STATE OF CONNECTICUT

DEPARTMENT OF ENVIRONMENTAL PROTECTION

79 ELM STREET HARTFORD, CONNECTICUT 06106

PHONE: (860) 424-3001

Arthur J. Rocque, Jr.
Commissioner

February 7, 2003

Senator Donald E. Williams
Representative Patricia M. Widlitz
Co-Chairpersons
Environment Committee
Room 3200
Legislative Office Building
Hartford, CT 06106

Re: ***Annual Report Pursuant to Public Act No. 00-175***
An Act Concerning the Use of MTBE

Dear Co-Chairpersons Williams and Widlitz:

I am writing to update you on the status of the Department of Environmental Protection's (the "Department's") efforts pursuant to Public Act No. 00-175, *An Act Concerning the Use Of MTBE*. As you know, under this act, the Department is required to submit an annual report to the Environment Committee outlining the Department's progress on a plan to eliminate methyl tertiary butyl ether ("MTBE") as a gasoline additive. This is the fourth such report and the Department's outline of a plan that strikes an appropriate balance between protecting Connecticut's air quality and water quality, without imposing an unfair burden on Connecticut consumers.

The Department has concluded that it is simply not possible to strike this delicate balance by October 1, 2003 under the provisions of section 22a-450a of the general statutes. Connecticut's relatively small size in the gasoline market puts us at a distinct disadvantage as the first state in the country to ban MTBE while the state remains subject to the oxygenate mandate specified in the Clean Air Act Amendments of 1990. Because of these circumstances, Connecticut created a de facto ethanol mandate.

In preparing this report, the Department has had the benefit of meetings and discussions with all of the major gasoline suppliers in Connecticut as well as gasoline terminal owners, marketers and operators of the pipeline system in the State. The purpose of these meetings was to obtain the most current information to determine if the Department's position on the potential impact of the October 1, 2003 ban were correct. A continuing message was that Connecticut could not be assured a constant, available supply of gasoline without the threat of price spikes and annual average price increases. Copies of company statements are included in the Department's report. Based on the information provided in these meetings, the Department strongly recommends that legislative action be taken to avoid significant adverse environmental and economic impacts to the State of Connecticut. Since Connecticut has banned MTBE while required to comply with the federal oxygenate requirement, the State finds itself as the first state in the country forced to satisfy both requirements and will be isolated as a supply island. In addition, if Connecticut maintains the October 1st ban and necessary infrastructure improvements are made to accommodate the use of ethanol, Connecticut may find itself excluded from any future discussions on the development of a regional fuel and as result lose the air toxics benefit other states will enjoy. Information supporting this recommendation is detailed in the attached report.

The Department has submitted a legislative proposal to provide the necessary authority and direction to manage responsibly the phase-down of MTBE. The current legislation does not provide the management scheme necessary to develop a responsible phase-down. I urge you to support this proposal and in doing so to carefully consider the negative outcomes associated with inaction as outlined in the attached report.

If you have any questions please do not hesitate to contact Tom Tyler or me at (860) 424-3001.

Sincerely,

Arthur J. Rocque, Jr.
Commissioner

AJR/TRB/trb

Attachments

MTBE Annual Report
February 2003

Introduction

Releases of gasoline, primarily from leaking underground storage tanks, have contaminated ground water in Connecticut with MTBE at significant concentrations and locations. It is against this backdrop that the General Assembly passed Public Act 00-175 codified in section 22a-450a to require the elimination of MTBE as a gasoline oxygenate in the State of Connecticut on and after October 1, 2003. This Department agrees with the legislature's conclusion that MTBE is harmful to the State's water resources, and will continue to work to eliminate it. However, since the adoption of Section 22a-450a, the number of private and public drinking water supply wells that have become contaminated with MTBE above the action level have decreased substantially since 1999. This decrease is due in large part to the success of the underground storage tank program, and serves as a reminder that MTBE contamination is in large part a gasoline handling issue. This however, does not imply the problem has been solved. MTBE will continue to pose risks to water resources until responsible and effective action is taken.

Reducing the number and magnitude of gasoline spills requires continued vigilance and additional enhancements to underground storage tanks as a preventive measure. The ground water monitoring program is continuing to discover approximately 125 public and private wells each year that are contaminated with MTBE levels below the action level. If action levels were to become more stringent, this number could conceivably increase.

Background

Given that the federal oxygenate requirement for reformulated gasoline (RFG) which led to the increased use of MTBE in the 1990's remains in effect, the only viable oxygenate additive for Connecticut is ethanol. Connecticut's ban on MTBE coupled with the federal oxygenate mandate creates a de facto mandate for ethanol. Since Connecticut has banned MTBE while required to comply with the federal oxygenate requirement, the State finds itself as the first state in the country forced to satisfy both requirements and will be isolated as a supply island. In addition, if Connecticut maintains the October 1st ban and necessary infrastructure improvements are made to accommodate the use of ethanol, Connecticut may find itself excluded from any future discussions on the development of a regional fuel and as result lose the air toxics benefit other states will enjoy. The Northeast States for Coordinated Air Use Management (NESCAUM) is actively pursuing this effort and a meeting has been scheduled with refiners and suppliers at the end of this month to discuss the development of a regional fuel for the Northeast.

Analysis

While ethanol has been successfully used in other areas of the country, the de-facto ethanol requirement is essentially a mandate for a "boutique fuel" for Connecticut. Due to the relative market size of the State and the timing of Connecticut's ban, the industry has characterized the State as a "supply island". As such, the transition from MTBE to ethanol in Connecticut faces significant challenges, including:

- Ensuring that a adequate supply of reformulated blendstock for ethanol is available and segregated from MTBE-RFG fuel that is stored in Connecticut terminals for distribution throughout New England;
- Developing reliable supply systems for ethanol;
- Equipping gasoline terminals to receive, store and blend ethanol; and
- Rearranging the fuel distribution for the Northeast to match the geographic segregation required for a boutique fuel.

The risks to Connecticut associated with imposing a boutique fuel requirement in the prescribed time period are:

- Compromising supply reliability, as there will a smaller pool of refiners producing the Connecticut-specific RFG blendstock for ethanol increasing the risks of supply interruptions and price spikes;
- Increasing costs at the wholesale and retail levels as the volume of gasoline used in Connecticut is required to bear the entire cost of the new gasoline segregation and distribution systems and;
- Increased barge activity on Long Island Sound.

At this point, Connecticut cannot successfully transition from MTBE-RFG to an ethanol alternative without imposing a significant disruption on the gasoline supply and distribution market that will in turn impact the state's economy and all consumers. A direct environmental effect of removing MTBE and replacing it with ethanol is a reduction of air toxics benefits. Without a specific anti-backsliding provision the air toxics benefit currently enjoyed will be reduced. As environmental stewards for the State of Connecticut, a more progressive solution would protect groundwater without compromising the air quality benefits we have achieved. Over the past year the Department has continued to analyze available options to accomplish a phase-out successfully by October 1, 2003 and, simply stated, there is no way to do so without incurring significant risk for adverse impacts in Connecticut.

As of the date of this report, the Department has concluded that the following elements necessary for the successful transition from RFG-MTBE to RFG-ethanol are lacking:

- A dependable ethanol supply and distribution system;
- Refinery modifications for the production of adequate supplies of RFG blendstocks without MTBE; and

- Timely infrastructure changes at gasoline storage areas to provide for the receipt, storage and blending of ethanol.

Recommendations

Based on the analysis above, the Department recommends amending section 22a-450a in order to avoid the significant economic and environmental implications associated with the imminent MTBE ban. Furthermore, such amendment would provide the means to responsibly manage the phase-down of MTBE in the State of Connecticut to achieve an appropriate balance between environmental, economic and consumer considerations.

The language in section 22a-450a is unclear in three critical areas: applicability and timing; gasoline supply/availability; and allowing de minimus levels or trace levels of MTBE in gasoline. Other areas of concern include the lack of protections for economic losses and price increases, and consideration for inevitable air toxic increases. The Department recommends amending Section 22a-450a to require the adoption of regulations to manage the phase-down of MTBE and to address these three issues:

- **Applicability and timing** – The retail transition to MTBE free gasoline will be extremely difficult under any circumstances, but will be greatly exacerbated by an inadequate timeframe available to accomplish the transition by October 1st. Suppliers are required by the federal Clean Air Act to provide a summertime grade of RFG from April 15th through September 15th. A MTBE ban effective on October 1st at the retail level would only allow a two-week period to empty and clean all retail stations and reload the stations with an ethanol-based gasoline. Currently a one-month turnaround is necessary in the spring to switch from a wintertime to summertime RFG. Ethanol blending prior to September 15th is not possible due to EPA regulations that prohibit the commingling of ethanol containing and ethanol-free gasoline blends due to the increase in the Reid Vapor Pressure (RVP). RVP is regulated by both the state and the federal governments since increases in RVP result in higher evaporative emissions.

  Through the regulatory process, the Department would establish an appropriate timeframe to allow for a phase-in from gasoline terminal to retail outlet. A phase-in would allow adequate time for tank clean-outs and avoid the need to empty gasoline tanks and transport non-compliant fuel out of State. Otherwise, mandating costly pump outs would be extremely dangerous and pose unnecessary risks of spills and further instances of well and groundwater contamination.

- **Gasoline Supply and Availability** - By requiring a "boutique fuel", Connecticut will be a supply island and as such will be significantly affected by any kind of a gasoline shortage situation. The Department has major concern as to the availability and supply of Reformulated Blendstock for Oxygenated Blending or "RBOB". RBOB is the base product needed to blend ethanol into RFG. There are limitations on the quantities of RBOB that refineries are able to produce and their capacity for storage. As RBOB cannot be blended with ethanol prior to loading into a truck at the truck rack, the ability to receive gasohol through the Colonial Pipeline in New York Harbor is not an option. The supply problem is further exacerbated in the summertime due to federal regulatory constraints on RVP. Since adding ethanol raises RVP by approximately one pound, during the summertime RVP period from April 15th-September 15th, it will be necessary to lower the RVP of the blendstock. This is likely to be technically burdensome and very costly. Cost estimates would add approximately ten cents per gallon.

Through the regulatory process, the Department would give due consideration to developing a framework for the granting of waivers in emergency situations. Given the possibility of supply interruptions, delivery logistics and product unavailability a framework for dealing with emergency situations will almost certainly be necessary. For example, the framework created to deal with shortage of low-sulfur home heating oil or low-sulfur oil for power plants could be replicated to deal with emergency situations.

- **Set an Appropriate De Minimus Level for MTBE -** The Department interprets Section 22a-450a as constituting a flat ban on MTBE that applies to all gasoline in Connecticut on and after October 1, 2003. This means that the ban also applies to gasoline stored in bulk terminals in Connecticut for distribution throughout the region and will result in lost pipeline capacity through Connecticut. The MTBE ban will cause volume and supply disruptions in Connecticut, Massachusetts and Rhode Island. The ban will also result in lost throughput volumes to the terminals in New Haven. The Department draws this conclusion since the current legislation was founded on concerns over water resource contamination combined with the absence of applicability language.

  Through the regulatory process, the Department would establish an acceptable "de minimus" level of MTBE. A de minimis level would ensure that trace levels of MTBE that cannot reasonably be eliminated are certain to be present in tanker trucks, marine vessels and possibly some gasoline blendstocks. This provision will avoid a compliance issue of enormous proportions as even MTBE free gasoline, when tested, has indicated the presence of trace levels of MTBE.

<u>Additional Revenue Implications to the State</u>

The Department believes there is an additional and very important revenue consideration that should inform the General Assembly's decision on whether to support the Department's recommendation for the amendment of section 22a-450a. This consideration concerns the tax implications associated with the tax treatment of the ethanol gasoline.

The Connecticut fuel tax on RFG containing 10% ethanol is one cent per gallon less than RFG without ethanol. Therefore, if all gasoline sold in Connecticut contains 10 percent ethanol; there will be a $14 million per year reduction in revenues going into the Special Transportation Fund. This reduction is arrived at by multiplying the State's motor fuel use (1.4 billion gallons) based on data from the Federal Highway Administration in 2000. When multiplied by the tax reduction of 1 cent per gallon for gasohol as provided by sections 14-1 and 12-548 of Connecticut General Statutes the net loss is $14 million. The Department is working with the Federal Highway Administration and the Connecticut Department of Transportation to determine the effect that the sole sale of gasohol will have on federal funding for transportation projects.

Update on Connecticut's Waiver Request Pursuant to Section 22a-450a

In April 2002, the Department submitted to the U.S. Environmental Protection Agency (EPA) its intent to request a waiver along with an outline of the technical rationale, a copy of this request is attached. That filing provides an administrative placeholder. As noted in the Department's report last year, preparation of a complete waiver request would require considerable staff and financial resources the Department and the State do not have . Even if funding could be identified to support this effort, the prospects of EPA approval are questionable. California spent significant resources in developing their technical justification and waiver request, which EPA denied in June of 2001. Under federal rules, Connecticut would have to demonstrate that the oxygenate requirement is detrimental to air quality. This demonstration would be very difficult based on existing EPA modeling, ambient air quality measurements and tailpipe testing. Thus, even if the Department could assemble the resources necessary to complete a waiver request, it is doubtful EPA would approve such a request based on the outcome in California.

Conclusion

Neither the Department, nor any other agency of the State of Connecticut, can responsibly manage the banning of MTBE under the current framework in section 22a-450a without imposing undue risk on the environment and any consumer who purchases gasoline.

CITGO Petroleum Corporation

P.O. Box 3758
Tulsa OK 74102-3758

December 13, 2002

Ms. Tracey Babbidge
Bureau of Air Management
79 Elm Street
Hartford, CT 06106

Dear Ms. Babbidge:

CITGO Petroleum Corporation, a major marketer of motor fuels in the state of Connecticut, is writing to you to share our concerns with the state's current regulation regarding the banning of MTBE. With approximately 285 branded retail outlets, a bulk terminal located in Rocky Hill, CT and numerous supply arrangements to guarantee quality motor fuels for the residents of the state, we have a keen interest in the outcome of your current fuel review based on the requirements in SB 170. CITGO encourages the state to delay implementation of the MTBE ban set forth in SB 170 and wait and see what develops at the federal level in 2003.

It is highly likely that Congress will renew efforts in 2003 to pass an Energy Bill. Whether an Energy Bill will address a ban on MTBE is still unknown, but based on what happened in 2002, there are strong indications if a bill passes that it will, at a minimum, contain provisions for repeal of the oxygenate mandate and some form of a renewable fuels standard. With an Energy Bill, there can at least be a more uniform direction for states and fuel suppliers to address oxygenates in the future.

The Connecticut MTBE ban is very untimely. If an Energy Bill passes in 2003, it could well dictate how a refiner will need to make plans for supplying RFG to the entire northeast including Connecticut. Based on history, any legislation that might pass next year won't occur early in the year. As it stands right now, the only alternative a refiner/supplier has to meet the Connecticut requirement in October 2003, is to provide RBOB to the Connecticut market, arrange for ethanol supply and storage, and engineer, permit and install ethanol blending equipment. There is considerable lead time to accomplish this as well as obtaining the necessary permits. The key point here is that this will necessitate decisions being made before any federal direction comes forth and could result in significant stranded capital for a supplier if the federal bill dictates a different approach. We do not think, and hopefully you agree with us, that this is fair.

Ms. Tracey Babbidge
Bureau of Air Management

Another concern is that Connecticut is going to be out of step with the rest of the New England States. We are aware that New York has an MTBE ban scheduled three months after Connecticut, but we feel this piece meal approach could result in supply disruptions to states that require unique or "boutique" fuels. The infrastructure for the handling of motor fuels in the U.S. was tested when the EPA introduced RFG in 1994 and the creation of additional "boutique" fuels will burden the system even more. Refiners, pipelines, terminal owners and wholesale-purchaser consumers do not have the tankage necessary to support an even wider variety of products. As you know, the primary current supply mechanism for gasoline and other petroleum products entering Connecticut is by water. Cargoes (ships) or barges of gasoline are unloaded at marine terminals and product is trucked or piped to the interior. When a market changes to require a product that is not readily available from a wide variety of suppliers, it can only lead to supply problems and could lead to significant cost increases at the pump. Some suppliers could potentially opt not to make a "boutique" fuel because of economic reasons, reducing overall gasoline supplies to the State.

In closing, CITGO wants to again ask you to consider delaying the State of Connecticut MTBE ban next year. We encourage Connecticut to allow Congress to have the opportunity to deliver an Energy Bill to the President for signature in 2003 before taking any independent action.

Thank you for the opportunity to provide input to the state of Connecticut on this critical fuel issue. We are available to discuss our position in person should you desire. Please contact me at 918-495-4246 with any questions or comments.

Sincerely,

Pam Royer

Pam Royer
Regulatory Compliance Manager
CITGO Petroleum Corporation

xc: Steve Guveyan, Connecticut Petroleum Council

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Donald L. Clarke
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ExxonMobil

DEPARTMENT OF ENVIRONMENTAL PROTECTION
BUREAU OF AIR MANAGEMENT
OFFICE OF DIRECTOR

JAN 29 2003

RECEIVED

January 27, 2003

Mr. Carmine DiBattista
Bureau Chief, Bureau of Air Management
State of Connecticut, Department of Environmental Protection
79 Elm Street
Hartford, CT 06106

Dear Mr. DiBattista:

Tom Eizember, Mike Hanley, and I are most appreciative of the opportunity that you and your colleagues provided on January 21 to discuss the outlook and implications of Connecticut's October 1, 2003 MTBE ban with respect to ExxonMobil and our Mobil branded retail stores in Connecticut. Recall that as part of the merger between Exxon and Mobil, responsibility for the Exxon branded retail stores in Connecticut were transferred to Tosco, now ConocoPhillips. Given the broad scope of our discussion, we thought that it would be useful to summarize our key points.

First, let us reemphasize that ExxonMobil recognizes that MTBE use in gasoline has caused concern with some customers, and we support phasing down MTBE use in a manner consistent with maintaining reliable and affordable gasoline supplies. To that end, we have been working with Congress to remove the federal requirement for a minimum oxygen content in reformulated gasoline. Unfortunately, attempts to remove the federal oxygen requirement failed last year.

With the federal oxygen requirement still in place, the only viable alternative for Connecticut if the October 1 MTBE ban is maintained will be RFG blended with ethanol. While ethanol has been successfully used in other areas of the country, implementing its exclusive and wide-scale use in a new area poses significant challenges including:

- Manufacturing the reformulated gasoline blendstock for ethanol blending (RBOB) at refineries and segregating it from other conventional and reformulated gasolines in the refineries and during shipment through pipelines, marine vessels, terminals, and retail stores to the customer.

- Developing reliable supply systems for ethanol.
- Equipping terminals for ethanol receipt, storage, and blending.
- Rearranging the current efficient distribution system to match a new geographic segregation. Specifically for Connecticut, the north and east border areas are frequently supplied from nearby terminals in Rhode Island and Massachusetts today. Since supplies of ethanol-RFG gasoline may not be available at these nearby terminals in other states after the Connecticut MTBE ban, truck routes will have to be changed to ethanol-equipped terminals, incurring additional trucking time and cost.
- Converting retail stores to ethanol gasoline.

Implementing the October 1 MTBE ban will reposition Connecticut as a "gasoline specification island," with the following potentially deleterious consequences:

- Supply reliability will be compromised, as industry will be unable to respond to any disturbance in Connecticut supplies with gasoline from RFG terminals in nearby states or pipeline shipments originally destined for other areas. There will likely be fewer manufacturers for the smaller volume of unique gasoline solely for Connecticut than for the current large volume of fungible RFG used widely in the Northeast.
- Supply costs will increase, as the volume used by Connecticut will have to bear the entire cost of creating a new product segregation and establishing an ethanol supply system. There will be higher trucking costs and potential Connecticut terminal capacity issues resulting from the loss of ability to supply Connecticut border areas with gasoline from nearby terminals in other states as described above.

These specific impacts on Connecticut supplies and costs could be avoided if the timing of Connecticut's MTBE ban was aligned with elimination of the federal RFG oxygen content requirement, which would allow MTBE phasedown over a broader area.

ExxonMobil has no gasoline pipeline or distribution terminal facilities in Connecticut; we rely on other suppliers and their terminals for much of our Connecticut gasoline supply. One of our suppliers has indicated that they expect to be able to provide ethanol-RFG to Connecticut in time for an October 1 MTBE ban. However, since we are not privy to the contractual arrangements, production plans, and facilities modification schedules of our suppliers, we cannot provide an independent assurance of the likely availability and reliability of supplies of ethanol-RFG for Connecticut. Moreover, assurances by one supplier, even a large volume supplier, do not guarantee reliable supplies overall -- any supply or distribution problem incurred by any supplier can have a direct effect on the overall marketplace and Connecticut consumers.

You indicated that current Connecticut MTBE ban legislation may not allow for an MTBE *de minimus* level associated with the ban. This raises significant concerns for the feasibility of successfully implementing the ban. Nearly two-thirds of the gasoline consumed in PADD 1 is produced in the Gulf Coast and shipped east on the Colonial and Plantation pipeline systems. Since these systems are expected to continue to transport MTBE-RFG for other eastern states beyond the October 1 Connecticut MTBE ban date, MTBE will be present in these pipeline systems and in terminal and retail store tanks. Lack of a *de minimus* MTBE content allowance will preclude shipment of RBOB for Connecticut by the common carrier distribution system in use today, with severe logistical and cost implications. Recognizing the impracticality of delivering gasoline with absolutely no trace of MTBE through today's distribution system, many other states have specified an MTBE *de minimus* level, generally about 0.5 vol%, with their MTBE bans.

We strongly urge Connecticut to defer its MTBE ban until the federal RFG oxygen content requirement can be eliminated and an orderly transition to non-MTBE RFG can be effected. We also urge that any ban enacted include an MTBE *de minimus* level and an allowance for transport of MTBE gasoline through the state.

Again, thank you for providing the opportunity to discuss this serious and time-sensitive issue. We look forward to a continuing dialogue with you as efforts go forward to avoid the potential problems posed by the pending October 1 ban.

Very truly yours,

D. L. Clarke

CC: T. R. Eizember
M. J. Hanley

Williams ENERGY PARTNERS L.P.

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Jay Wiese
Vice President
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January 21, 2003

Ms. Doris Bellucci
Strategic Management Division
State of Connecticut
Office of Policy and Management
450 Capital Avenue
Hartford, Connecticut 06106-1308

RE: Public Act 00-175

Dear Ms. Bellucci:

Thank you for coordinating a recent conference call with Williams Energy Partners (WEG) to discuss the phase-out of MTBE and the phase-in of ethanol. As mentioned in our call, WEG owns and operates 4 refined products terminals in New Haven where we provide distribution services for our customers who sell approximately 25% of Connecticut's gasoline supply. We appreciate the opportunity to share our thoughts with you and your colleagues with the Department of Environmental Protection (DEP). Moreover, we are respectful of the challenge you are facing on behalf of the citizens of Connecticut to phase-out the use of MTBE and, as a leader in our industry, we look forward to playing a constructive role in proposing solutions to challenges you face.

Our Understanding of State Law & DEP Environmental Concerns

Since Public Act 000-175 was approved in June 2000, we have been considering our options for compliance with the requirements contained in the Act i.e. the elimination of MTBE as a gasoline additive on and after October 1, 2003. The Act also requires the Commissioner of DEP to report to the joint standing committee of the General Assembly having cognizance of matters relating to the environment on how the elimination of MTBE will be achieved. On March 11, 2002, the Commissioner of the Department of Environmental Protection, Arthur Rocque, Jr. issued a letter to the Environment Committee stating "MTBE's significance as a groundwater contaminant warrants its elimination." Under federal law, the phase-out of MTBE requires the use of another oxygenate. Our customers (refiners and importers) are asking for ethanol. As a major stakeholder in the distribution of gasoline in the state, we are preparing to accommodate the needs of our customers. We will be ready to distribute reformulated gasoline with ethanol from our New Haven complex on or before on or before September 16, 2003.

Interpretation of Public Act 00-175

WEG believes the date of October 1, 2003 was selected by the legislature after considering the date summertime gasoline standards end and wintertime standards begin. In other words, the summertime volatile organic compound (VOC) season ends on September 15th each year and on September 16th, the wintertime gasoline program begins.

The two-week period between September 16th and October 1st should allow terminal operators a window for the conversion from MTBE blended gasoline to ethanol blended gasoline. During our conference call on January 16th, DEP staff informed us they believe that the October 1, 2003 requirement means even service stations should be MTBE free on October 1, 2003. While it is not impossible to make the conversion from MTBE to ethanol to meet the timeline DEP has suggested by its interpretation, DEP should be aware of the technical and public policy implications of their action.

Technical and Policy Reasons MTBE Should be Phased-Out at Terminals on October 1st
Our transition plans take into effect (1) the summer to winter ASTM standards adopted by the state (2) EPA's prohibition of blending ethanol blended gasoline with MTBE blended gasoline (3) our inability due to infrastructure to store both MTBE blended gasoline and ethanol blended gasoline at our terminal without encountering potential disruptions in service and (4) our belief the intent of the sponsors of the bill was to phase out MTBE during a timeframe consistent with the summer to winter transition.

If DEP makes an interpretation that service stations must be free from MTBE blended gasoline on October 1st, our customers would have to ship a summer grade of reformulated blendstock for oxygenate blending (RBOB) designed for ethanol blending to our terminal. The cost of producing summer RBOB is considerably higher than wintertime RBOB. WEG would be compelled to request our customers to deliver summertime RBOB in August to allow the transition at our terminal. If our customer's have difficulty supplying WEG with summer grade RBOB in time, the potential for gasoline shortages increases. Moreover, retailers would be faced with draining tanks dry due to EPA's prohibition of co-mingling (see below).

ASTM
The American Society for Testing and Materials provides standards and specifications for gasoline (ASTM D-4814) sold in Connecticut. The vapor pressure of the gasoline gradually increases from September 16th through the winter months to ensure proper cold start and warm up driveability for motorists. Therefore, WEG is planning to transition out of MTBE blended gasoline and into RBOB by September 16th, the last day of the summertime gasoline requirement.

Co-Mingling Prohibition
Because of the vapor pressure characteristics of blending ethanol into gasoline, EPA does not allow the co-mingling of MTBE blended gasoline with ethanol-blended gasoline. This creates challenges for our customers and would require refiners and importers to encounter the costly and disruptive process of draining station tanks. If DEP allowed the MTBE phase out to begin at terminals on October 1st, this would allow refiners and importers the ability to "blend-down" existing inventories with an ethanol blended gasoline. This practice is cost effective and is currently underway in California.

Summertime Conversion Requires Segregation
If DEP requires service stations to be MTBE free on October 1st, terminal operators would request their customers to deliver summertime RBOB in August. Terminal operators would also need to have separate storage for MTBE blended gasoline at the same time. The segregation of these products could be eliminated if the DEP would require the phase-out of MTBE at terminals on October 1st. Moreover, our permitting, construction and capital plans to implement the ethanol blending system are based on the elimination of MTBE at terminals on October 1st, 2003.

Intent

From a terminal operators perspective, WEG believes MTBE can be eliminated from gasoline distributed from terminals on October 1st. Given the date the legislature has chosen, it would seem that this was their intent.

Option & Recommendation

We believe the October 1st MTBE phase-out date can remain in place if the elimination is required at the terminal and not the retail service station. The conversions at the stations should occur before January 1st, 2004. As you know, the state of New York does not allow a person to import into, or sell, dispense or offer for sale any gasoline which contains MTBE after January 1st, 2004. For the reasons mentioned above, refiners and importers of gasoline into New York would begin the conversion away from MTBE around the same time frame as Connecticut if the MTBE elimination date in Connecticut is October 1st at the terminals. This action would allow Connecticut and New York to have a similar timeline to phase-out MTBE.

We do believe DEP should have authority to provide guidance on the elimination of MTBE i.e. de-minimous levels of MTBE after the phase-out date. However, WEG is preparing to blend ethanol for our customers on or before September 16th. Action on DEP's behalf to alter the phase out date by the interpretation mentioned above can have a chilling effect on infrastructure plans to accommodate ethanol blends.

Thank you again for the opportunity to comment on this important matter.

Sincerely,

Jay Wiese
Vice President
Williams Energy Partners L.P.

Comments to the State of Connecticut Regarding Proposed October 1, 2003 Ban of MTBE

To: Doris Bellucci HYPERLINK "mailto:(doris.bellucci@po.state.ct.us" (doris.bellucci@po.state.ct.us, ph. 860-418-6214), Connecticut State Office of Policy and Management - Energy

Background

Buckeye Pipe Line Company's Jet Lines System is located in Connecticut and Massachusetts. Product originates in New Haven, Connecticut and is delivered at Middletown, Rocky Hill, East Hartford, Hartford, Bradley Airport, Melrose, and Enfield in Connecticut and Springfield, Ludlow, and Westover Air Force Base in Massachusetts.
The pipeline carries diesel fuels, kerosene, and gasoline. All gasoline in this system is reformulated gasoline.
Buckeye Pipe Line Company does not own any above or below ground storage tanks in the State of Connecticut. Product originating into the Jet Lines System is stored in/ staged in above ground tankage owned by others.
Massachusetts does not currently have a ban on MTBE.

Comments to Connecticut Regarding October 1, 2003 Ban of MTBE

The Connecticut ban on MTBE must stipulate whether gasoline intended for sale in Connecticut must be MTBE free or gasoline present in Connecticut must be MTBE free.

Buckeye strongly believes that the Connecticut MTBE ban should only apply to gasoline intended for sale in Connecticut. Banning MTBE in all gasoline present in Connecticut would result in lost pipeline throughput volumes and supply disruptions to our customers in Massachusetts. It would also result in lost throughput volumes to the terminals supplying our system in New Haven.

It is our understanding that the primary concern leading to the ban of MTBE in various states throughout the country has been groundwater contamination from leaking underground tanks located largely at gasoline service stations. Since all gasoline containing MTBE intended for pipeline delivery into Massachusetts originates from above ground storage tanks subject to routine API 653 tank inspections and standards, the risk of groundwater contamination is minimal.

Handling multiple grades of gasoline for Connecticut and Massachusetts is not a limitation on the pipeline because each shipper's batch is handled on a segregated basis. It is possible for us to segregate two types of gasoline so that gasoline intended for delivery into Massachusetts containing MTBE will not intermix with MTBE free gasoline intended for delivery and use in Connecticut. Terminals supplying the pipeline would be constrained by available tankage and may need to choose to handle only product for one state or the other. This could increase the cost of product in both states.

The Connecticut ban on MTBE must stipulate what lower level of MTBE constitutes the gasoline being "MTBE free".

Buckeye suggests that Connecticut enforcement be based on MTBE concentrations greater than 0.5 volume %. This non-zero level is needed for 2 primary reasons: 1. There will likely be some trace presence of MTBE in tanker trucks, marine vessels, and possibly in some gasoline blend stocks that cannot reasonably be eliminated. In many cases, this will cause MTBE free gasoline to have some trace presence of MTBE when tested. 2. There is some repeatability and reproducibility inherent to the test method for determining MTBE content. Other states implementing MTBE bans such as Ohio and Indiana plan to impose a 0.5 volume % maximum limit for MTBE concentration because of these concerns.

Connecticut should consider moving the October 1, 2003 timing of the Connecticut MTBE ban to January 1, 2004.

We recommend that Connecticut delay implementation of the MTBE ban until January 1, 2004 to smooth the transition to MTBE free gasoline. The October 1, 2003 timing of the Connecticut MTBE is a concern. Nearby states including New York, Pennsylvania, and New Jersey have proposed MTBE bans effective on January 1, 2004. (Note the New Jersey ban is conditional upon the granting of a reformulated gasoline oxygenate waiver). This is significant because nearly all of the reformulated gasoline supplied to Connecticut originates from or is staged in these states. The reformulated gasoline supply for Connecticut and the above mentioned states is one large fungible pool where gasoline supplied to the individual states is interchangeable. For the three-month period at the end of 2003 (October 1 – December 31) where the Connecticut MTBE ban precedes bans in the other states, gasoline supply to Connecticut for this "boutique fuel" may be reduced or disrupted, which will adversely affect pipeline volumes and may result in retail price increases in Connecticut.

GETTY

State of Connecticut Ethanol Meeting

I. **Supply Issues**

a. *There is not sufficient supply of RBOB (Reformulated Blendstock for Oxygenated Blending).*

1. ConocoPhillips Bayway Refinery – Linden, New Jersey – capable of producing 131,000 bbls of gasoline a day. In the past Getty has had RBOB produced at the facility, but there were limitations on the refinery as to how much RBOB it could produce and how much dedicated RBOB storage the facility had. We had 100,000 bbls. NL storage and 60,000 bbls. SNL storage and when we loaded product for Providence we had to wait 48 hours for the next blend to become available. .
2. Blenders in New York Harbor – There are various companies that potentially will be able to blend components of gasoline to RBOB specifications, but once again there are constraints as to storage. As long as MTBE RFG is being sold in New Jersey and New York, storage will be a major issue at the terminals where gasoline is currently being blended. Getty currently has a requirement of approximately 800,000 barrels (33,600,000 gallons) a month of RBOB/PBOB and only 150,000 barrels (6,300,000 gallons) of that are destined for Connecticut. This represents approximately 5 % of gasoline sold in Connecticut. On occasion, our supplier is not able to provide us with our product as contracted and we are forced to go to local racks or New York Harbor for MTBE RFG in lieu of RBOB. If Connecticut bans MTBE, then this would not be an option and we would have suffered outages in Connecticut.
3. Loss of Colonial Pipeline Supply Source – RBOB cannot be blended with ethanol prior to being loaded into the truck at the loading rack. Because of this, you will lose availability of product that is shipped to New York Harbor via the Colonial Pipeline or any of the other pipelines that come into New York Harbor (i.e. Buckeye Pipeline, Harbor Pipeline).
4. New York Mercantile Unleaded Gasoline Contract – As a member of the NYMEX Product Advisory Committee I know that the NYMEX is not currently listing an Unleaded Gasoline Contract after December 2003. We are waiting to see what Congress does with the Federal Energy Bill. The listed contract will be the most liquid contract that is legal for delivery in New York Harbor. NYMEX gasoline contracts are deliverable contracts and are often used to fulfill delivery obligations from one customer to another. If they continue to list MTBE RFG gasoline, Connecticut will lose another source of supply if they ban MTBE.

II. **Economic Impact**

a. *RBOB* - As long as MTBE RFG is trading, refiners and blenders will look for the highest margin product to produce. Our current formula takes RFG Prices and deducts 11% MTBE, then calculates for octane correction. Our current supplier has indicated that with MTBE prices at their current high levels they will not renew our contract next year based on the current formula. They are indicating that they will sell based on RFG less a fixed differential. Additionally, blenders and refiners can produce Conventional Grade Gasoline where they are not subject to MTBE price fluctuations.

b. *RVP ISSUES* – Currently, Getty only blends with ethanol during the months of September 16 – April 20 due to RVP constraints. Due to the fact that ethanol raises the RVP by 1 pound (1.2 in low RVP base gasoline) in order to blend with ethanol during times of low RVP (7.2 max) it will be necessary to bring the RVP of the base gasoline down to a 5.8 RVP max. None of the refiners/blenders on the East Coast will blend their base gasoline to the 5.8 levels at this time. It is a very costly process to get the RVP that low. When we had a contract with the Bayway refinery 3 years ago, we requested summer base gasoline to be blended with ethanol. The refinery said that although it was technically possible, they did not want to produce such low RVP base gasoline because the cost would be too great and it would affect the yields of other gasolines that they were producing at the time. According to OPIS, over the last two years, spot prices jumped 11-12 cents when switching from higher to lower RVP. This was without going to 5.8 RVP. An additional 10 cent increase may be seen for the 5.8 RVP.

c. *ETHANOL PRICING STRUCTURE* – Supply of ethanol on the East Coast is currently being offered by Archer Daniels Midland, (ADM). ADM has been supplying Getty with ethanol for over 12 years. ADM also controls the pricing structure for ethanol. In the past, ethanol prices were based on the price of MTBE plus a fixed differential. ADM discontinued this pricing option a number of years ago. They will now sell on a fixed price basis or on a daily spot price. The problem is, ADM has no competition on the East Coast. The fixed price that they offered in the beginning of the year made no economic sense to Getty thereby forcing us to determine the price of ethanol on a spot price basis. Spot prices for ethanol are based on the spot price for MTBE RFG gasoline. The problem is, if MTBE is banned, they will be able to charge anything they want for their ethanol. Only competition will keep ADM's prices in check. Over the years, we have had discussions with other producers of ethanol, but not one of the other producers wanted to ship their product to the East Coast at a competitive price. Last year we broadened our scope to include foreign ethanol producers. The import tariff on imported ethanol makes it very cumbersome to bring product from foreign countries to the US. The only option is to bring the ethanol through the Caribbean Basin Incentive program in order to avoid the import tariff. We researched this, but we felt that the process was too risky for our company. Additionally, only 7 % of the total US consumption of ethanol can come to the United States through the CBI. Additionally, there is very limited dehydration capacity in the Caribbean, making a contract with a foreign company bringing ethanol to the US through the CBI a risky proposition at best.

III. Terminalling Issues

a. *New York Harbor* – There is not enough terminalling in New York Harbor to contain both MTBE RFG gasoline and RBOB to be blended with ethanol. Simply put, if there is not a Regional Grade of Reformulated gasoline, there will not be enough tankage in New York Harbor to contain all grades of gasoline. Most of the storage for gasoline in New York Harbor is located in New Jersey and New Jersey is not currently discussing banning MTBE.

b. *Secondary Terminals* – Because ethanol blended product can't be pre-blended, there will be a need for ethanol tanks at secondary terminals. In other words, where you currently only need one gasoline tank for regular and one for premium, you will now need a third tank for ethanol. Additionally, if the terminal is not equipped with blenders, they will have to install them. It is unlikely that most of the existing terminals are configured in this manner. Even if space is available, how long will permitting and building of the additional tanks take? Will the terminal owners be willing to pay for this capital expenditure?

c. *Delivery of Ethanol to Terminals* – Because ethanol can't be pre-blended with RBOB, the ethanol will need to be either shipped to the terminal via barge or truck. This will mean additional trucks on the road and barges on the water. This is an additional expense to the ethanol blender that will be passed on to the consumer.

d. *Jetline Pipeline* – The Jetline Pipeline brings product through Connecticut and into Massachusetts, if Connecticut bans MTBE, they will no longer be able to pump MTBE product to Massachusetts and will lose a huge portion of their revenue due to loss of gallonage and create potential for shortages of product.

IV. Retail Issues

a. *Ethanol Filters* - The filters used for ethanol are different than the filters used for MTBE. Station operators must be diligent about caring for and making sure that the correct filters are used on their pumps.

b. *Loss of Gallonage at border State locations* – Massachusetts is not currently planning on banning MTBE and New York is uncertain as to enforcing the MTBE ban deadline of January 1, 2004. Therefore, if those states do not go to ethanol-blended gasoline, they will most likely have better economics than Connecticut. The lower cost of their product will be passed on to the consumer and those CT locations that are on the MA or NY border will likely lose volume to their less expensive competitors.

V. Conclusion

a. A regional grade of RFG Gasoline MUST be agreed upon in order for an MTBE ban to work. There are just too many constraints and problems with having a "boutique" fuel in Connecticut. There are not enough suppliers of the base gasoline, there is not enough storage and there is not enough competition in the supply of ethanol on the East Coast. Nationally, if MTBE is banned, then the nations refiners and importers will have to make up at least 170,000 barrels a day in production of reformulated gasoline in order to maintain today's demand for gasoline. The lower RVP levels in the summer will mean an additional 113,000 barrels a day will be lost due to the light-weight components that will be removed from the gasoline to compensate for the higher RVP that ethanol brings to the mix (OPIS Dec 16, 2002). If MTBE is removed from the stream, we will suffer octane loss due to the octane value found in MTBE, this higher cost of octane will be passed on to the consumer. Alkalytes will most likely be the component added to gasoline for octane boost. California is considering the possibility of $2 gasoline with ethanol as the main culprit (Petroscan alerts). If other areas switch to ethanol blended gasoline, most likely PAD 3, then the East Coast (PAD 1) will likely have to turn to increased imports to meet the current demand. All factors considered, CT's preemptive ban on MTBE isolates the state from fungible product alternatives. The impact will be multifaceted ranging from upward from product price spikes to product shortages to operational challenges.

Andy — 15

Big RFG Shortfall Seen Without MTBE

Replacing MTBE with ethanol in gasoline over the next five years would leave the nation's refiners and importers scrounging to make up at least a 170,000 b/d reformulated gasoline shortfall. That's the scenario seen by forecasters at the U.S. Department of Energy's Energy Information Administration, particularly during the sensitive transition periods that will include tighter clean-fuel specifications in the near future.

"The industry is facing a myriad of regulatory changes during the next five years, not just a phase-out of MTBE," Joanne Shore, EIA petroleum analyst, told attendees of the recent OPIS National Supply Summit in San Antonio. "Low-sulfur gasoline and ultra-low-sulfur diesel programs are going to require unprecedented levels of capital expenditures in an environment of little excess capacity. We are starting to enter uncharted territory."

However, Shore said EIA has looked at history and current trends to develop a picture of what the supply situation will be in five years. It provides a glimpse of where new supply might come from to help meet gasoline demand expected to jump some 1.1-million b/d by 2007 in a world where refiners are stressed by tight fuel specs and the removal of MTBE from the pool.

EIA estimates that about 306,000 b/d of volume would have to be replaced by refiners if MTBE is phased out by 2007. Of that, about 151,000 b/d could be made up by substituting ethanol in RFG. That is both because only half as much ethanol as MTBE is needed to reach 2wt% oxygen requirement in RFG and, with ethanol's higher blending RVP, it tends to degrade some required fuel emission characteristics, said Shore.

Refinery-based MTBE producers, mainly in the Gulf Coast, would be likely to take their feed stream and divert it to alkylate production. If all the refiners with MTBE production diverted to alkylate, Shore estimates it could generate about 107,000 b/d of gasoline volume. Merchant MTBE plants could contribute another 35,000 b/d or so of alkylate or isooctane volume, said Shore. "At this point, the volume is only down about 13,000 b/d, which isn't too bad."

Vapor Pressure Issues Hit Volumes

However, refiners will have to remove some of the molecular light-weight gasoline components to compensate for the higher RVP that ethanol brings to the mix, which Shore estimates will take an additional 113,000 b/d from gasoline output. "And it turns out in many cases refiners will also have to remove some heavy components to reduce the distillation profile to meet emission requirements," said Shore, noting that accounts for another 40,000 b/d of lower volume. In addition, some ethanol will likely have to come out of the conventional pool to meet RFG needs, which will take another 20,000 b/d from volume, leaving U.S refiners and importers at a 186,000 b/d deficit against projected gasoline demand in 2007.

Shore contends that some of the shortfall can be met by expansion of domestic capacity. Though since 1987 the U.S. has lost 1.6 million b/d of refining capacity – almost 10 percent of current capacity – there is some good news for supply in that the rate of refinery closures slowed in the second half of the last decade while larger refineries actually expanded capacity. "The net increase in capacity during this time was about 1.7 percent per year, or about the same rate as gasoline demand," said Shore.

If refiners boost capacity utilization from the 93 percent area averaged in the late 1990s to max-out at about 95 percent of capacity by 2007, at a 50 percent gasoline yield domestic refiners could generate more than 140,000 b/d more gasoline, according to EIA.

Imports Could Become More Important

Imports, another key area for U.S. supply that served about 22 percent of demand in 2001, could conceivably provide the extra 40,000 b/d to cover the rest of the shortfall, said Shore. "That's how it might work, but there are all sorts of ifs, ands and buts around that scenario." Dedicated RFG suppliers in Canada, Venezuela and the Virgin Islands can be expected to continue, but swing suppliers in Europe may have less high-quality volumes available. European countries are instituting tax incentives for low-sulfur gasoline that may cut into export availability. The U.S. might be pressed to bid product away from Europe, but it can be done, said Shore.

"Also, we'll be dealing with RBOB blendstock for ethanol, which is a very low RVP material that no other place in the world needs. We don't know who is going to be able to make these RBOBs in the transitions. So when it comes to imports there's a big question mark, especially during transition periods."

Regional Changes to U.S. Balance Seen

EIA also sees regional shifts in the flow of product within the U.S. if ethanol is substituted for MTBE, which Shore said results in PAD 1 becoming more dependent on gasoline imports and PAD 5 requiring much more product from distant Gulf Coast sources. Because of the large percentage of RFG made at East and West Coast refineries, a larger volume loss is anticipated in those areas than for many refineries in the Gulf Coast that produce less RFG, Shore explained.

"What we see is PAD 3 able to produce a little more product and supplying more to PAD 5 than it has done historically. That may take away some supply that would go to PAD 1 and in this particular scenario PAD 1 needs to get additional supply from imports." PAD 2 refiners already use significant ethanol in gasoline so volumes in the Midwest are not expected to suffer when MTBE is removed.

Still, EIA concludes that moving MTBE out of the nation's gasoline pool in favor of ethanol will bump up against tight fuel emission specifications, which appears at a to lead to a large 170,000 b/d or so RFG shortfall, at minimum. And that does not even consider the Mobil Air Toxics Rule that uses 1998-2000 as a base to prevent refiners from backsliding on toxic emission levels, which could further constrain volumes. "The rule came in before there were MTBE bans," said Shore, explaining that East Coast refiners could respond by making less RFG to help stay in compliance.

"The challenge is large and we don't know how the solution is going to shake out," concluded Shore. "But it implies that some very difficult transitions ahead and some price volatility for consumers until it does shake out."

Spencer Kelly

U.S. Oil Expanding, Growing Terminal Biz

In keeping with its mission statement to grow operations through acquisitions, mergers and daily business, U.S. Oil has been rapidly and aggressively increasing its terminal capacity in Wisconsin, marking time now as one of the largest terminal operators in the state.

U.S. Oil and Shell confirmed to OPIS it acquired Shell's Granville, Wis., terminal in Milwaukee earlier this month. Terms of the deal on the former Equilon facility were face down.

Word is that U.S. Oil will operate all three Milwaukee terminals, sources told OPIS. The deal gives U.S. Oil an additional 350,000 bbl of capacity for a total capacity in Milwaukee of

PETROSCAN Alerts

Andy: More for your meeting. JS 1/03

2002-12-31 09:57:22 EST

***CALIFORNIANS HEAR $2/GAL GASOLINE TALK AS REFINERS MOVE TO ETHANOL

Even before the bubbly was popped to usher in New Year 2004, California-based newspapers were already running "doom and gloom" stories about the possibility of the return of $2/gal retail gasoline prices.

This time the "ethanol factor" is being cited as the main culprit, with the majority of West Coast gasoline producers making the early transition from MTBE gasoline to ethanol blended CARBOB.

Stillwater Associates, an energy consulting firm that conducts research for the California Energy Commission, dropped the first bomb in November stating that the odds favor an infrastructure disruption -- a refinery outage, breakdown or fuel/additive-transport disruption, as the primary factors that could send gasoline prices soaring.

"Our major concern is if there's a serious refinery hiccup, they (the refiners) won't be able to keep up," Stillwater energy analyst David Hackett told the Los Angeles Times.

But while newspapers like the L.A. Times and Sacramento Bee took the Stillwater report and ran with its prediction that $2/gal gasoline is just around the corner, other market watchers, including refinery fuel traders feel that the earliest Californians could see $2/gal gas is April. And some feel that there's so much pressure on the West Coast refinery system to have a seamless transition from MTBE to ethanol, there might not be $2/gal fuel at all.

"March is a key month," one Southern California fuel broker told OPIS. "That's when the switch to a lower RVP (Reed vapor pressure) takes place and historically sends prices about 10cts higher."

In Mid-March refiners will be required to produce a 5.8-psi blend of CARBOB, which is then mixed with ethanol at the various terminals to "bump it up" to produce a 7.0-psi fuel. The current 9.0-psi gasoline has been running just a couple of cents over the MTBE CaRFG gasoline and so far has not caused any price spikes or reports of shortages.

"The flow of ethanol and the production of CARBOB has been steady so far," one refined products trader said. "We seen cargoes of CARBOB coming in from the Gulf Coast from BP, ChevronTexaco and Shell refineries and that has kept supplies on a healthy level. But come March, I believe cargoes from the Gulf will dry up due to the difficulty and high costs associated with making the lower RVP CARBOB. That could cause supply concerns, but refiners realize they're under the microscope and are going to make an all-out effort to keep retail gasoline under two dollars a gallon."

According to OPIS historical data, the transition from the higher to lower RVP gasoline in the last two years saw spot prices jump 11-12cts. And in 1999 values soared an eye-popping 25cts in Mid-March. January CARBOB prices are currently running around the 93-94ct.level, with Feb. prices quoted 8-9cts over the Feb. screen or right around $1.00/gal. And given what history have shown over the past several years, March CARBOB prices are already going in like a lion at 16cts over the Merc, and will likely head into April with an even more ferocious bite.

"I just got back from a (meeting) in Texas, and most of the major oil analysts there were predicting increases of 50 to 75cts/gallon in California next March or April," said Atle Erlingsson, a former spokesman for AAA of Northern California. "Switching to ethanol is a compound issue, but it mostly comes down to supply and demand. There is some pessimism among analysts about meeting California's demand. And if there's not enough ethanol, gas prices are going to go up."

Most fuel brokers and traders polled by OPIS say the two factors involving a summer spike in gasoline prices are and will always be ethanol supply and refinery operations.

"If we see an uninterrupted flow of ethanol and no major refinery downtime during primetime gasoline season, I don't think we'll hit $2/gal gasoline," one trading source said. "But there are no guarantees in this business."

- Mark Mahoney mmahoney@opisnet.com

2002-12-31 09:55:59 EST

***GAS LIQUIDS WATCH: PRICES COMING OFF ON LIGHT TRADING

12/31 - The gas liquids market is off to a slow start this morning and sources are not too sure if the market will ever get going today. With the NYMEX closing early today and crude taking a hard hit once again, traders may be waiting until next year to get back into the trading arena.

Propane at Mt. Belvieu traded at 54.75cts gal early this morning, but since then TET bbl have transacted at 54.25cts gal and non-TET at 54cts gal. No other product has seen much action, as front month normal butane sellers are at 68.875cts gal. January natural gasoline offers are at 73.75cts gal, just slightly above the low end of yesterday's range.

-Denton Cinquegrana (dcinquegrana@opisnet.com)

2002-12-31 08:38:53 EST

***MORNING PREVIEW: OVERBOUGHT WORLD OIL MARKETS CONTINUE TO DROP

12/31 NYMEX petroleum futures were continuing their dive this morning, although not at the accelerated rate seen yesterday afternoon. An early close at the IPE already shows spot month Brent crude and gasoil already settled lower, which can be bringing WTI futures down with it.

February Brent crude dropped another $1 today to settle at $28.66 bbl. Meanwhile, February WTI is starting to incur some heavy losses. About an hour and a half ago, NYMEX crude was up about a dime, but currently the contract has dropped below $31 bbl to $30.95 bbl a loss of 42cts.

Refined product futures are also starting to drop off pretty hard. Both spot month No.2 oil and no lead are off about a half-cent at presstime. January heating oil was last seen at 86.25cts gal, while spot month no lead last printed at 87.36cts gal. January IPE gasoil settled down $4.25 M/T (1.35cts) to $253.75 M/T (81.07cts gal).

NYMEX futures trading will close at 1 P.M. EST today and will be closed tomorrow in observance of New Year's Day.

SPOT EUROPEAN OIL PRICES AT A GLANCE

Brent crude	$28.66 bbl	DN	$1 bbl
Gas oil	81.07cts	DN	1.35cts

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IN U.S. SPOT AND DOWNSTREAM MARKETS...

Cash refined products markets were off several pennies yesterday based mostly on the sell-off seen in the NYMEX petroleum complex. Conventional gasoline prices suffered the most in markets east of the Rockies as New York Harbor and Gulf Coast were down more than a nickel. In the Midwest the Group was down more than 6cts and Chicago was off 4.5cts.

Distillate prices were not immune to the sell-off as losses in the 4-5cts gal range were common. In the Group, however, prompt high and low sulfur diesel grades were off 3.75cts.

None of the other firms who expressed interest in the Williams assets last summer -- including Sun, Frontier, and Flint Hills -- have been in the running for months, sources add.

Ben Brockwell, Tom Kloza

Andy: further background for 1/08/03 /w

2002-11-22 10:31:40 EST
***ETHANOL PRODUCERS TOPPLE MONTHLY PRODUCTION RECORD

New ethanol production facilities throughout the country have helped the industry topple its monthly production record in October. The previous record was set in September when EIA reported that industry produced 138,000 b/d.

Last month, the ethanol industry produced a record 159,000 b/d of ethanol. The October production level also tops last October's production level by 38,000 bbl. In October 2001, the industry made 121,000 b/d of ethanol. Production levels got a boost last month, when two new plants came online in Michigan and Wisconsin. The plant in Wisconsin is the state's largest and has a capacity of 40 million gallons per year of ethanol. While the plant in Michigan has the same capacity, but is the states first.

According to the Renewable Fuels Association the ethanol industry is on pace to produce about 2 billion gallons of ethanol in 2002. There are also 10 additional plants currently under construction.

-Denton Cinquegrana (dcinquegrana@opisnet.com)

2002-11-22 10:30:13 EST
***OIL DRIFTS HIGHER AS U.S. AND RUSSIA URGE IRAQ TO DISARM QUICKLY

11/22 - - (10:17 A.M. EST) - Oil prices moved modestly higher in opening minutes on the NYMEX, against the backdrop of a joint statement from the U.S. and Russia that warned of "serious consequences" if Iraq does not comply with all U.N. conditions for disarmament.

Crude oil moved up 5cts bbl to $26.40 bbl for the January WTI contract. Heating oil gained 0.37cts gal to 75.30cts gal and gasoline was ahead 0.38cts gal at 72.80cts gal.

- Tom Kloza, tkloza@opisnet.com

2002-11-22 10:25:29 EST
***OIL INDUSTRY GAINS LOUD VOICE ON KEY SENATE PANELS

As the dust begins to settle following election victories that will put Republicans in control of the U.S. Senate, it is becoming clear that the new cast of characters taking over committees and subcommittees will give the oil industry a front-row seat at the table. Insiders say the GOP is lining up to challenge strict interpretations of a number of high-profile environmental regulations governing plant emissions, water quality and endangered species, which could help loosen the reins on refiners.

"It's still very early to predict, but it appears the pendulum has swung away from the environmentalist-regulatory side and now it looks like time to step back a little and consider what the science and the facts support," said David Holt, director of government affairs for Hart Downstream Energy Services. "The Republicans are not going to disregard the environment they can't but there will be more consideration of consumer costs, energy independence and you'll hear a lot about cost-benefit standards and making sure we use sound science.'"

While the worst fears of environmentalists are unlikely to be realized, Holt foresees a slowdown in new regulations and a number of current regulations that could find an easier path to industry-friendly reforms. There will be little enthusiasm for boosting Corporate Average Fuel Economy Standards in the nation's vehicles, for example, while the administration's New Source Review revisions to make the regulation easier on refiners and others will get a less hostile reception in the Congress.

Perhaps the most striking change will take place when Republican Sen. James Inhofe of Oklahoma takes the gavel of the Environment and Public Works Committee away from liberal Republican-turned-independent Sen. Jim Jeffords of Vermont. Jeffords is a favorite of environmentalists and a thorn in the side of the Bush White House, launching investigations of industry influence on administration attempts to create an energy plan and questioning proposals to ease NSR requirements. However, "Inhofe will be very open to NSR reform," said an oil industry lobbyist. "Being from an oil state, he understands the oil and gas industry and is sympathetic to the need for regulatory relief." Inhofe has in the past been a stern Clean Air Act critic, saying states should have more say in enforcing environmental laws and accusing EPA of using bully tactics to get its way with states and businesses.

Six-term Republican Sen. Pete Domenici will take the reins of the Senate Energy and Natural Resources committee from fellow New Mexico Sen. Jeff Bingaman, where the key transformation will be Domenici's strong support of energy exploration on federal lands, including in the Alaska National Wildlife Refuge. Sources say Domenici will try to use his position to restrict environmentalist's use of the courts to attack federal land use and to back White House plans to promote fossil fuels development. At the same time, Holt notes the incoming chairman may support changes to U.S. gasoline programs considered in this year's failed energy bill, and that could include backing for Bingaman's previously-stated intention to tackle the issue of boutique fuels' in hearings next year.

Even the loss of pro-oil industry Sen. Frank Murkowski, who must step down next month after winning governorship of Alaska, will likely produce another senator adamantly behind oil industry development. Murkowski will get to appoint his own successor, and one name bandied about is former state Rep. Mark Hanley, currently spokesman for Anadarko Petroleum Corp., the nation's largest independent oil and gas producer.

Another stalwart advocate of domestic energy production and fossil fuels, Sen. Ted Stevens of Alaska, will rise to the head of the powerful Senate Appropriations committee, displacing West Virginia Sen. Robert Byrd. While Byrd eagerly stood up for the coal interests in his home state, Stevens is expected to look much more favorably on a host of White House energy initiatives when it comes to piecing together the federal agency budgets.

"I think you will see a real effort by the Republicans to push hard and try to establish an energy record," predicts Holt. "But it's a little more complicated than just to see them as industry advocates don't expect these guys to just roll over for industry and disregard everything else." Holt and other Congress-watchers note that the Republican majorities in both the House and Senate are slim; adding that while refiners might be able to look forward to some regulatory revisions and delays that might make compliance easier, wholesale changes are unlikely.

Spencer Kelly, skelly@opisnet.com

2002-11-22 10:15:18 EST
***RETAIL MARGINS SOAR TO NEW 2002 HIGHS