# KEYSTONE XL & ENERGY SECURITY

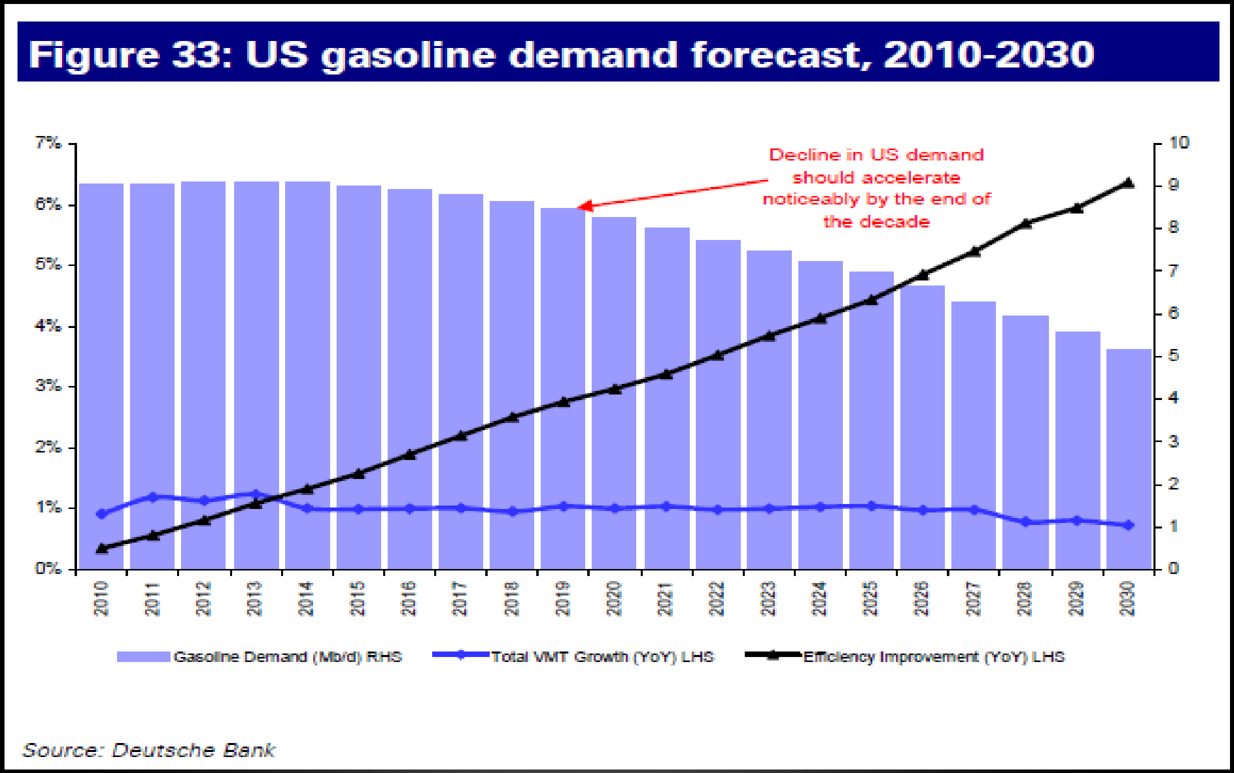
OILCHANGE INTERNATIONAL

# MAIN POINTS

- Keystone XL is an export pipeline.
- Canadian oil has not and cannot insulate America from oil supply disruptions or oil price shocks.
- The U.S. oil market is shrinking. Enhancing the ongoing demand decline is the only genuine energy security strategy.

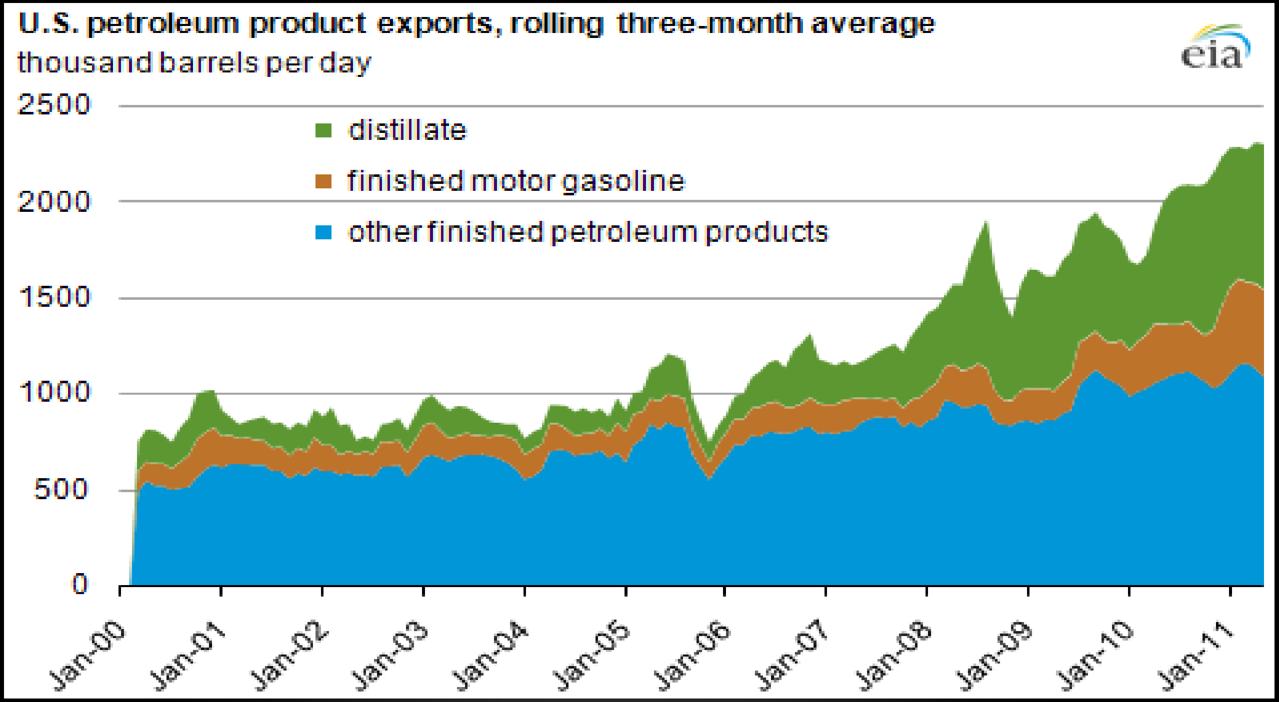
# KEYSTONE XL IS FOR EXPORTS

## U.S. gasoline demand is in decline



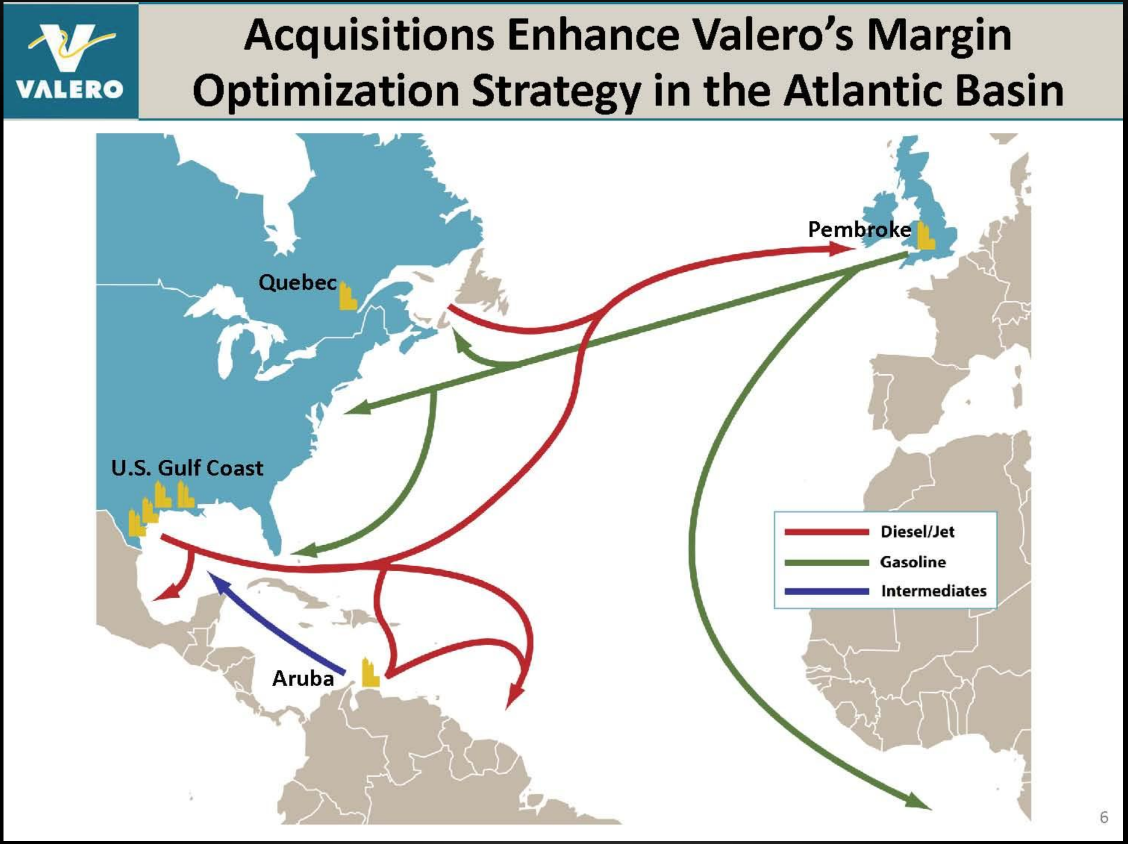
# KEYSTONE XL IS FOR EXPORT

US exports of products up 60% since 2007



# KEYSTONE XL IS FOR EXPORT

## Valero's Export Strategy



# KEYSTONE XL IS FOR EXPORT

Hydrocrackers process heavy sour into diesel for export

VALERO

## Port Arthur Hydrocracker Project

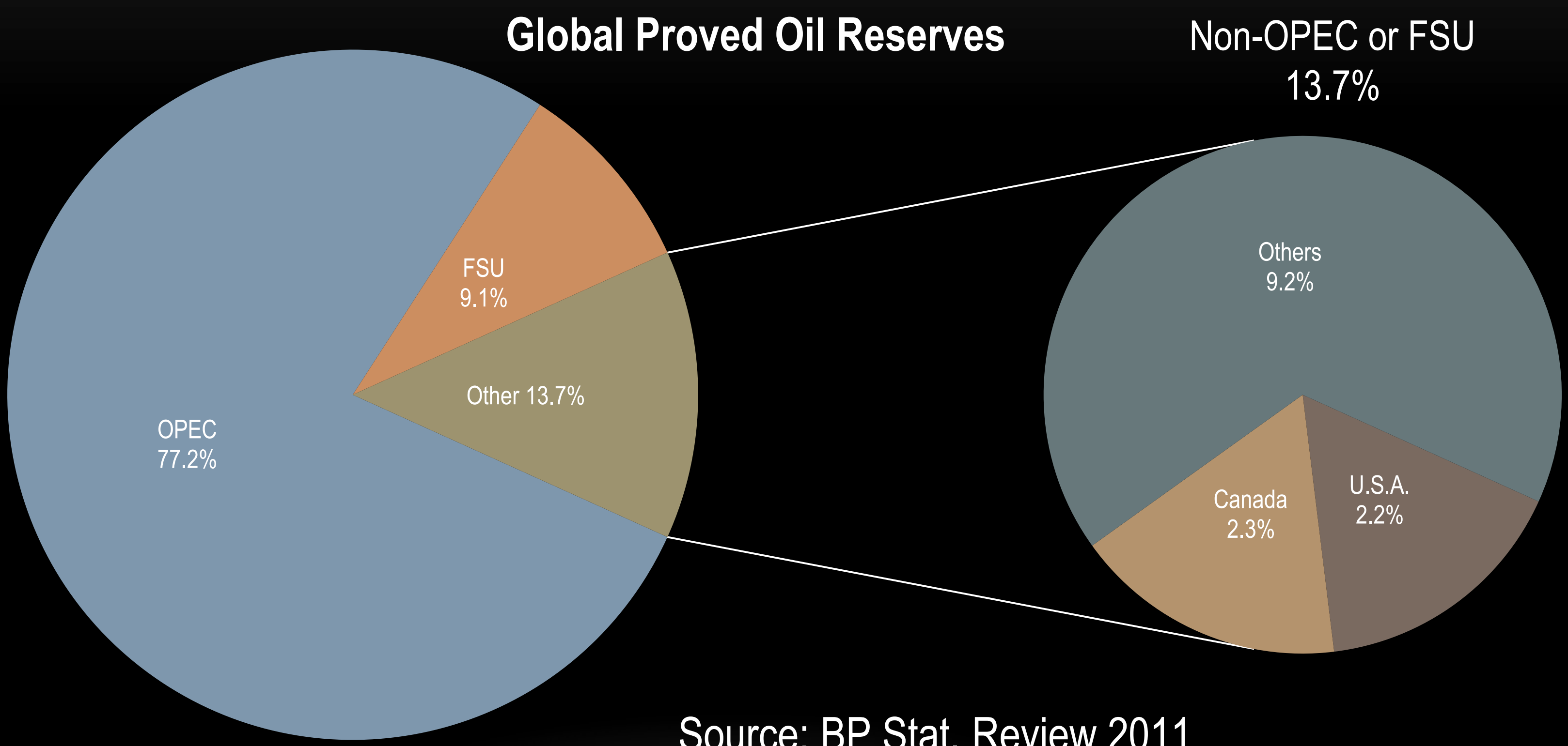
**Investment Highlights**

- Favorable economics driven by margin and volume gains
- Main unit is 50,000 barrels/day hydrocracker plus facilities to process over 150,000 barrels/day of high-acid, heavy sour Canadian crude
- Creates high-value products from low-value feedstocks plus hydrogen sourced from relatively inexpensive natural gas
- Unit has volume expansion of 25%-30%: 1 barrel of feedstocks yields 1.25 to 1.3 barrels of products
- Main products are high-quality diesel and jet fuel for growing global demand for middle distillates
- Located at large, Gulf Coast refinery to leverage existing operations and export logistics

| Summary of Project Status and Economics[1] | |
|---|---|
| Estimated completion date | 3Q12 |
| Estimated total investment (mil.) | $1,604 |
| Cumulative spend thru 2Q11 (mil.) | $750 |
| Estimated Incremental Operating Income before D&A[2] (mil.), Base Case | $520 |
| Estimated Unlevered IRR on Total Spend, Base Case | 23% |
| Estimated Incremental Operating Income before D&A[2] (mil.), 2011 Fwd Curve | $912 |

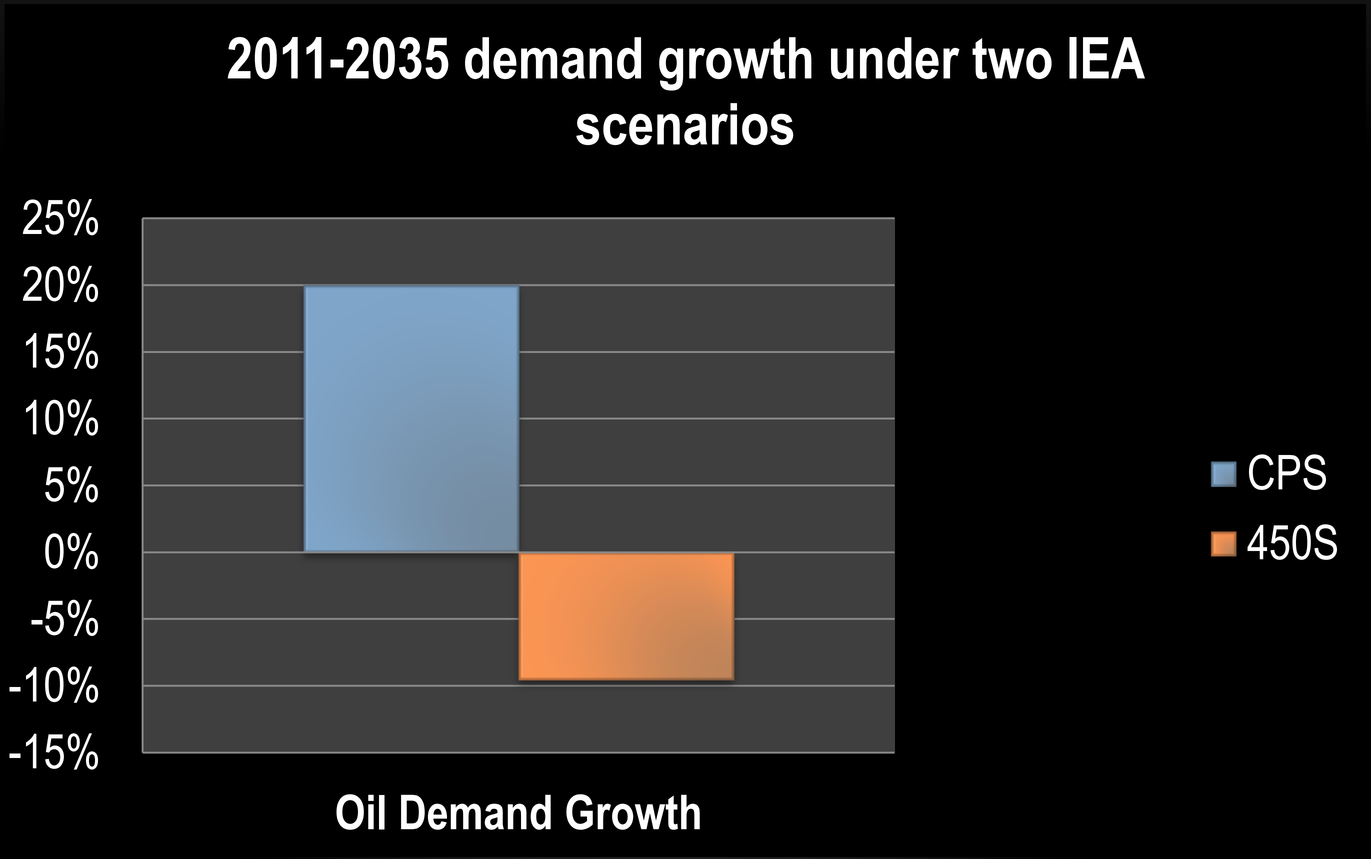
[1]See Appendix for key price assumptions; [2]D&A = depreciation and amortization expense

# CANADIAN OIL BRINGS NO REAL ES BENEFIT




Source: BP Stat. Review 2011

# DEMAND REDUCTIONS =SECURITY



# DEMAND REDUCTION = SECURITY

- IEA 450 Scenario is bare minimum needed to stabilize climate
- 30% cut in U.S. oil use against Ref. Scenario.
- 45% cut in U.S. imports
- 25% demand cut globally
- 28% cut in tar sands production as a result
- $5 trillion cut in OPEC revenues

# CONCLUSION

- Canada and the industry are selling a false hope for energy security.
- The evidence that Canadian oil or the KXL pipeline addresses any specific energy security issue is not there.
- Only demand reduction weakens OPEC power and enhances energy security.