

INDEPENDENT LIQUID TERMINALS ASSOCIATION
Response to Questions of Governors' Task Force on Boutique Fuels

EPA's 2001 study analyzed four different scenarios for reducing the number of boutique fuels. Do you agree with these options?

No. Options 1 and 2 do not accurately reflect the current gasoline market, and Options 3 and 4 are not reasonable options from a cost-benefit viewpoint.

Options 1 and 2 are reasonable ways to reduce the number of boutique fuels, but they would need to be modified to remove the choice between RFG and Federal Clean Burning Gasoline (CBG). The lifting of the oxygenate mandate for RFG has eliminated the practical difference between the two fuels. The CBG option was defined in the EPA study as (1) not specifying an oxygen content but (2) equivalent to RFG in terms of meeting emission requirements.

Options 3 and 4 would not pass a cost-benefit test. They would require that some type of cleaner-burning gasoline be used in all of the states. The production of this gasoline for nationwide consumption would require another round of large-scale modifications to petroleum refineries, which would impose yet another layer of costs directly on refiners and ultimately on consumers. However, this would produce minimal environmental benefits in large areas of the country where the air is relatively clean and cleaner-burning fuels are not needed.

Are there other options that should be addressed? Yes. Modify options 1 and 2 so that option 1 would give the 49 states the three choices of conventional gasoline at 9.0 RVP, conventional gasoline at 7.8 RVP, or RFG. Option 2 would be a choice for the 49 states between conventional gasoline and RFG.

Given the current state of fuel requirements, are the 2001 study findings regarding the cost, fungibility, air quality, and supply of the four options still accurate?

No. The decision by Congress to mandate the inclusion of specified volumes of ethanol in gasoline has certainly changed all four of these factors. Also, the removal of MTBE from the market and the lifting of the 2% oxygenate requirement for RFG have affected the cost, fungibility and supply factors. Moreover, all three developments taken together are now changing the gasoline market to the point where some states may have changed their positions on their optimum course of action relating to gasoline specifications.

What data would be needed to complete additional analysis on these four factors for boutique fuel options?

Refining experts and market analysts are best equipped to answer this question. ILTA suggests, however, that a new, massive study of the current gasoline market is not needed to provide a rational basis for a policy decision to substantially reduce the number of boutique fuels. As explained in the answer to question 4 below, there is no question that the current proliferation of special fuel blends in numerous areas throughout the U.S. increases the risk of new fuel supply shortfalls and price spikes. Those events cause substantial economic harm and personal hardships. Government action is needed now to reduce the probability of their occurrence.

How long would it take you to schedule an additional shipment if a refinery you service just produced a batch of low-RVP gasoline or RFG to supply an area experiencing a supply shortfall (i.e., if the refinery normally supplying the area went down)?

Bulk liquid terminals generally receive shipments from pipelines, ships, barges, and rail tankcars. Pipeline deliveries are the largest source of gasoline for terminals. The time needed for the receipt of an additional shipment would depend on the distance from the refinery and the availability of transportation capacity. The shipping time can range from one day to two weeks under normal conditions, and of course it can be much longer if breakdowns or capacity overloads occur. Under some circumstances, a pipeline can reduce shipping time by delivering a volume by displacement, where it simultaneously receives the gasoline from a refinery and delivers an equal volume of the identical product to a terminal at a downstream delivery point. Pipelines with large breakout tank capacity also have the ability, under limited conditions, to reduce the shipping time of an additional volume by drawing down the needed amount from breakout tanks at a location that is much closer to the terminal than the refinery that produced the gasoline.

Would it make a difference if this additional batch of fuel is or is not a fuel type you normally ship?

Yes. If the additional fuel were different from the fuel that is normally handled, then the terminal would have to store it in a separate, empty tank, which is likely to be unavailable. Receiving fuel that is identical to or interchangeable with fuel already stored is far less problematic, because the terminal can simply fill up an existing tank that is presumably already empty due to the supply shortfall of that particular fuel.

If the fuel type is not standard for you, would you also need to provide breakout tankage for this additional fuel type and how would that delay its shipment?

Yes. A separate, empty tank would need to be available within the terminal. At the present time, very few bulk liquid terminals have spare tanks that could immediately be placed into service to supply an area experiencing a supply shortfall. If spare tank capacity were not available, then the terminal would not be able to receive, store and redeliver an emergency shipment of additional gasoline that is different from the gasoline it normally handles. The emergency shipment would not be delayed. It simply would not occur.

The lack of available capacity is due in large part to three factors: the introduction of ULSD into the market, the sharp increase in the use of ethanol as a replacement for MTBE, and the disincentives for new tank construction. (1) EPA's ULSD rules essentially "require" petroleum product terminals to add to the total number of tanks at terminal locations or reduce the number of tanks used to store other petroleum products. As a practical matter, separate, dedicated tanks are needed for the storage of ULSD. (2) Increased reliance on ethanol as a gasoline oxygenate and blendstock has sharply increased the demand for additional tanks at terminals, since ethanol has an affinity for water and must be segregated from petroleum products until it is blended prior to delivery at retail outlets. (3) Terminals construct new tanks only as needed and only under appropriate conditions. They are not built as speculative investments. The construction of new tanks is often subject to one or more of three constraints: available space within the terminal; the ability to earn a reasonable rate of return on the investment; and the ability to obtain the required construction and operating permits within a reasonable period of time.

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