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Air and Radiation Docket and Information Center
Environmental Protection Agency
Mail code 2822T
1200 Pennsylvania Avenue, NW.
Washington, DC 20460

Re: Docket ID No. EPA-HQ-OAR-2016-0004
Renewable Fuel Standard Program: Standards for 2017 and Biomass-Based Diesel Volume for 2018

Background

Magellan Midstream Partners owns and operates the nation's longest refined petroleum pipeline system and eighty-five storage and distribution facilities throughout twenty-four states. Over seventy of our terminals offer storage and distribution services for fuel grade ethanol. Blending services offered include lower level ethanol blends (i.e. E10) and Ethanol Flex Fuel. We have offered storage and distribution services for ethanol since 1982.

We encourage EPA to consider our comments as a service provider to a variety of energy stakeholders. We do not own or market the products we transport, store and distribute. These products are owned by our customers which include refiners, petroleum traders and marketers along with renewable fuel producers, traders and marketers. We are not an advocate of one liquid fuel over another. As a service provider, we are indifferent to the type of fuel blend that our customers request. Our job is to provide the greatest flexibility in the marketplace to attract additional business. We offer a variety of blend options for various octanes and the ability to choose an ethanol blend or clear gasoline. The choice is up to our customers, not Magellan.

We are writing to comment on two topics. First, EPA has solicited comments on E0 (clear gasoline without ethanol) and we have first-hand data on this issue. Second, we are offering unsolicited comments on the definition of an obligated party.

E0 (Clear Gasoline) (Solicited Comment)

The Magellan pipeline system originates in south Texas and runs north to North Dakota, east to Chicago and Little Rock, AR and west to Wyoming. Many of the markets we serve require conventional gasoline which carries a maximum of 9psi RVP during the summer months. The ability for retailers offering E0 in conventional gasoline markets is enhanced when compared to those markets requiring RFG.

We believe EPA has significantly underestimated the volume of E0 in the domestic marketplace. In 80 FR 77464, EPA states "[f]or the purposes of estimating total ethanol supply, we have assumed an E0 supply of 200 million gallons. Actual volumes of E0 used in recreational marine engines in 2016 may be higher or lower than this level, but we do not expect them to be significantly different than 200 million gallons". EPA's estimate amounts to slightly over 13,000 barrels of E0 demand per day. While Magellan stands ready to provide EPA detailed E0 data on a confidential business information basis, we can tell you that E0 demand remains robust on our system and EPA's estimate for E0 demand does not reflect current market dynamics.

For example, the combined volume of E0 distributed from just two of our terminals in one state is over 11,500 barrels per day which nearly equals EPA's total nationwide estimate for E0 demand. We believe U.S. Energy Information Administration's data that shows E0 demand was 5.3 billion gallons in 2015 is more accurate.

We are not involved in retail gasoline marketing. However, like retailers, we strive to offer the products and services that drive customer demand. We are confident that the strong E0 demand that we have experienced is not dedicated solely to marine applications as EPA suggests. Demand could be driven by marine, small engine, motorcyclists, classic car owners and possibly motorists who are willing to pay a premium for E0 because of their perception that E0 will provide increase miles per gallon when compared to E10.

As EPA considers future RVOs, we encourage the agency to proactively solicit data from the industry to more accurately forecast E0 demand.

Obligated Party (Unsolicited Comment)

We believe the definition of an obligated party should be changed from the refiner and importer to the entity that owns the refined petroleum product(s) and renewable fuels prior to the sale at the terminal loading rack. The current definition of obligated party and the RIN compliance scheme can act as a deterrent for renewable fuel demand and infrastructure investment which works against the policy objectives of the Renewable Fuels Standard.

The current definition of an obligated party does not provide the right party with the motivation to increase renewable fuel demand at the retail location. For example, let's assume a refiner is the obligated party who sells bulk quantities of gasoline on the Gulf Coast to a retailer marketer who then ships the batch on a common carrier pipeline to multiple destinations. In this example, the refiner is obligated for the bulk sale under the RFS but has no decision making ability on the slate of products offered at retail. It is the retail marketer and in some cases, their suppliers who make the decision to offer E10, E15 or Ethanol Flex Fuel at the retail location...not the refiner.

When building new renewable fuel infrastructure, we work with our customers and solicit their commitments to underwrite the investments. If a company has an advantageous RIN position, they may not be inclined to make a commitment for new infrastructure. Alternatively, a company that is dependent on buying RINs in the marketplace may be incentivized to make a commitment. However, limited commitments generally won't provide the justification for the project to proceed.

For these reasons, we believe EPA should amend the definition of an obligated party. Moving the point of obligation to the entity who owns the refined products and renewable fuels prior to the sale at the terminal loading rack compliments the policy objectives of the RFS.

Thank you for the opportunity to submit comments on this important proposed rule.

Sincerely,



Bruce W. Heine