

**STATEMENT OF
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COMMITTEE ON HOMELAND SECURITY
U.S. HOUSE OF REPRESENTATIVES**

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Mr. Chairman and Members of the Committee, I appreciate the opportunity to appear before you today. The Energy Information Administration (EIA) is the statistical and analytical agency within the Department of Energy. EIA does not promote or take positions on policy issues, and has independence with respect to the information and analysis we provide. Our views should not be construed as representing those of the Department or other federal agencies.

EIA has been following the changes in the East Coast market closely as described in the reports that accompany my testimony. Significant capacity serving Northeast petroleum product markets was recently idled. ConocoPhillips' Trainer and Sunoco's Marcus Hook refineries were closed during 2011, but were partially offset by the restart of PBF Energy's Delaware City refinery, which is about same size as Trainer. (Table 1) HOVENSA's U.S. Virgin Islands export refinery, which supplied the East Coast, also closed in February 2012. The impacts of that closure are just beginning, but by itself it is not expected to be a major problem for Northeast product markets.

Sunoco also announced plans to idle its remaining refinery in Philadelphia (Sunoco Philadelphia) in July 2012 if no buyer is found. This refinery represents roughly one-quarter of East Coast refining capacity as of August 2011.

As indicated in the report attached to this testimony, all these closures would create a shortfall of about 240,000 bbl/day for gasoline and 180,000 bbl/d for ultra-low-sulfur diesel (ULSD) by 2013, representing the need to both make up for lost production and meet expected demand growth. A new requirement in New York State that heating oil meet the ULSD specification starting in July 2012 will effectively boost Northeast ULSD demand by an estimated 70,000 bbl/d, or 20%, on an annual basis. Because heating demand is seasonal, the impact is concentrated in winter.

In recent years, Northeast refineries supplied about 40% of the gasoline, 60% of the ULSD, and 45% of the heating oil consumed in the Northeast. Product imports and receipts from refineries on the Gulf Coast made up most of the remainder, and would need to be increased to compensate for reductions in refining capacity. Extra barrels may also be brought in from the Midwest. But the main problem is less to find replacement supplies than the logistics of moving them to

locations in the Northeast market. Logistics and transportation constraints could raise price levels and volatility if Sunoco Philadelphia is idled.

Two distinct bottlenecks bear watching. The first regards product movements from the Gulf Coast to the Northeast, whether by pipeline or water. The Colonial Pipeline that delivers products from the Gulf Coast to the Northeast is at or near capacity. Waterborne shipments within the United States require vessels meeting Jones Act requirements (U.S.-flagged vessels built in the United States and using U.S. crews). These vessels are in use and availability for new routes is unknown. The second constraint regards moving products from East Coast ports onto the smaller product pipelines that originate in the Philadelphia-area to serve inland Pennsylvania and western New York.

From a supply standpoint, ULSD will likely be the most challenging fuel to replace, reflecting the global tightness in distillate markets. Conventional and reformulated gasoline is more broadly available than ULSD, but replacement volumes may still come at higher prices.

If Sunoco Philadelphia refinery closes, prices would likely rise, but specific price impacts are uncertain. If parts of the region cannot be adequately supplied in the short term, prices can spike. In the longer run, higher prices and higher price volatility may result from longer supply chains.

Industry participants have yet to identify a single solution that would address all of the logistical hurdles in the short term. Third parties are looking into options, but are unlikely to commit large investments in new logistical arrangements until the status of Sunoco Philadelphia is known.

Since our report was written, Sunoco has indicated that should its Philadelphia refinery be idled, its Eagle Point, New Jersey, terminal (which has been converted from a refinery) would be fully functioning at that time. The terminal would be able to bring in product from the Delaware River, and deliver significant volumes into the pipelines moving inland into Pennsylvania and Western New York. Sunoco has also informed us of its ability to move some product volumes across the Marcus Hook docks into these inland systems.

In addition, the American Waterways Operators, a trade association for Jones Act vessels, has indicated that Jones Act tankers and barges should be able to pick up extra volumes that may be needed from the Gulf Coast. We hope to learn more about this in the coming weeks.

Over the longer term, significant adjustments in East Coast and Caribbean transportation, storage and terminal infrastructure will help cope with reduced refining capacity and accommodate longer supply lines, but these facilities will not all become immediately operational. Also, to the extent these facilities are located outside the U.S. and do not have the same reporting requirements as U.S. facilities, the market will be less transparent.

The situation is evolving. Our report has already generated further discussion and information, and EIA will continue to monitor this situation.

This concludes my testimony, Mr. Chairman and Members of the Committee. I would be happy to answer any questions you may have.

Table 1. U.S. East Coast Refineries Operating Capacity

Owner	City	State	Operating Crude Unit Capacity (bbl/calendar day)	Percent of Region	Status
Operating and Idled Refineries					
ConocoPhillips	Linden	NJ	238,000	17%	Operating
PBF Energy Co. LLC	Delaware City	DE	182,200	13%	Operating
PBF Energy Co. LLC	Paulsboro	NJ	160,000	12%	Operating
United Refining Co.	Warren	PA	65,000	5%	Operating
American Refining	Bradford	PA	10,000	1%	Operating
Ergon-West Virginia	Newell/Congo	WV	20,000	1%	Operating
Hess Corp.	Port Reading	NJ	0*	0%	Operating
Sunoco Inc.	Philadelphia	PA	335,000	24%	Operating, For Sale
Sunoco Inc.	Marcus Hook	PA	178,000	13%	Idled 12/2011, For Sale
ConocoPhillips	Trainer	PA	185,000	13%	Idled 9/2011, For Sale
Total Operating and Idled			1,373,200	100%	
Recently Shut Refineries					
Western Refining	Yorktown	VA	66,300		Shut 9/2010
Sunoco Inc.	Eagle Pt/Westville	NJ	145,000		Shut 2/2010

*Hess Port Reading has a production capacity of 70,000 bbl/calendar day but no crude unit capacity.

Notes: Yellow shading indicates operating refineries for sale and at risk of shutdown. Orange shading indicates idled refineries for sale and at risk of shutdown. Red shading indicates shut refineries. Total refinery capacity excludes two refineries that primarily produce asphalt, as well as the Yorktown VA and Eagle Point refineries that were shut down in 2010.

Source: U.S. Energy Information Administration.

Figure 1.

