

Focus on Fuels

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TM&C Services

Surviving the Regulatory Tsunami

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Those that read this publication regularly will know that we frequently address issues related to the world of federal regulations. In preparation for a presentation I made to the Society of Automotive Engineers in January, it dawned on me that refiners are not alone in addressing more and more regulatory constraints. As an example, the automobile manufacturers and importers must comply with the Corporate Average Fuel Economy (CAFE) standards among many other regulations. I have only a passing knowledge of the details of that program, but it appears to me that regulations that govern the "Autos" and the "Oils" have many similarities.

Surviving the Regulatory Tsunami- Refiners are Not Alone

by Tom Hogan

The reformulated gasoline (RFG) and renewable fuel (RFS) programs were groundbreaking legislation in the oil industry. It led to massive investment. The CAFE program for the auto industry was just as groundbreaking although it lay dormant for many years until the politicians realized it was good politics to identify an arbitrary goal and then leave it to the manufacturers to wrestle with the details in the implementation. Both regulations are technology-forcing or in layman's terms, "We (Congress/EPA) made the rules, now you guys figure out how to meet them," and the Autos and the Oils are figuring it out.

Both the Autos and the Oils are saddled with rules that impact a market that they do not control. In a free market, the consumer ultimately decides what they will buy. The limited budgets and preferences of individuals lead each one to a certain choice in what car or transportation fuel to buy. An automobile company that doesn't make cars that consumers will buy ultimately ends up out of business like the Yugo's of the world. The refiner that only makes E85 ends up with too few sales to support the volume necessary to cover the cost of production. In cases like these, the regulations that are technology-forcing become market-forcing. The problem is

TM&C Services in Fuel Regulations

TM&C provides a full range of services in its fuels regulatory practice. Some of these services are listed below.

- Preparing, reviewing and submitting fuels reports, including CDX submissions.
- Facility audits for compliance with fuels programs.
- Interaction with EPA to pose fuels related questions.
- Industry specialist assistance for required gasoline attestations.
- Industry specialist

assistance for in-line blending audits.

- Assistance in setting up a fuels compliance group/program.
- Personnel reviews of compliance related groups.
- Compliance status reviews and recommendations.
- Negotiations/consultation during EPA enforcement actions.
- 3rd Party Engineering reviews.
- Due diligence reviews of facilities and companies in RFS RINs Program.

that the U.S. consumer is quite sophisticated and recognizes the difference between a sow's ear and a silk purse.

For example, The RFS program (if fully implemented to meet the 2022 objectives) will require the production and consumption of some E85 fuel. Given the choice between a fuel like E85 (which yields only about 70% of the mileage of E10) and E10, the consumer usually chooses the E10 (even if the consumer has a vehicle that can use E85) because the price of the E85 is rarely low enough to offset the lower MPG and the inconvenience to visit the service station more frequently. The consumer's resistance to buy E85 (not to mention the retailer's reluctance to carry it), puts the refiner in a difficult situation. The renewable fuel obligation is the refiner's, but the consumption is the consumer's choice, not to mention the retailer's choice on whether to carry the product.

The automobile manufacturer is faced with a very similar conundrum. They must sell cars in an ever-changing environment. About the time they have tooled up to produce high mpg vehicles, the price of gasoline drops and the consumers are interested in larger more family friendly vehicles. The Autos approach has been to make all of their vehicles more fuel efficient; however, as the MPG requirements become more and more restrictive, it gets harder and harder to meet the consumer demand and still comply with the government mandate.

No one should shed a tear for the Autos or the Oils. They are well-established industries that will survive; however, the ultimate loser in complying with the avalanche of regulations is the U.S. consumer. As the number of choices decrease, they will be left with fewer options to optimally and economically meet their needs.

Turner, Mason & Company can help you navigate the regulations that impact those in the oil industry. We have been active in the regulatory fuels area for over 25 years. Give us a call.

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