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May 17, 2006

The Honorable Stephen L. Johnson
Administrator
U.S. Environmental Protection Agency
Washington, D.C. 20460

Re: SIGMA Presentation to EPA's Governors' Task Force on Boutique Fuels

Dear Administrator Johnson:

Thank you very much for seeking the input of the Society of Independent Gasoline Marketers of America ("SIGMA") as part of the Environmental Protection Agency's Governors' Task Force on Boutique Fuels. On behalf of SIGMA, I plan to attend the Thursday, May 18, 2006 Task Force meeting to present SIGMA's views on boutique fuels.

SIGMA and Its Position on Boutique Fuels

SIGMA is an association of more than 240 independent motor fuel marketers operating in all 50 states. Last year, SIGMA members sold more than 58 billion gallons of motor fuel, representing more than 30 percent of all motor fuels sold in the United States in 2005. SIGMA members supply more than 35,000 retail outlets across the nation and employ more than 350,000 workers nationwide.

SIGMA has encouraged Congress to restrict the proliferation of state boutique fuels for over a decade. SIGMA strongly supported Section 1541 of the Energy Policy Act of 2005 ("EPAct") as a measured restraint on the continued balkanization of the nation's gasoline and diesel fuel markets. We believe that the EPAct boutique fuels provisions will call a halt to the proliferation of boutique fuels while at the same time protecting the environment and providing the states with the clean fuel options needed to meet their air quality needs.

We look forward to working with EPA and other stakeholders on the implementation of Section 1541 of EPAct. SIGMA particularly is interested in the conclusions that EPA and the Department of Energy ("DOE") reach pursuant to their joint study under Section 1541(c) with respect to options to reduce the number of fuels nationwide. SIGMA strongly supports increased fuel fungibility, but not if this goal is accomplished by reducing overall fuel supplies.

Currently, SIGMA is advocating that Congress amend the EPAct provisions to provide for a gradual reduction in the number of boutique fuels nationwide and to pre-empt state

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alternative fuel boutique fuel mandates. We are convinced that these measures are necessary to complete the work Congress started with EPOA.

Congress and elected leaders across the nation have expressed deep concern about the current high price of gasoline and diesel fuel. While our message may not be popular with this Task Force, SIGMA posits that the balkanization of the nation's motor fuels markets and more stringent environmental controls on fuels are the cause of at least some of the price volatility the nation has witnessed over the past three months and over the past several years. SIGMA encourages this Task Force during its discussions to focus on all facets of the boutique fuels issue:

- the air quality needs that have led to their adoption by states;
- the changes in federal fuels programs contained in EPOA that may have changed fundamentally the need for many boutique fuels;
- the market and supply constraints, and the resultant price volatility, that boutique fuels have imposed on motor fuel marketers and motorists over the past decade; and,
- the proposition that the fuel that has the lowest manufacturing "cost" does not necessarily result in the lowest retail prices to consumers due to limited supply, reduced numbers of suppliers of unique fuel blends, and the inability of the market to respond to supply shortages.

Answers to EPA Questions

In your letter of invitation, you asked SIGMA to respond to several questions. The answers to these questions are below.

- *Question #1: EPA's 2001 study analyzed four different scenarios for reducing the number of boutique fuels. Do you agree with these options? Are there other options that should be addressed?*

Answer: EPA's 2001 boutique fuels study was a good analysis of options for addressing issues associated with boutique fuels at the time. However, in the five years since the study was conducted, much has changed, both in terms of federal and state environmental regulation of fuels and in the future of the fuels markets. To name a few changes:

- MTBE generally has been phased out as a gasoline additive;
- Congress has adopted a renewable fuel standard mandating the use of ethanol and biodiesel;

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- The RFG program's oxygenate mandate has been repealed;
- Congress in EPAct has capped the number of boutique fuels nationally (an option not considered in the 2001 study); and,
- New state boutique fuels, in the form of state alternative fuel mandates, are supplementing existing boutique fuels and further balkanizing the nation's motor fuel markets.

SIGMA encourages EPA to build on the work done on the 2001 study and, in conjunction with DOE, produce a Section 1541(c) study that:

- Updates the assumptions of the 2001 study to reflect the current status of federal and state fuels legislation and regulation;
 - Takes advantage of DOE's expertise to study in depth the impact of a reduction, instead of just a cap, on boutique fuels on domestic refining capacity;
 - Examines the air quality and supply impact of some of the legislative proposals pending in Congress, including a gradual reduction in the number of boutique fuels and the adoption of a federal "fuel slate"; and,
 - Provides Congress with recommendations on legislative options that focus on maintaining or expanding domestic fuel supply while maintaining environmental protection.
- *Question #2: 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?*

Answer: In SIGMA's opinion, too much has changed since 2001 for that study's findings to be accurate in 2006. SIGMA recommends that the 2001 study be updated as noted above and, with DOE's expert input on supply issues, incorporated into the EPAct Section 1541(c) study.

- *Question #3: What data would be needed to complete additional analysis on these four factors for boutique fuel options?*

Answer: As noted in the answer to question #1 above, SIGMA posits that there are additional factors at work in today's motor fuels markets that EPA did not consider in its 2001 study -- most significantly congressional action to cap the number of boutique fuels nationwide. At the very least, EPA must update the study to encompass four other options -- (1) the operation of the EPAct cap and its impact on air quality and supply; (2) a "fuel slate" option, perhaps higher in number than the two or three fuel slates studied in

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2001; and, (3) the fact that the boutique fuel problem is spreading to diesel fuel; and, (4) the proliferation of state alternative fuel boutique fuel mandates. A significant portion of the new data needed to analyze these new options must come from DOE with respect to the ability of the domestic refining industry to produce fuels under these options.

- Question #4: *What impact do state boutique fuels have on your station operations?*

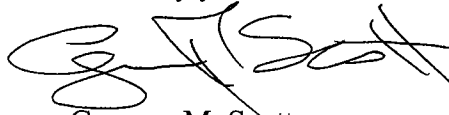
Answer: For the average SIGMA member operating in an area of the country with a state boutique fuel mandate, the mandate limits overall fuel supply, decreases competition among suppliers, limits number of suppliers, and exposes the retailer to more wholesale and retail price volatility.

- Question #5: *What impact do state boutique fuels have on vehicle and engine operation?*

Answer: SIGMA does not have expertise in this area.

SIGMA looks forward to working with the Task Force in the future as it considers these important issues. If there is further information SIGMA can provide or if questions have been raised by this letter, please do not hesitate to contact me. Thank you for the opportunity to submit SIGMA's views.

Sincerely yours,



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