

# United States Senate

WASHINGTON, DC 20510

March 7, 2004

The Honorable Mike Leavitt  
Administrator  
United States Environmental Protection Agency  
1200 Pennsylvania Avenue, NW  
Washington, DC 20460

The Honorable Spencer Abraham  
Secretary  
United States Department of Energy  
1000 Independence Avenue, SW  
Washington, DC 20585

Dear Administrator Leavitt and Secretary Abraham:

I am writing to urge you to take action as soon as possible to avert a potential gasoline price crisis that could seriously harm our national economy and place undue financial burdens on American families this summer. As evidenced by the arrival of near-record prices throughout the country last week, low crude oil stocks, and above average demand gasoline markets in the United States are already extraordinarily tight. Gasoline prices in New York this past week reached \$1.84 per gallon, up \$0.16 from December 1st, and it has been predicted that prices could soon far exceed \$2.00 per gallon. In order to prevent such a price spike from taking place, I respectfully request that you grant the State of New York's request for a waiver for the Clean Air Act's (CAA) oxygenate requirement for reformulated gasoline, explore the possibility of increasing oil imports from alternative suppliers, and temporarily suspend deposits into the Strategic Petroleum Reserve.

As you are aware, the CAA requires metropolitan areas that have been deemed to have the worst ozone and air pollution problems, such as New York City, to use gasoline that has been reformulated with an oxygenate (either MTBE or ethanol) in order to reduce the emission of ozone-forming and other toxic air pollutants. Since the enactment of this requirement, MTBE has been the oxygenate of choice for refiners serving the Northeast due to its relatively low cost and the difficulties in transporting ethanol over great distances. However, the widespread use of MTBE has been found to have disastrous consequences for water supplies throughout New York. MTBE, a possible carcinogen, has leaked out of pipes and storage tanks, traveled rapidly over great distances, and rendered water supplies unusable by making the water taste and smell like turpentine. In response to these dangerous consequences of MTBE use, New York established a ban of MTBE that took effect on January 1, 2004.

As a result of the MTBE ban, New York is now forced to use ethanol in order to remain in compliance with the oxygenate requirement of the CAA. The use of ethanol in New York's gasoline could create severe economic challenges for the state as preparations are made to produce summer blends of gasoline. Ethanol has a greater tendency to evaporate than other potential components of gasoline. In order to compensate for this property and still meet clean air standards, the evaporative

qualities of other components used in gasoline with ethanol must be reduced. These special blending requirements may make it more difficult to locate supplies for the New York market this summer. If such difficulties occur, the Energy Information Administration has reported that New York could experience gasoline price spikes of \$0.30-\$0.40 per gallon. Such spikes would place an immense burden on individual consumers and deal a serious blow to the regional economy. The loss in fuel volume created by a switch from MTBE to ethanol could also result in a gap between supply in demand that would create severe price increases.

Earlier this year, the EPA announced its intention to allow the State of New Hampshire to opt-out of the RFG program since it demonstrated that it could meet clean air standards without the use of an oxygenated fuel. I applaud this decision, and support the principle that individuals should not be forced to choose between clean air and clean water. Advances in automotive technology and the availability of a variety of refining chemicals can allow the State of New York to achieve the same standard reached by New Hampshire by using non-oxygenated fuels to meet clean air standards. Accordingly, I urge you to grant the State of New York's request for an oxygenate requirement waiver.

I also ask that you explore possible options to encourage increases in production from new, non-OPEC sources like Russia in order to provide a wider array of supply alternatives for the oil needs of the United States. Our nation's economy continues to be vulnerable to the ability of OPEC to constrict global oil supplies, or to disruptions of imports caused by political instability in areas such as Venezuela and Nigeria. By pursuing available methods to expand the number of viable oil import sources, the United States can help to insulate itself from the price shocks and economic hardship resulting from specific foreign supply disruptions.

In addition, I urge you to suspend deposits into the Strategic Petroleum Reserve (SPR) until supply conditions in the domestic oil market improve. The SPR currently holds over 646 million barrels of oil, which is only 54 million barrels short of the stated 700 million barrel target volume. Despite the fact that crude oil stocks are at their lowest levels in the United States since 1975, deposits of over 100,000 barrels per day continue to be made to the SPR. At a time during which oil supplies are extraordinarily low and gasoline prices are increasing rapidly, I am concerned that it is counterproductive to continue to remove supply from an already tight market.

It is my hope that by granting the State of New York's request for an oxygenate requirement waiver, encouraging increases in the availability of alternative oil supplies, and suspending deposits into the SPR the economic threat presented by the possibility of severe gasoline price spikes can be averted. I thank you for your attention to this important matter and hope to hear from you soon.

Sincerely,



Charles E. Schumer  
United States Senate