



*"Knowledge & Experience
Working for You"*

May 30, 2006

J. Wick Havens, Chief
Division of Air Resource Management
Bureau of Air Quality
P.O. Box 8468
Harrisburg, PA 17105-8468

Re: 36 Pa.B. 2071

Dear Mr. Havens:

The Pennsylvania Petroleum Marketers & Convenience Store Association represents nearly 500 independent heating oil and motor fuel distributors in the state.

The attached memo constitutes the Association's thoughts on the proposal under consideration by the Northeast Ozone Transport Commission regarding the implementation of a low sulfur heating oil requirement in the Commission's member states.

It is our hope that this paper will serve to outline key discussion points for the Department's consideration. As always, we look forward to working with the agency as this issue develops.

Sincerely,

A handwritten signature in cursive script that reads "John V. Kulik".

John V. Kulik
Executive Vice President

Enclosure

Admin/Issues/JVK/LowSulfur

LOW SULFUR HEATING OIL

The United States heating oil industry has had a long term goal of improving the fuel that is distributed to consumers. To that end, a variety of Oilheating Associations have encouraged the use of the low sulfur product. Additionally, studies have indicated that paying 1-2 cents more per gallon for this low sulfur product are justified because it will reduce the costs of maintenance. Thus, the industry was eager to participate when the Northeast States for Coordinated Air Use Management (NESCAUM) initiated discussions on this subject in 2003, with the goal of developing information on the advantages of the low sulfur project and developing an appropriate time for the use of this product.

In recent months, NESCAUM has begun advocating for a switch to low sulfur heating oil in 2009. We believe that such a transition is inappropriate for a number of reasons.

- The steep increase in prices over the past two years has increased the cost of heating dramatically, putting a significant strain on families. Additionally, the differential between heating oil and low sulfur diesel has grown from 1-2 cents per gallon to 15-20 cents per gallon. Assuming there are no other changes, this could increase heating oil costs by \$160 for the average family, which would make a bad situation worse.
- Heating oil is part of an international market for distillate. In the key winter months, a high percentage of the product is imported (up to 40 percent in the first quarter). Additionally, over 40 countries supply this product. The heating oil industry does not believe that any refiner will invest to serve this market because it is small, the market is not always available, and it is seasonally based.
- To accommodate this, the heating oil industry suggested a phased in implementation from 2009 to 2014 which would allow the industry to absorb product from other countries as those countries implement sulfur controls, with a series of measures to provide flexibility. This phase in period was designed to allow the United States market to have a small impact on world low sulfur demand and not require additional investments.
- If the northeast converts to low sulfur (500 ppm) fuel, the demand for this product will increase by 8 billion gallons per year. Traditional suppliers such as Russia and Venezuela may also be eliminated.
- There is uncertainty as to how many U.S. refiners will make this product. In 2010, both the off-road and on-road markets will be using 15 ppm. Railroads and marinas may continue to use the 500 ppm fuel until 2012. Under NESCAUM's proposal, heating oil will be the only product manufactured in the United States that uses a 500 ppm fuel after 2012. Who will manufacture this product for a five month season that varies 20 percent year to year?
- Predicting price changes that result from a shortage in the market are extremely difficult. Heating oil is a very inelastic product in the short term, thus if there is a shortage, the prices could surge and the current 20 cent differential could grow significantly.

- It has been suggested that this new fuel is necessary to allow a new generation of heating oil appliances. However, manufacturers of heating oil equipment have developed high efficiency equipment that is designed to use the standard heating fuel.
- There are very few areas in the northeast that have PM 2.5 air pollution problems. It is estimated that in the Mid-Atlantic States, 71 percent of the emissions come from electricity generation. Currently EPA has a program in place that is reducing those emissions, and they are expected to fall by 10 percent between 2001 and 2010. Additionally, the ultra-low sulfur diesel program and low sulfur gasoline are reducing particulate emissions. Thus, there is a question as to whether state controls are necessary to meet federal standards.
- There is very little evidence that heating oil contributes to PM 2.5 non-attainment problems. EPA is now researching this question, and regulating before such information is available is inappropriate.