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Energy and the Refining & Petrochemical Industry

Presented to the Consumer Energy Alliance

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March 19, 2009

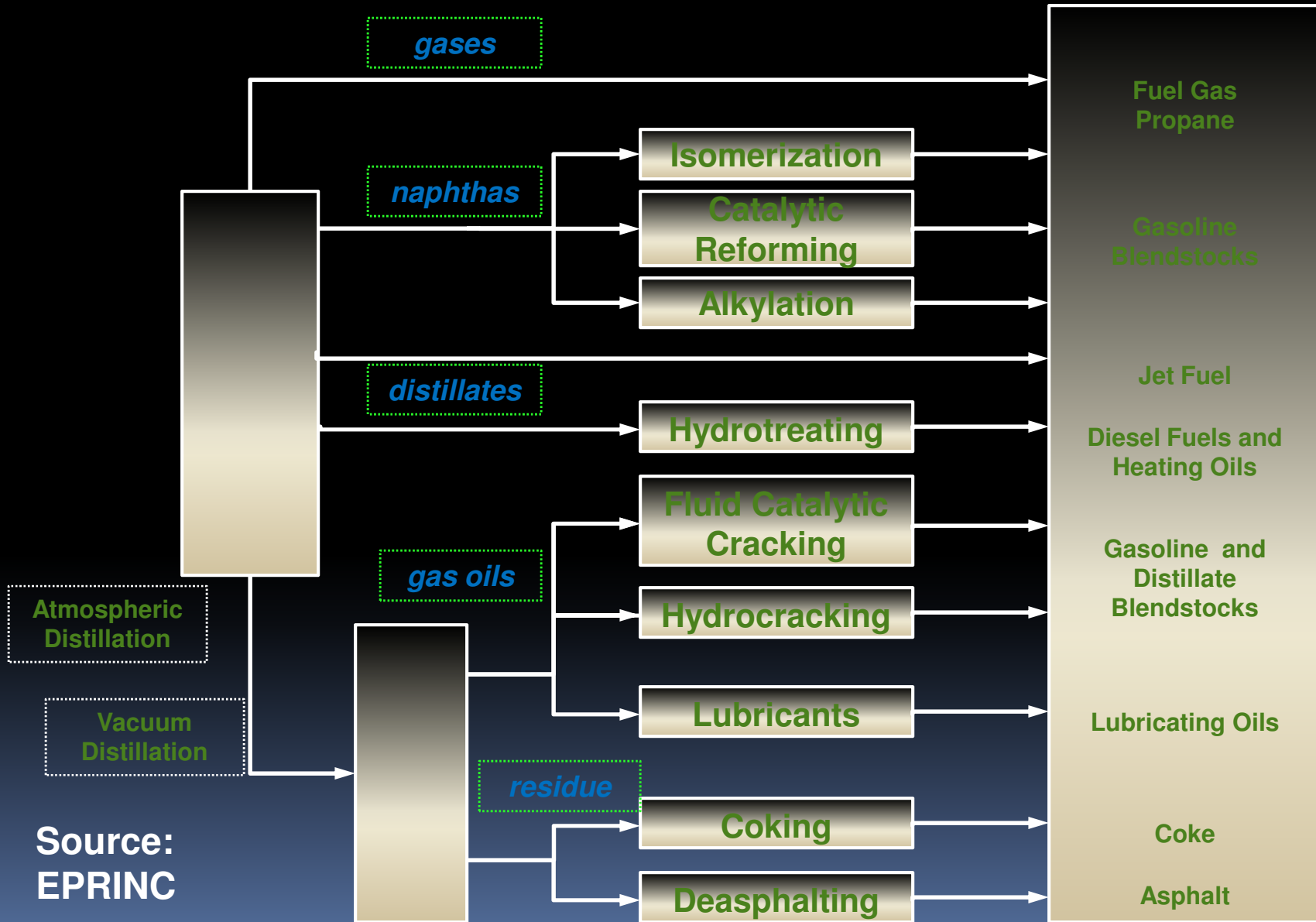
Who We Are



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- More than 450 members representing over 99 percent of the nation's refining capacity and 95 percent of all American petroleum products.
- America's oil and natural gas community employs 1.9 million people directly, and many more indirectly. The refining and petrochemical sectors represent a good portion of that workforce.
- U.S. refining capacity: 17.6 million bbls/day
 - 9 million bbls/day gasoline.
 - 4 million barrels of fuel oil
 - 1.4 million barrels of jet fuel
 - 3.4 million barrels of petroleum products

What does a refinery do?



Source:
EPRINC

Petroleum produces more than fuel



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Kevlar for bullet proof vests

Electronics safety equipment

Computer casings

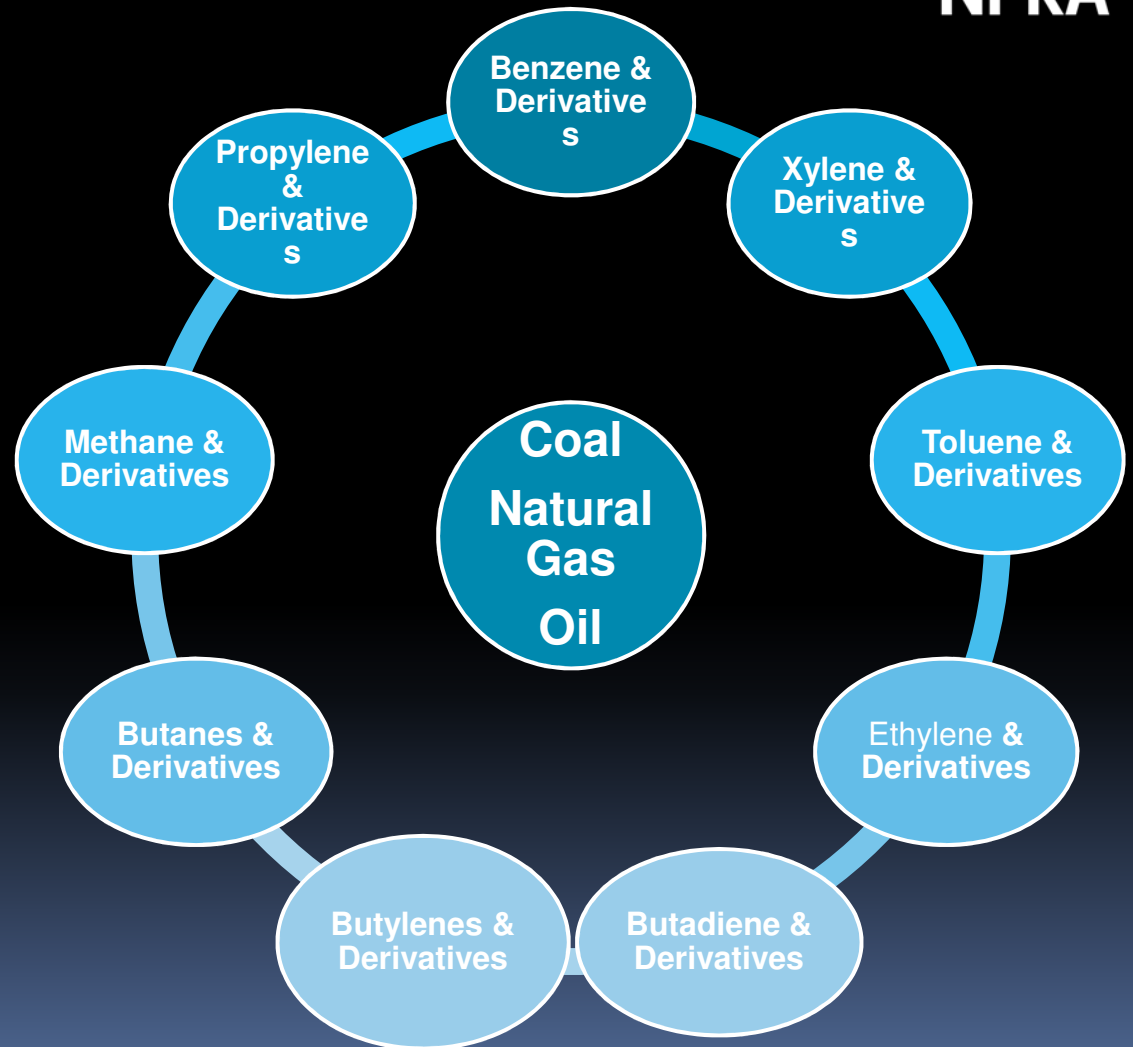
Automobile parts (bumpers, seat cushions, airbags, seatbelts, interior paneling)

Prescription drugs and over-the-counter medicines (e.g. aspirin)

Protective coatings for computer chips

Artificial knees and joints

Paints and packaging



Economics of Refining



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- Refiners buy oil off the open market and are the first impacted by volatile crude markets.
- Refining is a business of big numbers:
 - Big operating costs
 - Big capital expenditures
 - Big time horizons
- No new commercial refinery has been built in over 30 years, but expansions at existing sites have been equivalent to building one new refinery/year for the past 12 years.

Environmental Compliance Costs



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- 1995 – 2004: the industry spent \$47.7 billion on environmental emissions regulations.
- By 2010: upwards of \$20 billion to comply with new clean fuel regulations (primarily gasoline and diesel sulfur).
- RFS costs?
 - Cellulosic /Advanced biofuel subsets
 - Current RIN Market – some businesses facing \$150 million/yr in costs.
- Infrastructure costs.

Financial Volatility



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- Rates of return (ROI) in the refining industry are highly volatile, but have historically lagged behind all U.S. manufacturing.
- Declining demand, tight credit and regulatory uncertainty now impacting the refining industry.
- Over 400,000 bbl/day of production capacity representing over \$15 billion in investment put on hold due to the economy.
- Q4 2008: Independent refining & marketing revenue fell \$3.20 billion.
- Many companies *lost* money.

Sources: EPRINC; EIA

Key Issues



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- **Greenhouse Gas Control Programs** (Cap-and-Trade, Carbon Tax, “Hybrid”)
 - Allowance Allocation, LCFS
- **Taxes**
 - The President’s proposed budget would impose billions of dollars of additional taxes on the refining and petrochemical sector.
 - Sec 199 repeal, LIFO, royalties, etc.
- **Renewable Mandates**
 - Challenges with RFS – “Blend Wall,” LCA, targets generally.
- **Petrochemical Issues**
 - Chemical Facility Security rewrite
 - TSCA reform
- **Access**