



February 12, 2008

Senator Bill Stouffer
State Capitol Building, Room 332
Jefferson City, MO 65101

Dear Senator Stouffer:

The Independent Liquid Terminals Association (ILTA) strongly opposes the provision in SB 759 that requires all diesel fuel terminals in Missouri to offer for sale three separate diesel fuels: biodiesel-blended fuel, biodiesel and conventional diesel fuel. As explained below, if this provision were enacted into law, it would compel petroleum terminals to spend millions of dollars on new blending equipment and storage tanks that would not be needed to implement the diesel fuel mandate. This would be an enormous waste of capital resources that would harm all diesel fuel consumers in Missouri. They would have to pay a significantly higher price for biodiesel-blended fuel compared to the price they would pay if terminal modifications were limited to those actually needed for an efficient transformation to the five percent biodiesel blend that your bill requires.

ILTA is a national trade association representing 76 companies and partnerships that operate over 500 bulk liquid storage terminals in 41 states. These facilities are located in ports and along rivers, canals and pipelines. They provide services to a variety of bulk liquid carriers, including oceangoing tankers, barges, tank trucks, railcars and pipelines. ILTA represents five terminal companies that operate diesel fuel terminals in Missouri. These facilities range in size from 5 to 17 tanks and from 75,000 to 485,000 barrels of storage capacity.

More than half of the bulk liquid terminals in the U.S. are owned and operated by independent companies, not the large, integrated oil companies. This is also true for many of the petroleum product terminals in Missouri. For years, the major oil companies in the U.S. have been selling their terminals and other distribution assets. Many of the independent companies are relatively small. They do not have the deep pockets of the majors. As bulk liquid warehouses, many do not own the fuel they handle. They simply provide storage and handling services for their customers. When the need arises to modify or expand those services, the terminal owners typically rely on their customers for financing. If that is the case, and a terminal's customer determines that the terminal is economically not well suited for biodiesel blending, the customer will refuse to provide financing. If the terminal turns to a bank, the answer undoubtedly will be the same.

SB 759 would impose two financial hardships on the relatively few terminals that are able to finance new blending systems and storage tanks. First, it would create a trigger mechanism for suspending the biodiesel mandate whenever the price of biodiesel or biodiesel-blended fuel rises above the price of conventional diesel fuel. If that should occur, and sales of biodiesel-blended fuel are reduced or suspended, then biodiesel blending would also be reduced or suspended. The revenue stream from the blending operation would decline or drop to zero. Second, SB 759 would require terminals to pay for equipment and tanks that would have to be installed by January 1, 2010, three months before the biodiesel mandate takes effect on April 1, 2010. Terminals have no assurance that they could earn a return on their capital investment in biodiesel blending during that three-month period. It makes no economic sense to pass a law that would deprive terminals of a return on an investment that the state government forced them to make in the first place.

It is highly likely that some terminals in Missouri would be unable to assume this government-imposed risk. In that case, these terminals would take the most prudent course of action, which would be to terminate their diesel handling and storage operations. This could substantially increase the cost of distributing diesel fuel in Missouri. The result would be higher diesel fuel prices at the retail level.

There is no rational basis for requiring every single terminal in the state to install its own blending equipment and maintain its own separate supply of biodiesel. This would be a very costly waste of infrastructure resources. It would be comparable to requiring that two electric power line rights-of-way be built parallel to one another when only one larger line is needed. If two terminals are situated close to each other in a particular location, the optimum approach may be for only one to blend biodiesel. Neither terminal would need to build new tanks. One facility would convert some of its gasoline tanks to diesel and biodiesel tanks. The second terminal, pursuant to an exchange agreement with the first, would switch some of its existing tanks from diesel to gasoline storage to make up for the loss of gasoline storage by the first terminal.

If the State of Missouri wants to impose a biodiesel mandate, why not let the market mechanism determine how to implement it in the most efficient and cost-effective fashion possible? Why create a set of winners and losers among terminals, jobbers and distributors throughout the state by requiring that all terminals sell a biodiesel blend? There is simply no need for such a requirement. Also, it forces the installation of excessive blending capacity throughout the state. This would add an unnecessary blending "surcharge" to the cost of biodiesel-blended fuel. This additional cost would "flow through" to retailers and consumers in the form of higher diesel fuel prices.

Finally, it is important to emphasize that some terminals in Missouri will not be able to comply with the deadline for the blending mandate due to economic and regulatory constraints. If a terminal does not have space for new storage tanks, converting existing tanks may cause an unacceptable loss of revenue. For example, if a terminal has three 50,000-barrel tanks and dedicates one of them to biodiesel, the capacity of the biodiesel tank would be excessive. The required volume of the biodiesel would be only 5 percent of the amount of the conventional diesel previously stored in the tank. Moreover, it often takes more than a year to obtain the environmental permits required for constructing a new tank, and it can easily take more than another year to hire a contractor, lock in a time commitment on the contractor's work schedule, obtain the steel, and construct a new tank.

ILTA requests that the Senate suspend further consideration of this bill. Please take the time to consult with the owners of terminal companies in Missouri and learn why a blending mandate imposed on all terminals makes no economic sense.

Sincerely,

A handwritten signature in black ink that reads "E. David Doane". The signature is written in a cursive style with a long horizontal line extending to the right.

E. David Doane
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cc: Senator Maida Coleman
Senator Michael Gibbons
Senator Charlie Shields
Katie Smith, Director, Missouri Department of Agriculture
Chuck Pryor, Office of the Governor