



April 13, 2004

The Honorable Barbara Boxer
United States Senator
Hart Senate Office Building, Suite 112
Washington, D.C. 20150-0505

Shell Oil Products US
Lynn Laverty Elsenhans
President and CEO
One Shell Plaza
P.O. Box 2463
Houston, Texas 77252-2463

Dear Senator Boxer:

Thank you for your letter of April 9 regarding Shell's decision to close the Bakersfield refinery by October of this year. We appreciate your seeking information from Shell on this matter.

Shell has always been and remains willing to entertain any credible offers for the Bakersfield refinery. Shell has received nine inquiries from prospective buyers, but none of them has resulted in a credible offer to date. One inquiry came from an oil company, but they have indicated that they will not pursue further. Seven inquiries came from energy-related companies or other concerns, and another inquiry came from a company that was not interested in running the refinery as an ongoing concern. Out of all the inquiries, we have received only one written expression of interest thus far. In our view, a credible offer would begin with a written expression of interest and information showing adequate financial capability. While we are sharing information with this one party, it has not resulted in a credible offer to date.

As Shell representatives informed your staff during a briefing in Washington D.C. last month, the decision to close the refinery is based on the fact that the refinery is not economically viable due to the continual decline of the crude which supplies this land-locked facility. And we believe potential buyers would reach the same conclusion that we have about its economic viability. For this reason, we have not expended time or resources in an attempt to find a buyer and do not intend to do so. We will, however, continue to respond diligently to all inquiries and are prepared to negotiate with any credible potential buyers.

To give you a better understanding of how we reached our decision, let me share with you some facts. The Bakersfield refinery is configured to process San Joaquin Valley heavy crude, which it only gets from the Kern River Field, upon which the refinery has sat since 1932. Production from the Kern River Field declined by 6.4 percent in 2002 alone, according to production reports published

Senator Barbara Boxer
Page Two

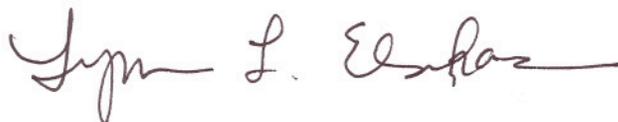
by the California Department of Conservation. Transmission pipelines take San Joaquin Valley heavy crude away from the Kern River Field to several other refineries, including Shell's larger Martinez refinery near San Francisco, but there are no transmission pipelines or other economical means to bring crude to the Bakersfield refinery from other San Joaquin Valley fields.

Declining access to economic crude for this facility is a financial drain. The Bakersfield refinery lost \$24 million in 2001 and lost \$33 million 2002. It made only \$4.7 million in 2003, which is an inadequate return on investment given Shell's investment of over \$200 million in the refinery. The refinery was projected to lose \$5.7 million in 2004. Even if the refinery is slightly profitable in 2004, we will not achieve an acceptable rate of return to justify continued investment in the facility. Furthermore, in February of this year, even with rising margins, we could utilize only 64 percent of the refinery's capacity largely due to our limited access to crude. Thus, with the low utilization rates projected to continue due to lack of access to enough crude, Shell cannot justify continuing to make investments in this facility.

Shell announced this closure decision eleven months in advance in order to give its employees, customers, the city of Bakersfield, the market, and other concerned parties as much time as possible to plan for the closure. As noted above, we remain receptive to any credible offers that we may receive over the next several months. But given what we believe to be the inevitable – the closing of the refinery based on economic reality – it would be a disservice to now introduce uncertainty into this process by delaying or indefinitely postponing the closing of the facility. Therefore, we do not intend to postpone closing the refinery.

I thank you again for your correspondence. Please feel free to contact me if you have any additional questions.

Sincerely,

A handwritten signature in black ink, appearing to read "Lynn L. Edwards". The signature is fluid and cursive, with a long horizontal stroke at the end.