



**AMERICAN REFINING GROUP**  
LUBRICANTS AND SPECIALTY PRODUCTS DIVISION

November 3, 2010

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Environmental Quality Board  
Rachel Carson State Office Building  
16<sup>th</sup> Floor  
400 Market Street  
Harrisburg, PA 17101-2301

ENVIRONMENTAL QUALITY BOARD

Re: Commercial Fuel Oil Sulfur Limits for Combustion Units

Dear Sirs;

American Refining Group, Inc. (ARG) would like to express both our concern and opposition to the Proposed Rulemaking, Environmental Quality Board, Commercial Fuel Oil Sulfur Limits for Combustion Units [40 Pa.B. 5456]. This bill has the potential to disrupt supply, significantly increase cost to consumers and negatively impact Small Business Refiners. While ARG supports rulemaking that will improve our environment, we believe this Bill is misguided and is not based on sound science. We support the removal of sulfur from heating oil, but we respectfully request that you consider a different approach. One that would provide adequate time for the significant refining investments that must be made as well as guard against the risk of supply shortfalls for Pennsylvania's heating oil consumers, especially with winter fast approaching.

ARG is a Small Business Refiner that operates a 10,000 barrel-per-day specialty refinery in Bradford, McKean County, PA utilizing 100% Pennsylvania Grade crude oil. We provide commodity fuel products throughout the northern and northwestern tier counties of Pennsylvania such as: McKean, Potter, Elk, Warren, Erie and other northern tier counties.

On a national scale diesel fuel has recently undergone a major transformation (since 2006) whereby most of the sulfur has already been removed from highway diesel products. This new product is called Ultra-Low- Sulfur Diesel (ULSD) and contains only 15 ppm sulfur. Federal mandates will expand this requirement to off-road diesel this year, as well as to locomotive and marine engines in 2012 with all exceptions ending in 2014. . The reason that EPA selected 15 ppm as the ULSD standard for motor fuel is due to catalyst poisoning which would not allow new vehicles to meet tail pipe emission standards. Hence the ultra-low-sulfur standard was driven by technical reasons more so than any environmental considerations. In acknowledging the clean burn properties of natural gas, a study commissioned by heating oil dealers concluded that 500 ppm heating oil was, on balance, the equivalent to natural gas in environmental impact.

The success of the federal ULSD program was aided in no small part by the federal government and industry working together to identify and address potential problems early on – before they had a chance to impact the market and consumers. It is important to note that ULSD was introduced, consistent with federal program guidelines, nationally and in Pennsylvania in a satisfactory manner with little or no supply or price disruption. It should be further noted that ARG and many other refiners did not build capacity to make 100% of our diesel fuel stream as ULSD or 15 ppm fuel;

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rather we built to federal standards which had phase-in dates as late as 2014. Adding hydrotreating capacity to make ULSD is a capital intensive endeavor requiring 4 to 5 years of permits, engineering, construction and planning, and tens of millions of dollars. It should be noted that ARG did not build its hydrotreating capacity to treat all of our distillate fuel output and has no hydrotreating capacity to treat Nos. #4, #5 and #6 commercial heating fuels.

The primary issue with this legislation is the lowering of heating oil sulfur content to 15 ppm and the sulfur reductions in residual fuel oils (No. 4, 5, and 6) by 2012. We urge you to continue to seek a consensus that offers a justifiable environmental benefit while providing the necessary flexibility to the transportation and refinery segments.

In lieu of the proposed legislation, ARG would support a transition to 500 ppm sulfur home heating oil in 2014. A 2014 date will accommodate the economic uncertainties, challenges to project financing, and lead time for the major construction that this legislation will necessitate. 2014 is consistent with the federal diesel schedule and marine requirements in 2015. We question the scientific justification for any additional sulfur reduction below 500 ppm. ULSD is available and already used by a number of heating oil distributors to provide fuel to those customers who want to purchase it. It is not necessary to mandate that all heating oil be ULSD to support such discretionary fuel choices by customers.

If Pennsylvania continues to pursue a sulfur standard below 500 ppm, we strongly recommend that the state carefully consider the supply implications of such a change. Low sulfur heating oil is not generally available today; and it will take refinery investment, project permitting, engineering and construction to expand supplies of this product to meet and/or replace the existing high sulfur fuel oil demand. During peak heating oil season, a percentage of incremental heating oil supply is reliant on imports from areas that do not have diesel desulfurization requirements similar to the US and Canada. Also, demand for lower sulfur diesel will likely make a step change increase in 2015 when ocean going vessels calling on US ports will be required to use 1000 ppm sulfur fuel. The state should conduct a supply study to look at these issues and the potential impacts of moving beyond a 500 ppm sulfur standard.

We strongly believe that a 15 ppm sulfur standard should not be set for home heating oil. There is no compelling scientific evidence that such a standard will improve the environment and requiring 15 ppm sulfur heating oil and lower sulfur standards for residual fuels would place residential and commercial customers in the position of competing for supply from the transportation diesel market which has been growing steadily around the world. Moreover, a distinct heating oil market would no longer exist.

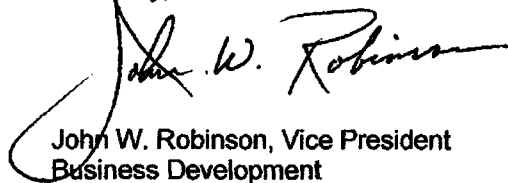
If a further reduction in sulfur level beyond 500 ppm sulfur is contemplated, it should not occur until at least 4 years after the initial reduction to 500 ppm (i.e. around 2018 time frame).

In conclusion, we stress the need for both scientific evidence and a market supply/demand study before making the commitment to mandate the reduction of sulfur to the 15 ppm level for heating fuel and for residual commercial fuels.

Environmental Quality Board  
November 3, 2010  
Page Three

As one of Pennsylvania's earliest industries, the petroleum industry has always been committed to meeting our state's energy needs through products, research, investments and workforce development. We share a commitment to secure Pennsylvania's role in meeting our future energy needs.

Sincerely,



John W. Robinson, Vice President  
Business Development

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