



NESCAUM's
Response to Questions from
Governors' Task Force on Boutique Fuels

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Questions



1. Do you agree with 4 scenarios addressed in EPA 2001 Boutique Fuels Study?
2. Given current state of fuel requirements, are 2001 study findings regarding cost, fungibility, air quality & supply still accurate?
3. What data would be needed to complete additional analysis of these 4 factors for boutique fuel options?
4. What is appropriate balance between state ability to adopt unique fuels & limiting fuel types to manage supply & distribution concerns?

Caveat



- Caution should be used to ensure that term “boutique” is not used in pejorative sense to describe environmentally superior fuels
- These programs are not fashion items lacking societal benefits – they are critical public health initiatives
- Prefer the term “state & local clean fuels” as used on EPA’s website

Question #1

- Northeast states agree that the 4 scenarios evaluated in the Boutique Fuels Study have potential merit, assuming statutory constraints are resolved in an appropriate & timely fashion
- However, 2001 study's reference case is not accurate in that it assumes:
 - Oxygen mandate for RFG
 - No Renewable Fuels Standard (RFS)
 - Former MTBE plants will be producing iso-octane
 - 5.7% ethanol will replace MTBE in all RFG
 - More aggressive MSAT requirements than EPA's current proposal

Question #1

- Regional option not evaluated in sufficient detail
- That option is important to Northeast states who have long espoused support for single clean-burning gasoline in the region
- Northeast & Mid-Atlantic states are currently considering OTR-wide RFG as authorized in the Energy Policy Act
- Great opportunity to simplify gasoline distribution in large region of the country while increasing public health protection

Question #1



- Agree with goals of study:
 - Look for opportunities to maintain or improve environmental benefits of clean fuel programs while exploring ways to increase the flexibility of fuels distribution infrastructure, improve fungibility, and provide added gasoline market liquidity
- Agree with Study conclusions:
 - Clean fuel is integral part of nation's air pollution control program
 - Programs provide significant, cost-effective & timely emission reductions
 - Millions of people are breathing cleaner air as a result of these programs

Question #1



- Generally agree with EPA's assessment of reasons states adopt boutique fuels requirements:
 - Local air quality needs
 - Need to protect water resources from MTBE
 - Relationship between oxygen mandate & MTBE
 - Differential cost relative to RFG not deemed significant in Northeast
- Would add that boutique fuels result from vagaries of federal law that limit ability to adopt RFG or regionally consistent fuels

Question #2



- Elimination of the oxygen mandate, expanding MTBE bans, RFS requirements & introduction of low sulfur gasoline have dramatically changed status quo since 2001
- On-going analysis of impacts of specific RFS requirements on both CBG and CG will be needed (air quality, supply & distribution)
- 2001 study identified oxygen mandate as driver for boutique fuels – more analysis should be done to assess actual impact of lifting oxygen mandate
- Any new assessment of cost must be based on long-term historical perspective, not only on current situation

Question #3



- Use & effects of ethanol under RFS
- Impact of reducing / eliminating MTBE from fuel supply
- Effect of low sulfur rule and MSAT requirements on relationship between RFG & CG
- Role of non-air quality issues (e.g., water quality, climate change, agricultural policy)

Question #4



- Fuel controls are an effective strategy for protecting public health
- NAAQS revisions & improved understanding of health impacts of air toxics may change landscape & need for cleaner fuels in future
- Unanticipated new issues like MTBE contamination of water resources may emerge that will require state action
- Therefore, state authority to regulate fuels remains critical

Question #4



- Northeast states appreciate the regional nature of both our airshed and fuel supply & distribution network and the merits of regional coordination
- Have long record of promoting regionally consistent clean-burning fuels:
 - Regional Low RVP gasoline – 1989
 - Broad opt-in to Federal RFG - 1995
 - OTR-wide authority for RFG in RFS debates
 - Regional low sulfur heating oil
- Deviations from goal of regional clean fuels in Northeast have primarily resulted from federal preemption issues & lack of support from oil industry

Question #4



- Environmental quality is not cause of high gas prices, especially with new “shoulder season” flexibility
- CAA already significantly restricts states from adopting clean fuel initiatives
- Move toward national/regional clean burning fuels will minimize need for, and problems associated with boutique fuels
- Federal government & industry support for effective national/regional fuel initiatives is key to avoiding fuel “patchwork”

Conclusions



- Impacts of eliminating oxygen mandate & imposition of RFS should be further studied
- Federal government & industry should support OTR-wide RFG program
- State authority to regulate fuels must be maintained to ensure continued protection of public health & the environment
- Northeast states have always worked collaboratively with each other, the federal government & industry on fuel issues & will continue to do so

Conclusions

- This Task Force should look for fresh ideas
- For example, premium & mid-grade octane blends are “boutique fuels” and Task Force might look at the impact that eliminating one of these grades could have on simplifying fuel storage & distribution
- Task Force must work off the premise that the current fuel supply & distribution system is more a product of industry practices than a response to government regulation