

PMAC

Meeting

February 8, 2016

California Supply Challenges

Impact on retail prices

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Industry Background

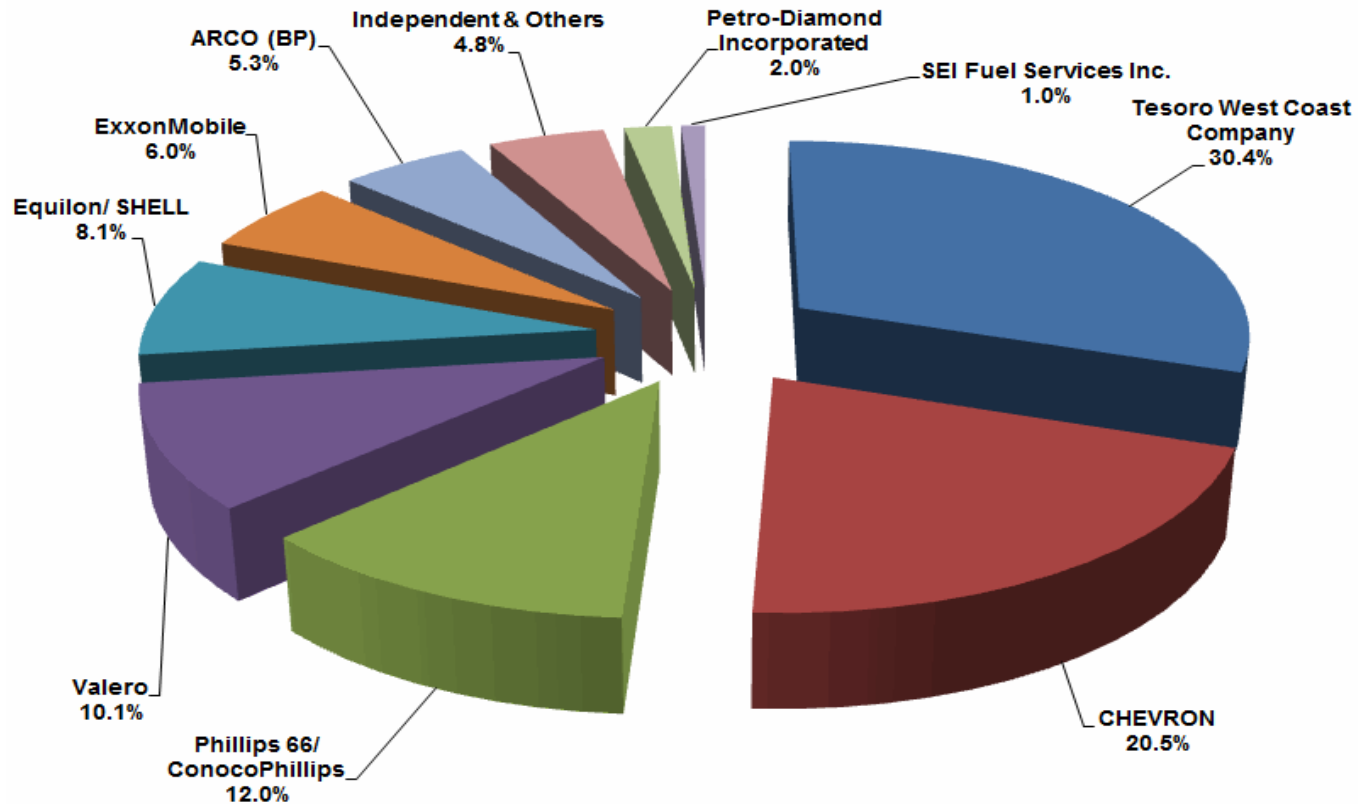
- 1976 - 1990 Wickland Oil Company
- 1990 - 1997 New West Petroleum
- 1998 - 2013 NELLA Oil / Flyers Energy, LLC
- 2013 – Present Oil Price Information Service

Why is California different from the rest of the United States?

- AB32 currently adds about \$.1500/gal to the price of fuel sold in California. The cost of these programs is designed to go up each year.
- The product specifications for fuel sold in California is the most stringent in the world.
- California is not close to other refining centers.
- Fewer companies trading in this market, making liquidity very difficult.
- Very difficult to hedge the California market.

California Market Share by Brand

2014 Gasoline Market Share



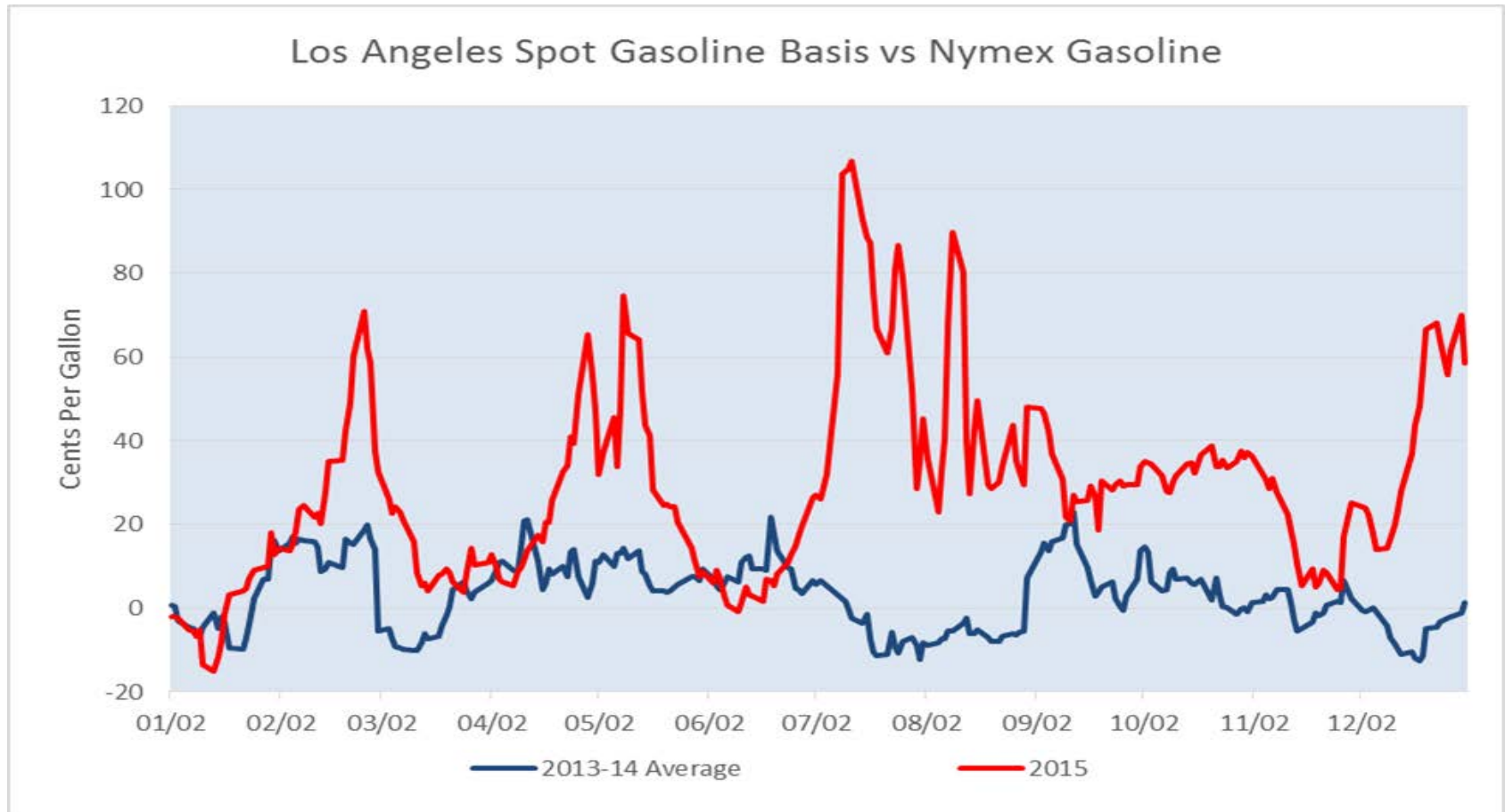
Source: California State Board of Equalization Monthly Motor Vehicle Fuel distribution report

http://energyalmanac.ca.gov/gasoline/market_share/index.html

Locations of refineries that make CARB spec fuels

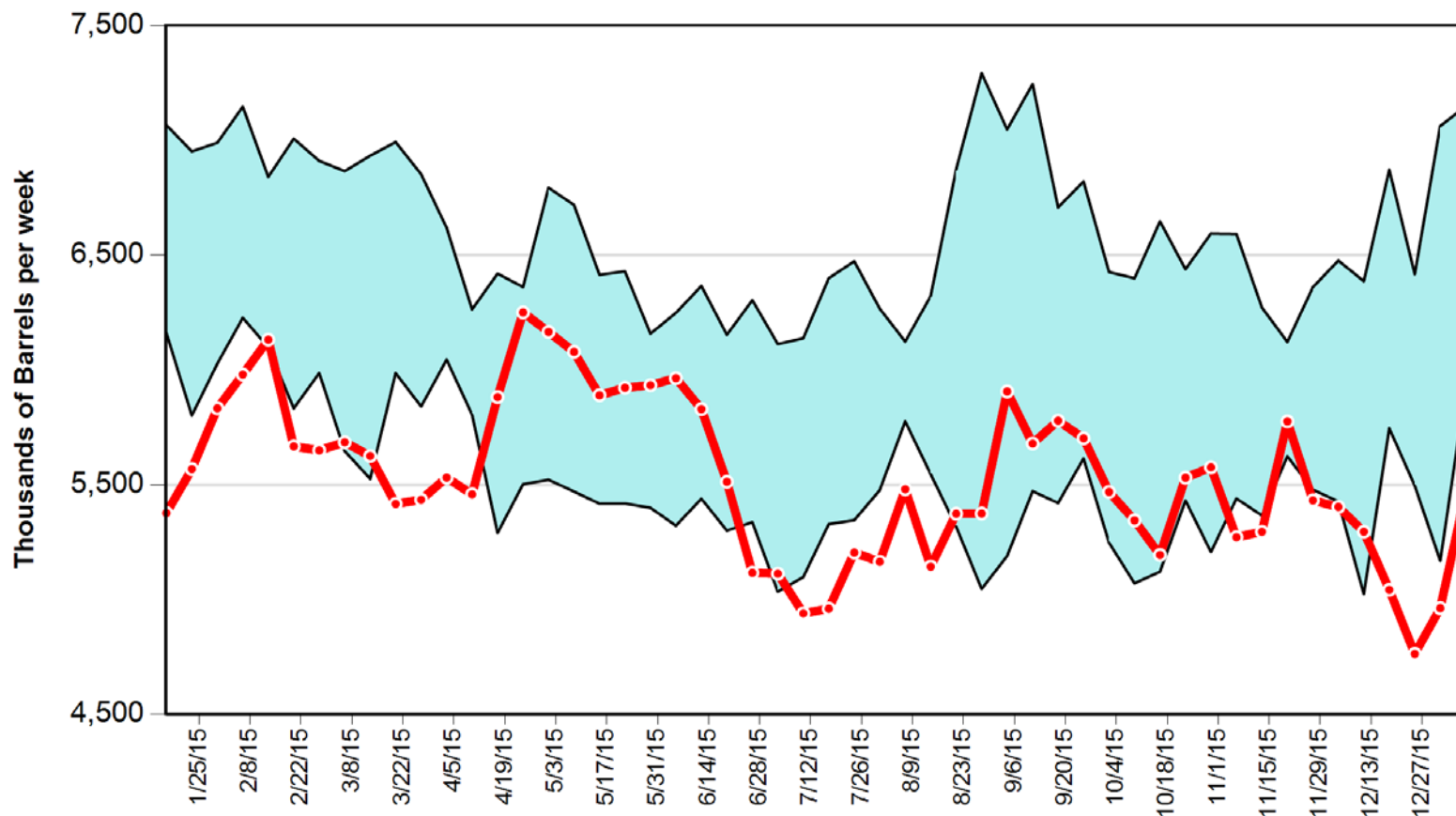


Los Angeles, CA Spot Market Versus NYMEX 9/2012-1/2016



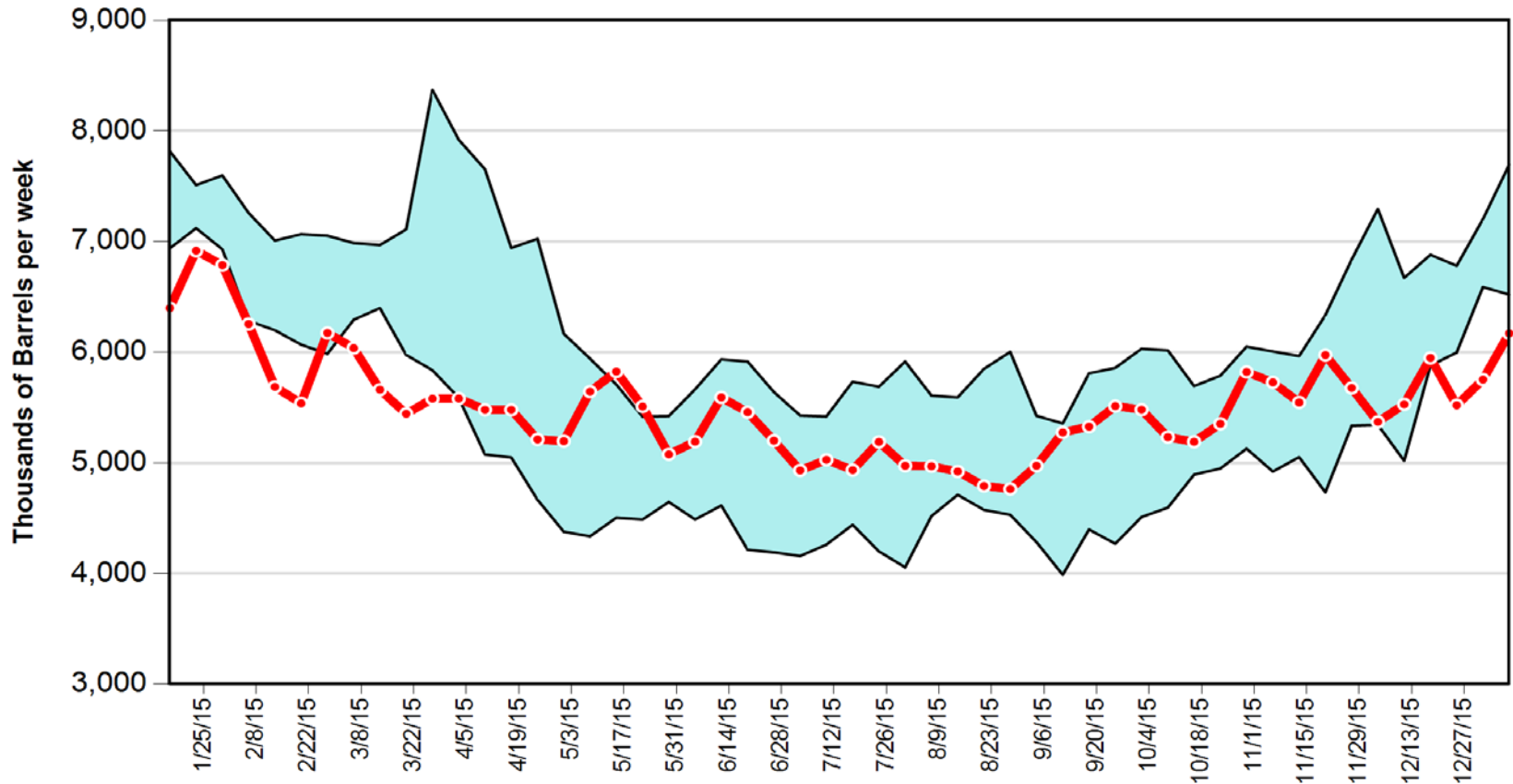
Weekly Fuels Summary - Wednesday, January 13, 2016

Southern California CARB Gas and Blendstocks Inventories (with 5-Year High-Low Band)



Weekly Fuels Summary - Wednesday, January 13, 2016

Northern California CARB Gas and Blendstocks Inventories (with 5-Year High-Low Band)



- Refiners outside California need to make adjustments to switch over to produce CARB spec fuel. Change the refining process, dedicate tanks, etc. This can take 30 days or more.
- The arbitrage needs to be high enough to cover those additional costs to produce and ship the fuel to California.
- Most voyages to California from remote areas are 12-16 days. Offloading can be held up by customs and immigration.
- Two weeks is a lifetime in the Los Angeles Spot market.
- Hedging these cargos can be challenging

Moving Product Within California

- The lack of Jones Act vessels makes it hard to move products between the California markets. Lately we have seen the differentials between the California spot markets blow out more frequently because of the inability to move the product where it needs to be.

California Storage with access to the water

- Most traders have exited the California market. Absent a refinery issue, California is now an export market for gasoline and diesel.
- Tankage to bring in a cargo is expensive. There isn't much access to independent storage to bring a cargo into.
- Most fuel storage tanks in California are locked up on term contracts with refiners.

Summary

- The California market is like an isolated island. When there is a production problem, replacement product is not close and is going to be expensive if we need it to come here to resupply our market. The stringent product specifications make this process even more difficult.
- Traders willing to take the risk to bring product into California need to find a way to ensure some kind of profit, otherwise they will not take the risk.