



Oilgram News Extra

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A sweeping series of closures and cutbacks have been implemented in the Gulf of Mexico and onshore Louisiana and other areas as Tropical Storm Isaac—expected to eventually grow into Hurricane Isaac—speeds toward landfall near Louisiana sometime late Tuesday. Here are the highlights of what's been shut, and how markets have been affected.

Production & drilling

■ The Department of Interior's Bureau of Safety and Environmental Enforcement said 1.1 million b/d of crude production in the Gulf had been shut, or 78% of typical output of 1.38 million b/d, as Isaac looked to blow through the heart of the US' offshore energy infrastructure. Some 2.166 Bcf/d – roughly half – of the Gulf's gas production also was down, BSEE said. Operators had evacuated 346 production platforms and 41 drilling rigs. Shell, Anadarko and Chevron were among the companies suspending production.

■ Analysts at JP Morgan said in a research note that at this point, Isaac is weaker than hurricanes Ivan, Rita, Katrina, and Ike, which reduced oil production by a cumulative range between 21 million to 70 million barrels. "But Isaac could pose more of a threat to US energy production if it shifts further west and gathers strength," the analysts said. "Because US Gulf Coast refiners are operating near full utilization, the potential for disruption to oil product markets is particularly pronounced."

■ Drilling operations also are affected. Diamond Offshore Drilling has evacuated crews on three rigs that the company has in the US Gulf of Mexico due to Isaac, the company said. Diamond has three semisubmersibles in Gulf waters, including Ocean Victory, which is contracted to Italian-owned Eni, the Saratoga, and Ocean Whittington, said Diamond spokesman Darren Daugherty. He said he did not have available a personnel count of those who have been evacuated. Separately, Houston-based contract driller Rowan Companies has evacuated "close to" 250 workers from four rigs, one of which is in a shipyard in Mississippi, Rowan spokeswoman Suzanne Spera said.

Refineries & petrochemical facilities

■ Plans changed over the course of the day as outright closures were less frequent in company plans than cutbacks in operations. For example, the first announcements out of Marathon and Phillips 66 were about outright

closures; later announcements by Shell and ExxonMobil were about reductions in operating rates.

■ Marathon at first said it was halting operations at its 490,000 b/d refinery in Garyville, Louisiana, the third-largest in the country. But later, a spokesman said the plant would just reduce rates. "As we have continued to track the storm's progress and intensity, the Garyville refinery has been operating at reduced rates," the spokesman said in an email. "At this time, we plan to maintain the operations of the refinery at these rates."

■ Meanwhile, Phillips 66 was idling its 247,000 b/d Alliance refinery in Belle Chasse, Louisiana. Valero began to idle two Louisiana refineries: the 270,000 b/d plant in St. Charles and the 135,000 b/d Meraux facility. Shell said its Motiva joint venture was cutting rates at the 250,000 b/d Norco refinery in St. Charles and the 255,000 plant in Convent, Louisiana.

■ ExxonMobil has begun shutting the 200,700 b/d refinery in Chalmette, La. The plant is run as a 50-50 joint venture with Venezuelan state oil company PDVSA. ExxonMobil also said its facilities in Baton Rouge are operating at "reduced rates" as part of its hurricane preparedness plans. The company owns a 503,500 b/d refinery there, as well as a petrochemical complex.

■ Olefins producers in Louisiana Monday began bracing for the arrival of Isaac, with at least one steam cracker shutdown planned. Williams planned to shut its 612,000 mt/year steam cracker in Geismar beginning at 4 p.m. CDT Monday, a company source said. The shutdown could last as long as a week, the source said. The Shell cutbacks at Norco in St. Charles and Convent also are affecting petrochemical operations.

LOOP

■ The Louisiana Offshore Oil Port shut its marine operations and suspended offloading tankers as of 9 a.m. CDT Monday. But that won't shut all supply. "We will continue to

make deliveries out of our onshore facilities," spokeswoman Barb Hestermann said. She added that LOOP hopes to continue making deliveries through the storm as long as personnel is out of harm's way. LOOP has a total storage capacity of 60 million barrels, with 7.2 million barrels on the surface at Clovelly, Louisiana, and the remaining 52.8 million barrels of storage capacity underground. The LOOP port facility is 18 miles south of Grand Isle, Louisiana, in 110 feet of water in the Gulf of Mexico and is the only US port capable of handling VLCCs.

Gas distribution and processing

■ Williams' Transcontinental Gas Pipe Line reported 275,000 Mcf/d of producer shut-ins along its system Monday. Transco said it does not expect emergency supply allocation to be required as a result of the interruptions. The pipeline has a 9.6 Bcf/d peak capacity. The company's onshore Mobile Bay gas processing plant and Geismar olefins production plant will be shut and evacuated by the end of the day Monday. Its onshore Larose and Paradis plants, part of the Discovery system, will be shut and evacuated Monday as well, the company said.

■ Enterprise has shut the 60,000 b/d Baton Rouge NGL fractionator and, as the owner and operator, it also shut the 75,000 Norco NGL fractionator. Both facilities are located in Louisiana. Enterprise also shut its 1.1 Bcf/d Toca gas processing plant in Louisiana as a result of no offshore production coming in due to producers evacuating Gulf of Mexico platforms ahead of the storm as well, according to spokesman Rick Rainey. Enterprise reduced rates but is still operating two additional gas processing plants in Louisiana, the 1.3 Bcf/d North Terrebonne and the 650,000 Mcf/d Neptune facilities. Rainey did not have details on what the reduced rates were.

Rail

■ BNSF Railway ceased rail operations between Lafayette, Louisiana, and New Orleans effective noon CDT (1700 GMT) Monday. "Approximately 20 BNSF trains oper-

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ate daily on this track,” BNSF spokeswoman Suann Lundsberg said in an email. “Our signal team is currently following the final westbound train along this route and is in the process of signal crossing protection (removing all batteries and securing gates).” Fort Worth, Texas-based BNSF anticipates service resuming late Thursday or early Friday, Lundsberg said.

■ Norfolk Southern has initiated emergency plans for its rail traffic along the US Gulf Coast due to Tropical Storm Isaac, according to a notice on the company’s website. “Traffic normally routed via interchanges in the New Orleans and Mobile areas are being curtailed and some traffic has been rerouted to avoid areas that may be impacted by flooding or high winds,” the company said. “Rail cars held in the areas around Mobile and New Orleans will be moved to avoid areas prone to flooding. Local service in these areas will be suspended effective August 28th until the storm passes and operations can safely resume normal schedules.”

The market

■ NYMEX September RBOB futures settled higher Monday, up 7.68 cents at \$3.1548/gal, rallying on refinery closures ahead of Isaac and the fatal Amuay refinery blast in Venezuela. NYMEX October crude settled 68 cents lower at \$95.47/b, after having moved within a wide \$3.30/b range throughout the session. The contract had reached a session high of \$97.72/b before retreating at the start of trading in New York. NYMEX

September heating oil settled 17 points higher at \$3.1118/gal, and ICE October Brent settled down \$1.33 at \$112.26/b. Earlier, RBOB raced to a four-month high of \$3.2050/gal after weekend news of an explosion that killed 41 people at Venezuela’s 645,000 b/d Amuay refinery. The price action led the NYMEX front-month RBOB crack spread, basis ICE Brent, to push to \$11.64/b at the close, its highest level in nearly two weeks.

■ The most volatile physical market was in Chicago. The Chicago CBOB cash differential increased by 46.75 cents/gal to reach a record high of NYMEX October RBOB futures plus 44.75 cents/gal Monday, as the market reacted to the approach of Isaac. The Midwest gasoline was last heard done at NYMEX October RBOB futures plus 45 cents/gal and then reoffered there, leading to the day’s assessment. On Friday, it was assessed at NYMEX September RBOB futures minus 2 cents/gal. The previous record high was plus 44 cents/gal on August 1, according to Platts historical data, which goes back to September 8, 2009.

Other disruptions

The impact of Isaac was not the only disruptive factor in the market Monday.

■ A third tank caught fire Monday afternoon at the now-closed 645,000 Amuay refinery in Venezuela, Venezuelan Vice President Elias Jaua said on his Twitter account. Earlier in the day, the president of Venezuela’s state

company, PDVSA, Rafael Ramirez, said that the existing fire that broke out Saturday morning was confined to two tanks. The explosion and fire early Saturday caused the death of 41 people, among them a PDVSA worker and also 19 soldiers charged with protecting the installation. More than 80 persons were injured with burns of varying degrees. “We have 4.3 millions barrels [of crude] supply throughout this country, which cover 10 days of storage,” Ramirez said in statements from Falcon state, which was transmitted via Venezuelan state television VTV. “We also have a daily production of 735,000 b/d in the other refineries (Cardon, El Palito, Puerto La Cruz and Curacao), which guarantee that there will be no supply problem in the local market, nor will this stop exports. We have not suspended any cargoes.”

■ The Badger Pipeline shut the segment of its line from East Chicago, Indiana, to Canal Junction, Illinois, after a pressure drop and a product release early Monday morning, according to a notice sent out by pipeline-operator Buckeye Partners. The system was immediately shut following the pressure drop that occurred at 2:40 a.m. CDT, the notice said. According to the notice, the impacted area has been isolated to maintain safety. The affected line segment will remain out of service until the situation is corrected, the notice added. Badger is part of the West Shore Pipe Line System, which originates in the Chicago area and runs north to Green Bay, Wisconsin, and west and then north to Madison, Wisconsin.