



Oil-Express

exclusive report serving informed petroleum marketers nationwide

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Gasoline Price Barometer

April came in with a split personality for gasoline. West Coast gas dipped some 27cts/gal below late March highs, but N.Y., Gulf Coast, and Midwestern bulk markets hit new 2007 highs, led by some frenetic futures' trading.

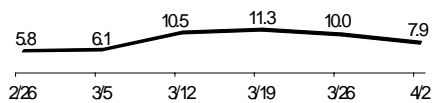
Gasoline futures have so far recorded a gain of about 80cts/gal from late January, representing a move of nearly 60%. The latest leg higher was tied to refinery woes east of the Rockies as well as brisk demand. But the California market refused to participate, and that reluctance could foretell weakness in other areas.

The first quarter of 2007 saw a national rack-to-retail margin of 13.2cts/gal, and with gasoline prices varying by an average 4.84cts/gal each day, nearly 37% of marketers' gross profit was at risk each 24 hours.

Diesel prices moved sharply higher in most parts of the country last week thanks to problems with desulfurization equipment at a number of large refineries.

National Rack-to-Retail Margins

(Averages in cts/gal)

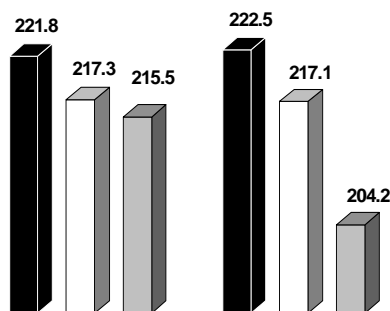


Source: OPIS Retail Fuel Watch
For more information call 1-888-301-2645.

Average U.S. Contract Price

(in cts/gal)

Unleaded Gasoline No. 2 Oil



Source: Oil Price Information Service

■ Current Week □ Previous Week ▒ Year Ago

Sun buyout speculation hits financial markets

As they say on Wall Street, Sunoco may be "in play." The Philadelphia-based refiner, long believed to be a potential takeover target for larger major or offshore oil companies, had some unusual activity in its stock as March ended, with speculation that a buyout deal might be looming in the second quarter.

Sun has a market capitalization of about \$8.5 billion and is particularly attractive to existing or new refiners looking to enter the lucrative northeastern market. Some analysts believe that the company has two choices – get bigger through more acquisitions, or find a partner. Talk about an imminent change was sparked by options trading, which saw out-of-the-money "call" volume some four or five times the normal rate last Friday. Industry buzz became more heated when Sun execs cancelled plans to attend an early April energy conference in Houston. Shares in Sun stock hit \$73 just before presstime, representing a ten month high.

Several people left the company's trading department in the last two weeks, but sources do not believe the departures are related to the takeover speculation.

Valero changes spur branded marketer concern

It's been a game of musical chairs at Valero's San Antonio headquarters lately, and branded marketers hope that when the music stops, they'll have a company that remains committed to pushing the Valero flag.

The past ten days have seen more than a dozen Valero executives leave the company, but not necessarily leave the premises. That's because Bill Greehey's company NuStar has hired a number of now former Valero personnel. They'll work with the terminaling and pipeline company that used to bear the Valero name, but which is now unaffiliated with the former parent. It's a bit confusing, and perhaps awkward because until NuStar relocates in mid-April, its personnel and Valero share the same headquarters' building.

The departures have been across all segments of Valero, with several traders, schedulers, and IT personnel moving to the NuStar entity. Three departures were registered in marketing, although only two of those moved to the Greehey-run NuStar.

Valero wouldn't comment specifically on the moves, and top brass indicated that they preferred to address issues directly with customers. Branded and unbranded marketers received a letter from vice president of wholesale marketing Eric Moeller at midweek, which acknowledged two marketing vacancies, and then declared that Valero is "committed to growing in both the branded and unbranded wholesale channels."

Gasoline Supply Barometer

Gas stocks fell by 5 million bbl nationally, with about half of the drop occurring in blendstocks. That makes some sense, given the drop in imports of blending components.

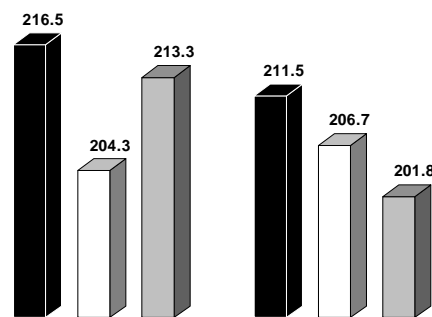
But there is a funky nature to some of the gas statistics. Input to crude units was steady at about 15.14 million b/d and gas production slipped by 155,000 b/d to 8.773 million b/d. Problems at refineries in the Chicago area and Texas explain most of that drop. Yet, on the West Coast, where input slipped by an alarming 152,000 b/d, refineries there were still able to turn out about 27,000 b/d more gas.

Perhaps the funkiest number is nationwide gas demand. DOE put the figure at 9.491 million b/d, up 241,000 b/d from last week and some 428,000 b/d above late March 2006. But there were reports that the number was skewed because of a revision in the previous week's inventories. In any case, few marketers believe that demand is as high as the numbers, which are more indicative of August levels.

Average U.S. Spot Price

(in cts/gal)

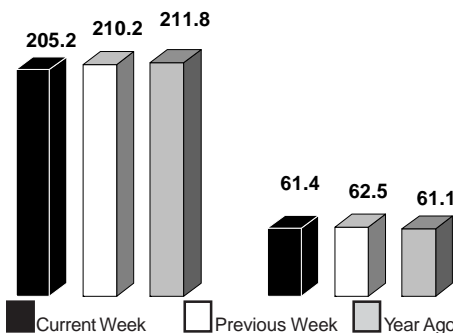
Unleaded Gasoline No. 2 Oil



U.S. Refinery/Inventory

(in million b/d)

Gas Stocks Gas Production



Unbranded marketers were largely unfazed by the changes, but branded Valero jobbers expressed concern. Most of the branding east of the Mississippi has taken place in the last five years.

“We signed on to be with Greehey,” one multistate marketer told Oil Express. “Now he’s gone, and it looks like Klesse (the current Valero CEO) wants to concentrate on refining and merchant sales.”

Others say they’ll be patient, hoping that Moeller will eventually implement some branded programs and push the Valero name via credit card solicitation, advertising, or co-branded deals. Marketers concede that Valero has had competitive wholesale prices, but they took notice at one point last week when Valero’s unbranded quotes slipped well below branded rack. They’ll push for a branded jobber council, a step that some believe was stonewalled by former marketing vice president Ken Applegate.

Ultimately, marketers want Valero to live up to the promise former CEO Bill Greehey made when he said that the company would have the clout of a major, but behave like an independent.

BJ’s begins hedging some of its gasoline price risk

Big box retailer BJ’s took the plunge into futures and options in 2006 in an attempt to hedge some of its gasoline sales. The company’s disclosure comes in a 10-K filing made with the Securities and Exchange Commission last Wednesday.

BJ’s said that it is “periodically hedging” a portion of anticipated future petroleum product sales through the use of derivative contracts. So far, it has only used “exchange traded options,” according to the filing. Since it has not designated the contracts as hedges, the value of the options contracts is adjusted to the fair market value at the end of each reporting period, with a corresponding gain or loss reflected in the cost of sales.

It sounds confusing, but the bottom line is that BJ’s recognized a pretax loss of \$381,000 from its gasoline hedging activities in 2006. As of February 3, 2007, the company had no open positions, so there’s no clear indication that there is a commitment to a long term strategy to hedge gasoline costs or sales.

One observer suspects that BJ’s might have employed out-of-the-money “calls” to guard against a wholesale price spike in the second half of 2006. It may have seen those options expire worthless, but that was likely off-set by larger than normal retail margins in the period.

The company recently had some turnover in its gasoline procurement side, so it’s not clear whether using financial tools represented a “lark” or an ongoing strategy.

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Shell wants marketers to get more “passionate” about their gasoline

Shell executives are a bit touchy about the quality of their gasoline, as one might expect given their plans to spend \$35 million on an ad campaign that showcases their additives. Accordingly, they have alerted marketers to fight back against what they perceived as a “flaw” in a Good Morning America segment that aired in late March.

Ironically, Shell takes issue with the ABC piece that compared Mobil branded gasoline with a local discount brand, and which included comments by the Maryland Comptroller regarding performance tests, and the suggestion that “all gasolines are the same.” An email from Shell to marketers last week said that Shell will respond using its “Top Tier” contacts. They say that the Original Engine Manufacturers (OEMs) are the right people to deliver that message.

Shell refers to its “Passionate Experts” – a reference to actors portraying Shell scientists who are experts on gunk, and believes that GMA didn’t address the quality and quantity of the additives, which is where the company believes a real difference can be found.

The company’s spin: The summer advertising campaign which will focus on combating “gunky build-up” is particularly timely and will help consumers recognize the benefits of using Shell fuels. That “stop gunky build up” promotion now includes a \$20 statement credit, funded by Citibank, on all new Shell branded credit card accounts opened with a second quarter postcard special offer, provided they apply and are approved at the special phone number listed on the promotional piece. Last year’s version of the post-card promo saw 4,500 new Shell branded card accounts at over a 50% approval rate, versus average site level take-one approval rates of 25%.

Some 15% of the promos mailed will go to existing Shell branded card customers with a coupon contingent upon using the Shell branded card. The remainder go to non-Shell branded card prospects, and that promo finds the Citi-funded \$20 statement credit once approval is rendered.

BP traders leave in early spring “exodus”

The company that prides itself on its emphasis on trading just lost a baker’s dozen of top talent. Thirteen traders at various BP global desks departed from various offices on the last business day in March, with many taking high level positions with “Wall Street refiners.”

Most of the movement was offshore, with at least 10 products traders in London and two others in Singapore leaving the BP premises last week. Many of the traders specialized in gasoline and will trade cargoes for Morgan Stanley and Vitol.

More striking was the report that at least one gasoline trader was hired by Delek, the Israeli-based company that has a U.S. presence and is looking at expansion worldwide. Delek is among the surprising frontrunners for Valero’s 160,000 b/d Lima, Ohio, refinery.

While initial reports suggested morale issues, or possible further consolidation for BP, contacts within BP say that it is “simply the season” when traders have cashed their 2007 bonuses and are ready to move on. However, there are murmurs that BP could look to sell other European assets beyond its proposed sale of the Coryton, UK plant to Tom O’Malley’s PetroPlus and that could portend less trading activity for the multinational.

There is certainly no shortage of opportunities for experienced global traders. A number of investment banks are looking for physical traders at desks in N.Y., Houston, London, Singapore and elsewhere. Most recently, Bear Stearns mentioned a prominent expansion of its energy trading.

BP’s trading practices have caught the eye of regulators in the U.S. There is still an ongoing investigation by the Commodities Futures Trading Commission (CFTC) that accuses BP of manipulative trading in NYMEX gasoline futures in October 2002, as well as other investigations of alleged gamesmanship by BP in crude and propane. Sources stress, however, that last week’s personnel exits have nothing to do with those inquiries.

Huge private equity firm decides to sell its pipeline stake to willing Wall Street buyers

Buyout specialty house Carlyle/Riverstone is cashing in on its investment in Buckeye Pipeline. It will still hold financial interests in several other master limited partnerships, but it will turn over its general partner interest in Buckeye GP Holdings, and also sell a 63% limited partner share of the company. The buyer will be an entity composed of affiliates of ArcLight Capital Partners, Kelso & Company, and Lehman Brothers Holdings.

The closing of the transaction will result in a change of control of Buckeye GP Holdings, as well as Buckeye Pipeline, and it's expected that current chairman and CEO William Shea will step down. He'll be replaced by Forrest E. Wylie, former vice chairman of Pacific Energy Partners LP.

Kelso is best known in oil circles as a 50-50 partner with a Goldman Sachs affiliate in the Coffeyville Resources refining and fertilizer venture in Kansas. Meanwhile, ArcLight Capital Partners is a Boston based private equity group specializing in energy infrastructure with some \$4.6 billion under management. Carlyle/Riverstone still has numerous investments in pipeline, terminalling, and renewable fuels across the country, including stakes in Magellan, SemGroup, and Kinder Morgan.

C-store chain will pay \$1 million to settle Labor Department lawsuit

A New York-based C-store chain will pay \$1 million to settle claims that it cheated its employees out of wages. Chestnut Petroleum Dist., Inc. allegedly shortchanged workers at 37 C-stores it operates throughout the Hudson Valley in New York; in Brooklyn and Long Island; and New Jersey and Connecticut.

Employees received less than the federal minimum wage and were not properly compensated for overtime hours, claimed the U.S. Department of Labor (DOL) which sued Chestnut for allegedly violating the federal Fair Labor Standards Act (FLSA). The underpayments occurred over many work weeks during the period between April 20, 2003, and May 28, 2006. An investigation also showed that employers failed to keep required records that showed hours worked each day and each week, as well as rates of pay for many of the employees, said DOL.

Chestnut, a multi-branded operator based in New Paltz, N.Y., agreed to pay \$900,000 in back wages to 767 employees and to forfeit an additional \$100,000 in penalties to the federal government.

The DOL filed suit against Chestnut in the U.S. District Court for the Southern District of New York. The suit also named as defendants four brothers who run the company, Salah "Sal" Jamal, president; Khalil "Cal" Jamal, secretary; Saleh "Sam" Jamal, treasurer; and Ahmad "Mickey" Jamal. Mickey Jamal started Chestnut Petroleum in 1981. His brothers later joined the business. In 2004, the New York Association of Convenience Stores named the Jamals one of "New York's Foremost Convenience Store Families."

ConocoPhillips' diesel allocation unfair, Rockies' jobbers charge

Rocky Mountain ConPhil jobbers say a diesel allocation imposed last month favors the firm's commercial accounts to the detriment of jobbers.

ConPhil brought its Billings, Mont., refinery down for turnaround on March 22. Jobbers were told that they could pull only 80% of their diesel contracts while work is underway, but allows commercial accounts to pull 100% of their allotment. Marketers say the major is giving those accounts "preferential treatment," even though they do nothing to promote the brand. Marketers are particularly irked because when Phillips bought Conoco, the combined firm took the accounts away from jobbers

Conphil spokesman Kelvin F. Covington told OE that it has a commercial group and a marketing group and their contracts have different terms.

Another blow to jobbers in the region was word that ConPhil may not be able to supply some of their new locations in the future. ConPhil's line going into the turnaround was that plenty of diesel would be available upon completion of turnaround work, said jobbers. Some customers have since been told that ConPhil will not have diesel for new sites.

Chevron irks some marketers with hourly surveillance

Chevron continues to evoke “Big Brother” comparisons in the wake of late winter “Road Show” meetings that some jobbers believe featured some intrusive requirements. The major gets plenty of electronic data, but gives marketers nothing in return, jobbers say.

The latest complaints come with the arrival of spreadsheets sent from Chevron headquarters to marketers. The reports display daily first and last credit card transactions each month for each Chevron branded site in a distributor’s supply network. Average hours of operation aren’t just noted in a separate column – stations that average less than 16 hours per day of sales are highlighted.

Coming on the heels of a particularly miserable six weeks of low margin, where hypermarkets and “new era” retailers have pushed some distributors to the edge, the reports haven’t garnered rave reviews.

“We tell them that there is no money in marketing, and we need help. They’ve sold off the real estate, eliminated their tank liability, and now they’re trying to push us to stay open 24 hours,” one multibrand distributor lamented. “Do they want us to spread our losses over a greater time span?”

Just last month (OE 3/26/07) Chevron raised eyebrows when it noted that image evaluations this year would include a “competitive assessment” of a specific station’s unleaded regular pump prices, designed to help the marketer “keep one step ahead of your competition.” It includes price assessments for up to three locations visible from the Chevron or Texaco site.

Some marketers aren’t comfortable with Chevron’s knowledge of local prices and local hours.

“We know our markets and what it takes to compete and stay alive,” one southeastern distributor told OE. “But apparently they think some manager in California might have a better idea.”

Chevron has indicated that the moves are simply part of an overall strategy, and will not be punitive in nature.

ExxonMobil will shed more terminals in New York and North Carolina

Fresh off its sale of three northeastern terminals to Global Partners, ExxonMobil is looking for buyers for at least three other terminals, OE hears. The company wouldn’t comment on more asset sales, but it’s thought that it will continue to sell facilities and simply ink long term throughput agreements.

Sources say that the company’s 291,000 bbl Selma, N.C., terminal is on the market, and lively bidding from master limited partnerships is expected. The Selma facility serves a high growth area in the southeast, and is also popular for major throughputters.

The major may also move its 93,500 bbl Glenwood Landing, N.Y., terminal as well as a 210,000 bbl facility at Inwood, N.Y. The latter could be highly coveted since it has very high throughput in a metropolitan area with a low ratio of bulk storage, given the population.

Getty Realty buys 59 more stations in nine states

Getty Realty has acquired some 59 more tenants in one of its largest real estate deals in years. The company purchased 59 C-store and gasoline properties in nine states, including Hawaii, California, Texas, Illinois, North Dakota, Arkansas, North Carolina, Maryland and New Hampshire. The seller was GE Capital Solutions.

Some of the stores are well known. Getty bought a number of Aloha Petroleum outlets in Hawaii, as well as Exprezit! stores in North Carolina and Jack-in-the-Box locations in California and Texas. Chevron will now be one of Getty’s tenants as will Carol Independent Fuel of Maryland. Getty Realty, headed by well known marketer Leo Leibowitz will not operate any of the sites.

The transaction is valued at \$78 million. Getty Realty Corp (GRC) owns 1,200 properties and leases 900 of them to Getty Petroleum, owned by Lukoil since 2000. GRC’s second-largest tenant is Fas Mart of Richmond, Va.

Government study says refinery downtime has little impact on prices

Refinery maintenance gets more press scrutiny than presidential candidates these days, but a just released study by the Energy Information Administration (EIA) concludes that the impact shutdowns have on gasoline and oil prices may be overrated. EIA notes that “refinery outages do not always result in price pressure” and suggests that product inventories are the more important variable.

Of course, that sort of commentary provokes chicken-and-egg analogies, but EIA holds that “detailed analysis of the market variables showed inventories to be the only significant market variable helping to explain the gasoline crack spread variations.”

Gasoline crack spreads widened beyond \$20 bbl on the Gulf Coast and to more than \$40 bbl on the West Coast this winter, with many trade participants citing refinery maintenance as a primary factor.

The EIA study was conducted at the request of Senate Committee on Energy and Natural Resources Chairman Jeff Bingaman. It concedes that “with little spare refinery capacity available during peak demand times, unexpected refinery outages can result in local supply disruptions” and “temporary price surges,” but “generally there is not a significant price impact.”

The conclusion surprises some analysts, particularly those who in December predicted that West Coast gasoline would rise because of heavier than usual maintenance in California and the Pacific Northwest.

The EIA did find two examples where refinery downtime had a notable influence on prices – citing the aftermath of Hurricanes Katrina and Rita, as well as the spring 2003 California price spike that was inspired by the occurrence of major refinery outages in a peak demand window when alternative supply was not readily available.

But EIA asserts that “outages with measurable impact” on monthly average prices are “relatively rare.” The EIA also looked at data from summer-specific months, and assumed that during that peak gasoline demand season, outages would be largely unplanned. But EIA said the data showed “no large positive correlation” between outages and the gasoline crack spread, although EIA said that it estimates that refiners can not increase fluid catcracker throughput (which translates into extra gasoline output) by more than 1% in the summer when utilization is at its peak.

While the Senate Committee did not specifically raise the issue of possible collusion among refiners looking to influence prices, the EIA report clearly states that “the market has limited the ability of refineries to do major turnarounds simultaneously” due to the lack of skilled labor available and the typical planning phase that precedes a major turnaround by as much as two years. The EIA also noted that the size and complexity of a refinery turnaround “leaves little flexibility” for shifting scheduled maintenance “even when market conditions favor keeping the refinery running.”

Reformulated gasoline transition unpopular with Illinois jobbers

Illinois petroleum marketers will soon have to replace the low-RVP blends that they sell in the summer months in four counties, with year-round RFG, despite their protests.

The switch should take place in July, state clean air sources told OPIS. EPA issued a rule late last year ordering the turnover to begin by May 1, but negative comments on the rule by Illinois Petroleum Marketers and Convenience Stores Association forced a delayed start date.

The counties that will move from 7.2 lb RVP gasoline to RFG are Madison, Monroe, St. Clair, and Jersey. They are located adjacent to St. Louis, Mo., and all are in “non attainment” with the 8-hour ozone standard, which means they must sell fuel that is cleaner than a low-RVP conventional blend.

Refiners have said that they are up to the task of supplying RFG to the four-county area but marketers argue that there will be supply problems once the low-RVP gas is gone. “We think it will affect supply in that area, and when supplies are affected, prices are affected,” said Bill Fleischli, the association’s VP. He estimates that wholesalers will pay 5-10cts/gal more for RFG than they do for 7.2 lb gasoline.