

IN THE MARKETS

Houston Fuel Oil Terminal Company Considering Repurposing of Fuel Oil Tanks

The owner of the largest third-party fuel oil storage facility on the US Gulf Coast is considering repurposing some portion of its fuel oil tanks. The owner, Houston Fuel Oil Terminal Company (HFOTCO), already has some tanks devoted to crude oil. Even though 100 percent of HFOTCO's tank capacity is contracted and inquiries for fuel oil tanks continue, the company has chosen to pursue repurposing tanks to respond to changes in the US crude oil market and the booming US diesel export business. The level of interest already generated by HFOTCO customers could lead to a significant volume of fuel oil tanks being repurposed, according to a presentation by Blake Trahan of Houston Fuel Oil Terminal Company at World Fuel Oil Summit VI in Malta on May 9-11, 2013. World Fuel Oil Summit VI was organized by Axelrod Energy Projects and hosted by Enemalta Corporation.

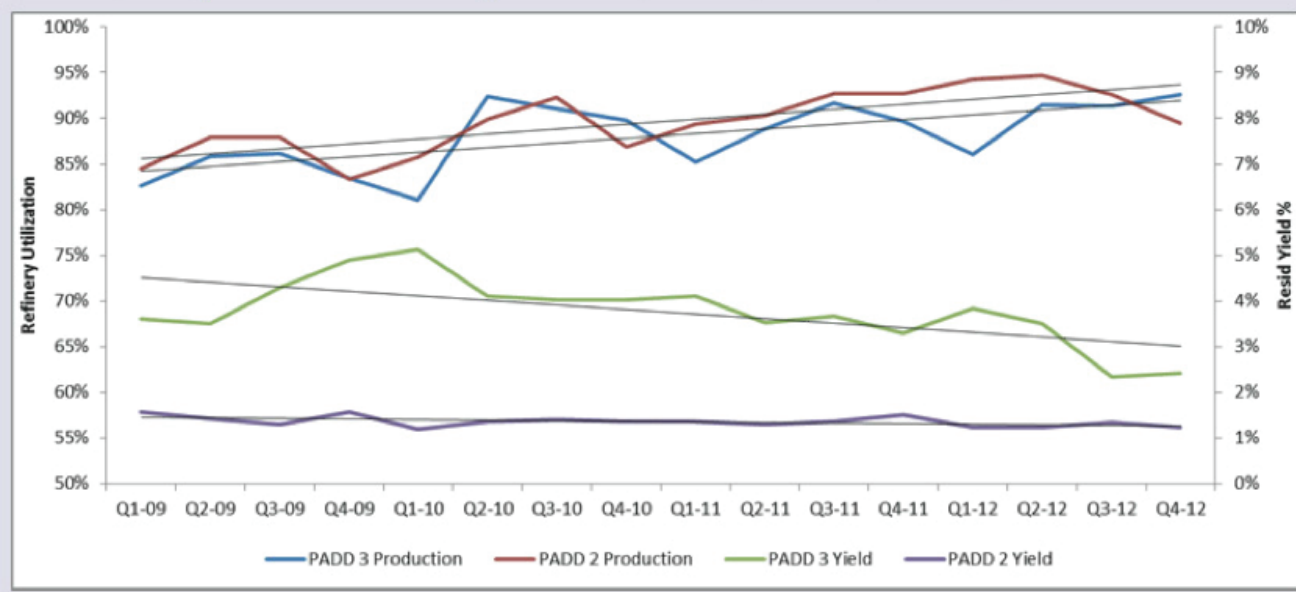
US, SELECTED TERMINALS FUEL OIL TANK CAPACITY AND EXPANSION IN THE US GULF COAST

(Thousand Barrels)

	2010	2011	2012	2013E
HFOTCO	10,070	340	1,180	1,200
Magellan-Galena Park	1,000	0	0	0
Oil Tanking-Beaumont	4,250	0	0	0
Galveston Terminal (Apex)	1,600	200	0	0
NuStar-Texas City	1,000	0	200	0
Intercontinental Terminals	1,350	0	0	0
Flex Tank-Channelview	500	0	0	0
Oil Tanking-Houston	210	0	0	0
LBC-Petro United	1,290	0	300	0
Sun-Nederland, Texas	160	0	0	0
Bostco	0	0	0	6,300
Total	21,430	540	1,680	7,500

E=Estimated.

UNITED STATES, PADD 2 AND PADD 3, REFINERY UTILIZATION AND FUEL YIELDS



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A number of factors compel owners of fuel oil storage capacity on the US Gulf Coast to consider repurposing tanks for other product streams:

- Storage positions in the USGC are smaller than seen in the past.
- More barrels are increasingly coming to the USGC from inland refiners via rail cars. These small delivery parcels require the barrels to reside in tanks longer to make bulk for export. Longer residency time means tank capacity is tied up.
- While refinery utilization rates in PADD III (USGC) have been on the rise in recent years, fuel oil yields have been declining due to lighter crude slates, serving to hold down levels of fuel oil production (see the accompanying graph).
- Efficiency and/or cost-cutting measures across the shipping industry have meant decreasing demand for bunker suitable fuel oil and hence storage on the USGC. The reduced sulfur cap in ECAs in January 2015 is likely to have negative repercussions for IFO demand and positive repercussions for marine distillate demand.
- More crude oil is headed to the USGC from Bakken, Eagle Ford, and Canadian sources.

Diesel and gasoline exports from the USGC continue to increase.

The potential repurposing of fuel oil tanks by HFOTCO and other owners of USGC fuel oil storage must be seen against the background of the substantial rise in USGC fuel oil storage since 2010. Fuel oil storage on the US Gulf Coast stood at 21.43 million bbls (based on selected terminals) in 2010, with HFOTCO alone holding 10.07 million bbls. The USGC saw rises of fuel oil storage capacity of 540 kbbbls in 2011 (of which 340 kbbbls was HFOTCO) and a further 1.68 million bbls in 2012 (of which 1.18 million bbls was HFOTCO). A further 7.50 million bbls will come in 2013, based largely on the start-up of

the Bostco terminal and its 6.30 million bbls of fuel oil capacity. In 2013, HFOTCO is scheduled to add another 1.20 million bbls of fuel oil capacity, giving it a total of 12.79 million bbls of fuel oil storage (see the accompanying table).