

ONTARIO'S GASOLINE CRISIS

On Thursday, February 15th a fire broke out in one of the crude processing units of Esso's 118,000 barrel per day Nanticoke, Ontario refinery. In simple terms, this is the heart of any refinery. The results of this incident were almost immediate in terms of a major shortage in supply of gasoline and diesel in the Toronto and southwestern Ontario marketing orbits. The situation worsens on a daily basis with restrictions now spreading as far east as the Montreal market. An incident like this can happen anywhere in the country due to the fact that refining capacity has not kept pace with current or anticipated demand. As the old saying goes, "Pay me now or pay me later"...well is it now later and the payment is due!

Some questions and answers follow regarding this situation which you may find of interest:

Q How can a fire at just one refinery cause gas stations to run out of product so quickly?

A The fire at Esso's Nanticoke refinery has caused shortages because Esso also had a fire at their Sarnia facility in December and the problem there has yet to be rectified.

Q Can't the other oil companies pick up the slack?

A The Ontario refineries are stretched to the limit and there was no surplus capacity even before the latest fire. The Toronto market is also supplied with gasoline by pipeline from Montreal but any relief from Montreal is impossible due to a lack of room on that pipeline.

Q Why not import gasoline from the U.S.?

A This can and is being done with Esso bringing in gasoline from Buffalo and Detroit, but the lack of tanker trucks is slowing down the process. Although the CN Rail strike has been settled it will take a fair amount of time to get the rail cars to the critical supply areas, assuming the refineries have the product available.

Q If we can get gasoline how high will the prices go?

A The pump prices of gasoline are, even in normal times, driven by the wholesale or rack prices in the U.S. with the Toronto market following Buffalo. If gasoline is now being imported from Buffalo, then this will be seen as an increase in demand in the Buffalo market and drive up the Buffalo racks with Toronto pump prices following in lock step. As for prices, \$1.10/L is not out of the question within the next week unless Esso can give a firm date as to when Nanticoke will be back on stream.

Q Why is it taking so long to fix the problem?

A Refineries are highly sophisticated pieces of engineering and as such the pumps, valves, metering devices etc., are not off-the-shelf items. With that in mind, this is the traditional turnaround time when refineries in North America shut down for maintenance in preparation for gasoline production for the driving season. This means a high demand for refinery hardware which could be slowing the repair process.

Q How long will the shortage last?

A We do not see the refinery being back up until mid-March and even then, the start-up process is a slow one. Expect to see high prices until at least mid-spring.

Q Why have we been in the dark as far as understanding what the problem is?

A In the US any interruption in supply, be it refinery, pipeline breakdowns or anything negatively affecting the supply chain infrastructure, has to be reported by law to Federal and State authorities immediately. Such is not the case in Canada. Unless it is obvious from the smoke billowing from a refinery, Canadian oil companies are not obligated to admit publicly to possible supply interruption instances.

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EN-PRO INTERNATIONAL INC.

174 Simcoe Street North
Oshawa, Ontario, L1G 4S9

www.en-pro.com

Phone: (905) 686-6400

Fax: (905) 686-6439

Media Relations: (416) 490-6961

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