

The President
The White House
Washington, DC 20500

Dear Mr. President:

I am pleased to transmit the Environmental Protection Agency's (EPA) response to the directive contained in the National Energy Policy Report issued on May 17, 2001. In the course of our work, EPA has identified several regulatory changes that we can make in the near term that could help to moderate gasoline price spikes during future transition periods when fuel producers switch from winter to summer grade cleaner-burning gasoline. In both 2000 and 2001, gasoline prices rose sharply during this transition period, particularly in the Midwest.

The Energy Policy Report directed EPA to:

... study opportunities to maintain or improve the environmental benefits of state and local "boutique" clean fuel programs while exploring ways to increase the flexibility of the fuels distribution infrastructure...

In examining the current situation and future outlook for boutique fuels, EPA consulted with over 40 stakeholder groups, including gasoline refiners, distributors and marketers, pipeline operators, auto manufacturers, state and local government officials, and environmental and public health organizations.

Following this extensive outreach process, EPA initiated an assessment of boutique fuels, focusing on the various types of fuels and the factors that lead state and local governments to adopt boutique fuel requirements. We also evaluated the air quality benefits the fuels provide and assessed the impact of these fuels on the gasoline production and distribution system.

EPA identified two issues that need to be addressed. The first is the need for greater flexibility in the process by which fuel marketers make the transition from winter to summer grade reformulated gasoline (RFG), which I mentioned above. The second issue is the number of state and local boutique fuels programs and the challenges that this presents to the gasoline distribution system.

The enclosed report discusses the actions that EPA will take in the near term to ensure a more orderly transition from winter to summer grade RFG. EPA is prepared to act quickly on this set of administrative and regulatory actions to provide new flexibility to refiners in advance of next year's spring transition season, while maintaining the environmental benefits needed during the summer smog season. In summary, EPA will:

- Propose new regulations to ensure that terminals are able to transition from winter to summer grade fuels more gradually. This approach could help to avoid the temporary fuel shortages that, in the past, have been associated with localized spikes in gasoline prices.
- Allow fuel producers a broader "testing tolerance" than they currently have for their initial transition to summer fuel.
- Allow certain fuels types to be reclassified as RFG, thus making it easier to address localized issues that arise when there is an unexpected disruption in the distribution system.
- Propose to simplify certain RFG accounting and reporting requirements.

The second boutique fuels issue is the growing number of state and local governments that have adopted their own fuel programs that are different from the federal RFG program. EPA has identified several reasons why states have adopted their own boutique fuel requirements, including reduced cost compared with the federal RFG program, local air pollution control needs, concerns about the oxygenate mandate in the RFG program, and concerns about the use of MTBE, an oxygenated gasoline additive. A number of states want to avoid the use of MTBE in their gasoline because it has been found to contaminate water supplies in some areas.

Despite the number of state and local fuel programs, EPA has found that the current gasoline production and distribution system is able to provide adequate quantities of boutique fuels, as long as there are no disruptions in the supply chain. If there is a disruption, such as a pipeline break or refinery fire, it can be difficult to provide gasoline supplies because of constraints created by these boutique fuel requirements. In addition, fuel providers are concerned that recently enacted state laws that ban the use of MTBE in future years may proliferate the number of boutique fuels and present new challenges to this country's fuel production and distribution system.

EPA staff have prepared a White Paper that explores a number of possible approaches that could reduce the total number of fuels in the longer term. This White Paper, which will be released for public review and comment, lays the groundwork for needed future study into these and other possible approaches.

The Agency will continue to work with other agencies and stakeholders to evaluate options and move forward on actions that will protect our environment and improve the efficiency of our Nation's fuel production and distribution infrastructure.

Sincerely yours,

Christine Todd Whitman

Enclosure