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Filer:	Isabella Bianchi
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Refinery Resupply Planning – Analysis of Key Parameters

California Energy Commission

Kevin DeCorla-Souza
Senior Director, Energy Markets

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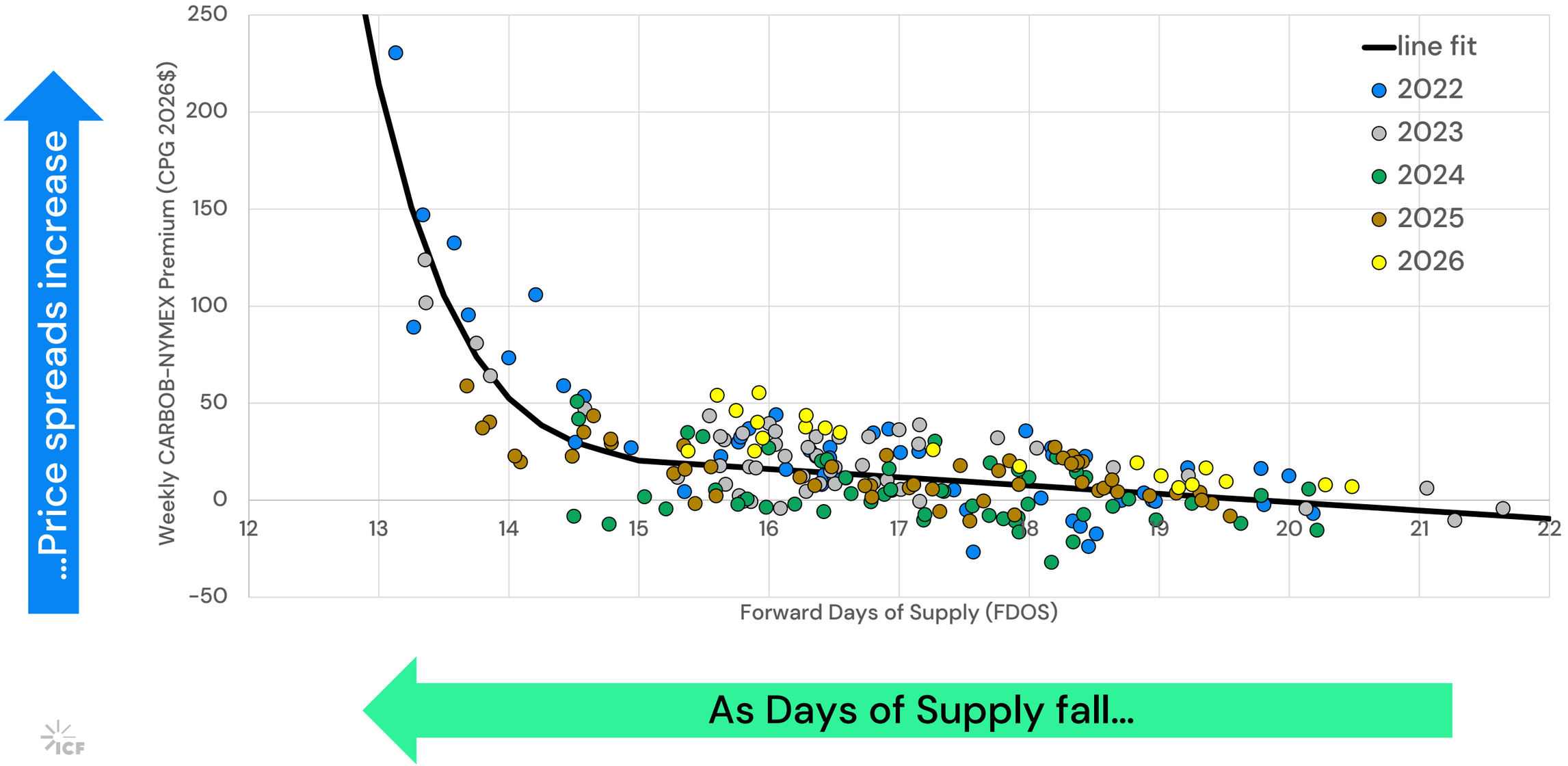
Refinery Resupply Planning – Key Parameters

1. **Minimum Production Loss Trigger:** At what size planned gasoline loss should Resupply Planning be required?
2. **Resupply Amount:** For qualifying outages, what percentage of the expected gasoline loss should be resupplied?

California Gasoline Price Model



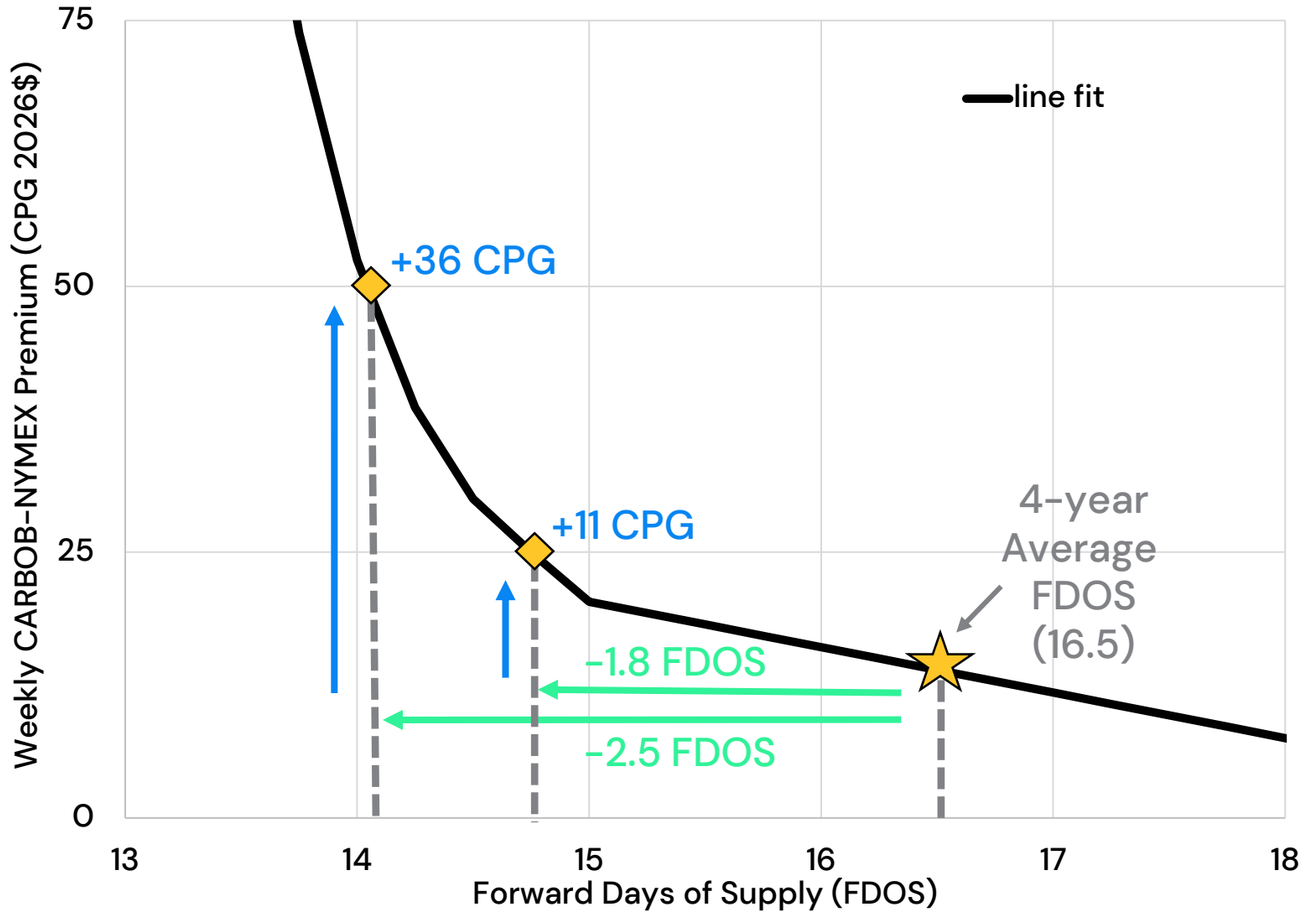
Minimum Production Loss Trigger

The Minimum Production Loss Trigger is driven by a policy question: what price premium is too high?

From a 16.5 FDOS starting point:

- 50 CPG premium → -2.5 FDOS drawdown
- 25 CPG premium → -1.8 FDOS drawdown

Note: results are sensitive to the initial FDOS starting point



Minimum Production Loss Trigger for Individual Refiners

Because two or more simultaneous refinery outages are common, the production loss trigger for individual refiners may be set lower:

From a 16.5 FDOS starting point:

- **50 CPG premium** → -2.5 FDOS drawdown (-1.92 mn bbls) / 2 = **~960,000 bbls**
- **25 CPG premium** → -1.8 FDOS drawdown (-1.36 mn bbls) / 2 = **~680,000 bbls**

Resupply Amount – Diminishing Returns

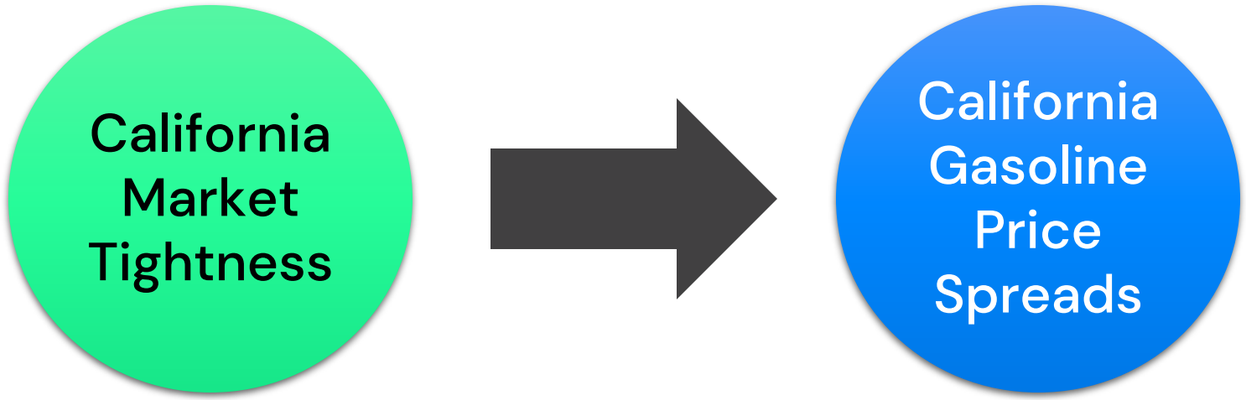
Scenario: 960,000-bbl Production Loss Trigger (Avoid 50 CPG premium / 36 CPG price spike)

Takeaways

- **Minimum Production Loss Trigger:** can be informed by the Gasoline Price Model but it is driven by a policy question—how much of a premium versus NYMEX is tolerable?
- **Resupply Amount:** resupply benefits exhibit diminishing returns—price reductions are greater for the first barrels replaced
- **Resupply Source:** Price reduction benefits require resupply to come from outside the West Coast region (additive to regionwide inventories)
- **Resupply Timing:** Resupply would optimally come in before or during the outage

California Gasoline Price Model

Results of benefit-cost analysis are driven by California Gasoline Price Model that establishes a relationship between two key variables:



California Gasoline Market Tightness: Forward Days of Supply

Stocks at beginning of week

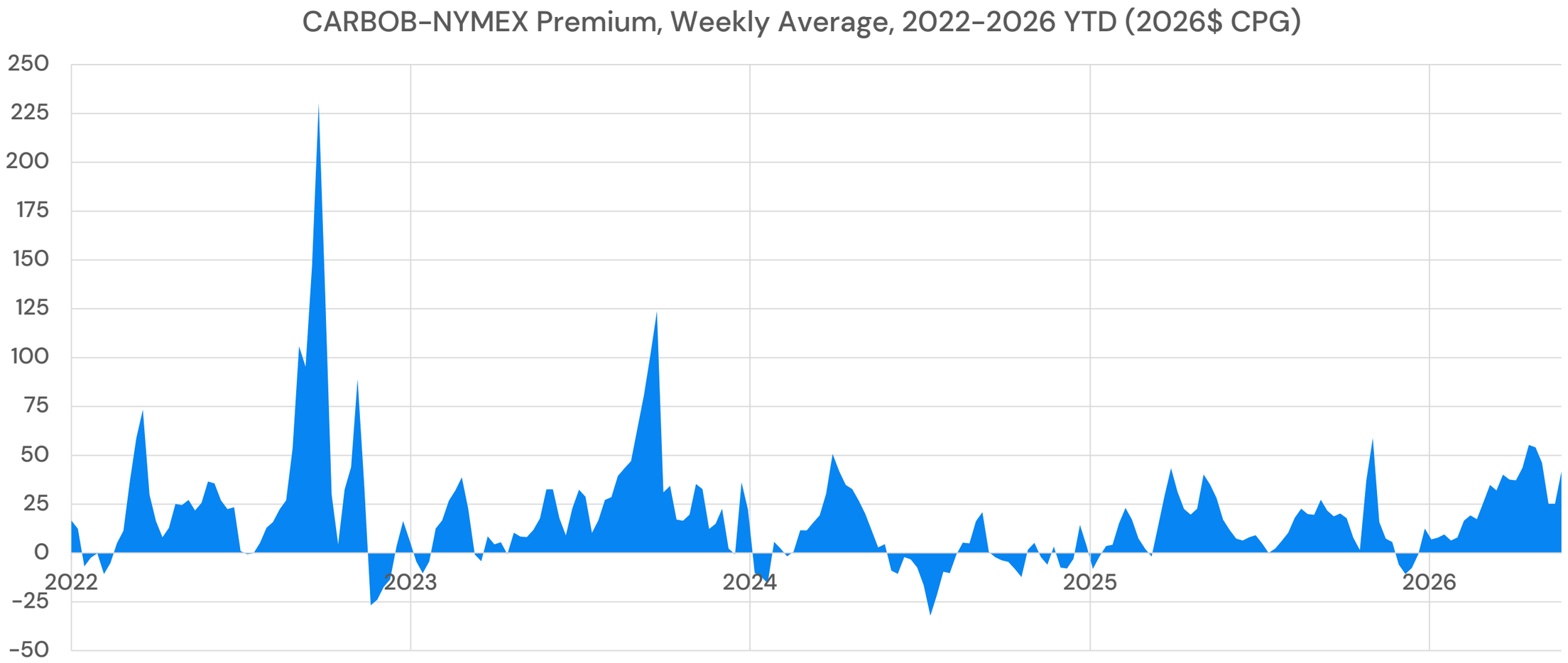
Expected build (+) or drawdown (-) in stocks over next 3 weeks

$$Fwd\ Days\ of\ Supply_{t=0} = \frac{Stocks_{t=-1} + \sum Exp.\ Supply\ Balance_{t=0,1,2}}{Avg.\ Daily\ Demand_{t=0,1,2}}$$

Common metric to measure market tightness

Avg. daily motor gasoline sales (less ethanol content)

California Gasoline Price Spreads



Source: Argus, CME, ICF calculations
Note: CARBOB-NYMEX Premium = LA Spot CARBOB - NYMEX Front-Month New York Harbor RBOB - RVP premium (~4 cpg per 1 psi RVP difference)

Get in touch with us:

Kevin DeCorla-Souza

Senior Director, Energy Markets
Kevin.DeCorla-Souza@icf.com

linkedin.com/company/icf-international
twitter.com/ICF
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