

## **Charles River Associates Develops Innovative Analysis Methodology for Petroleum Refining Industry**

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### **New Methodology Analyzes Impacts of Regulatory and Market Developments**

BOSTON, August 23, 2000 — Charles River Associates Incorporated (Nasdaq: CRAI), a leading provider of economics, financial, and business strategy consulting, announced today that it has developed an innovative methodology for analyzing the impacts of regulatory and market developments on the petroleum refining industry. This methodology, developed in conjunction with Baker and O'Brien Company of Houston, Texas, was used for the first time in a study performed for the American Petroleum Institute entitled, "An Assessment of the Potential Impacts of Proposed Environmental Regulations on U.S. Refinery Supply of Diesel Fuel."

According to W. David Montgomery, CRA vice president, "This is the first time it has been possible to examine the full market impacts of a major regulation affecting the refining industry. Our new approach made it feasible to answer questions about whether new regulations lowering the sulfur content of gasoline will create market imbalances and price instability, what types of refinery will be able to comply, and what types of refinery will have to exit the industry."

The methodology developed by CRA uses information contained in Baker and O'Brien's proprietary PRISM model about the configuration and economics of every refinery in the United States. This information is used to construct a cost curve that records the cost to every individual refinery of meeting a new regulation. This cost curve, together with CRA's model of petroleum product demand, creates a supply-demand framework in which it is possible to forecast changes in market prices, reductions in supply of different products, refinery margins, and exit of specific refiners from the industry under cost pressure. This methodology is applicable to the study of impacts of any new regulation affecting the refining industry, and also to strategic planning questions regarding new technologies or market developments.

"Previous studies relied on linear programming models to compute average costs based on a single 'notional' refinery, rather than considering the diverse circumstances and costs that characterize different refineries," Dr. Montgomery stated. "The results of such studies have overstated the flexibility of the refining sector and are unable to forecast market prices, which are based on the most costly refinery needed to operate to meet demand. They have also typically ignored how demand for different products responds to market prices."

Copies of the CRA study are available on the CRA Web site at [www.crai.com](http://www.crai.com). Inquiries about using the new methodology should be directed to W. David Montgomery in CRA's Washington, DC, office at 202-662-3840.

Founded in 1965, CRA is a leading provider of sophisticated economic and financial consulting services, expert testimony and litigation support, and business consulting. The firm's areas of expertise include auctions, antitrust, mergers and acquisitions, policy impact assessments, corporate finance, strategy and business operations, and regulatory economics. CRA has advised legal and corporate clients, government agencies, and other organizations in thousands of engagements. In addition to its corporate headquarters in Boston, CRA has offices in Berkeley/Oakland, London, Los Angeles, Mexico City, Palo Alto, Toronto, and Washington, DC. More information about the company can be found on its Web site at [www.crai.com](http://www.crai.com).

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