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United States Department of Agriculture
Rural Business-Cooperative Service and the Commodity Credit Corporation
1400 Independence Ave, S.W.
Rm 5803-S Stop 3201
Washington, D.C. 22050-3201

RE: Docket ID No.: RBS–20–Business-2002

Request for Information on a Higher Blends Infrastructure Incentive Program

VIA ELECTRONIC SUBMISSION

BACKGROUND:

PMAA is a national federation of 47 state and regional trade associations collectively representing 8,000 independent petroleum marketing companies nationwide. Approximately 94 percent of U.S. gas stations are owned by small business independent retailers, represented by PMAA. We are not “Big Oil”. The vast majority of petroleum marketers represented by PMAA qualify as small businesses under U.S. Small Business Administration size categories.

Petroleum Marketers store and dispense a variety of finished liquid fuels including gasoline diesel fuel, biodiesel, E85, jet fuel, racing fuel, marine and locomotive fuel and heating oil. These companies and their customers benefit from the additional volume of liquid fuels that ethanol and biodiesel bring to the marketplace. PMAA and its members support the sale and distribution of biofuel blends so long as they reflect market demand and do not result in fuel blends that are noncompatible with storage and dispensing equipment at retail fueling stations.

COMMENTS:

PMAA appreciates the opportunity to respond to the USDA Rural Business – Cooperative Service and the Commodity Credit Corporation request for information on establishment of a higher blend infrastructure incentive program for petroleum marketers. PMAA is interested in this issue because promoting the expansion higher biofuel blends presents significant challenges to retail marketers. PMAA is particularly concerned about E15 compatibility with retail underground storage tank systems. Simply put, blends of ethanol higher than 10% are not compatible with the fueling infrastructure of the majority of retail fueling sites nationwide. PMAA believes the compatibility issue is a major hurdle that must be overcome in order to introduce higher ethanol blends into the marketplace.
Another hurdle is consumer reluctance to switch to ethanol blends greater than 10% due to concern it will damage gasoline powered engines and their components. PMAA is less concerned with biodiesel blends because there are few compatibility concerns for B20 blends and lower. Moreover, consumer demand for biodiesel blends is strong and continues to grow. Consequently, PMAA remarks in this information submission is focused almost entirely on ethanol blends greater than 10%.

**Answers to Questions**

1. What type of assistance/incentive would encourage the increased sales/use of fuel ethanol and/or biodiesel in a way that is most cost-effective to the government?

   The most effective type of assistance to promote the increased use of ethanol and biodiesel is to provide direct grants for infrastructure upgrades at the retail level.

   a. Should a potential biofuels infrastructure program incentivize the lowest cost per incremental gallon of ethanol or biodiesel use/sales at the retail/fueling station level or terminal/depot/wholesale level or both retail/fueling station and terminal/depot/wholesale levels?

   PMAA believes infrastructure program incentives should be focused entirely on retail marketers. Ethanol and biodiesel are blended with finished petroleum product at the terminal rack as it is loaded into cargo tank transports vehicles largely owned and operated by retail petroleum marketers. The infrastructure at terminals to store and distribute ethanol and biodiesel has been in place for a number of years. Terminal operators/position holders are already receiving tens or millions of dollars annually in federal biofuel incentives by way of the $1.00 per gallon biodiesel blenders credit and the ability through blending activities to generate and sell RIN credits to obligated parties under the Renewable Fuels Standard. Position holders often use a large share of these lucrative federal incentives to subsidize the per gallon cost of higher ethanol blends such as E15 and pass it down to their own retail outlets which already have upgraded infrastructure. Thus, these fully integrated operations are not only able to significantly subsidize the cost of E15 by virtue of existing federal incentives they receive, but already have the infrastructure to sell higher ethanol blends at both their wholesale and retail facilities.

   On the other hand, small business branded petroleum marketers who own and operate the majority of retail sites nationwide are not receiving any federal infrastructure incentives due in large part to the near blending monopoly that terminal operators/position holders currently enjoy. Petroleum marketers are largely branded entities, supplied by the major refiners who are unlikely to pass down federal incentives to retail because they need the federal incentives the receive from blending to meet their mandatory volumetric blending obligations under the RFS. As a result, retail petroleum marketers are at a significant competitive disadvantage because not only are federal incentives not passed down to them, but they lack the infrastructure to market ethanol blends higher than E10.

   b. What types of equipment and infrastructure should be eligible under the program?

   The majority of retail sites nationwide are equipped with underground storage tank systems (from tank to dispenser) are certified for ethanol blends up to 10% (E10). In order to expand the sale and use of higher ethanol blends, many of these components must be certified for E15 use. The EPA, OSHA, national and international fire codes, insurance carriers and state UST tank funds all require tank owners to demonstrate the compatibility of their equipment with the product they store and dispense. Currently there are only two ways to certify E10 equipment to E15. First, Underwriters Laboratory (UL) must relist E10 equipment as E15 compliant. Second, equipment manufacturers must
recertify E10 equipment in writing. Neither method is practical. First, UL refuses to recertify any existing E10 equipment for E15 use. Second, manufacturers are reluctant to recertify for liability purposes. Consequently, very little E10 certified equipment has been recertified for E15 use. The only alternative is to replace UST system components that are not E15 compliant. Retail petroleum marketers are switching over to E15 certified equipment as they replace older or nonfunctioning UST components. But most equipment currently in use is still limited to E10 blends. PMAA believes that the infrastructure incentives should be targeted solely for the replacement of E10 equipment with E15 certified components. These UST components include tanks, piping, sumps, dispensers and hanging equipment (hose and nozzles). While most tanks are probably E15 compliant the equipment running from the tank to the dispenser nozzle is not. However, there is significant concern that older E10 tanks should be replaced to prevent the added risk of corrosion from E15 blends.

2. Should program funding provided to participants include:

(a) Direct cost/share toward purchase of equipment, retrofitting, and enhancements;

Cost/share is the most effective way to replace existing UST equipment that is not compatible with E15 blends.

(b) higher blend biofuel sales or marketing incentives;

(c) both; or

Both, however, the infrastructure incentives should be limited to E15 blends because this is where the most urgent need exists. There is little demand for ethanol blends higher than E15. In fact, many of the E85 pumps added under previous infrastructure incentives have been removed or sit idle due to lack of consumer demand, lower energy content and concerns over engine performance. Higher ethanol blends only increase consumer resistance.

3. Should the program include minimum standards for equipment, such as equipment certified to dispense biofuel blends containing 25 percent ethanol (certified for use with E15) and/or B20-compatible or higher biofuel blend dispensers?

PMAA believes the focus on the infrastructure incentive program should be on upgrade to E15 equipment because this is where the need is currently most acute. However, it is likely that most new E15 equipment is compatible with higher blends already, in which case minimum standards would not be needed.

4. From your perspective, what types of efforts have proven to be effective in increasing higher biofuel blends sales?

Currently, the greatest factor driving E15 demand is marketing E15 as “Unleaded 88” on street signs, sandwich boards, banners and other media (usually at a price per gallon significantly lower than E10 unleaded regular). E10 blends are commonly referred to as Unleaded 87, Unleaded 89 and Unleaded 93. Therefore, the consumer has no reason to believe that the “Unleaded 88” advertised is anything other than E10 with more octane than regular unleaded. The only notification the consumer has that the fuel is actually E15 is a small label on the face of the dispenser required by the EPA. By the time the consumer reaches the pump however, they are more focused in the lower price per gallon on the display reader than the E15 disclosure label on the dispenser. This marketing technique is quite effective at expanding E15 sales but, may have the opposite effect and cause confusion in the marketplace.
a. What are the most appropriate higher biofuel blend levels (for both ethanol and biodiesel) that the program should be incentivizing?

E15 and B20 because beyond this level consumer acceptance and demand are both low.

b. Should there be a minimum requirement on the number or percentage of dispensers converted to higher biofuel blends at a retail site or fueling station?

No, each retail site is unique. Equipment configuration, branding requirements, marketing considerations and local consumer demand are all factors that drive the type of fuel offered from each dispenser. The private market is better suited to determine the number of biofuel dispensers offered at any given location.

c. Should there be a requirement for certain dispenser configurations such as shared hoses (as practicable and allowed by law, for higher biofuel blends to share a pump hose with existing fuels)?

No. shared hoses would significantly increase the risk of consumer misfuelling which can damage catalytic converters, reduce engine performance and void automobile warranties. Often, retail marketers are blamed for misfuelling events despite the presence of proper warning notifications and dispenser operating instructions.

d. Should there be a requirement for signage (as allowed by law) and marketing?

Yes, all advertising for higher biofuel blends must prominently display the biofuel content on all signage such that it cannot be confused with any other product. For example:

   E15
   Unleaded 88

However, this requirement should not create a competitive disadvantage for retail marketers who are recipients of grant money where a competitor who received no incentives is not similarly bound.

e. Should USDA insist on consistent terminology and branding and naming of E15 and/or B20 or other higher biofuel blends?

Yes, for reasons given earlier. PMAA would be interested in working closely with the USDA on terminology. Branded marketers are bound to specific terminology and advertising by branding agreements. Unbranded retailers are not similarly bound and free to use any terminology they see fit, however misleading.

5. From your perspective, if cost/sharing is required, what minimum level of cost-share (owner contribution) should be required of recipients of funding? What would you consider to be the most cost-effective level of cost/share?

Yes, cost sharing is important because the capital required for upgrading to E15 compliant equipment is prohibitive for small business petroleum marketers. Infrastructure upgrading will not occur without significant infrastructure incentives provided by the USDA. The incentives must not be limited to any single component but available for all UST system equipment requiring upgrade in order to facilitate higher biofuel blends. The cost/share should favor the retail marketer since switching to higher biofuel blends require significant down time resulting in lost sales. Moreover, once upgrades are completed, retailers must carry the cost of unsold inventory for a longer period of time while waiting for consumer
demand to grow. PMAA believes the USDA should provide 100% funding for infrastructure upgrade. At a minimum, a cost/share formula funding 75% of the infrastructure upgrades with grant money could be acceptable.

6. What steps should a potential biofuels program take to ensure equitable program participation by small- to mid-sized station owners? (That is, owners of less than 10 to less than 20 sites/stations. We are especially interested to hear from small- to midsized station owners on this question.)

The incentives should be directed at those most burdened by the expansion of higher biofuel fuels into the marketplace. Small business petroleum marketers are most at risk from expansion of higher biofuel blends because their existing storage and dispensing equipment is largely noncompliant. These systems are located at the majority of retail sites operating today and constitute the most significant hurdle to the widespread availability of higher biofuel blends nationwide. Replacing system components most vulnerable to higher biofuel blends; underground piping; sump equipment; leak detection components; along with the wide array of gaskets, rubber boots, flanges and pipe dope that holds everything together would cost at a minimum $175,000, not including the cost of lost sales from downtime while the upgrades are made.

The USDA should use business size categories established by the U.S. Small Business Administration to determine the small business status of infrastructure grant recipients. Grant consideration should also be extended to the small independent operator/dealers who hold long term leases on retail sites owned by larger entities who would not qualify for grants because of their size. Grants should be awarded evenly and fairly on an individual basis regardless of state or regional location. Also, if grants are distributed through state agencies, comprehensive grant rewarding criteria must be made mandatory for states so that distribution is fair and evenly applied. The criteria should include no less than a two-year time period to complete infrastructure upgrades once grant money is received. Previous grants requiring upgrades to be completed within a year was inadequate given the complexity of the specialized work required, the requisite state and local permits that must be obtained and the availability of vendors to complete the work.

7. From your perspective, how much post-award reporting is reasonable for recipients of funding? e.g. quarterly or annual reporting of higher blend fuel sales by the participant?

Assuming that the USDA is considering post upgrade volume reporting to measure the effectiveness of the program, annual sales reporting would be reasonable. However, the USDA should first coordinate with the Department of Energy’s, Energy Information Administration (EIA) to measure higher blend biofuel penetration into the marketplace according volume data collected from the five Petroleum Administration for Defense Districts (PADD) regions.

8. What other barriers exist that limit expansion of availability of biofuels to consumers?

PMAA believes there are two fundamental barriers to the availability of higher biofuel blends to consumers. E15 non-compatibility with most petroleum storage and dispensing equipment currently in use nationwide is the first and foremost hurdle limiting the expansion of higher ethanol blends. There is an affirmative requirement for retailers to prove higher biofuel blend compatibility with their underground storage tank systems. However, there is no practical way to demonstrate compatibility other than total replacement of system components running between the tank and dispenser - which is cost prohibitive for small business petroleum marketers.

The second biggest barrier to expansion of biofuels into the marketplace is consumer aversion. The majority of consumers are reluctant to purchase higher blend biofuels for fear its use will damage their
gasoline powered engines. In fact, the use of E15 is severely restricted by EPA regulation. The EPA prohibits the use of E15, all motorcycles, motorboats, small power equipment, generators and all other gasoline engine applications other than model 2001 and newer vehicles. Even owners of those vehicles are staying away from E15 because of its lower energy content that means fewer miles per gallon than E10 gasoline blends. One need only look at consumers’ total rejection of E85 gasoline blends to prove the unpopularity of higher biofuel blends.

9. To what extent should infrastructure investments made today be required to accommodate fuels anticipated to be in the marketplace of tomorrow?

Currently, it is unclear which fuels in the future will dominate the marketplace. Technological gains in battery storage capacity has pushed electric vehicles into the mainstream. In any case, those fuels are in the distant future. Presently, E15 is the fuel of the future. Unfortunately, the majority of retail sites across the country are unprepared to accommodate E15 in any significant way.

10. Please provide feedback on the effectiveness of the 2015–2019 Biofuels Infrastructure Partnership Program

PMAA members complained that the BIP partnership program was not practical because the grant money did not get to the small retailers who needed it. State agencies were not provided with sufficient restrictions to ensure that the grants were distributed fairly. Instead, states used their own criteria to push the grants to larger entities who may not have been deserving of the incentives based on their size and resources. The BIP program also set an unrealistic one-year timeframe for completion of work once grant money was received. The one-year timeframe was inadequate given the complexity of the specialized work required, the requisite state and local permits that must be obtained and the availability of vendors to complete the work. PMAA members also reported unnecessary red tape in the application and follow up process.

Thank you for the opportunity to provide information on this issue of great importance to PMAA members. I am happy to provide any additional information you may require.

Sincerely,

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