

February 14, 2006

## **Important Memorandum**

TO: All VPCGA MEMBERS

FR: Michael J. O'Connor

RE: **MTBE Phaseout/Ethanol Introduction to Occur in Virginia RFG Markets Within 30 Days**

**New Product Requires Your Immediate Attention to Tank Issues at All Company Owned and Customer Locations**

Recent developments relative to the removal of MTBE from RFG gasoline need to be reviewed by every Virginia jobber to determine the impact on your company. VPCGA advises all RFG marketers in Virginia to also review the changes with your respective suppliers and customers. The following is a compilation of information on this issue that we have compiled from a number of sources over the past few days. Please understand that this issue is evolving on a daily basis and will continue to do so in the coming weeks. The facts as we understand them today may change as the introduction date of ethanol approaches. As soon as additional information is available, we will furnish it to you.

During debate of the federal Energy Bill in 2005, oil suppliers sought liability immunity for MTBE use. That so-called "safe harbor" provision was rejected by Congress. With no liability protection on MTBE, suppliers requested that the major pipelines remove the MTBE from RFG as soon as possible.

In a release by the Colonial Pipeline on 2-8-06, Colonial announced it will discontinue the shipments of RFG with MTBE on the 15<sup>th</sup> cycle, which should occur around the middle of March. Beginning on the 16<sup>th</sup> cycle, RFG will be shipped as a sub-octane product with the octane booster being added at the terminal. This product, called RBOB, will be blended with 10% ethanol to produce the new RFG in early April. RBOB is produced and shipped thru the pipeline with 84 and 90 octane ratings for the regular and super grades. It should take approximately

17 days to move the RBOB from the refineries to Richmond and a little longer to move the product further up the line. The ethanol will be injected at the terminal to bring the products up to the required minimum octane specifications. We understand that the Plantation Pipeline will also be following a similar schedule.

Conventional gasoline is not directly affected by the RFG/E since conventional gasolines are produced and shipped at the required minimum octane levels. However, in the case of a shortage of conventional gas, RFG has been used as a substitute. With RFG/E, all tanks with ethanol and dispensers must be properly labeled – making substitution problematic. Another problem lies with putting RFG/E into a tank that has not been properly prepared and resulting issues may occur relative to the properties of gasoline with ethanol as explained later.

For the best results with a RFG/E changeover, it is recommended that tanks be cleaned by a certified tank cleaner in advance of introducing ethanol into the tank. In short, trash and water that may have accumulated in the tank will need to be removed from the tank before the ethanol is added which will serve to “clean” the tank out. Suppliers have recommended that the cleaning of the tanks can be done by vacuuming the trash and water from the bottom of the tank. Some tank-cleaning vendors use a procedure of blasting water under pressure to help clean the bottom of the tank. Once the water settles out, it is vacuumed out and disposed of properly with records kept on file.

There are a number of tank cleaning companies that will be working in Virginia. VPCGA will produce a list of members that can provide the service in the near future. If there are sufficient vendors available, it is hoped that all RFG tanks can be cleaned by the first part of April, however that is very problematic. It is estimated that it may cost \$2,300 to \$3,000 per 4-tank site to have the tanks cleaned and the product properly disposed. The average time to clean a tank is 1-2 hours. All tanks being cleaned will need to be shut down while the tank cleaning is being completed. Each company will also need to make a decision on whether to clean all delivery and transport trucks.

Once tanks have been cleaned, it is recommended that all dispensers have their gas filters replaced with 10-micron particulate filters. Tank gauge equipment will need to be reset to allow for a smaller tolerance of water before the warnings will be issued by the system.

A major problem with the use of ethanol as an octane booster is the effect ethanol has when it is introduced with water from any source. In short, with a very small amount of water (less than 0.4%) in a tank, the ethanol remains chemically bonded with the RFG gasoline while it is enhancing its octane level by 2-3 octanes. With a level of .4% or more, the water will draw the ethanol out of the RFG in a process known as phase separation. When the ethanol goes through phase separation, it drops from the RFG into the level of water thereby raising the level of water and lowering the octane level of RFG making it sub-octane. The octane level can drop 2-3 octanes. RFG/E will evaporate faster than RFG, therefore a pressure vacuum vent may be helpful. The ethanol will also pick up moisture from the atmosphere more than RFG, so the pressure vents may be helpful there as well.

In past years when ethanol has been introduced into some markets, other issues were present that will not be seen with 10% ethanol. It is recommended that you consult with your equipment supplier to review the tolerance levels of tanks, gaskets, etc. with the use of 10% ethanol. Manufacturers have been preparing for the 10% ethanol level for years since it is already mandated in other areas of the country.

Virginia law requires that ethanol blends in excess of 1% be labeled. We are presently working with the Department of Agriculture and Consumer Services to develop labels meeting the requirement. These labels will be available well in advance of RFG/E at retail.

Another area of concern are those small tanks that members use to supply off road uses, farming, contractors, etc. The concerns with regard to tank cleaning prior to the introduction of ethanol exist for these tanks as well, but it will be extremely difficult to have each small tank identified and treated prior to the introduction of RFG/E. Again, we are exploring potential regulatory remedies for these situations, but waivers of existing regulations are unlikely.

It has been reported that Virginia terminals are currently in logistical planning modes, attempting to cope with the additional tankage and injection system issues resulting from RFG/E. Few “permanent” decisions have been announced at this time. Another factor with ethanol blended gasoline is the propensity for auto mechanics to blame the product for performance issues that may arise after introduction. We are working to obtain information on engine warranties and ethanol and will share this with the membership as soon as it is available.

Once again, VPCGA recommends that if you market in an RFG area that you contact your suppliers as soon as possible and confirm their plans and recommendations regarding the replacement of MTBE in their products.

### Questions and Answers:

***Do all RFG suppliers in Virginia have to go to RFG/E?***

Yes

***What parts of the fueling systems at a RFG site will need to be maintained on a regular basis?***

All sites need periodic inspections of loose fittings, bad gaskets, bad fittings and just general bad habits in regards to keeping the tanks tight from water. Filters will need to be replaced as needed.

***How is ethanol being delivered to Virginia?***

By transport carrier and possibly by water borne vessels.

***How can I get a supply of approved ethanol labels?***

VPCGA will have a supply of labels in the near future. A flyer will go out when they are available. The following is the language from the Virginia Code requiring labeling:

**Labeling of motor fuels; notification to reseller**

**A. Every dispensing device used in the retail sale of any motor fuel shall be plainly and conspicuously labeled with:**

- 1. The brand name, trademark or trade name of the motor fuel it contains;**
- 2. The grade, blend or mixture of the motor fuel it contains;**
- 3. The octane or cetane rating of the motor fuel it contains; and**
- 4. If the product contains one percent or more **ethanol** or methanol, information identifying the kind of alcohol and the percentage of each at the time of blending, in letters not less than one inch in height.**

**B. Every person delivering gasoline at wholesale to a reseller which contains one percent or more of **ethanol** or methanol shall provide a written manifest or invoice which conspicuously identifies the gasoline containing one percent or more of **ethanol** or methanol, and the percentage of **ethanol** or methanol contained therein. The Board of Agriculture and Consumer Services may, by regulation, establish what additional disclosure shall be made about a motor fuel by a person delivering the motor fuel at wholesale to a retailer, so that the retailer may comply with the requirements of subsection A of this section**

***Will suppliers of RFG/E help with the cost to prepare the tanks for ethanol?***

This is a decision of the supplier but the removal of MTBE is being mandated.

***Are there any questions in regards to vehicle warranties with the use of RFG/E?***

We are presently researching this issue with legal counsel and will let you know as soon as we have some guidance.

***Will RFG/E be available at all current RFG terminals?***

All terminals are currently reviewing how to quickly respond to such a major change in the supply of RFG. Answers will be coming soon from your suppliers and their terminals.

***Is there a chance that a transport might have to go to 2 terminals for load RFG/E in all grades?***

Terminals are still working on this. There may be short term and long term issues that will need to be addressed.

***Is there a loss of efficiency with a 10% ethanol product?***

Yes. There could be a 1-3% loss of efficiency.

***How will the public be informed of the impending changes?***

This is still a work in progress. In the coming weeks, VPCGA will be working on educational materials to be shared with consumers.

***What will the cost run on RFG/E as compared to RFG with MTBE?***

This is currently being determined. The cost of ethanol has jumped with the demand for the product.

***Are there tax incentives for the use of RFG/E?***

Under federal law, incentives are for the producers of ethanol and not for distributors.

***What tank-cleaning vendors are members of VPCGA?***

This is being researched and will be produced and provided in an upcoming newsletter. Company names, contacts and phone numbers will be provided.

***Should all tanks be cleaned as everyone prepares for RFG/E? Does this include 550, 1000 and 2000 gallon tanks?***

It would be recommended to avoid most problems.

***Is there anything that would allow for a waiver to put conventional gas into small tanks such as 550, 1000 and 2000 gallons tanks in a RFG/E area?***

Such a change would likely require a waiver of federal regulations by the US Environmental Protection Agency. While unlikely, we will investigate.

***Is Virginia a MTBE banned state?***

At this point it is not, but most all states north of Virginia are MTBE banned states.

***Can RFG/E be dropped into a tank with RFG with MTBE?***

Yes.

***Does a tank need to be close to empty to clean the bottom?***

No. It can be cleaned with a product level up to 75%.

***Will cold weather affect the properties of RDF/E?***

Yes.

***With the proper cleaning of tanks, will this remove most problems with the introduction of RFG/E?***

In the Atlanta area, sites that followed the procedures listed for cleaning tanks and replacing filters had little or no problems.

VPCGA is updating our membership as a means to have the situation addressed by all members and their suppliers. Further questions and answers are needed in order to continue to cover the situation as things continue to develop daily and weekly. As always, please contact the office for further information.