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Area refineries benefit from low cost of oil, demand

By Eric Besson and Dan Wallach

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The sun sets over several oil pumps on High Island Tuesday evening. Guiseppe Barranco/The Enterprise Photo: Beaumont

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For oil producers, prices have hit the skids.

For oil refiners, low crude prices and unslackening demand for motor fuels or wintertime heating oil means plants are running at capacity.

Whether plunging crude prices are good or bad is largely, like real estate, a function of location.

If an oil worker is on a production rig in the Eagle Ford shale or in Odessa, boom times might be on the bubble.

If an oil worker is monitoring heat exchangers in the Valero Energy Co. Port Arthur refinery, the outlook is sunny with a probability of overtime.

"Refineries typically benefit from lower crude prices," said Bill Day, spokesman for San Antonio-based Valero. "The key thing is margin - what we pay for crude and what we receive for the products we make."

In recent months, domestic and international prices for crude have dropped steeply.

West Texas Intermediate crude traded at $48.01 per barrel Tuesday, a day after the U.S. benchmark price for light crude fell below the $50 threshold for the first time since April 2009. Brent crude, the international benchmark, fell to $50.99 per barrel, also its lowest since 2009.

Day said Valero on Tuesday was busy producing diesel fuel, used widely in the Northeast for heating.

By spring, Day said refineries will change over to gasoline. I f the price stays low, demand will be sharper and refineries will be as busy as ever.

In the past decade, Southeast Texas has seen multi-billion dollar investments in refineries, including a doubling of the size of the Motiva Port Arthur facility to 600,000 barrels per day, the largest in the United States.

Valero spent $1.5 billion on a new hydrocracker to process heavy-sulfur crude, which Day said the company plans to expand sometime in the next two years. Valero also is building a new crude receiving dock on the Sabine-Neches Ship Channel valued at $75 million. It should be finished later this year.

Rail terminals in Port Arthur and on the Orange County side of the Port of Beaumont receive 100-plus tanker car trains to offload crude from shale-producing areas.

Southeast Texas also is the terminus of the regular Keystone pipeline, which brings in 700,000 barrels per day from Cushing, Oklahoma.

Port Arthur-based GT OmniPort opened two years ago as a receiving terminal for crude oil. It offloads its supply in sight of Valero and Motiva.

Bart Owens, the site's general manager, said he expects the volume of incoming tanker cars to rise, no matter the price of crude, because the refineries still need to hit their marks.

"I think the (transportation companies) will stay busy," Owens said. "Train volume will continue to increase unless we see an unknown variable enter the market on the economic or political side."

Likewise, the Jefferson Energy Company's crude oil receiving terminal on Port of Beaumont property is expanding to take in more trains because of refiners' demand.

But bubbles will burst. At some point, Southeast Texas could feel a pinch, said Larry Allen, chair of economics at Lamar University.

He said the region is somewhat insulated against the crude oil price drop, but bad times in the state's oil patch could bring some misery here.

"Historically when the price of oil drops, the unemployment rate goes up in the state of Texas and that includes Southeast Texas," Allen said. "I would say that it probably would hurt the unemployment rate down here."

Southeast Texas' unemployment rate, still higher than the rest of Texas and the nation, in November reached 6.9 percent, the lowest in seven years.

Construction jobs may be the most vulnerable to the oil price drop, Allen said.

The number of jobs in the construction sector, along with mining and logging, increased by 16.1 percent from November 2013 to October 2014, more than half of the job growth the region experienced over that time, according to the Texas Labor Market Review. Beaumont's jobless rate was 9.5 percent in November 2013.

A sharp drop in crude prices in the 1980s laid waste to the entire Texas oil industry. Southeast Texas shed thousands of refinery jobs that never came back. As the industry rebuilt, it turned more to automation than rehiring people.

The national economy, however, likely will benefit from lower energy costs, Allen said.

An economist for Moody's Analytics told the Houston Chronicle's FuelFix blog last month that consumers would save $150 billion in fuel costs over the course of the year if oil stays at $60 per barrel.

"The stronger U.S. economy can spill over and benefit Beaumont and Southeast Texas, but it may take some innovation and initiative on our part" to tap into increased capital in other industries, Allen said.

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