



March 16, 2015

The Honorable Fred Upton  
Chairman  
Committee on Energy and Commerce  
House of Representatives  
2125 Rayburn House Office Building  
Washington, DC 20515

The Honorable Frank Pallone  
Ranking Member  
Committee on Energy and Commerce  
House of Representatives  
2125 Rayburn House Office Building  
Washington, DC 20515

**Re: Driving the Discussion on Energy Markets**

Dear Chairman Upton and Ranking Member Pallone:

Thank you for the opportunity to provide comments on the rapidly changing energy market and the impact it has had on petroleum marketers. PMAA will focus on the current oil export ban, the outdated Jones Act, ethanol's competitiveness with traditional motor fuels and fuel neutral policies.

PMAA is a leading national trade association in the petroleum industry representing 8,000 independent petroleum marketing companies. Organized as a national federation of 48 state and regional trade associations that represent wholesalers and retailers of gasoline, diesel, heating oil, lubricants and renewable fuels, PMAA companies own 60,000 retail fuel outlets such as gas stations, convenience stores and truck stops. Additionally, these companies supply motor fuels to 40,000 independently owned retail outlets and heating oil to over eight million homes and businesses. Over the last decade, major oil companies have exited the retail motor fuels marketplace. The vast majority of PMAA companies qualify as small businesses under U.S. Small Business Administration size categories. Approximately 94 percent of U.S. gas stations are owned by independent retailers.

- 1. What is the impact of these rapid energy market changes on: A) energy security; B) the quantity, diversity, and reliability of oil and refined product supplies; C) demand for oil and refined product supplies; and D) demand for fuel alternatives to oil and refined product supplies? Do federal policies need to be revised to better reflect current energy supply and demand realities and mitigate emerging risks?**

*Oil Export Ban*

U.S. oil production reached 9.3 million barrels per day, its highest level since the early 1970s while crude inventories reached 449 million barrels, its highest level ever.<sup>1</sup> Record U.S. inventories have sent the West Texas Intermediate (WTI) crude oil contract plunging to \$47 per barrel which is now priced at a \$10 discount to the Brent crude oil contract. Refiners are concerned that this WTI-Brent spread would disappear if Congress repeals the crude oil export ban allowing cheaper WTI priced crude to be sold in the world's oil market. However, some oil analysts believe ending the crude oil ban would lower worldwide crude oil prices and diminish OPEC's market share. While PMAA is neutral on ending the crude oil export ban, Congress could have an immediate policy impact by reforming the Jones Act.

*Jones Act Reform*

U.S. shipping rates continue to remain higher compared to foreign-flag rates and there still is not enough U.S. shipping capacity to alleviate the Gulf Coast oil supply glut due to the 94-year-old Jones Act. Enacted nearly 100 years ago, the Jones Act allows only U.S. flagged and manned vessels to ship crude and refined product between U.S. ports. The Congressional Research Service (CRS) reported recently that the majority of U.S. refineries are located near navigable waters to take advantage of both oil imports and exports. However, for refineries switching from imported to domestic

<sup>1</sup> Source: <http://www.bloomberg.com/news/articles/2015-03-12/oil-storage-squeeze-may-lead-to-another-price-crash>

crude oil, the advantage diminishes considerably due to the Jones Act. The CRS Report also said that Texas oil is moving to refineries in Eastern Canada and bypassing U.S. Mid-Atlantic refineries due to the higher cost of Jones Act compliant ships.<sup>2</sup>

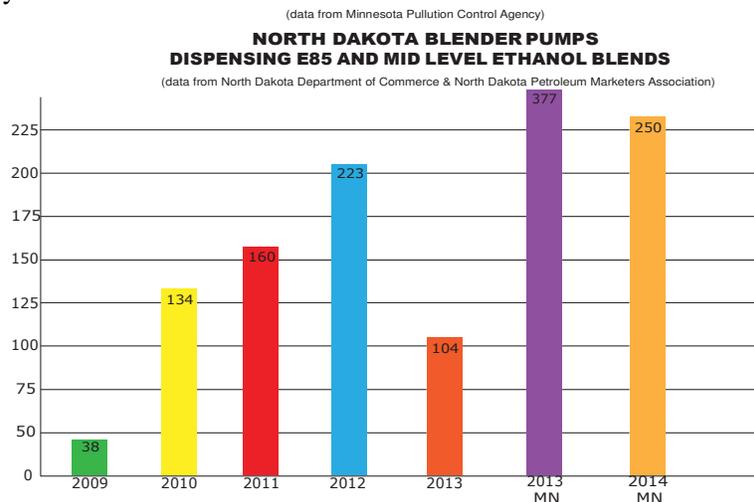
Reforming the Jones Act will allow economical and more abundant foreign tankers to ship America's light sweet crude oil to Mid-Atlantic refineries that will alleviate the Gulf Coast supply glut and bring cheaper motor fuels and heating oil prices to consumers. It will also give refiners the needed time to make the necessary adjustments to meet the growing crude oil production boom.

### *Low Oil Prices have impacted the Competitiveness of Ethanol*

With gasoline prices near their lowest levels in five years, ethanol is taking a hit. Parity between wholesale gasoline prices and ethanol prices was reached in 2014, and by November 2014, spot month ethanol prices were higher than the RBOB gasoline contract.<sup>3</sup> EIA noted that RIN values also increased during this time due to uncertainty with EPA setting the 2014 and 2015 corn-based ethanol volumes. Obligated parties who blend ethanol can offset the higher ethanol spot price with the increase in ethanol RIN values to competitively price the product. However, when factoring in the RIN discount, ethanol is still more expensive because it must be priced at least 30 percent lower than conventional gasoline for motorists to receive similar energy content.

Ethanol proponents also believe lucrative RIN values will lure retailers into compatible infrastructure investments to sell higher level ethanol blends. Unfortunately, small retailers do not have the ability to participate in the RINs market and must buy pre-blended ethanol fuel at the rack. Refiners are unlikely to share RINs profits leaving retailers with few viable options to invest in renewable fuels infrastructure. Ninety-eight percent of retail fueling locations are owned by independent petroleum marketers, not the major oil companies. Even as the ethanol industry offers retailers lucrative deals (up to \$50,000) to install compatible UST system equipment to facilitate higher ethanol blends, most retailers do not believe it makes economic sense to invest in new compatible piping, glues, seals (pipe dope), gaskets and other UST system equipment to sell higher blends. PMAA estimates that the average cost to retrofit a retail gasoline station with compatible equipment to be \$200,000 per site. Replacement of piping alone would cost a minimum \$100,000. Such compliance costs would be staggering for small business retailers and would undoubtedly force many, particularly in those rural areas, to close. Those few retailers who could afford a system retrofit would be forced to pass the cost along to customers in the form of significantly higher gasoline prices.

Below is information from North Dakota and Minnesota regarding the number of E85 pumps. North Dakota saw a significant drop in pumps (not stations) offering E85 between 2012 and 2013, from 223 to 104 pumps. In Minnesota, the number of E85 pumps dropped from 377 in 2013 to a low of around 250 in 2014, only rebounding slightly by year end due in large part to selective locations being significantly subsidized via infrastructure grants. We cannot envision meaningful growth in higher ethanol blends without significant government subsidies provided to retailers to upgrade underground and aboveground infrastructure. The needed subsidies will be in the billions of dollars and we do not believe those subsidies are politically achievable.



<sup>2</sup> Source: Summary <http://fas.org/sgp/crs/misc/R43653.pdf>

<sup>3</sup> Source: <http://www.eia.gov/todayinenergy/detail.cfm?id=20072>

## *Fuel Neutral Policies*

As crude oil prices plummeted in 2014, so did prices for residential heating oil prices which dropped to \$2.80 per gallon, the lowest in five years.<sup>4</sup> Many dealers now offer heating oil at prices that are on parity with – and in some cases lower than – those of competing fuels. Heating oil has held this advantage for 25 out of the last 32 years.<sup>5</sup> Investments in more efficient technology, fuel quality and the education of consumers and service technicians into safety and conservation has reduced annual consumption from an average of 1,700 gallons to 700 gallons per home over the last 40 years. Since the year 2000 alone, oilheat efficiency has improved by about 30 percent per home.<sup>6</sup> Similar efficiency gains have not been made with natural gas burners where venting requirements have largely acted as a bar to increased efficiency.

A provision in the President's FY 2016 Low Income Home Energy Assistance Program (LIHEAP) budget proposal encourages states to use LIHEAP funds to promote "fuel switching" from heating oil to natural gas as a way to reduce fuel costs.<sup>7</sup> PMAA is concerned about this provision because it violates the administration's fuel neutral "all of the above" energy policy. Moreover, it ignores energy market trends over the past 30 years that show periodic natural gas price spikes that surpass that of heating oil. The truth of the matter is that over the long term nobody can predict which form of home heating fuel will be the most cost effective for LIHEAP recipients. Heating oil and natural gas have alternated for years between high and low cost alternatives. The President's budget fails to acknowledge recent technological advances in heating oil efficiency. New high efficient oilheat equipment combined with the near elimination of sulfur content and BioHeat® makes heating oil cheaper, more efficient, safer and cleaner than natural gas.

Fuel switching, as proposed in the President's budget, would produce no measurable gains in energy cost savings or efficiency. While the average cost of converting a home from oil to natural gas is approximately \$10,000,<sup>8</sup> in some cases, the total cost can exceed \$18,000.<sup>9</sup> Moreover, studies show that such conversions simply do not pay for themselves over the long run in terms of cost savings when fluctuating natural gas prices are factored into the equation.<sup>10</sup>

PMAA believes that the most cost effective way to reduce fuel costs and increase efficiency is through home weatherization, not fuel switching. For example, upgrading an existing system to an energy efficient modern appliance is less than one-third the cost of fuel switching and can result in immediate savings of more than 40 percent.<sup>11</sup> Other alternatives can produce considerable savings at even lower costs. This includes regular system maintenance (up to 10 percent savings) and the installation of programmable thermostats (up to 10 percent savings) and modern electronic controls (up to 20 percent savings).<sup>12</sup> It is important the Administration and Congress work with heating oil customers to make simple, cost effective upgrades that are fuel neutral and produce true cost reductions and energy efficiency for the LIHEAP program.

Again, thank you for the opportunity to provide comments on this important subject.

Sincerely,



Dan Gilligan  
PMAA President

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<sup>4</sup> Source: [http://www.eia.gov/dnav/pet/pet\\_pri\\_wfr\\_a\\_EPD2F\\_PRS\\_dpgal\\_w.htm](http://www.eia.gov/dnav/pet/pet_pri_wfr_a_EPD2F_PRS_dpgal_w.htm)

<sup>5</sup> Energy Information Administration, average monthly residential heating oil prices, 2010-2015.

<sup>6</sup> Source: The National Oilheat Research Alliance, <http://noraweb.org>

<sup>7</sup> Source: <http://www.hhs.gov/budget/fy2016/fy-2016-budget-in-brief.pdf> pg. 123

<sup>8</sup> Source: American Energy Coalition, <http://americanenergycoalition.com/the-real-cost-to-convert-to-gas>

<sup>9</sup> Natural Gas Expansion Study: A Stakeholder Response, p.13.

<sup>10</sup> Natural Gas Expansion Study: A Stakeholder Response, pp. 12-15

<sup>11</sup> Field Measurement of Boiler Energy Savings Using Energy Tracking and Control, Energy Research Center, Inc, Prepared for the New York State Energy Research and Development Authority (NYSERDA) by Brookhaven National Laboratory, January 2009.

<sup>12</sup> Source: The National Oilheat Research Alliance, <http://noraweb.org>