

Refinery woes behind soaring prices: industry

SHAWN MCCARTHY
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Imperial Oil Ltd.'s outage at its Nanticoke, Ont., refinery was just the latest in a series of problems for North American oil companies that have contributed to record gasoline prices, as the continent's aging refineries run at full capacity to supply surging demand while meeting increasing environmental regulations.

While the 29-year-old Nanticoke plant, which processes 120,000 barrels of oil per day, was back in operation Monday after a power failure last week, a company spokesman said it would take a few more days to get it back to full capacity.

The brief shutdown came as North American refiners faced criticism for a series of unplanned outages — including a major fire at the same Nanticoke plant in February — that drove down inventories and sent prices spiralling higher in advance of the summer driving season.

In the United States, the American Automobile Association Monday reported record pump prices of \$3.07 (U.S.) per gallon, eclipsing the previous record set in the aftermath of hurricane Katrina in 2005.

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At \$1.084 (Canadian) per litre last week, average prices in Canada were near the highs of last summer when war in the Middle East and a ruptured pipeline in Alaska sent crude oil sharply higher. However, they are well below the one-week post-Katrina spike that hit a record \$1.26 per litre.

Analysts said Monday that Canadian prices tend to reflect wholesale markets in the U.S., where strong demand coupled with plunging inventories sent prices – and refiners' margins – soaring. U.S. Energy Secretary Sam Bodman conceded last week that U.S. motorists were being hurt by a “bottleneck” in refining capacity, more than an increase in crude costs.

In Congress, Democrats are vowing to examine the refining sector to determine whether the industry is deliberately taking production off-line to pump up prices.

But Charlie Drevna, executive vice-president of the National Petrochemicals and Refiners Association, said refiners have been operating full-tilt since the devastating 2005 hurricanes –

Katrina and Rita – knocked out more than a quarter of the industry's capacity.

Mr. Drevna said maintenance schedules got thrown out of whack as crews were shifted off planned upkeep to work overtime on getting the affected refineries up and running.

The resulting backlog finally caught up to refiners this year as annual maintenance took longer to complete, imports dropped off because of problems in Europe, and a spate of accidents exacerbated the existing market tightness.

On top of that, governments have imposed more exacting standards for products – including ultra-low-sulphur diesel, low-sulphur gasoline, and summer formula gasoline – that make refinery operations more complicated and less forgiving of small problems, he said.

Despite higher costs, refiners are enjoying the fattest profits they've seen since the 1990s. And that, in turn, is sparking interest in expansion, as well as in new refineries, something not seen in North America in 30 years.

In Canada, Irving Oil Ltd. is planning a second refinery at Saint John, N.B., Royal Dutch Shell PLC is considering a new refinery in Sarnia, Ont., and Newfoundland and Labrador Refining Co. has proposed to build one at Placentia Bay.

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