



# Closing of explosion-damaged refinery could send gas prices higher just in time for July 4 holiday

By: Patti Domm, June 26 2019

The permanent shutdown of the fire-damaged Philadelphia Energy Solutions refining complex could send gasoline prices higher across the U.S., but particularly in the mid-Atlantic region, where they could spike temporarily just around the time drivers fill up for Fourth of July holiday.

The refinery was the largest and oldest on the East Coast and accounts for about 27% of that region's refining capacity. The 330,000 barrel a day refinery was closed following explosions and a massive fire last week.

Philadelphia Mayor Jim Kenney said he spoke with the CEO and leadership of the company Wednesday morning and confirmed earlier reports that PES intended to close within the next month.

"Gasoline futures prices rose 17 cents a gallon since the explosion last week. That's going to be passed along to the consumer," said Andrew Lipow, president of Lipow Oil Associates. "I would expect that the national average will halt its decline and start rising by 5 to 10 cents a gallon over the next couple weeks in response to loss of the refinery. The loss of refinery production is going to be made up by additional imports."

Lipow said the price in the Philadelphia-New York area could rise by 10 cents per gallon or more.

“Prices are still going to be less than last year for the July 4th holiday but they will be rising through July and August,” Lipow said.

## Price rise should be contained

Another factor that could impact gas prices this summer are geopolitical risks. That would include rising tensions between the U.S. and Iran that helped drive oil prices up more than 10% this month.

RBOB gasoline futures, representing the price of gasoline in New York Harbor, jumped 4.2% Wednesday, to \$1.92 per gallon, partly on reports of the closing. Gasoline futures were also higher, as the U.S. gasoline supply declined by nearly 1 million barrels in the past week, while analysts expected a buildup of nearly 300,000 barrels in the past week.

### RBOB Gasoline Futures 1-year chart

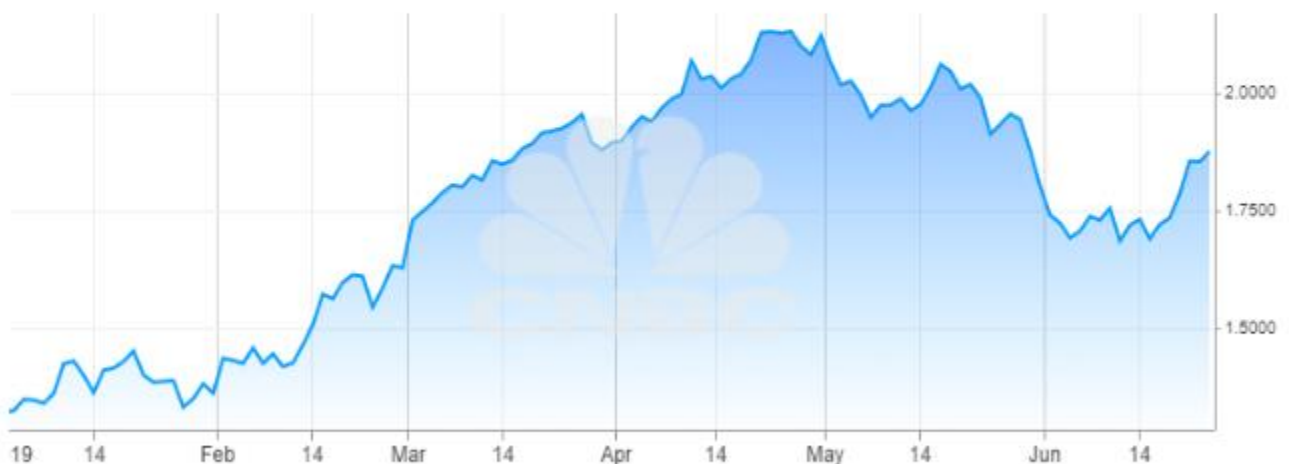
RBOB Gas (Jul'19) (@RB1:New York Mercantile Exchange)

USD

Last | 11:59:29 AM EDT

**1.9613** +0.0841 (4.48%)

YTD



The national average pump price for a gallon of unleaded gasoline was \$2.68 per gallon Wednesday, 2 cents higher than on Friday, the day of the explosion, according to AAA.

The average price in Pennsylvania, the biggest market for the PES refinery, rose 3 cents since Friday to \$2.85 per gallon. Gasoline in New York and New Jersey were fractions of a penny lower, at \$2.85 and 2.75, respectively.

Even so, Tom Kloza, head of global energy analysis at Oil Price Information Service, said gasoline should not rise much more than 5 cents per gallon nationally and will probably not exceed the average price last year. A year ago, unleaded fuel averaged \$2.84 per gallon. A month ago, gas prices were much higher than they are now, at \$2.83 per gallon.

“I think this presents problems for July and August, but I think everything will be fine. There’s enough gasoline that’s headed up in the Colonial pipeline, and there’s enough stuff coming from Europe. The next couple of days are going to be hit or miss. I think we’re going to see gasoline trading up at a modest pace,” Kloza said.

Stocks of rival refining companies rose; Valero was up 4%, while PBF, which has two refineries in the Philadelphia area, gained 5.2%. Phillips 66, owner of a refinery in Linden, New Jersey, was up 1.4%.

“We’re restarting the Baytown refinery that Exxon Mobil has, and we have more refining capacity that’s coming up on the Gulf Coast. ... It’s a feverish spike here for [the futures market] but pretty much every where else prices are lower than they were last year,” said Kloza. “We’ll probably wobble a bit higher. The world has plenty of gasoline and the world will react.”

## **Potential for ‘a wild day’**

**Sal Risalvato, executive director of the New Jersey Gasoline, C-Store and Automotive Association, said that since the explosion, prices are up 4 cents per gallon at the wholesale rack, where trucks fill up for New Jersey gas station deliveries. But since June 19, prices are up 11 cents per gallon, moving up when oil prices rose on Iran tensions.**

**Risalvato said prices could continue to rise and over the next two to three weeks, and there could be some supply issues.**

**“The significance of this event is that it happened at a crossroad in the market when prices were declining. At best it stopped the decline and at worst could result in 20 cent increase,” he said of prices in the New Jersey region.**

But John Kilduff of Again Capital said there could be some impact on prices at the pump from the futures market, where contracts expire on Friday.

“It could be a short-term hiccup,” said Kilduff. “The gasoline contract expires on Friday. There’s a potential for a squeeze. You could see it go a little parabolic into that expiration if people in the harbor are short product, they’ll use futures contracts to get themselves covered, and they’ll take it to delivery. You could potentially have a wild day Friday. There’s a real good chance for it.”

The Philadelphia Energy Solutions was formed in 2012 as a partnership between Carlyle Group and Sunoco. The company went into bankruptcy and emerged last year, but it has had financial problems since then.

The refining complex was formed by the merger of an Atlantic Richfield legacy refinery and a Gulf legacy refinery.

The mayor said more than 1,000 workers will be immediately impacted by the closure, as will businesses that are dependent on the refinery operations.

Kenney said the city formed a group of government and quasi-governmental organizations to discuss the economic and employment impacts, and what can be done in response.

*Correction: This article has been corrected to reflect that Valero no longer owns a refinery in Delaware.*