



Petroleum Transportation & Storage Association

Weekly Update

*Regulatory News and Compliance Information for the Petroleum Transportation and Storage Industry
Washington, D.C. Friday, June 17, 2005.*

1. OPEC MINISTERS AGREE TO BOOST DAILY CRUDE PRODUCTION

OPEC this week agreed to boost crude oil output levels by 500,000 barrels a day. This latest increase raises total daily output for OPEC member countries to 28 million barrels per day. OPEC, which supplies about 40% of the world's oil, said the move is designed to lower oil prices and prevent a further weakening of the world economy, which would in turn dampen oil demand. The cartel, which met in Vienna, Austria, said it would consider another quota level rise later this year. OPEC hopes the increase will lower crude prices to within the cartel's target range of between \$30 and \$50 per barrel. OPEC ministers warned that crude supply was not the only factor driving prices and called for consuming nations to increase refining capacity. Construction of the first new refinery in the United States is about to get underway in Arizona and the president's energy package contains provisions designed to streamline the permitting process to encourage additional refinery construction. The latest estimates from OPEC are that its member nations already are pumping about 30 million barrels a day, a 25-year high and very near to capacity. According to the Department of Energy, crude prices dropped by \$1.53 this week to \$53.55 per barrel. On June 6, average retail prices were \$2.12 per gallon with summer pump prices for gasoline projected to average \$2.17 per gallon, about 26 cents per gallon above the year-ago level. The projected summer average for retail diesel is \$2.22 per gallon, up about 45 cents per gallon from last summer. Crude oil prices are expected to remain high enough to keep monthly average gasoline prices above \$2.00 per gallon through 2006.

2. HOMELAND SECURITY SUPPORTS NEW SECURITY REQUIREMENTS FOR CHEMICAL PLANTS:

The Department of Homeland Security (DHS) told a senate panel this week that it supports legislation requiring mandatory security plans for high-risk chemical manufacturing and storage plants. The testimony before the Senate Homeland Security and Governmental Affairs Committee marks a change of policy for the DHS, which in the past supported a voluntary approach to chemical plant security. The DHS said it favors a "risk-based" approach to identifying which chemicals plants must take mandatory security upgrades. It is not clear whether all petroleum bulk plants would fall under the "high-risk" category envisioned by the DHS. But, the proximity of above ground storage tanks containing explosive chemicals (i.e. gasoline and propane) to densely populated areas, schools, hospitals or important public infrastructure is part of the DHS risk calculation. Therefore, it is likely that at least some petroleum bulk plants will fall into the high-risk category and face new security requirements. The EPA estimates that there are over 15,000 high-risk facilities requiring security plans while the DHS puts the number at around 3,400. Currently, the DOT requires petroleum marketers who transport hazardous materials to have in place a comprehensive written security plan, including driver training. However, the EPA has no comprehensive security requirements for petroleum bulk plants. The Senate panel agreed that legislation is needed to enhance security and the DHS said it would soon release proposed regulations requiring mandatory security upgrades. The president meanwhile, announced that he supports mandatory security requirements.

3. U.S. SENATE APPROVES NATIONAL ETHANOL MANDATE:

The Senate this week approved a provision in pending energy legislation that would require all gasoline in the United States to be blended with ethanol. The Senate approved the provision requiring refiners to increase the blending of ethanol into gasoline to 8 billion gallons in calendar year 2012. Current ethanol production is about 3 billion gallons annually. Under the Senate plan, refiners would be required to blend 4 billion gallons of ethanol into gasoline supplies in calendar year 2006, rising gradually to a maximum 8 billion gallons in 2012. As part of the ethanol package, the Senate voted to repeal the Clean Air Act's 2 percent oxygenate requirement for reformulated gasoline, give ethanol producers immunity from defective product lawsuits, and ban the use of the fuel additive MTBE. Supporters of the ethanol mandate say it would displace as much as 2 billion barrels of imported crude per year.

The Senate's ethanol mandate would set a higher target than the 5 billion gallons that is included in the House-passed bill (H.R. 6), which was based on the stalled conference agreement in the last Congress.

4. DOT CLARIFIES INCIDENT REPORTING REQUIREMENTS:

The U.S. DOT's Pipeline and Hazardous Material Safety Administration (PHMSA) this week clarified HAZMAT spill reporting requirements. The clarification is important to petroleum marketers because it eliminates reporting requirements under certain circumstances. According to the clarification, a recipient or "consignee" of a hazardous material is not required to report an incident such as a spill or leak to the DOT since the agency lacks jurisdiction over materials not in "transportation". Under this interpretation, if a supplier delivering fuel to a bulk plant or retail station spills product, the operator of the facility is not required to file an incident report to the DOT. The supplier who spilled the fuel must report the incident on DOT Form F 5800.1, but the facility operator is under no obligation to do so. However, the facility operator must still report the incident to federal and state environmental authorities. The clarification follows on the heels of a new rule that went into effect on June 1 establishing the limits of U.S. DOT jurisdiction during loading, unloading and storage of hazardous materials. Prior to the rulemaking, the line between DOT and EPA jurisdiction during loading and unloading was blurred resulting in uneven enforcement and regulatory confusion. The DOT plans to issue a more detailed guidance on incident reporting later this year.

NEWS BRIEFS:

Chevron-Unocal Merger - The Federal Trade Commission (FTC) has approved Chevron's bid to acquire Union Oil of California provided all of UNOCAL's patents on reformulated gasoline is released to the public domain. Since 2003, UNOCAL has been contesting monopolization charges in an FTC administrative proceeding relating to its use of patents on reformulated gasoline. Under the merger deal, UNOCAL would no longer enforce its reformulated gasoline patents, stop requiring royalty payments from other refiners producing RFG and drop lawsuits for patent infringement. The merger deal is expected to save consumers billions of dollars at the pump.

BUNN-O-MATIC Recall – The Consumer Product Safety Commission (CPSC) announced June 10 that Bunn-O-Matic Corp., of Springfield, Ill., is recalling about 1.75 million coffeemakers because the coffeemaker's igniter due to an electrical failure, posing a burn and fire hazard to consumers (and lawsuit hazard to owners!) The recall involves Bunn coffeemakers with model numbers GR-10B, GR-10W, B-10B, B-10W, and BT-10B (including any of those same model numbers ending in the additional letter D) with six-digit date codes ending in "01," "02," or "03." Also involved in the recall are the same models with dates codes ending in "04" and middle digits between "01" and "21." If the date code has a seventh digit, consumers should ignore the last digit and use the first six digits.

Funny But True - A man who decided to wear a Pluto dog mask to rob a Gordon's Mini Market in Cranberry, Pa. (near Pittsburgh), was unsuccessful. He was forced to flee empty-handed when the clerk failed to turn over any money because he could not bring himself to stop laughing at the disguise.

COMPLIANCE REMINDERS:

UPCOMING FEDERAL REGULATORY COMPLIANCE DEADLINES:

HAZMAT Registration: 07/01/05 – Petroleum marketers (intrastate and interstate) with cargo tank motor vehicles must register with the U.S. DOT and pay a fee of \$150 to obtain a hazardous material certificate. A copy of the 2005-2006 registration certificate must be placed in the cab of each cargo tank motor vehicle hauling hazardous materials. **You cannot operate a cargo tank vehicle after 07/01/05 without an updated HAZMAT registration certificate.** If you have not filed your registration form with the DOT, **expedited** online registration is available at <http://hazmat.dot.gov/regs/register/register.htm>.

Special Occupational Tax for Sale of Alcoholic Beverages: 07/01/05 - The Department of Treasury's Alcohol and Tobacco Tax Trade Bureau (TTB) requires retail sellers of alcoholic beverages to file an annual registration form and pay a special occupational tax (SOT) each year by July 1st. Congress **temporarily suspended** the annual \$250 per store tax on the retail sale of alcoholic beverages for three years beginning

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July 1. However, you must still file SOT form 5630.5 by July 1 in return for your federal tax stamp, just don't pay the \$250 per store tax. You should have received a form 5630.5 in the mail from the TTB, if not, you may obtain one by contacting the TTB at 1 (887) 882-3277 or at ttbformrequest@ttb.gov.

New IRS 637 Registration for Alcohol and Bio-diesel Blenders: 07/01/05 - In order to make tax payments and file claims for the alcohol fuel mixture credit, and the biodiesel mixture fuel credit blenders must obtain a IRS 637 "M" registration (blender of gasoline, diesel fuel or kerosene outside the bulk transfer/terminal system) by July 1, 2005. Blenders who currently have an IRS 637 "T" registration (buyer of gasoline for blending into gasohol outside the bulk transfer/terminal system) will be considered a 637 "M" registrant by the IRS for purposes of filing returns and making claims for the alcohol fuel mixture credit until July 1, 2005. **After this date, all blenders must obtain an IRS 637 "M" registration.** You may obtain an IRS 637 registration form at www.irs.gov. "Click" on "Forms and Instructions" and scroll down to Form 637.

U.S. Gasoline and Diesel Fuel Prices, 06/13/05

