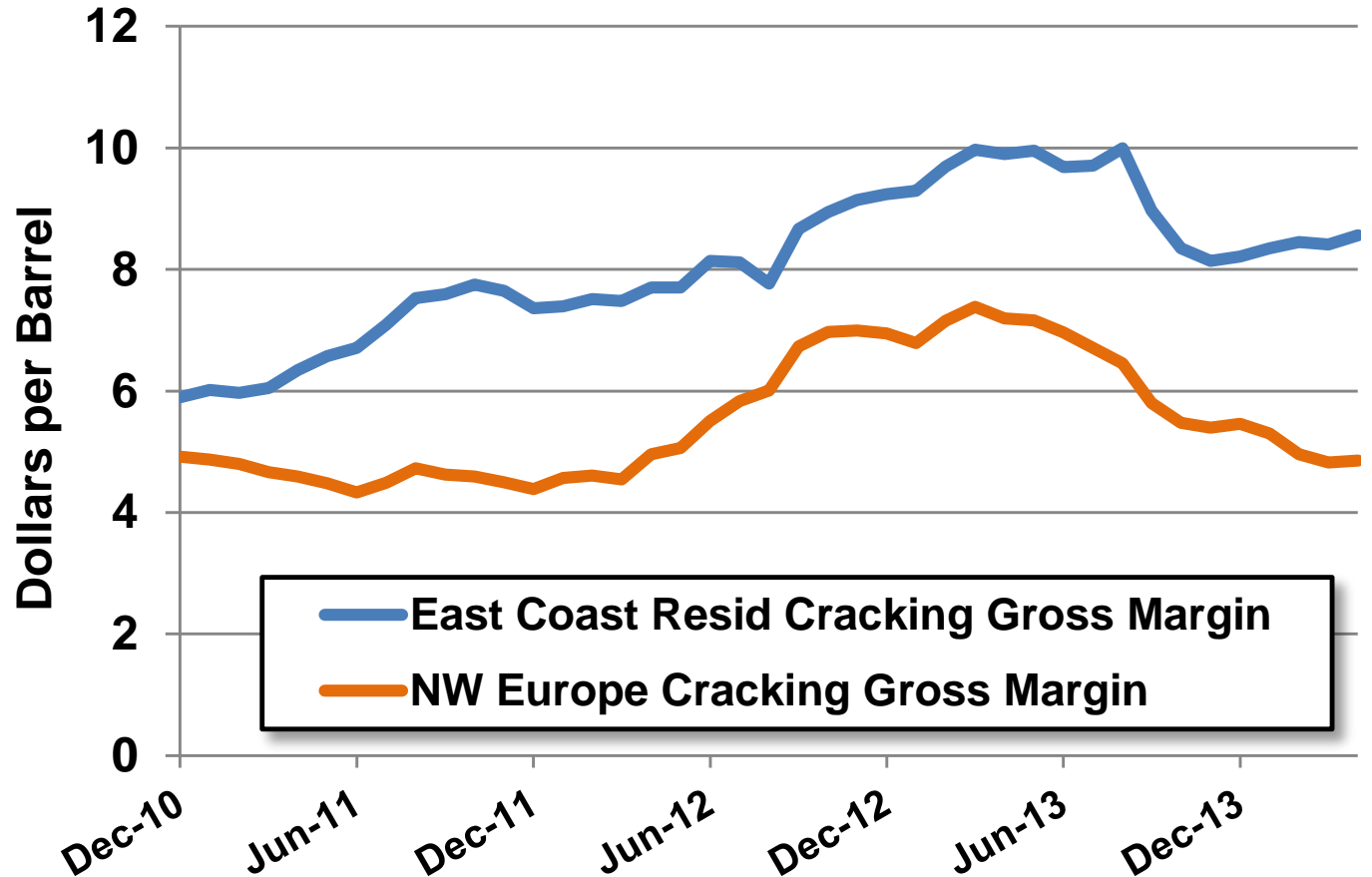
- Loss of Hovensa imports were replaced by domestic sources, not imports
- Canadian distillate imports are dominated by Irving Oil



SOURCE: EIA, Company level imports.

# East Coast Gross Margins Should Remain Healthy

- East Coast gross margin based on West African crude, therefore understates the impact of lower cost domestic tight oil
- NW Europe gross margin based on Brent allows survival of the most efficient



Source: Platts; Baker & O'Brien, Inc. estimates

## Gasoline

- Drop in Northeast RFG demand is forecast to slow to a 1.0-1.5% annual decline
- Increased competition on finished gasoline imports likely from Bahamas
- Northwest European RBOB imports should remain stable

## Gross Margins

- Northeast refining margins appear healthy and should improve with increased tight oil supplies

## Distillate

- Northeast ULSD demand has increased rapidly as it replaces higher sulfur heating oil
- Northeast ULSD demand forecasted to grow at 3.0% until 2016 when additional states shift home heating oil to ULSD specifications and create another ULSD demand surge
- Other distillate demand is flat and is forecast to remain so