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Fuels Issues, Downstream

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U.S. Department of Energy
1000 Independence Ave., SW
Washington, DC 20585

RE: Northeast Regional Gasoline Reserve

To Whom It May Concern:

In conjunction with the Quadrennial Energy Review, Energy Secretary Moniz announced the creation of a federal regional gasoline reserve intended to provide some short-term relief in the event of a disruption. API and our member companies are concerned that the reserve may be ineffective, and potentially lead to counterproductive unintended consequences. API is unaware of industry stakeholder input into the process and few details are publicly available. Given this lack of input, it is not clear that the government has considered many issues related to the creation of this reserve that could result in potentially negative unintended consequences. Below are some questions and observations concerning this initiative. API requests that you consider these questions in the implementation of the program, and we believe a dialogue with API and other industry stakeholders could help to mitigate the potential for negative unintended consequences.

What criteria will DOE use in selecting storage locations?

- The principal supply issues in recent hurricane events, including Sandy, that lead to gasoline distribution problems are the lack of power and high water levels. In general, storage facilities with waterborne access are prone to experiencing these challenges because of their low elevation and close proximity to water.
 - Has DOE considered locating the reserve at terminals that can remain accessible when other storage is not? If located in areas that are likely to be impacted by high water and lack of electricity the same as privately owned facilities, does DOE have reason to believe that their facilities will not be impacted in the same way as privately owned facilities?
- In addition, following Sandy and other events, even when terminals have been operational, there may be issues with transporting fuel from the terminals to the retail stations (inadequate trucks availability, congested/blocked roads) and there will very likely be many retail stations without electricity. Thus, even if the terminals have supply and could deliver it to retail stations, it is likely that many retail stations will not be able to dispense fuel to consumers until electricity is restored. How does DOE's initiative, therefore, improve supply of fuels to consumers?

Will DOE take steps to mitigate market impacts of rotating the reserve?

- Gasoline degrades over time, and specifications change throughout the year to ensure proper vehicle performance. Consequently, stocks must be rotated periodically. Does DOE plan to take a role as a market participant when filling into or drawing from the stockpile? What impact does DOE believe these purchases and sales would have an impact on gasoline markets?

In the event of an emergency, how will DOE handle distributions from the reserve?

- During a supply situation, the presence of a reserve could create uncertainty about whether, when, and how much it would be drawn down. These uncertainties could dampen the market response to a potential shortage.
 - Has DOE established clear triggers for releasing product, and will that be communicated to the public? Will DOE only release the product in the event emergency fuel waivers from EPA and states are issued, and a state of emergency declaration by the state?
- In a supply disruption, fuel distributors and retailers often incur additional costs to obtain fuel supplies. In addition to the price response to product scarcity, companies often need to truck in fuel from more distant locations, or obtain a generator to operate retail pumps, all adding to the cost of supplying fuel. How might DOE's possible release of product dampen this market response?
 - Does DOE intend to make reserve releases available to the open market at the prevailing market rate? If not, how might that adversely affect private efforts to resupply an affected area? Does DOE intend to engage in bulk distributions directly to the public (e.g. tank truck direct to vehicle)? If so, what steps will DOE take to ensure the safety and environmental integrity of such activities?

What product(s) will DOE store?

- Due to Clean Air Act (CAA) requirements, much of the fuel sold in the Northeast is Reformulated Gasoline (RFG), which at the wholesale distribution level is a sub-octane blendstock unsuitable for use in vehicles until ethanol is added at 10 volume percent.
 - Does DOE intend to store RBOB or conventional (non-RFG) gasoline that does not require the addition of ethanol to be suitable for use in vehicles to maximize the flexibility of the reserve? If access to ethanol is hampered, the blendstock could be useless. And if ethanol is available, it could continue to be blended with conventional gasoline and extend gasoline supplies. Has DOE considered how the product it intends to store interacts with the need for EPA and state fuel waivers?



- If a blendstock requiring ethanol is stored, has DOE considered also storing the needed ethanol, which also requires periodic rotation? How will DOE handle the separation and disposition of RINs under the RFS program for ethanol blended?
- Gasoline vapor pressure varies by season to ensure proper vehicle operation.
What vapor class of gasoline will be stored in each season?

The U.S. Department of Energy and API member companies have a shared interest in ensuring appropriate actions are taken to resolve emergency fuel supply situations. We encourage DOE to participate in an open dialogue with industry and the public that provides transparency in the process. We would like to learn more of how planned reserve is progressing and how DOE will administer it per the questions above.

Your consideration of the questions above is appreciated. If you have any questions, please contact me at (202) 682-8192.

Regards,

A handwritten signature in blue ink that reads "Patrick Kelly".

Patrick Kelly

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