

# CONSOLIDATION OF COMMENTS ON TRADING AND CRUDE OIL QUALITY

## Contract Language

- There needs to be an industry standard so everyone is even and consistent
- Search for contract language already in existence, on the web for example
- Many current contracts only refer to quality with standard language such as "normal export blend" and "normal at a specified date, time, and location"
- There is precedent to instill more specifications in a contract (Shell Trading cites Basin specifications, Gary-Williams cites HTSD and other specific parameters)
- Other companies have specifications in their contracts for niche or specialty crudes
- We need a "universal language" for quality
- Maybe a quality amendment to existing contracts would be easier to implement than a new contract
- Contracts change constantly and the quality language would need to be flexible enough so as not to impair producers' efficiency
- The seller can dictate the contract terms

## Communications

- The COQG could help by reaching a consensus among its members as to the necessity of contract language and communicating that consensus throughout the industry
- Currently, there is a "brick wall" when discussing quality upstream of the refinery. The COQG needs to issue an open invitation to dialogue to surmount that wall.
- Refiners need to set goals and communicate them
- Do traders support pipeline specifications and quality? Should we generate an informal poll among our own (COQG member) traders?
- There were a few comments on personal experience with standardization of the raw materials leading to vastly improved efficiency throughout the plant (not just a refinery)
- Need to have a refining professional talk about those lost opportunities, instabilities, underutilization, etc. and what they can mean in dollars

## The Art of Trading

- There is a disconnect between the physical pipeline for crude and its financial counterpart
- Need to differentiate between refinery supply traders and "pure" trading
- Many different players are now involved in the crude oil supply business. It is not just a major producer supplying its own refinery through a subsidiary pipeline.
- Common stream crude is different than foreign batches of crude
- There needs to be a balance between the refiner and the producer. The trader is caught in the middle.
- There is the perception that quality language in a contract can lead to loss of flexibility to the trader
- A trader is the "middleman" between producer and refiner and obviously is instrumental in determining the dollars involved, but there is rarely follow through to ensure that the money is economically spent
- There are no requirements for traders to meet specifications so they don't usually inquire as to the quality of different types of crude
- Traders have never been required to know about quality so usually don't
- There is a perception that producers will "blend to a specification", thus worsening the stream
- No one wants to be the first to do something different

## Technical Issues

- New methodologies to analyze fuel and crudes are always cropping up. Easier identification of parameter results can make standards more acceptable by rendering them easier to enforce.
- An oversight program on common stream crude is necessary to ensure you get what you pay for
- The refining industry knows less about its feedstock than any other industry
- Too many refiners rely on assays that are old and not at refinery gate (for example – supplied by the producer). There should be a “variability” component built into any assay utilized for refinery modeling.
- There are currently no HTSD standards
- Gravity, sulfur, metals (nickel plus vanadium), distillation as measured by the high temperature simulated distillation (HTSD) test, light and heavy ends, nitrogen and acidity are critical, in varying degrees, to all refineries for all crudes
- Some crudes have special safety issues which must be addressed individually

## Economics - Why do we need a reference to quality?

- There is a cost to crude with unexpected characteristics, especially if it means a refinery unit is underutilized for a time. That underutilization can never be made up; a real dollar cost that should be able to serve as an incentive to meet crude specifications.
- Crude oil, as with many things, is economy driven. Put some dollar value on quality.
- Need to quantify quality hits
- In addition to underutilization costs, there are lost opportunity costs that cannot be made up
- Stability for a refinery is invaluable
- It should be obvious that refining losses more than offset any trading gains
- To make producers interested in supplying a quality crude, we need to be willing to pay a premium for “better than average”
- There are documented cases of increased refining efficiency when specifications are enforced
- Quality banks could be useful as long as the end user who receives the less than ideal crude is compensated, not the producers at the beginning of the line

## Other Considerations

- The differences in “pay for” versus “receive” could be compensated through, for example, a quality bank. Quality banks can be very useful in an area where logistics dictate the necessity of some blending.
- Don’t make the physical pipeline the universal “target” for quality problems
- LLS experience indicates considerable tightening of the stream upon implementation of the specifications. Can we conclude specifications do work?
- Refineries that rely on common stream crudes and major pipeline systems do not have the same degree of control over specifications as those who utilize batched crude
- Many factors (supply logistics, economics, production, etc) play a part in the variability of a crude stream
- Specific companies (refineries) have specific needs that may not be met by general specifications or quality banks

COQG

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