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Boutique Fuels Issues

Testimony

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Governors Task Force on Boutique Fuels

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Administrator Johnson and members of the task force, thank you for inviting the Petroleum Marketers Association of America (PMAA) to participate in today's discussion about boutique fuels. PMAA is a national federation of 45 state and regional trade associations representing 8000 independent petroleum marketing companies. Our member companies are active in both wholesale and retail marketing of petroleum products to include motor fuels such as gasoline and diesel. PMAA member marketers own and operate over 60,000 retail/convenience store/truck stop locations and supply fuel to an additional 40,000 independent retailers. Because of our familiarity with both wholesale and retail motor fuels distribution, we hope to be a valuable resource in your work on boutique fuels.

Our members have significant concerns about the proliferation of boutique fuels in the modern petroleum marketplace. Additionally, because PMAA is a federation of state and regional trade associations, we very much respect the important responsibilities state governments have in both environmental protection and energy policy.

In regard to boutique fuels, PMAA believes increased efforts should be made to preserve state jurisdiction yet promote greater fungibility for gasoline and diesel supplies. It should however be recognized by all that the fundamental structure of motor fuels distribution and marketing do not efficiently or effectively conform to state boundaries.

In your invitation letter, you asked that we comment on the boutique fuels study published by EPA in 2001. While the study was relevant and comprehensive in 2001, many of the marketplace dynamics have changed in recent years. We believe the petroleum industry improved its ability to deal with boutique fuels in recent years however, the recent problems with MTBE and ethanol have been a setback. You also asked that we comment on petroleum marketer abilities to respond to RFG or low RVP gasoline shortages. We will address that later in our comments.

Newest Threat To Fungibility

In today's petroleum marketplace, the single greatest threat to the fungibility of gasoline and diesel supplies are state-based bio-fuels mandates. PMAA supports the increased use of bio-fuels however growth incentives must be national in scope. In the 2005 Energy Bill, Congress provided extraordinary incentives and mandates for the increased use of ethanol. Also provided were unprecedented tax credits for the blending of bio-diesel. It is very counterproductive and costly to consumers for states to impose fuel mandates on top of fuel mandates.

A good example to illustrate our concern is to describe the operations of Lykins Oil Company in Milford, Ohio. Mr. Jeff Lykins was PMAA Chairman in 2004 and markets motor fuels primarily in the Cincinnati region. Currently Lykins Oil supplies motor fuels to retailers in Kentucky, Indiana and Ohio and loads product from twenty different terminals in those three states. Because of the excellent fungibility in most of the region, the marketplace is quite competitive and motorist benefit with lower prices. If each state were to impose bio-fuels mandates, the current efficiencies benefiting retailers and consumers served by Lykin's will be severely diminished. Additionally, state-based mandates will sooner or later result in shortages and shortages translate quickly into high prices.

Correlate Fuel Specifications To Pipelines

To return to your question about marketer response to RFG and low RVP gasoline shortages, it is appropriate to stress the importance of pipelines and terminals. When the industry was crippled by Hurricane Katrina last year, marketers sent their trucks great distances to find gasoline and diesel supplies. If nearby terminals have product, marketers will find it, buy it and market it. Because of overly restrictive boutique fuels specifications in some RFG markets, the product simply cannot be found at nearby terminals. PMAA believes any effective boutique fuels reduction plan should closely evaluate the pipelines and their ability to efficiently deliver multiple fuels. It should be a goal of EPA to encourage states and localities jointly served by one pipeline to use identical fuels specifications. In this scenario, shortages in one area might be eased by products from nearby terminals served by the same pipeline.

Ease MTBE/Ethanol Restrictions

One final recommended action that could help improve gasoline fungibility immediately is to permit unlimited commingling of MTBE blended gasoline with ethanol blended gasoline. The downstream petroleum industry is suffering greatly from a disorderly reduction in MBTE use and a disorderly increase in ethanol use. We now have terminals in the same market area offering either MTBE or ethanol blended gasoline. When ethanol supplies are inadequate at a particular terminal, marketers need the flexibility to load gasoline from other terminals even if only MTBE blended gasoline is available. When Congress enacted the commingling restrictions in the 2005 Energy Bill, no one could foresee the complicated consequences of MTBE and ethanol blended gasoline being distributed in the same local marketplace. This probably requires a technical amendment to the current law but with EPA's support, it could be done quickly.

Thank you for giving us the opportunity to speak to you today and we look forward to assisting your efforts to improve motor fuels fungibility and reduce costs to consumers and industry.