Update of Summer Reformulated Gasoline Supply Assessment for New York and Connecticut

May 5, 2004

In October 2003, EIA published a review of the status of the methyl tertiary butyl ether (MTBE) ban transition in New York (NY) and Connecticut (CT)[1] that noted significant uncertainties in gasoline supply for those States for the summer of 2004. To obtain updated information, EIA spoke to major suppliers to the two States over the past several months as the petroleum industry began the switch from winter- to summer-grade gasoline.

As discussed on our earlier report, the NY and CT bans on MTBE mainly affect reformulated gasoline (RFG), which in recent years has been provided by domestic refineries on the East Coast (PADD 1) and imports. Our recent findings indicate that domestic suppliers (including suppliers from the Gulf Coast) will likely produce more reformulated gasoline blendstock for oxygenate blending (RBOB)[2] for NY and CT than was expected last fall. While sizeable gasoline import volumes are still needed, conversations with a number of import suppliers and trade press reports about cargoes of summer-grade RBOB lead us to believe adequate supply potential has emerged, and the likelihood of any severe shortfalls due to the initial transition is significantly reduced from our earlier assessment. Consistent with this supply picture, retail prices of gasoline have been increasing in the region similarly to prices in the rest of the country, as seen in Figure 1.

Table 1 compares estimated supply of RFG to NY and CT prior to the MTBE ban and potential supply for this summer. Production of ethanol-blended RFG by East Coast refineries for the two States is expected to increase this summer relative to their previous volumes. These refiners will make more RFG for NY and CT by decreasing production for other Northeast States, which means that more RFG from import sources will be needed in those other Northeast areas that use MTBE-blended RFG. RBOB for NY and CT may also come from Gulf Coast (PADD 3) refineries, which have not been supplying this region for some years.

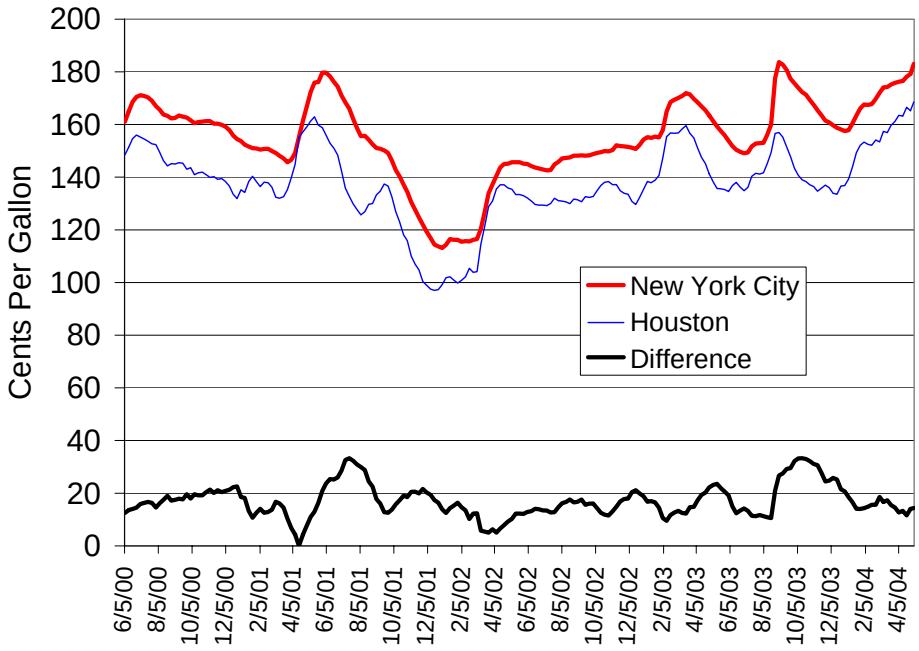
Import supply to NY and CT is coming both as RBOB and as separate blending components, which blenders then combine to produce RBOB. In the winter months, components came to these States from Europe to blend the easier-to-make winter-grade RFG, but not all foreign refiners can produce the low-RVP components needed for

[1] Energy Information Administration, *Preparations for Meeting New York and Connecticut MTBE Bans*, October 2003, SR/OO&G/2003-02, http://www.eia.doe.gov/pub/oil_gas/petroleum/analysis_publications/mtbebans/mtbebans.pdf

[2] RBOB is the base gasoline mixture produced by refiners or blenders that is shipped to terminals, where ethanol is then added to create the finished ethanol-blended RFG.

ethanol-blended summer RFG. Trade press[3] and importers that we interviewed identified at least 6 European refiners that they believe can produce the summer-grade RBOB for NY and CT.

Figure 1. Retail New York City and Houston RFG Gasoline Prices



Source: EIA Weekly Retail Gasoline Prices

Table 1. Potential New York and Connecticut Summer RFG Supply
(Thousand Barrels per Day)

RFG Supply Sources	Estimated Summer Supply 2002	Potential Change in 2004	
		Low	High
PADD 1 Refiners	149	29	67
PADD 3 Refiners	3	2	41
Imports	171	-14	46
Total or Net	323	17	154

Note: The potential supply estimates do not reflect planned volumes. The estimates represent potential supply that could be made available if adequate economic incentives develop to cause suppliers to divert volumes from current markets to New York and Connecticut. The estimated 2002 supply sources were updated from the October 2003 report.
Source: EIA estimates based on data from the forms EIA-810, EIA-814, EIA-782C, and conversations with suppliers.

[3] For example, a Reuters report, "Europe begins RBOB gasoline exports to the U.S," April 14, 2004, indicated that five cargoes of RBOB were identified as fixed for export from Europe in April. The volume cited represented over 50 thousand barrels per day of product.

While this new ethanol-blended RFG market required considerable rebalancing, the necessary supply shifts appear to be occurring. The ethanol-blended RFG supply for NY and CT is more certain than when EIA first looked at it last fall, but some concerns remain. The NY and CT area has become an island market for hard-to-produce gasoline. As such, the two States are more exposed to price volatility than surrounding areas in the event of any loss of supply because additional supply sources may be more than a week away, the number of suppliers that can serve these States is reduced, and these two States cannot draw on nearby inventories of different gasoline types to fill the gap.

As the summer is unfolding, all gasoline markets are tight, as evidenced by low inventories relative to seasonal norms. Low inventories reduce the local supply cushion available to respond to unexpected supply-demand imbalances, and the addition of RBOB and ethanol requirements to the Northeast supply and distribution system limits supply flexibility for the entire region. Under these tight market circumstances, the potential for price volatility increases not only for NY and CT, but for other regions as well. NY and CT, however, have fewer sources to turn to.