Chevron

July 13, 1999

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Chevron Products Company requests immediate issuance of an emergency variance as allowed under Title 13 of the California Code of Regulations (CCR) Section 2271(h) from the requirements of 13 CCR Sections 2262.1 through 2262.7. The specific grounds are described below. The proposed compliance date is 45 days from the issuance of the requested variance. Compliance will be achieved by means of the compliance plan outlined below. An emergency variance is necessary for good cause as described in this letter and its attachments.

Without immediate relief from an emergency variance, Chevron will have to reduce deliveries of gasoline to all of our Northern California customers by mid-next week. The circumstances that led to this situation were beyond our reasonable control and, if not mitigated, will result in reasonably unforeseeable extraordinary economic hardship to Chevron, our marketers and California consumers of gasoline.

On March 25, 1999 an explosion and fire occurred in the hydroprocessing complex of Chevron's Richmond Refinery severely damaging and rendered inoperable the refinery's Fluid Catalytic Cracker (FCC) feed hydrotreating and hydrocracking units. This explosion and fire were beyond the reasonable control of Chevron but Chevron did not request a variance from the ARB gasoline standards. Instead, Chevron maintained about 85% of normal refinery gasoline production through:

- Purchasing treated FCC feed to make up for the lack of a hydroteater
- Purchasing intermediates such as iso-butane normally produced by the iso-cracker

Repairs were begun as soon as the area could be secured and OSHA investigations were completed. The FCC feed hydrotreater (TKC) was slated to come back on line in mid July and the hydrocracking unit is scheduled to restart at roughly year-end when repairs are complete.

Within the last several days, a series of unforeseeable events have occurred which have suddenly resulted in an urgent need for this emergency variance. On Friday, July 9, 1999 a leak developed in a steam generator in the operating FCC at Richmond. The unit was shutdown in an orderly manner and put in a "hold posture "... maintaining gas and steam pressures on the unit while the extent of damage could be assessed and repairs made. On Saturday July 10, 1999, a pressure upset occurred allowing natural gas to accumulate in the FCC electrostatic precipitator and an explosion took place in the electrostatic precipitator. The precipitator, which cleans catalyst

explosion took place in the electrostatic precipitator. The precipitator, which cleans catalyst particles from the flue gas before it is exhausted to the atmosphere, was severely damaged rendering the FCC completely inoperable. The FCC and related refinery units are critical and their loss materially impacts the refinery's ability to produce complying California RFG.

Damage is now being assessed and repair plans being made. Initial estimates range from several weeks for 50% precipitator operation to several months for full operation. No damage cost estimate has been made at this time.

None of these breakdowns were anticipated nor were they within our reasonable control. Chevron has an outstanding record of diligent maintenance and safety within the Richmond refinery and expects these events will be confirmed to have been beyond our reasonable control.

With both the FCC and the hydrocracking units now out of commission and no feed being produced for the alkylation unit, gasoline component production in the Refinery is limited to just straight run gasoline derived from the crude unit, reformate, and a few other minor streams from other units still operating. These streams are insufficient to blend full volumes of CARB gasoline. We have used and will continue to use the Predictive Model to make as much CARB gasoline as possible; about 30 thousand barrels per day (MBD) which is a shortfall of about 80MBD in normal Richmond refinery production. Our inventory of CARB gasoline both in the north and south has been severely depleted during 1999 due to the recent industry situation and market conditions.

Chevron is diligently pursuing all possible means of acquiring CARB gasoline or gasoline components for immediate delivery, however there does not appear to be any CARB gasoline that can be obtained and delivered to Chevron for several weeks and the supply will continue to be very tight even after that. Miscellaneous gasoline components and conventional gasoline legal for sale outside of California are available or expected to become available in the next few weeks, though not in a predictable way.

The overall US West Coast (USWC) has had extremely low gasoline inventory for the past several months due to a number of refinery shutdowns. For the week ending July 2, PADD V inventories as measured by API, were 26.9 million barrels. This is very close to the five year low of approximately 26 million barrels at a time when demand is expected to reach record levels. High summertime demand coupled with this low inventory has made the acquisition of CARB gasoline or gasoline components extremely difficult.

Since April, Chevron has purchased approximately 1.5 million barrels of gasoline a month, largely as a result of the March 25, 1999 explosion and fire. These purchases along with purchases by other refiners have absorbed what little surplus volume of mogas existed on the US west coast. After the FCC at Richmond shut down unexpectedly on Friday, July 10, Chevron purchased another 300 thousand barrels of mogas and components for immediate delivery on the West Coast. Currently, we are unable to locate any additional CARB gasoline or components.

Looking a few weeks ahead, we have obtained supplies that will begin arriving in California at the end of this month and continuing into August, thus our needs are for 45 days or less. The purpose of this emergency variance is to cover Chevron shortfalls for the next three to four weeks only and to replenish inventory. Chevron expects to be able to comply with Sections 13 CCR Sections 2262.1 through 2262.7 no later than 45 days after the issuance of this variance through purchase of complying product from others and/or from restoration of the FCC unit at Richmond to operation. This replacement plan can reasonably be implemented and will achieve compliance as expeditiously as possible.

Chevron requests that the emergency variance permit the sale, offer for sale, supply, offer for supply and/or transport of a total of 3.5 million barrels of variance gasoline over the 45 day variance period. This amount is equal to the difference between Chevron's current production capability and historical production capability, in keeping with Section 2271(f)(1)(D).

Without relief, Chevron customers who, in turn, supply many end users, will not be able to get the volumes of gasoline they have historically needed let alone what will be needed to satisfy expected record high demand this summer. In the past, such circumstances have led to sharp price rises and service station runouts as the market attempts to readjust. Extraordinary unforeseeable hardship to the state, to Chevron, and to the viability of California gasoline regulations themselves will result. Thus, there is good cause to issue the variance.

As a condition to the granting of the variance, Chevron can accept a requirement to pay 15 cents for each gallon of variance fuel sold, in accordance with Section 2271(f)(2). This fee will ensure thatChevron will continue to blend, buy, and sell as much complying CARB gasoline as it can during this period while at the same time supplementing our supply with variance fuel.

Although additional conditions are not required by Section 2271, Chevron also can accept other conditions including a condition that variance fuel would be sold only in areas of Northern California outside federal reformulated gasoline required areas. RVP would not exceed 7.8 psi per Section 2271(f)(1)(B). Additional conditions that are acceptable would be protocols to govern the transfer and disbursement of variance fees, enforcement, and recordkeeping and reporting.

Beyond the RVP specification, Chevron will also guarantee variance gasoline will meet current ASTM D4814 specifications applicable to Portland, Oregon. In this regard, the attached estimate of the impact on air quality is based on averages of summertime batches of gasoline delivered to the Portland area. Since Chevron cannot know precisely the fuel specifications of variance gasoline until we obtain it, we have estimated the air quality impact required under Section 2271(e)(2)(B) using these averages. Chevron believes this is a reasonable estimate given current emergency circumstances.

Thank you for your prompt consideration of our emergency variance request. If you have questions, please contact me at (415) 894-3288.

Sincerely,

Attachment
Air Quality Analysis

VARIANCE GASOLINE -- EXCESS EMISSIONS IN TONS PER DAY

SUMMARY

BASIN	Delta THCexhst (tpd)	Delta THCevap (tpd)	Delta NOx (tpd)
Great Basin Valleys	0.151	0.010	0.065
Lake	0.136	0.010	0.043
Mountain Counties+Lake Tahoe	1.130	0.000	0.356
North Coast	1.027	0.065	0.300
North Central Coast	1.137	0.030	0.360
Northeast Plateau	0.300	0.081	0.115
San Francisco Bay Area	9.198	0.013	2.763
San Joaquin Valley	6.055	0.826	2.311
Sacramento Valley	2.394	0.495	0.857
Totals	**21.527**	**1.531**	**7.171**

AVERAGE GASOLINE PROPERTIES

RVP	7.4	psi
T50	222	F
T90	332	F
Aromatics	35.1	vol%
Olefins	7.1	vol%
Sulfur	202	ppm
Benzene	1.61	vol%
MTBE	0.43	vol%

Assumptions:

1. Variance fuel distributed among basins according to their 1997 daily gasoline sales i.e., ratio of variance fuel to total fuel is the same in each basin
2. Temperatures used to compute True Vapor Pressures are EMFAC7G ozone season averages
3. Inventory data from EMFAC7G
4. Gasoline sales volumes are from CEC 1997 data for California counties