COMPETITOR INTELLIGENCE INFORMATION
FOR THE <u>DECEMBER 14</u> EL SEGUNDO REGIONAL COORDINATION MEETING

Note: This information is gleaned from industry publications and employee contacts with outside companies and may not be entirely accurate. (All of this month's data is sourced from OPIS unless otherwise noted.)

<u>General</u>

- **Refining/Marketing/S&D**: A senior energy analyst at the recent API convention warned that if the U.S. petroleum industry doesn't reduce its refining capacity, it will never see any substantial increase in refining margins, pointing out the recent volatility in refining margins over the past 12 months. U.S. average refining margins were sitting at the break-even point of $3/bbl in March, surged to $6/bbl in May, then dropped to 50cts/bbl in September before crawling up to the present margin of $2/bbl. In the last nine months, gasoline demand has been healthy and inventories have remained close to record lows, factors that should normally lead to higher prices. However, refining utilization has been rising, sustaining high levels of operations, thereby keeping prices low. ***Implication: in what alternate modes can the refinery operate given low-margin economies?***

<u>Unocal</u>

- **RefiningMarketing**: Unocal is exploring sale of three refineries and 1,441 gasoline stations in California due to low West Coast refining margins and high capital expenditures required to comply with stringent environmental regulations. Unocal is also exploring introduction of an unbranded mogas supply to move incremental mogas from their refineries. They would provide this to existing branded jobbers who now turn to suppliers like Ultramar, Tesoro and Tosco for supplemental mogas supply.

<u>Ultramar</u>

- **Marketing/S&D**: Ultramar approached our S&D traders to see if we would give them CARB PUL in exchange for CARB RUL and a differential. We told them that we cannot commit to any deal until we have experience manufacturing CARB mogas. ***Implication: this could be a profitable way to use any excess octane strength at El Segundo.***
- **Marketing:** Ultramar announced on Sep 12 that they plan to spend $125 million to add 125 company-owned outlets to their existing 146 in California, according to Platt's. This growth plan will leverage off their refining strength, where they have excess production capability compared to branded sales volume.

<u>Tosco</u>

- **Marketing/S&D**: Tosco will attempt to increase market share and expand into new retail markets over the next three years, according to a Tosco report given to financial anlaysts. They will invest $200 million to build 50 new state-of-the-art retail outlets on the West Coast by 1998, and upgrade 350 existing West Coast sites with 'pay at the pump' card readers, car washes, new imaging, and C-stores.

<u>Tomen-Pacific</u>

- **Marketing/S&D**: Tomen-Pacific, once a very large presence in the West Coast (WC) cargo market, is planning to shut its WC operation by the end of the year. Evidently, poor WC economics, coupled with decreased cargo activity from the Pacific Rim and the WC have prompted their decision. Tomen is the latest in a series of high-profile companies to retreat from the WC (e.g. Wickland, EOTT, Tosco, Powerine, and Pacific Refining). ***Implication: consolidation of trading offices could reduce spot market liquidity and affect pricing. Also, weak West Coast margins may continue to force industry rationalization.***

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