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Refinery Closures Squeeze Northeast Gasoline, Heating Oil Supplies

Do not be surprised if gasoline goes beyond $4 a gallon across the country, especially in the Northeast. Refinery shutdowns, reduced operating rates and threats by Iran to shut off a major oil thruway are fueling the increased price of gas. These factors will take their toll on the Northeast.

Heating oil will be subject to shortages and price spikes as well. The Energy Information Agency (EIA) projects record winter household heating oil prices in the Northeast of $3.71/gallon, which is an increase of 10 percent over last winter.

This is not good news for an economy that is struggling to recover from the recession four years ago.

The ConocoPhillips Trainer, Pa., refinery and Sunoco refineries in Marcus Hook and Philadelphia that are scheduled to shut down if buyers are not found comprise over 50 percent of the total refining capacity in the Northeast, according to the EIA.

Refineries on the East Coast mainly serve the Northeast, supplying about 40 percent of gasoline and 60 percent of distillate (diesel and heating oil). The remainder is supplied through oil product imports and pipelines from the Gulf Coast. The three refineries supply about 20 percent of the gasoline and 30 percent of the distillates for the region.

Impact of Corporate Decisions

Local 10-1 President Jim Savage said 70 percent of the heating oil market is concentrated in the Northeast and that a quarter of the heating oil is provided by the three refineries.

"What we need to do is continue to keep producing these products in our region," he said. "We don't think it's an exaggeration to say people could literally freeze to death in their homes because of these corporate decisions."

Corporate decisions could also account for higher prices at the pump in the Northeast.

"We have a real supply problem ahead this summer because these refineries have not made money and they are shutting down," said Edward Morse in a Bloomberg TV interview with Tom Keene. Morse is the New York-based head of commodities research at Citigroup Global Markets Inc.

"Summer gasoline is harder to make than winter gasoline, and we could see $4 as a floor price rather than a ceiling limiting demand," he said.

Tom Bentz, director with BNP Paribas Prime Brokerage Inc. in New York, told Bloomberg: "The area could be left vulnerable to price spikes if there are ever any unplanned outages or supply disruptions."

Situation Worsens

Gasoline, heating oil and other oil product supplies will be further constrained and price hikes are likely when the Hovensa St. Croix refinery in the U.S. Virgin Islands shuts down by mid-February. Hess Corp. and Petroleos de Venezuela SA are partners in owning the refinery and announced the closing Jan. 18 because the plant is losing money.

The 350,000 barrels/day Hovensa refinery ships about 40% of its products to the East Coast.

Then there is the possible shutdown of Hess's Port Reading refinery in New Jersey, which serves the New York Metropolitan area with predominately reformulated gasoline blendstock. The refinery's fluid catalytic cracker is experiencing higher-than-normal catalyst loss, according to the company. A technical assessment is being made now. Jay Wilson, vice president of investor rela-

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tions in New York, told the media that Hess will continue to operate Port Reading "as long as it generates acceptable financial returns."

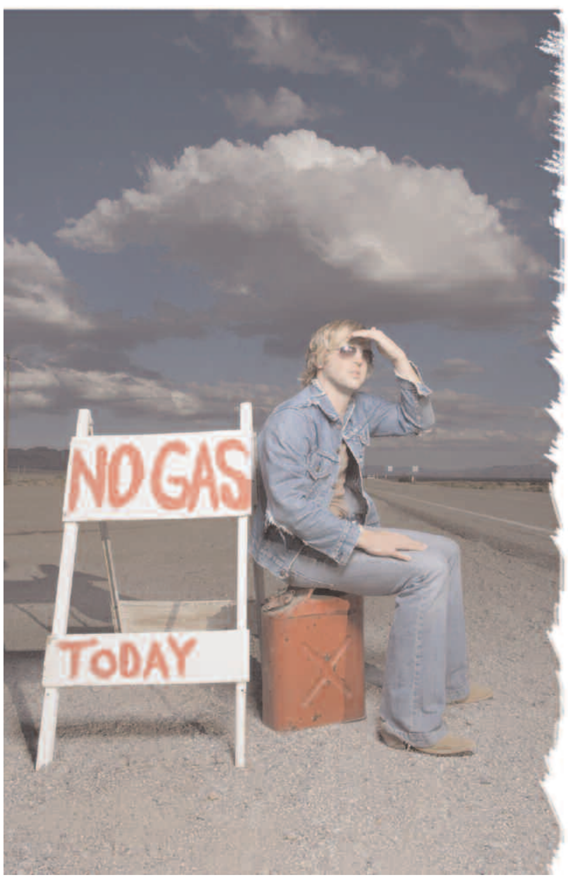
Profit Margins Improve

It is not surprising that the Northeast gasoline crack spread—the difference between the cost of the oil and the products refined from it—is positive since the closure of the Trainer and Marcus Hook plants and expected closure of Hovensa. Gasoline cracks were around $10/bbl (barrel) the week of Jan. 16, compared with negative values late last year.

The oil industry is cyclical in nature. Refining margins are usually good during the second and third quarters and poorer in the first and fourth quarters of the year.

Five years ago it was beneficial to be a refinery on the coast. But now domestic crude is cheaper than the Brent/African crude Northeast refineries process and there is not a pipeline to access the domestic crude in the middle of the country.

However, Sunoco Logistics has started delivering relatively cheaper Midcon light sweet crude from North Dakota to Sunoco's Eagle Point terminal in New Jersey, according to the Oil Price Information Service (OPIS). The first delivery is expected to go to Sunoco's Philadelphia refinery and the author of the article said this should help the Philly refinery's crack spreads for its products.



Supply Options Problematic

Alternative sources of oil products for the Northeast have their problems. The Gulf Coast is cited as a supplier via the Colonial pipeline, which is scheduled for further expansion. The EIA says, however, that "pipeline capacity will still be insufficient to make up the entire lost production volume."

Trusting the Gulf Coast for oil product supplies is risky during hurricane season. After hurricanes Katrina and Rita a number of refineries were down for months. The community environmental group, Louisiana Bucket Brigade, put out a report two years in a row about how Louisiana refineries do not prepare adequately for storms.

Even with the Philadelphia area refineries churning out gasoline after Katrina and Rita, gasoline was in short supply in some areas and prices were high. What happens now when another horrific storm comes to the Gulf, knocks refineries out of commission and there are not any Philadelphia area refineries left?

Increased product imports, especially of gasoline, are cited by the EIA as a supply option. But imports are subject to supply shortages and price hikes too. Bloomberg reported that "heating oil rose on speculation that Europe will have to import more U.S.-produced diesel as Petroplus Holdings AG, the largest independent European refiner, said it plans to file for insolvency." Heating oil trades as a proxy for diesel.

Bloomberg reported that Petroplus has shut three of its five refineries and LyondellBasell Industries NV is shuttering its 105,000-barrel-a-day Berre refinery in France after failing to find a buyer. Petroplus's refineries in England and Germany are running at reduced rates.

Phil Flynn, vice president of research at PFGBest in Chicago told Bloomberg: "Now you're tightening up refining capacity, that leaves us more vulnerable to price spikes."

Imports threaten U.S. economic security and make our country dependent upon other nations for our energy needs and make us vulnerable to other nation's manipulation of supplies and accompanying price spikes.

While more output is expected from the remaining Northeast refineries, the EIA says it is not enough to replace the lost volumes from the Philadelphia area refineries. The EIA also says that expected volumes of oil products shipped via railroad from Midwest refineries would be relatively small.

What You Can Do

The announcement that Hovensa will close and Port Reading might be shuttered makes it urgent that action be taken to keep the Philadelphia area refineries operating. You can take action by going to our union's homepage, www.usw.org, and clicking on the revolving photo panel that shows an oil worker and says to "take ACTION!" You will be able to sign a petition to keep the refineries open and write a message to your senators, representatives and state legislators asking them to hold public hearings on the refinery closures.

Please engage in this action. You will be helping 2,500 oil workers and thousands of others keep their jobs.

USW Local 10-234 at ConocoPhillips is circulating a petition among voters in Delaware, New Jersey and Pennsylvania that seeks to save the refineries. It is available online at www.tinyurl.com/usw10.

A Few Notes From the Editor

Welcome back to *The Oil Worker.* I know it's been a long time, but I am committed to getting our newsletter out more frequently.

It is important that we get our publication into the hands of every member. Some locals use their Communications and Action Teams (CAT)—your locals all should have formed CAT teams by now—Rapid Response networks, steward or other systems to get the newsletter distributed.

Other locals have gotten their members' home email addresses so they can email it to them. Whichever way suits your local best is fine, but please don't just post it up on the union bulletin boards and think you've reached everybody. Only one person at a time can read it that way.

When you distribute *The Oil Worker* be sure to do it during non-work time (breaks, lunch, before/after work) in non-work areas. Labor law guarantees you that right.

National Oil Bargaining

There seems to be a lot of confusion over how the National Oil Bargaining process works.

What occurs at the National level of negotiations between the International Union and the lead Company (in this case Shell Oil) is the negotiations of the National Oil Policy which was adopted by the National Oil Conference in September of last year 2011. This Policy contains proposals that deal with economic issues and Health and Safety changes which the delegates approved. At the same time each local union across the country is engaged in local bargaining over local issues that you as members have brought forth to your respective Committees.

As the process progressed between the lead Company and the International Union your National Oil Policy Committee voted on the final proposal per the procedure and the offer was accepted and a tentative agreement was reached.

What has occurred up to this point now is that each Company that participates in the Oil Bargaining Program has placed on local tables what the Oil Policy Committee said meets the intent of the National Oil Policy. In some cases local bargaining is ongoing and for those groups they are working on a rolling 24 hour extension agreed to by the industry.

Vice President Beevers is now reviewing each proposal submitted to make sure nothing has changed from the original offer made by the lead company. As he does that he notifies each bargaining group of whether their proposal submitted by their company meets the pattern set by your Oil Policy Committee.

As each local union receives notice of approval of the National offer and providing that they are done with their own Local bargaining then ratification meetings are set up. It is at those meetings you as members will have the opportunity to examine, ask questions and vote on the package as a whole.

We have not released any details of the National part of the agreement yet because many locals are still in the process of negotiating their local issues and it is the position of the International Union that you as members should see the details first not the media, not the non members, and certainly those who have no vested interest in our business.

I hope this gives you some clarity in how this process will work in the coming days.

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Philly Locals Reach Out to Children Impacted by Refinery Shutdowns

By Nancy Minor, Local 10-1 Vice President

When the two Sunoco Locals (10-901 and 10-1) and the ConocoPhillips Local (10-234) decided to have a walk and community day in order to thank the community for its unsolicited and unquestioning support, the committee organizing the event decided to include the children who will be effected if these facilities close instead of being bought. They decided to have a poster contest.

"We are looking for posters that support keeping these American jobs," wrote Local 10-1 Trustee Regina Vicario in a letter to the schools. "Some ideas for themes could be "Fighting for Jobs," "Support American Workers," "Made in the USA," or "Save our American Dream."

The children, with their teachers' help, responded beautifully. We received over 100 entries in this poster contest. Below is the list of children who received an award for their creativity. These children and their classrooms were given a pizza party to celebrate their awards.

First Place: Connor McClure and Katelyn Parag, both in Mrs. O'Hagan's third-grade class at Linwood Elementary

Second Place: Ryan Loyson, Mrs. Mancini's fourth-grade class, Holy Savior; and Zahkee Taylor, Mrs. Wahl's fourth-grade class, Marcus Hook Elementary

Third Place: Michael McClure, Mrs. Mancini's fourth-grade class, Linwood Elementary; Nick Bartenbach, Mrs. Mancini's fourth-grade class, Holy Savior; Christopher Stolzer, Mrs. Campbell's first-grade class, Holy Savior; Madison Thies, Mrs. Mancini's fourth-grade class, Holy Savior; Caleb Campbell, Mrs. O'Hanlan's second-grade class, Holy Savior; Aryonna Lawson, Mrs. Stradley's first-grade class, Linwood Elementary.

Some of the children participated in the Nov. 5 walk with their parents and carried the signs they made. Photos from the walk can be seen at www.oilbargaining.org, www.usw.org/our_union/oil, www.facebook.com/OilBargaining and www.usw.org/districts/new/?district=10.

Philly Locals Work Hard to Keep Northeast Refineries Operating

USW Locals 10-1 at Sunoco's South Philadelphia refinery, 10-901 at Sunoco's Marcus Hook refinery and 10-234 at ConocoPhillips's Trainer, Pa., refinery have been in campaign mode to keep their refineries operating ever since their companies announced they would be shut down if buyers were not found.

The day after Labor Day Sunoco announced it would shutter its two refineries by June 2012 if buyers did not come forth. The company said it has lost more than $800 million in the past three years and that declining industry conditions and a need for significant investment prompted the decision to no longer operate the Marcus Hook and Philadelphia refineries.

Three weeks later ConocoPhillips announced it was immediately idling its facility, citing product imports, weakness in motor fuel demand and costly regulatory requirements as reasons for shutting down.

"Our decision to idle and sell the Trainer refinery was based on the level of investment required to remain competitive in the U.S. East Coast refining market that has been under severe market pressure for several years," company spokesman Rich Johnson told The Delaware County Daily Times.

ConocoPhillips could have chosen to improve the refinery's profitability like it did at its Wood River, Ill., refinery, where it installed new crude distillation and coking units that allow the facility to process 130,000 b/d more heavy Canadian crude oil.

Then on Dec. 1 Sunoco announced it was immediately idling its Marcus Hook facility because of poor margins. Marcus Hook will begin laying off workers in February. The buyer deadline for this facility was moved to March 1.

Layoffs Amid Profits

Workers at the Trainer facility were laid off by Jan. 31 and the company told union negotiators that if a buyer is not found by March 31 the refinery could be demolished.

The first wave of layoffs at ConocoPhillips happened Jan. 26, one day after ConocoPhillips posted a 66 percent increase in earnings--$3.4 billion from October through December compared to $2 billion the same period in 2010.

In the company's refining and marketing sector, non-adjusted earnings for the quarter were $1.7 billion, and were reported as $201 million when adjusted, according to media reports. Johnson said that when you exclude the sale of pipeline assets, the refining sector broke even.

"It's all about getting the stock price up," Local 10-234 President Denis Stephano said to The Delaware County Daily Times. "When you read Conoco's profits in the next quarter, or the next two quarters, (they) are going to be higher because the price of gasoline is going to be sky high. These closings are designed to increase their already exorbitant profit."

Impact of Closings

The shutdowns will cost the area 2,500 direct refinery jobs and up to 25,000 jobs dependent on business from the refineries and their workers. Studies show that up to 10 additional jobs depend on every refining job.

Many small, family-owned businesses will see their business drop tremendously. Local governments will lose tax revenue and be forced to cut services or raise taxes on residents who already bear a large part of the tax burden. According to Marcus Hook mayor James Schiliro, the lack of Sunoco tax dollars would leave a hole of a little under $1million in the borough's $2.9 million budget.

Area schools will be impacted as well. The Chichester school district will take about a $3.8 million hit from Sunoco and ConocoPhillips shutting down.

Then there is the emotional toll on workers and their families as they struggle to remake their lives.

Interested Investors

Sources have been telling The Delaware County Daily Times that major investors are still serious about keeping part of the refining capacity in Delaware County. In a Jan. 27 article the paper said that elected officials continue to have conversations with interested investors who want to maintain the Sunoco Marcus Hook facility as a working refinery.

"Some investors have expressed interest in partnering with Sunoco or entering into a short-term agreement that would allow refining to continue at the site, with the hopes that either the market would turn around or the companies could come to terms on an agreement of sale," the paper said.

In a press release issued Feb. 2, Sunoco said it has received "some degree of interest" in its Philadelphia refinery and will continue to try and sell it as an operating refinery. The company said it has not received any proposals to buy Marcus Hook as an operating refinery, but is continuing to pursue alternatives for the facility. At this time, it does not believe Marcus Hook will be purchased and re-started as an operating refinery.

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SAVE OUR REFINERIES!

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Later Closure?

The Dept. of Energy posted on its website Jan. 26 that "Sunoco plans to run Bakken crude at its Philadelphia refinery on a more regular basis, which could allow the plant to stay in operation beyond its current closing date in July, trade sources familiar with refinery operations said on Thursday. Using the light, sweet crude from the Bakken shale oil formation in North Dakota could boost refinery profit margins because it costs less than imported crudes priced off of North Sea Brent."

We will have to wait and see if this proves to extend the life of Sunoco's Philadelphia refinery.

Intense Lobbying

While the International is working to find buyers for the three refineries, the locals have been lobbying at the national, state and local levels to get help from legislators in finding buyers, getting national agencies to investigate the impact of the closings and holding hearings where Sunoco and ConocoPhillips CEOs are questioned about their decisions to shut down the facilities.

USW International President Leo W. Gerard wrote to the Northeast congressional delegation Nov. 30 requesting public hearings, help with finding buyers for the refineries, and help with contacting Pennsylvania state officials, the Dept. of Energy's Energy Information Administration and the Federal Aviation Administration (FAA).

U. S. Reps. Edward J. Markey (D-MA), Henry A. Waxman (D-CA) and Robert A. Brady (D-PA) as well as a bi-partisan congressional delegation from the Philadelphia area wrote letters to the Energy Information Administration (EIA) asking the agency to investigate the impact of the shutdowns on the supply and pricing of oil products in the Northeast.

The EIA issued a short report Dec. 23 that validated the union's remarks. The report said the reduction in refining activity in the Northeast is likely to impact supplies of ultra-low sulfur diesel, gasoline, jet fuel supplies and heating oil. Accompanying price spikes could result as well.

Members of Congress also wrote letters to Sunoco and ConocoPhillips, wanting to know the impact of the closures on the local area and telling them they were willing to help find a buyer and would monitor the companies' attempts to sell the facilities. They also wrote letters to the Federal Trade Commission, requesting the FTC review the decisions by the companies to close these refineries to see whether these actions would be anti-competitive and adversely impact consumers.

FTC Chairman Jon Leibowitz wrote back Jan. 27 to Rep. Brady and said the FTC staff is carefully evaluating the EIA December report. He said the agency's regulatory efforts "abide by a bedrock principle of our free market economy and antitrust jurisprudence that a firm's unilateral business decisions generally do not violate the antitrust laws."

At the beginning of January, local union leaders from the three refineries and USW staff members met with the Department of Energy.

Investigations Sought

In mid-January President Gerard wrote to the FAA and asked the agency to investigate the potential effect on the supply and quality of jet fuel to the Northeastern airports as a result of the three projected refinery closures. He also asked the agency to take action to ensure the refineries remain open and the supply of high-quality jet fuel in the Northeast remains secure.

Gerard also sent a letter to Pennsylvania Attorney General Linda L. Kelly requesting an audit of the three refineries to determine whether or not the companies' claims of unprofitability and economic unsustainability have any merit; to see whether the closures would have an anti-competitive effect or adversely impact consumers; and to determine whether or not there are sale conditions that might amount to an illegal restraint of trade.

State Hearings

State Rep. Stephen Barrar, (R-160), held two hearings on Jan. 10 that inquired about the emergency preparedness of the idled sites and the effect of the refineries' closure on Western Pennsylvania. Barrar is chairman of the Veterans Affairs and Emergency Preparedness Committee.

The State Senate Majority Policy Committee, chaired by Sen. Ted Erickson (R-26), held a public hearing Feb. 6 that looked into the impact the refinery closures will have on statewide fuel supplies of gasoline, diesel fuel and heating oil.

The impact could be serious in the Pittsburgh region, where federal regulations require use of a specific blend of gasoline.

Governor's Response

International Vice President Gary Beevers has been trying to get a one-on-one meeting with Pennsylvania Governor Tom Corbett, Jr. for two months to discuss efforts to find new buyers, promote a sale and save the refineries. He wrote two letters to the governor requesting a meeting and Corbett never responded.

Corbett has not attended one stakeholders meeting or one public event to discuss the future of the refineries and he has not publicly commented on the refinery closures.

He has preferred to respond by forming an action team to find buyers for the facilities.

A press conference at the state capital and a candlelight vigil at the governor's mansion are scheduled for Feb. 8. The impact of the closures on fuel supplies and U.S. economic security and the governor's tepid response will be highlighted.

Besides participating in stakeholder meetings and lobbying local, state and national elected officials, the refinery local union leaders participated in a Washington, DC press call Jan. 5 and talked with reporters from national publications. They, along with member activists, organized a successful community walk and rally on Nov. 5 that drew at least a thousand union members and community supporters. Now they are organizing a Feb. 15 family day in Washington, DC that will feature a press

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conference in the Senate building, lobbying on the Hill and a protest action.

Possible Hearing

The USW has been pressing elected officials for congressional hearings. Pennsylvania Senator Robert P. Casey, Jr. wrote a letter Jan. 25 to the CEOs of Sunoco and ConocoPhillips and said he would consider holding Senatorial hearings related to the refinery closures if the companies are not forthcoming with their economic analyses that led them to conclude the refineries are not profitable and should be shut down.

He also wrote that there needs to be greater transparency in the sales process because he heard concerns that the companies are placing parameters and restrictions on the sale of the facilities.

"Shuttering these facilities is not an acceptable outcome," Casey wrote. "There are many strong potential reuses, including uses that would bolster the Commonwealth's growing Marcellus Shale industry, that need to be considered."

CEO Steps Down

Sunoco announced Feb. 3 that Lynn Elsenhans will step down as CEO and board Chairman the end of this month. According to media reports, the company posted a $660 million fourth-quarter loss, most of which were from asset write-downs and idling expenses at its Marcus Hook and Philadelphia refineries. Refining and supply operations supplied $117 million in losses.

The company also announced it is establishing a fund to handle environmental remediation at its sites. In addition it is contributing about $200 million to a voluntary employee benefit association. The contribution likely covers retiree medical expenses through 2020, but eliminates Sunoco's liability beyond that point.

"Once that money runs out, there is no guarantee of health care for those folks," Local 10-1 President Jim Savage said to The Delaware County Daily Times. "She's (Lynn Elsenhans) been here for three years and a couple months, and I guarantee that she'll be treated better going out the door than the number of employees that have given their lives to this company."

How You Can Help

The announcement that Hovensa will close and Port Reading might be shuttered makes it urgent that action be taken to keep the Philadelphia area refineries operating. You can take action by going to our union's homepage, www.usw.org, and clicking on the revolving photo panel that shows an oil worker and says to "take ACTION!" You will be able to sign a petition to keep the refineries open and write a message to your senators, representatives and state legislators asking them to hold public hearings on the refinery closures.

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USW Issues Alert Regarding Tesoro Incident That Killed Seven Workers

During the course of the United Steelworkers investigation of the catastrophic failure of a heat exchanger at the Tesoro refinery in Anacortes Washington that killed seven workers, a number of concerns have risen which may pertain to a large number of process vessels currently in use in the US refining industry. Be sure to pass this information on to your plant management and membership. It's important. Future lives could be saved.

This alert is to raise awareness of the concerns with this equipment.

- Vessels operating at 50°F and 50 psia under the Nelson curve have now been determined to be susceptible to High Temperature Hydrogen Attack (HTHA). Vessels operating in this range should be inspected for HTHA using a variety of non-destructive testing methods as described in American Petroleum Institute (API) 941.
- A vessel could be susceptible to HTHA if it is operated over the Nelson curve limits for short time durations but for a large number of temperature cycles. HTHA is not necessarily restricted to vessels operating over the curve for long durations. Periods of operation above the Nelson curve, even of short duration may increase the opportunity for HTHA.
- Vessels undergoing Post Weld Heat Treatment (PWHT) are more resistant to HTHA due to reduced residual stresses. Vessels with a thickness of less than 1½ inches are not required by the ASME code to be PWHT, but considering the advantages, it would be in the operator's best interest to PWHT these vessels if operated in a hydrogen service.
- The increasing age of refineries in the United States increases the hazards and requires diligent maintenance. Failures tend to follow a pattern known as the "bathtub" curve because it is shaped like the cross section of the bathtub. In early years the failure rate may be high due to manufacturing defects. This is the age of infant mortality. In middle age, the failure rate is low and as age advances the failure rate increases again due to old age wear out.
- Equipment is getting older and is more prone to failure from wear due to age. Deterioration of vessels and especially welds will occur over time and needs to be part of a regular and rigorous inspection program.
- When non-destructive testing is done, it should be done in areas most susceptible to failure such as wear weld seams or the hottest sections area of the equipment. Testing at random locations is not good practice and testing at the most readily accessible locations is not necessarily good practice.
- Finally, outside transient stresses (e.g. temperature or wind chill) should be taken into consideration when determining inspection requirements and equipment life.