Appendix A

Request from Committee and EIA Interim Response

Request from Committee

United States Senate

COMMITTEE ON
ENERGY AND NATURAL RESOURCES
WASHINGTON, DC 20510-6150

ENERGY.SENATE.GOV

June 17, 2002

Dr. Mary Hutzler
Acting Administrator
Energy Information Administration
1000 Independence Avenue SW
Washington, DC 20585

Dear Acting Administrator Hutzler:

The Senate passed version of H.R.4 contains a number of provisions affecting fuels markets that require additional analysis prior to final conference decisions. First, the oxygenate requirement for RFG would be eliminated and the states would be allowed to ban the use of MTBE beginning in 2004, a national phase out would follow. Also beginning in 2004, a certain portion of all gasoline sold in the U.S. will have to be from "renewable fuels", this requirement will affect all refiners and gasoline markets. The combination of these two factors alone has the potential to significantly impact US motor fuels markets.

As we all know too well, every previous significant change to fuel formulations has resulted in severe price volatility in various US motor fuels markets. Each time, the Committee on Energy & Natural Resources has held hearings to review the problems in an effort to avoid or at least mitigate future recurrence of such dislocations. The Energy Information Administration (EIA) has also investigated and reported on these various transitions. We should be able to apply what we have learned from these past market transition experiences to ease the implementation of these various changes that will start to take effect in 2004.

Therefore, I am requesting that the EIA analyze the potential market implications of the Senate-passed fuels provisions in H.R.4 combined with known and anticipated regulatory changes. This should include specific analysis of the following factors:

1. The expected volumetric shortfall in fuels supplies with an effective MTBE ban in 2004;
2. Actual renewable fuels production capacity, supply, and constraints and the effect on price;
3. Inter-regional transportation issues and associated costs for renewable fuels;

4. The potential effect of operating the mandate on a fiscal year, (i.e. beginning in October) vs. calendar year basis;
5. The environmental impact of the simultaneous implementation of the low sulfur and Mobile Source Air Toxic (MSAT) gasoline regulations and a national ethanol mandate;
6. The impact on gasoline price and supply when many additional ozone non-attainment areas come under the new 8-hour ozone standard;
7. The potential cost and supply impacts associated with individual states seeking to protect air quality through the removal of the one-pound vapor pressure waiver for gasoline blended with ethanol;
8. The potential effect/role of implementation of a national menu of fuels to address the proliferation of boutique fuels.

As earlier requests have noted, it would be helpful to have this study completed as soon as possible. Should you have any questions, regarding this request, please contact Jennifer Michael at the Committee, at (202)224-7143. I thank you in advance for your assistance.

Sincerely,

Jeff Bingaman
Chairman, Senate Committee on
Energy & Natural Resources

cc: file

EIA Interim Response **June 21, 2002**

The Honorable Jeff Bingaman
Chairman
Committee on Energy and Natural Resources
United States Senate
Washington, DC 20510-6150

Dear Mr. Chairman:

This responds to your request of June 17, 2002, for information on potential impacts that the Senate-passed version of H.R. 4 might have on petroleum markets. Because we cannot provide quantitative answers to all of your questions within the time limits that would be useful for your deliberations, we will provide some qualitative responses. In the next 6 to 8 weeks, we plan to address your questions as follows:

1) **Expected volume shortfall in fuel supplies with an effective methyl tertiary butyl ether (MTBE) ban in 2004**: We will use a simple volume-balancing approach to quantify the volume loss of MTBE, the various means of making up that reduction, the potential volumes associated with those means, and the hurdles to exercising those supply responses.

2) **Actual renewable fuels production capacity, supply, and constraints and the effect on price**: We will look at current capacity, planned additions, and capacity needed beyond that already announced to provide required ethanol supply between now and 2007. Consideration will be given to needed ethanol supply both with and without an MTBE ban, since our prior analysis of MTBE bans showed an increase in demand for ethanol above the Renewable Fuel Standard (RFS) in earlier years. We will also discuss potential impediments and price impacts.

3) **Inter-regional transportation issues and associated costs for renewable fuels**: Because the Energy Information Administration has not done an independent study on this issue and because of your time constraints, we will respond to this request by summarizing recent studies on the transportation issues associated with distribution and storage of ethanol.

4) **The potential effect of operating the mandate on a fiscal year (i.e., beginning in October) vs. calendar year basis**: It is our understanding from your staff that this question is intended to address the startup of an RFS program and whether delaying the start date from January to October 2004 (thereby starting the program after the high-demand summer season) would reduce the potential for price volatility. We will provide a qualitative answer to this issue after investigating the operating issues in more detail.

5) **The environmental impact of the simultaneous implementation of the low sulfur and Mobile Source Air Toxic (MSAT) gasoline regulations and a national ethanol mandate:** We understand that this question is meant to explore whether spreading the start dates further apart for the low sulfur programs and ethanol mandate could reduce the potential for supply dislocations and associated price volatility. Because MSAT is currently in place, we will explore adjusting the start dates for low sulfur gasoline, low sulfur diesel, and the ethanol mandate. As in question 4, we will provide a qualitative answer to this issue after investigating the operating issues in more detail.