2024-11-01 03:35:33 EDT
***Role of Domestic, Global Players to Grow With P66 Refinery Closure: Sources

The impending fourth quarter 2025 closure of the 147,000 b/d Phillips 66 refinery in Los Angeles will remove around 8% refining capacity from California and force the region to lean more heavily on domestic and international players to meet petroleum product demand until the state's energy transition program can further bend consumer behavior, sources have told OPIS.

Phillips 66 announced on Oct. 16 it would cease refining operations at its Los Angeles refinery by the end of 2025.

"With the long-term sustainability of our Los Angeles Refinery uncertain and affected by market dynamics, we are working with leading land development firms to evaluate the future use of our unique and strategically located properties near the Port of Los Angeles," Chairman and Chief Executive Officer Mark Lashier said in a press release last month.

The refiner said it "remains committed" to providing fuel to the California market and will take steps needed to do so, such as utilizing in-network and out-of-network resources.

"(The Phillips 66) plan to replace the production lost from the refinery closure is an example of the type of creative solutions that are needed as we transition away from fossil fuels," California Energy Commission Vice Chair Siva Gunda said. "We remain dedicated to collaborating with industry leaders to secure an affordable and reliable fuel supply for all consumers as we move forward."

California already imports about 150,000 b/d. Refined fuel demand won't drop rapidly enough to offset the closure of the Phillips 66 facility, meaning California will become more dependent on imports than it already is, Poten and Partners wrote in its Tanker Opinion piece on Oct. 18.

"One can assume Phillips 66 is in business to make money. They clearly have studied this and I'm sure have compared import costs relative to the fixed costs of running the refinery," said Ernie Barsamian, chief executive officer of terminal storage clearinghouse The Tank Tiger. "Even if there's an incremental cost to import cargoes, there are sometimes large investments needed to keep refineries compliant which ultimately eats into margin. In some instances, it's very difficult to recover any of that capital cost."

Barsamian added that the West Coast fuel market is "severely undertanked and has been for a decade," making it difficult for new entrants to the region. But

Phillips 66 won't have to worry about that because of its "significant terminal there."

Stillwater Associates President Megan Boutwell said the current California market is short by about 10%, but that will change as demand drops.

"Further into the future, we see a slow decline in gasoline demand due to improved mileage (and) the electric vehicle transition," Boutwell told OPIS. "Renewable diesel will continue to replace petroleum diesel and eventually some sustainable aviation fuel will become available to replace petroleum jet. Petroleum product demand will continue to drop to the point that another refinery will close."

Extra flows may come from domestic sources in the U.S. Gulf Coast or other West Coast facilities, but Poten noted that option brings its own set of challenges.

"However, because of the Jones Act, these barrels will need to be moved on US Flag tonnage. The Jones Act fleet is relatively small and capacity is constrained. The fleet of U.S. tanker and barges is fully utilized and there is no orderbook."

A California Energy Commission presentation made in 2021 noted that refinery closures mark "a shift in source of supply through existing logistical infrastructure adequate to handle the changes" which include marine terminals, pipeline connections/capacity and storage tank capabilities.

Those in the shipping market see the refinery closure as an opportunity for shipowners to bring more product into the LA region.

However, CARB's blending specifications, as well as where to source new product streams could present a myriad of challenges.

One shipping source noted there could be political risks sourcing product in areas such as China, and sourcing product in India presents economic risks.

Also, looking to storage areas such as the Bahamas may not make economic sense and ultimately compete with the US Atlantic Coast region.

Ultimately, the California gasoline consumer could be the one to see increased prices.

"Talk about sticker shock at the pump," noted the shipping source.

Over the past year, cargoes from India accounted for about 32%, or 2.18 million bbl, of the finished gasoline cargoes heading to California, according to Vortexa energy cargo tracking data.

Second for imported finished gasoline cargoes over past years to California was South Korea at about 28%, or 1.88 million bbl, and Canada came in third with about 22%, or 1.49 million bbl.

California imported blending components, such as alkylates and gasoline blendstocks, over past year were also dominated by South Korea, which represented about 45%, or 4.94 million bbl, followed by India, with about 28%, or 3.05 million bbl, and Canada third with about 12%, or 1.34 million bbl.

At times, California has also exported some finished gasoline, mostly to Central American countries. Over the last 12 months the state moved approximately 4.8 million bbl to other countries with Guatemala (1.8 million bbl) and El Salvador (1.7 million bbl) accounting for the bulk of these limited movements.

One fuel importer said most needed fuel is likely to be acquired from Asia.

"They'll be buying alkylate from South Korea mainly and they'll just blend it," the importer said. "They are already exporting some naphtha that's coming from the Rodeo renewables facility (in San Francisco) to Asia. They can just barge that down and blend with alkylate."

Phillips 66 will keep its Carson and Wilmington terminals and truck rack, leading the importer to conclude the closure will have minimal impact.

"Don't think it will make any difference, will just mean (Phillips 66) will be blending product there as opposed to producing it," the importer said.

Mexico also received some diesel cargoes from the P66 refinery in years past. A shipping source familiar with these movements noted that Pemex "will have to cover from Asia and (U.S. Gulf) a little bit more if that refinery is closed."

Over the past two years, a trickle of petroleum cargoes had come from Bahamas -- alkylate, finished gasoline and fuel oil.

In October, the Pratincole Pacific tanker was reported to have delivered 255,200 bbl of gasoline blendstock in San Francisco from Freeport, Bahamas.

Recently, the Torm Adventure tanker was reportedly headed for San Francisco with a reported 277,500 bbl of finished gasoline from Freeport.

The Bahamas recently saw operations at Liwathon's South Riding storage terminal facility get underway after being out of the market for a couple of years due to hurricane damage. The facility expands storage in that region by 6.88 million bbl. The newly opened storage may present an opportunity for some in the market to blend and move products not only to U.S. Atlantic Coast region, but also U.S. West Coast if economics are right at times.

Ultimately, it will come down to demand from the California consumer.

In the 2021 presentation, the CEC forecast gasoline demand to decrease around 6% to 12% by 2030 but showed some slight growth in diesel demand, largely with decreasing fossil diesel demand and increasing renewable diesel demand.

"(California) is still an island market with a boutique grade that almost nobody can blend," the importer said.

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