

PETROLEUM PRODUCTS CORP.
Office of the Chairman

May 18, 2006

Wick Havens
Chief Division of Air Resource Mgmt.
Bureau of Air Quality
PA Department of Environmental Protection
P.O. Box 8468
Harrisburg, PA 17105-8468

Dear Wick Havens,

I am writing to comment on control measures which are under consideration for adoption by the Ozone Transport Commission (OTC). Of all the control measures, the common fuel standard is the most challenging for the petroleum distribution segment of the industry and I'll spend my time discussing that particular control measure. My company owns 14 petroleum pipeline storage tank terminals in Pennsylvania. We are a privately held, fourth generation family business, domiciled here in Pennsylvania. We are essentially a petroleum storage tank "warehouse" where major oil companies and large convenience store chains ship their gasoline, diesel fuel, heating oil, and kerosene on pipelines, we store these fuels in large aboveground storage tanks, and then handle the loading of their products into their tanker trucks for delivery to gas stations, truckstops, and people's homes.

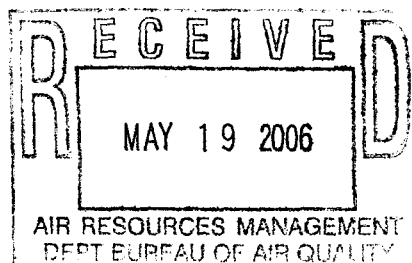
The reasons stated by the OTC for a move to a common fuel standard are essentially for additional emission reductions and for a reduced number of fuels throughout the region.

Ethanol Delivery Infrastructure Challenges:

A move to ethanol RFG throughout the region certainly reduces the number of fuels and on the surface that appears to be a good thing. The problem for PA is that when ethanol RFG is looked at as that common fuel, it poses difficult challenges. Ethanol RFG is the hardest gasoline product to supply in PA and by far the most expensive.

Currently, in conventional areas, all of the gasoline that supplies PA comes through the reliable and cost efficient pipeline system. As you probably know, ethanol cannot be shipped through a pipeline system, because ethanol is an alcohol and it picks up water very easily and can cause gasoline contamination. The pipeline system has small amounts of water in it. Gasoline and water don't mix and can be shipped through pipelines with no problems. Ethanol mixes very easily with water and once it does, it won't mix with gasoline. In fact even if ethanol has been blended with gasoline to make ethanol RFG, if it comes into to contact with water, the ethanol will actually drop out of the gasoline/ethanol mixture to mix with the water instead of the gasoline. The resulting contamination renders the entire gasoline/ethanol blended inventory as unmarketable. This industry calls this phase separation. These are the reasons why ethanol must be

900 S. EISENHOWER BOULEVARD
POST OFFICE BOX 2621
HARRISBURG, PA. 17105
717-939-0466
FAX: 717-939-9355
E-MAIL: JARNOLD@PPCTERMINALS.COM



trucked or railed into a pipeline storage tank terminal. At the terminal the ethanol is blended into the gasoline (RBOB), just as it goes onto the truck for delivery to the gas station. The inability of ethanol to be shipped on pipelines is the root of many of its challenges.

The first challenge is shipment by rail. PA has a lack of rail infrastructure combined with storage tanks. In PA there exists no rail combined with storage tank infrastructure to support the large volume of ethanol (10% of PA's gasoline volume) that would have to be railed into PA. 10% of PA's gasoline equals about 500,000,000 gallons per year of ethanol. Given that there is no meaningful ethanol production in PA, all of it would have to be transported here. A tanker truck can haul a legal (by weight) load of 8,000 gallons of ethanol. The number of trucks necessary to do that would be 62,500 trucks a year coming into the State. That's 171 trucks a day, seven days week, 365 days a year. Trying to schedule that number of trucks is impractical, especially given how far they'd have to come (from the Midwest). Rail would be a necessity. Even with rail (rail cars are 25,000 – 30,000 gallons), PA would need 18,180 rail cars of ethanol a year coming into PA or on a seven day week, about 50 rail cars a day, every day, seven days a week.

PA's current petroleum pipeline storage tank terminal network was laid out across PA along the pipelines, not along rail. PA moved beyond rail for movement of motor fuels in the 1930's for many of the reasons I'm discussing. As a result, there is no meaningful rail capability at PA's pipeline storage tank terminals. There are a few terminals where rail can be added, but at the vast majority it cannot. Therefore, even with rail, the ethanol will have to be trucked from where rail access can be found, to the pipeline storage tank terminals. At the terminals the ethanol trucks are off-loaded and the ethanol is stored and then blended with RBOB (the base gasoline for ethanol) to make ethanol RFG, as it is loaded into the delivery trucks. From the terminals the ethanol RFG is transported by the tanker trucks to C-stores and gasoline stations for resale to the public.

If there was a move to ethanol RFG across all of PA, several years would be necessary to build the needed rail and tank infrastructure. For the amount of ethanol PA would need, rail service combined with adjoining storage tanks yielding efficient off-loading of multiple rail cars simultaneously, would be necessary across PA. Without the simultaneous unloading of rail cars into adjoining storage tanks, it's essentially pumping from one rail car into a tanker truck, one-by-one. This is slow, very slow. It clogs up the rail lines. It's what is happening in Dallas/Ft. Worth, Texas at the moment and it is causing them severe supply problems. Ft. Worth is similar to PA in that they have no meaningful rail and off-loading storage tank capability either and when they went very quickly to ethanol RFG, they encountered many of the problems I'm pointing out here. These links give a flavor of their experience. I've enclosed copies of these links with my comments.

http://www.businessweek.com/autos/content/apr2006/bw20060427_493909.htm

<http://www.dfw.com/mld/dfw/business/14350640.htm>

<http://www.dfw.com/mld/dfw/shopping/14367838.htm?template=contentModules/printstory.jsp>

<http://198.6.95.31/ethbiomgmt/headlines.html> see the third story down on May 1, 2006

Because of the pipeline system, terminals are not set up to receive a large volume of their supply by truck. All terminals will also need to install the infrastructure and capability at the terminals to handle a large number of trucks off-loading, which doesn't occur today. Many terminals may not have the room necessary for such facilities. Also, once again, time is needed to attain construction permits and to build these facilities.

Rail delivery is much more prone to delivery problems and delays than pipeline supply is. Where rail delays can be counted in the numbers of days, pipelines run consistently right on-time or within hours of scheduled deliveries. Without ethanol, you're essentially out of gas; you wouldn't be able to sell gasoline (RBOB) - even if you had it - without the ethanol. Ethanol's mode of supply would be PA's new weakest link in the supply chain.

Ethanol Loading Challenges:

Time is also necessary to install piping and blending capability for ethanol at the pipeline storage tank terminal's loading racks. Ethanol must be stored separately from RBOB and blended as it is loaded onto the delivery trucks. Segregated product lines and pumps, to supply the loading racks as well as blending capabilities at the loading racks, needs to be constructed to be able to load and blend ethanol onto delivery trucks.

Higher Cost:

Contrary to what many believe, ethanol is not cheaper than conventional gasoline. In fact it's quite a bit more expensive. Sellers of ethanol enjoy a tax break of 51 cents per gallon on the ethanol blended into the gas. At a 10% blend, that equates to 5.1 cents across the whole gallon of fuel. If we were to purchase ethanol RFG today (5/15/06) and ship it to Harrisburg, ethanol would be 28 cents per gallon more expensive, even including the tax incentive for ethanol blending. This is based upon real posted numbers today from actual transactions for these products. Freight figures used were either posted tariffs where applicable or real quoted freight quotes from competitive haulers.

Ethanol Cost:

RBOB (90% blend)	2.3500	per gallon
Ethanol (10% blend)	<u>2.9000</u>	per gallon
Wtd Avg Cost	2.4100	per gallon (with 90%RBOB & 10% Ethanol)
Pipeline Freight for RBOB	0.0180	90% of the 2 cent pipeline freight
Ethanol Truck Freight	0.0110	10% of the 11cent truck freight from Linden, NJ to Hbg.
Tax Incentive	(0.0510)	
State Taxes	0.3120	
Fed Taxes	0.1830	
Lust Trust Fund	0.0010	
UST	<u>0.0100</u>	
Ethanol RFG 87 Octane Cost	\$2.89	in Harrisburg per Gallon

Conventional Gas Cost:

Conventional Gas	2.0800	per gallon
Pipeline Freight	0.0200	per gallon
State Taxes	0.3120	
Fed Taxes	0.1830	
Lust Trust Fund	0.0010	
UST	<u>0.0100</u>	
Conventional Gas Cost	\$2.61	in Harrisburg per Gallon

Incidentally, these prices are before the product is sold at wholesale, trucked to the station and resold there. It's wholesale cost.

As the country moves more and more towards ethanol RFG. The federal government will be more apt to look at the tax incentives they've given to "incentivize" making renewable fuels economically viable. As more and more of the country moves to renewable fuels, the federal government begins to lose more and more tax dollars to take care of our road system. Currently, on ethanol there is a 51 cents/gal. tax incentive. Even with the tax incentive on ethanol, it is 28 cents per gallon more expensive laid-in to Harrisburg, PA today than conventional gasoline. If the tax incentive were to be lifted after PA joined the OTC's common fuel standard, it would be even more expensive than that. If the consumer were asked their opinion of ethanol RFG vs. conventional gasoline at a much, much lower price, the vast majority would probably prefer the much less expensive conventional gasoline. Moving to a much more expensive product during this new era of high petroleum prices, with no requirement to do so from EPA, hurts the consumer.

Environmental Impact:

It's probably better to leave substantive comments on the environmental impact to those who specialize in the field. However, some abbreviated comments regarding groundwater quality and air quality, bear consideration.

Unlike petroleum, ethanol mixes easily with water (like a 'scotch and water'). While a zero occurrence of drips and spills is the goal, given that humans and machines are involved in this process, accidents will unfortunately occur. When ethanol impacts groundwater it mixes with it very easily and is very difficult to remediate. This was the primary reason cited to stop using MTBE in areas needing RFG. For that same reason, we always felt lucky that the markets we served in PA were in "attainment" and we didn't have to use RFG fuel containing MTBE. We have only had to handle conventional gasoline. Mandating PA to use ethanol RFG versus conventional gasoline, puts the majority of the State at unnecessary risk for ethanol groundwater contamination. Conventional gasoline doesn't mix easily with water (similar to how oil and vinegar don't mix) and is much easier to remediate. In fact, gasoline floats on top of water and provides for much easier remediation.

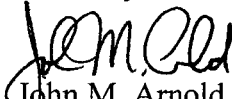
There are negative air quality considerations to consider. Ethanol lowers the miles per gallon of the cars that use it. You must burn more fuel to get where you're going. The large amount of trucking that will be involved in the supply process will be a new source of emissions that doesn't currently exist. What about the lack of vapor recovery for the loading of ethanol trucks at rail yards? How would that be handled? To my knowledge it's not required where this is occurring in the country. This would also be a large additional source of emissions we don't incur today. There are also recent studies of air quality that really question the claimed benefits of ethanol RFG and bear investigation.

Conclusion:

As I proof-read my comments I'm surprised that I had so many of them (sorry – they just flowed as I started writing) and I see that my comments appear quite negative. While that may appear to be true, it isn't necessarily consistent with what my company's position is with regard to PA joining the OTC in mandating the use of ethanol RFG. The points laid out here are an attempt to honestly point out the real logistical challenges involved in supplying ethanol RFG to PA's markets. If ethanol RFG were required across PA our company is probably better positioned than any other to benefit from it. We have plans to be able to add rail either at or close by our terminals where tanks can be situated for efficient rail off-loading. This assumes the necessary permits are able to be attained. The problem is that even our company, which has a very strong construction competency, will need a few years to get it done. We are in the process of building four 3.8 million gallon petroleum storage tanks (not for ethanol) in Mechanicsburg, PA. The local permits took us fully two years to attain and that was with us giving them everything they wanted including a new intersection, full signalization, and turn lanes. We didn't fight them on anything. Now we're starting construction. That project will take three years from when we sought construction permits, to completion. If this requirement goes forward, we hope the State would help us with the encouraging of expedited approval of our projects at the local level as we try to get the local building permits necessary to construct the needed infrastructure of rail accompanied by storage tanks for large capacity simultaneous rail car unloading.

In summary, if PA were to join the OTC in establishing a common fuel standard and with that fuel standard being ethanol RFG, it will take a number of years for the necessary infrastructure to be developed. Our company will have to spend tens of millions of dollars to do this. However, it could be another service we're able to charge for and may turn out to be a good thing. As a business owner, my preference would be to not have to take the risk nor deploy that level of capital, but if we must, we'll tackle it. However, ethanol RFG has trade-offs in providing a more brittle supply situation with ethanol's dependence on rail and trucks to get to PA, a much higher cost right in the midst of this new era of high petroleum prices, negatively impacting groundwater versus where we are today with conventional gasoline, and questionable air quality improvements. Ethanol and renewable fuels are a good idea, but they're no panacea. It feels good to discuss them, but there are real trade-offs. PA owes it to their people to actually do the right thing for them, not to do what feels like the right thing on the surface. While my company might do well in handling ethanol RFG, if ethanol RFG is seriously looked at, I'm not sure that it's the best thing for PA.

Sincerely,



John M. Arnold
Chairman



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June 6 - 10

BusinessWeek | online

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APRIL 27, 2006

INSIGHT
By Ed Wallace

Ethanol: A Tragedy in 3 Acts

Amid the current panic about gas prices many people are embracing ethanol. But that's not such a good idea

During the comment period for the RFG (reformulated gas) program, supporters of ethanol had argued that the volatile organic compound (VOC) emission standards in the program -- 42 U. S. C. 7545 (k) (3) (B) (i) -- would preclude the use of ethanol in RFG because adding ethanol to gasoline increases its volatility and raises VOC emissions, especially in the summertime.

Background

The American Petroleum Institute v. the U.S. Environmental Protection Agency [Docket #94-1502 (Heard by the U. S. Court of Appeals for the District of Columbia Circuit and decided on April 28, 1995)]

If there were ever a time when the truth in advertising standards should be put back into place, it's now -- during the current (third) attempt to convince the public that the massive use of corn-derived ethanol in our gasoline supply will alleviate our need for foreign oil. Ultimately, the answer to just one question determines ethanol's actual usefulness as a gasoline extender: "If the government hadn't mandated this product, would it survive in a free market?" Doubtful -- but the misinformation superhighway has been rerouted to convince the public its energy salvation is at hand.

Act I, Scenes 1 and 2

The use of ethanol to reduce our dependence on foreign oil is nothing new. We also considered it during our nation's Project Independence in 1974, the year after the first Arab oil embargo. After the second energy crisis in 1979, an income tax credit of 40 cents per gallon of 190-proof ethanol produced was instituted as an incentive for refiners of ethanol to blend this product into gasoline.

Because this federal largesse now existed, within five years, 163 ethanol plants had been built -- but only 74 of them were still in operation. As gasoline availability opened up in the 1980s and gas prices went down, many ethanol plants simply went out of business.

Shortly thereafter, in yet another attempt to broaden the product's usage, Congress enacted a law that allowed car manufacturers to take excess mileage credits on any vehicle they built that was capable of burning an 85% blend of ethanol, better known as E85. General Motors (GM) took advantage of the credits, building relatively large volumes of the Suburban as a certified E85 vehicle. Although in real life that generation of the Suburban got less than 15 mpg, the credits it earned GM against its Corporate Average Fuel Economy (CAFE) ratings meant that on paper, the Suburban delivered more than 29 mpg.

Other manufacturers also built E85-capable vehicles -- one such car was the Ford (F) Taurus. Congress may have intended simply to create a market for this particular fuel by having these vehicles available for sale. But what the excess mileage credits actually did was save Detroit millions each year in penalties it would have owed for not meeting the CAFE regulations' mileage standards.

Act II, Scenes 1 and 2

In the mid-'90s the Clean Air Act of 1990 kicked in, mandating that a reformulated gasoline be sold in the nation's smoggiest cities. So the Clinton Administration again tried to create an ethanol industry in America, by having the Environmental Protection Agency mandate that fully 30% of the oxygenates to be used in gasoline under that program come from a renewable source. But members of the American Petroleum Institute had already geared up for the production of Methyl Tertiary Butyl Ether (MTBE), their oxygenate of choice. The ensuing lawsuit was argued before the Court of Appeals for the District of Columbia on February 16, 1995.

The EPA took the position that it had been given a mandate to find ways to conserve the nation's fossil-fuel reserves, so it needed a renewable fuel -- and ethanol neatly fit that bill. But there were problems with that argument, not least of which was the fact that the judges could find no charter or mandate from Congress that gave the EPA the statutory right to do anything about fossil fuel, reserves or otherwise.

Even more damaging, the EPA's own attorney admitted to the judges that because of its higher volatility, putting ethanol into

the nation's fuel supply would likely increase smog where it was used. One of the judges, on hearing that the EPA was actively promoting a substance that could in fact diminish air quality, wondered aloud, "Is the EPA in outer space?"

The final decision favored the American Petroleum Institute. The judges agreed that the EPA was bound by law only to promote items that would improve air quality -- not to reverse the nation's advances in smog reduction. That decision was apparently forgotten with record speed. In the summer of 2000, ethanol as an additive was mandated for the upper Midwest, including the city of Chicago and parts of the state of Wisconsin.

Act II, Scenes 3 and 4

After Asian economies had collapsed in the late '90s, the price of oil had fallen to as low as \$10 a barrel. Gasoline was selling in many parts of the U.S. for as little as 99 cents a gallon. But by 2000, the per-barrel price had risen to \$32, and gas was averaging \$1.55 a gallon nationally. As they are today, the nation's drivers were incensed by the rising prices of gasoline and oil. And then reformulated gasoline made with ethanol hit Chicago and points north. Gas prices there suddenly soared over \$2.00, with a few stations selling their product for as much as \$2.54 per gallon.

At some stations in southeast Wisconsin, where reformulated gasoline wasn't required and gas cost considerably less, pumps ran dry in the panic, as savvy consumers topped off their tanks. Citing the Lundberg Survey, the Associated Press on June 12, 2000, stated, "Dealers in the Midwest, where many cities use a reformulated gas blended with the corn derivative ethanol, are paying a premium at wholesale."

Just a few months later, Brazil -- which had worked toward energy independence since the mid-'70s oil crisis and had already mandated that the percentage of ethanol in its fuel be raised to 24% -- was forced to import ethanol refined by the Archer Daniels Midland Co. (**ADM**) when the nation's sugar-cane crop suffered a devastating drought. Brazil understood that a year of poor crops was just as damaging to its national fuel supply as Iran taking its oil off-market would be to the rest of the world.

Then came the third act in this ethanol play -- and possibly the most misleading and disingenuous PR campaign ever.

Act III: Cue the Fact-Checker

It started with Congress, which mandated that even more ethanol be used to extend the nation's fuel supply. From General Motors, an ad campaign called "Live Green, Go Yellow" gave America the impression that by purchasing GM vehicles capable of using E85 ethanol, we could help reduce our dependence on foreign oil.

What GM left out of its ads was that the use of this fuel would likely increase the amount of smog during the summer months (as the EPA's own attorneys had admitted in 1995) -- and that using E85 in GM products would lower their fuel efficiency by as much as 25%. (*USA Today* recently reported that the Energy Dept. estimated the drop in mileage at 40%.)

But one final setup for the public has gone unnoticed. At the Web site, www.fueleconomy.gov, which confirms the 25% to 30% drop in mileage resulting from the use of this blended fuel, another feature lets users calculate and compare annual fuel costs using regular gasoline to costs using E85.

But the government site's automatic calculations are based on E85 selling for 37 cents per gallon less than regular gasoline, when the *USA Today* article reports that at many stations in the Midwest E85 is actually selling for 13 cents per gallon more than ordinary gas. Using the corrected prices for both gasoline and E85, the annual cost of fueling GM's Suburban goes from \$2,709 to \$3,763. Hence the suggestion that truth in advertising should come back into play. Possibly GM could rename this ad campaign "Shell Out Green, Turn Yellow."

Epilogue: Get this Wasteful Show Off the Road

The other negative aspect of this inefficient fuel is that numerous studies have found that ethanol creates less energy than is required to make it. Other studies have found that ethanol creates "slightly" more energy than is used in its production. Yet not one of these studies takes into account that when E85 is used, the vehicle's fuel efficiency drops by at least 25% -- and possibly by as much as 40%. Using any of the accredited studies as a baseline in an energy-efficiency equation, ethanol when used as a fuel is a net energy waste.

Furthermore, no one has even considered the severe disruption in the nation's fuel distribution that mandating a move into ethanol would cause. Over the past month, gas stations from Dallas to Philadelphia and parts of Massachusetts have had their tanks run dry due to a lack of ethanol to blend. The newswires have been filled with stories bemoaning the shortage of trucks, drivers, railcars, and barges to ship the product. Ethanol can't be blended at refineries and pumped through the nation's gasoline pipelines.

The recent price spikes for gasoline have forcibly reminded the people of Chicago and Wisconsin of what happened when ethanol was forced on them during the summer of 2000. Moreover, the promise of energy independence that Brazil has explored through ethanol is widely misunderstood. Recently a Brazilian official, commenting on our third and most recent attempted conversion to ethanol, said that when Brazil tried using agricultural crops for ethanol, it achieved only a 1:1.20 energy conversion rate, too low to be worth the effort.

FINAL BOW? On the other hand, ethanol from sugar cane delivered 1:8 energy conversion, which met the national mandate. Unfortunately for us, sugar cane isn't a viable crop in the climate of our nation's heartland. But the part of Brazil's quest for energy independence that the media usually overlooks is that ethanol wasn't the only fuel source the country was working on: Its other, more important, thrust was to find more oil. To that end, last week Brazil's P50 offshore oil platform was turned on. Its anticipated daily output is high enough to make Brazil totally oil independent.

doesn't look like it is going to happen anytime soon. This is not to be confused with the end of cheap oil, which may well happen in our lifetime.

Thanks to everyone for caring enough about the issue to write.

Ed Wallace 570 KLIF AM Dallas Fort Worth Star Telegram

Wallace is a recipient of the Gerald R. Loeb Award for business journalism, given by the Anderson School of Business at UCLA. He hosts the talk show *Wheels* Saturdays from 8:00 to 1:00 on 570 KLIF and is a weekly columnist for the Fort Worth Star Telegram. E-mail: ed-wallace@charter.net

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Fertilizer terminal is key ethanol link

By DAN PILLER
STAR-TELEGRAM STAFF WRITER

For oil companies anxious about getting ethanol extender into gasoline by early next month, the half-mile rail siding at Amber Terminal on Northeast 28th Street in north Fort Worth has become an extremely important link.

"They're unloading round the clock," said terminal owner Ronnie Stephens, who has quickly converted his fertilizer storage and delivery terminal into what is now Dallas-Fort Worth's only ethanol reception point.

At Amber, rail tanker cars from Iowa, Nebraska, Minnesota and other points in the Corn Belt discharge ethanol into fuel delivery trucks. The ethanol goes to one of several gasoline storage terminals, where it is mixed at a ratio of 1 part ethanol to 9 parts gasoline to produce a fuel that will help the Metroplex comply with clean-air regulations this summer.

Amber Terminal is one of what will likely be several delivery points for ethanol. The delivery system will be primarily railroad-based, as opposed to the underground pipelines that for decades have moved refined gasoline from Gulf Coast refineries to the rest of the nation.

"We're going to have to build storage for ethanol," Stephens said as he points to where he plans to build five 1-million gallon storage tanks. "We can't just keep unloading from the rail cars. What if there is a derailment?"

Each rail car holds between 20,000 and 29,000 gallons of ethanol. Stephens said he can handle up to 30 cars per day but has averaged 15 to 18 unloads daily.

The jury-rigged rail-transloading system is all North Texas has to prepare for the summer fuel blending requirement. Federal environmental regulations removed the additive MTBE from the approved list, which for a decade was used by refiners to produce a gasoline lower in sulphur emissions. The switch created a sudden need for corn-based ethanol.

For the last month, railroads, oil companies and delivery terminals have engaged in a flurry of telephone calls, meetings and negotiations to put together a delivery system where gasoline flowing north from Gulf Coast pipelines can meet ethanol moving south from the Midwest in rail tanker cars.

Stephens was in the catbird seat because his fertilizer terminal has the rail siding with a switch that can send Union Pacific and BNSF tanker cars onto his 22-acre property.

"Everybody in the world came to see me," said Stephens, sorting through a pile of business cards that includes ones from representatives from Exxon Mobil, Chevron, Citgo, Valero and other major oil companies. Almost all modern fuel-storage terminals long ago abandoned rail connections in favor of pipelines. But ethanol can't be moved in gasoline or oil pipelines because its evaporation and water-solubility characteristics are different from those of gasoline.

Ethanol has long held near-holy status in the Corn Belt, and politicians have fiercely defended its tax subsidies. But ethanol has been relatively rare in oil-rich Texas until the removal of MTBE as an approved additive.

"This will be good for the farmer, and I'm for that," Stephens said.

The ethanol need has created at least 10 jobs at the Amber Terminal. Ventura Transfer Co. of Long Beach, Calif., which provides the unloading pumps and other logistics, hired two five-man crews to work 12-hour shifts around the clock to unload ethanol.

"I was unemployed until March and then got a call through the Texas Workforce Commission," said Jerry Mosley, 31, during a quick break between hooking up pumps and turning valves to transfer ethanol from the rail tanker cars to the delivery trucks. "This is good work. I was really glad to get the job."

More jobs are likely to be added as Union Pacific and BNSF link up with other terminals and storage facilities.

Love's Country Truck Stops of Oklahoma City has asked the Texas Department of Environmental Quality for a permit to set up a rail loading facility in Midlothian. But the Midlothian facility has drawn local opposition.

Concerns about shortage-inducing kinks in the ethanol supply chain have driven up the prices of wholesale regular gasoline as well as ethanol. The average price for a gallon of self-serve unleaded gasoline reached \$2.80 in Tarrant County by late this week, with many stations posting \$2.99 per gallon.

www.ethanol.org

Dan Piller, (817) 390-7719 danpil@star-telegram.com

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Posted on Tue, Apr. 18, 2006

North Texas braces for \$3 gasoline

By **DAN PILLER**
STAR-TELEGRAM STAFF WRITER

Local gasoline dealers grimly held their prices below \$3 per gallon as the week began, but market forces around the world are combining to virtually guarantee another round of increases in the prices local motorists pay for fuel.

Crude oil closed at a record \$70.40 per barrel on the New York Mercantile Exchange on Monday after a three-day holiday in which traders ingested the implications of the standoff with Iran over nuclear capabilities.

Another factor was the latest government report showing that gasoline inventories dropped by almost 8 percent in the six weeks that ended April 7, a matter of concern because the weeks running up to Memorial Day traditionally signal increased demand from motorists.

That caused the futures price for unleaded gasoline to reach \$2.17 per gallon in trading on the Mercantile Exchange, the highest since Sept. 29, when U.S. oil production was reeling after Hurricanes Katrina and Rita. That price is for fuel to be delivered in May.

Last fall's spike in the wholesale gasoline price caused retail prices to shoot above \$3 per gallon in most of the U.S., and predictions abounded that a similar rise would happen again soon.

"Everybody is holding down at \$2.99 for dear life, but we'll all be above \$3 soon," said Wayne Meadlin, who has operated stations in Fort Worth for 49 years and now has a station on Camp Bowie Boulevard.

"I'm an independent guy, not a company-owned station, and I can't afford to sell my gas at a loss," said Meadlin, who said he plans to raise his price above \$3 per gallon. "The big company stations now are selling food in their stations, so they can sell the gas at a loss and jack up the price of the food to make up for it. I can't."

David Pursell of Pickering Energy Partners in Houston said that motorists in Dallas-Fort Worth and Houston will see their gasoline prices rise by an additional 15 cents to 20 cents per gallon in coming weeks because of the tight supplies caused by the switch to gasoline blended with corn-based ethanol.

The ethanol must replace the additive MTBE, which metropolitan areas used for the last decade to cut down on emissions during the summer. But MTBE is no longer allowed by the federal government, because of environmental concerns, and a new supply chain has to be created to bring ethanol by rail from its processors in the Upper Midwest to Dallas-Fort Worth and Houston.

"Houston can get a lot of ethanol in by barge, down the Mississippi and around on the Gulf, but D-FW won't be able to do that," Pursell said.

The U.S. Energy Department has warned of potential spot shortages of gasoline as railroads and truckers struggle to get enough ethanol into the Metroplex to supply the market.

As of the end of last week, just one receiving terminal, Amber Terminal on Northeast 28th Street in Fort Worth, was able to unload rail tankers. It has been unloading ethanol 24-7 since late March.

"The federal government has messed this one up," Pursell said of the ethanol scramble. "They didn't give the industry enough time. California went through this two years ago, and they had all kinds of logistical problems."

The ethanol issue already has driven average prices for gasoline in the Metroplex higher than the national average. Monday, [fortworthgasprices.com](http://www.fortworthgasprices.com) gave an average price in Tarrant County for unleaded at \$2.85, compared with \$2.49 a month ago.

In the rest of Texas, without the ethanol mandate, the average price was \$2.75 per gallon. The national average was \$2.77.

"People ask, 'How can you save money on gas?' and I just tell them to drive less," Pursell said. "That doesn't make me the most popular guy in the room."

The country got through the peak summer driving seasons last year with relatively cheap gasoline, at least compared to the fall. But the hurricanes put about 30 percent of U.S. oil production and 25 percent of refining capacity out of service and exposed the fragility of the gasoline-delivery system. Retail prices climbed above \$3 per gallon by early October, and spot shortages were reported in several major cities. The Metroplex and Houston areas got their first taste of gasoline at prices higher than the national averages.

An inflow of imported crude and refined gasoline caused prices to ease back below \$2.15 per gallon by year's end. But they began rising again in late March with the onset of the ethanol changeover, scheduled to take effect May 5.

"People have been worried about shortages for several weeks," Houston energy consultant Henry Groppe said. "The situation is totally unpredictable."

Dan Piller, (817) 390-7719 danpil@star-telegram.com

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Railroad Embargoes Ethanol Shipments To Dallas/Ft. Worth "Quagmire"

While many refiners are in the midst of shifting from blending with MTBE to ethanol in reformulated gasoline markets, the logistical nightmare many saw coming in the Dallas-area was underscored this week when the Union Pacific Railroad slapped an embargo on ethanol shipments to an area terminal.

Ethanol marketers were not told how long the embargo Union Pacific placed on the Dallas-area Amber terminal is expected to last, but they have been told it will be in place as long as needed for the railroad to be able to manage the flow of ethanol to the location. Sources said that railcars were backed up for a mile or more going into the terminal located just north of Fort Worth.

A Union Pacific source said the embargo timeframe is "week-to-week," and the company does not know exactly how long it will remain in place. "We have not completely suspended shipments at this point," said the source. "It is a modified embargo."

A railroad spokesman described the UP's action at Amber as an "embargo with permit release process." That means some ethanol shipments can still come into the terminal, but they must be approved and administered through Union Pacific's Dallas-Fort Worth Rail Terminal Customer Service Center, UP's Joe Arbona, regional public affairs director, explained. The hope is the embargo will enable UP to improve management of the flow of ethanol into the Dallas/Fort Worth market, he said, adding the company will not know how long it must remain in place until the carrier gets a better sense how much needs to be done to control the situation.

Permits will be issued only to the Dallas-Fort Worth Rail Terminal. Shippers must contact DFWRT for a permit number before shipping product out.

"Since the commencement of operations in mid-March, ethanol throughput and delivery to refiners and blenders has been subject to various logistical challenges to be expected to some extent during the startup phase of any new operation," said UP in a letter to customers this week. "Unfortunately, this has led to the subsequent onset of significant congestion of ethanol railcar inventory in the UP Service Unit."

Market sources described the situation in Dallas as a "quagmire," noting lack

of logistical preparation in going from MTBE to ethanol. Some buyers have lately trucked ethanol into the market from storage in Houston or from plants in Nebraska and Kansas. Taking a truck from those Midwest plant costs about 25cts/gal, said market sources, and with plant FOB ethanol prices in the \$2.60s/gal, that puts the delivered cost of truck ethanol around \$2.85- \$2.90/gal to Dallas.

While BNSF railroad can also move ethanol into the area, sources said that carrier is too costly to currently be considered as an option.

For its part, UP said it is working with producers and blenders to establish an approved trucking pool, placing additional pumping units into service, increasing operator staffing and studying ways to more efficiently move more trucks through the facility between switches.

