



AP Photo

The sun begins to set over an oil refinery in Port Arthur, Texas, May 17. A push from Congress and the White House for huge increases in biofuels such as ethanol, is prompting the oil industry to scale back its plans for refinery expansions. That could keep gasoline prices high, possibly for years to come.

Oil reacts to biofuels push

Washington ethanol push prompts oil industry to scale back refinery expansion

WASHINGTON (AP) — A push from Congress and the White House for huge increases in biofuels, such as ethanol, is prompting the oil industry to scale back its plans for refinery expansions. That could keep gasoline prices high, possibly for years to come.

With President Bush calling for a 20 percent drop in gasoline use and the Senate now debating legislation for huge increases in ethanol production, oil companies see growing uncertainty about future gasoline demand and little need to expand refineries or build new ones.

Oil industry executives no longer believe there will be the demand for gasoline over the next decade to warrant the billions of dollars in refinery expansions — as much as 10 percent increase in new refining capacity — they anticipated as recently as a year ago.

Biofuels such as ethanol and efforts to get automakers to build more fuel-efficient cars and SUVs have been portrayed as key to countering high gasoline prices, but they are likely to do little to curb costs at the pump today, or in the years ahead as refineries reduce gasoline production.

A shortage of refineries frequently has been blamed by politicians for the sharp price spikes in gasoline, as was the case last week by Sen. James Inhofe, R-Okla., during debate on a Senate energy bill.

"The fact is that Americans are paying more at the pump because we do not have the domestic capacity to refine the fuels consumers demand," Inhofe complained as he tried unsuccessfully to get into the bill a proposal to ease permitting and environmental rules for refineries.

This spring, refineries, hampered by outages, could not keep up with demand and imports were down because of greater fuel demand in Europe and elsewhere. Despite stable — even sometimes declining — oil prices, gasoline prices soared to record levels and remain well above \$3 a gallon.

Consumer advocates maintain the oil industry likes it that way.

"By creating a situation of extremely

tight supply, the oil companies gain control over price at the wholesale level," said Mark Cooper of the Consumer Federation of America. He argued that a wave of mergers in recent years created a refining industry that "has no interest in creating spare (refining) capacity."

Only last year, the Energy Department was told that refiners, reaping big profits and anticipating growing demand, were looking at boosting their refining capacity by more than 1.6 million barrels a day, a roughly 10 percent increase. That would be enough to produce an additional 37 million gallons of gasoline daily.

But oil companies already have scaled those expansion plans back by nearly 40 percent. More cancellations are expected if Congress passes legislation now before the Senate calling for 15 billion gallons of ethanol use annually by 2015 and more than double that by 2022, say industry and government officials.

"These (expansion) decisions are being revisited in boardrooms across the refining sector," said Charlie Drevna, executive vice president of the National Petrochemical

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and Refiners Association.

With the anticipated growth in biofuels, "you're getting down to needing little or no additional gasoline production" above what is being made today, said Joanne Shore, an analyst for the government's Energy Information Administration.

In 2006, motorists used 143 billion gallons of gasoline, of which 136 billion was produced by U.S. refineries, and the rest imported.

Drevna, the industry lobbyist, said annual demand had been expected to grow to about 161 billion gallons by 2017. But Bush's call to cut gasoline demand by 20 percent — through a combination of fuel efficiency improvements and ethanol — would reduce that demand below what U.S. refineries make today, he said.

"We will end up exporting gasoline," said Drevna.

Asked recently whether Chevron Corp. might build a new refinery, vice chairman Peter Robertson replied, "Why would I invest in a refinery when you're trying to make 20 percent of the gasoline supply ethanol?"

Many cars take ethanol, but only a trickle at the pumps

ALBANY, N.Y. (AP) — Steve Williams does what millions of American motorists can't: Fill up on cheaper, ethanol-based fuel from a local gas station.

Advocates, including farmers and President Bush, have offered E85 — a blend of 85 percent ethanol and gasoline — as an affordable way to help the nation grow itself toward energy independence with a cleaner-burning fuel. They would like to see more people like Williams, who filled up his 2003 Ford Explorer with E85 on a recent morning.

But there's a big hitch for this fuel of the future. There are too few pumps. While there are about 5 million "flexible fuel" vehicles on U.S. roads that can handle E85, there are only 1,145 public stations that offer the fuel nationwide, according to the National Ethanol Vehicle Coalition.

The number of gas stations in North Dakota selling E85 topped out at more than 30 but has been falling, said Kim Christianson, energy programs manager for the state Division of Community Services.

"I'd estimate it to be around 20 or 25 now," Christianson said. "The biggest issue is supply."

Valero Corp., the nation's largest refiner producing 3.3 million barrels a day of petroleum product, recently boosted production capacity at its Port Arthur, Texas, refinery by 325,000 barrels a day. But company spokesman Bill Day said some additional expansions have been postponed.

"That's not to say we've changed our plans," Day said in an interview. "But it's fair to say we're taking a closer look at

what the president is saying and what Congress is saying" about biofuels. He said there's a "mixed message" coming out of Washington, calling for more production but also for reducing gasoline demand.

"It's something that we have to study pretty carefully," said Day.

Ron Lamberty of the American Coalition for Ethanol said all the talk about biofuels threatening gasoline produc-

tion is the "latest attempt to blame ethanol on Big Oil's failure to meet our energy needs."

"The ethanol industry continues to grow while oil refiners continue to make excuses for maintaining their profitable status quo," said Lamberty.

Sen. Byron Dorgan, D-N.D., said consolidation of the oil industry into fewer companies has left them with no incentive to expand refineries.

"It's a perverted system that does not act as a free market system would act," said Dorgan. "If you narrow the neck of refining, you actually provide a greater boost to prices which is a greater boost to profitability."

Richard Blumenthal, the attorney general of Connecticut, wants Congress to require refiners to maintain a supply cushion in case of unexpected outages.

In the 1980s, Blumenthal said at a recent hearing, refiners were producing at 77.6 percent of their capacity, "which allowed for easy increases in production to address shortages. In the 1990s, as the industry closed refineries, ... (that figure) rose to 91.4 percent, leaving little room for expansion to cover supply shortfalls."

The bill being debated in the Senate is HR 6.

Raising auto fuel standards

A recent Senate bill will require automakers to increase the fuel economy for their vehicles from current standards.

■ Fleet vehicles ■ Light trucks*



*Includes SUVs, vans and pickup trucks.

SOURCE: Department of Transportation AP

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Cars

of the near future will use less fuel

Senate legislation suggests cars may rely on ethanol, electricity

WASHINGTON (AP) — The cars, sport utility vehicles and pickups people will buy in the years ahead are likely to use less fuel, and many will rely on ethanol or household electricity instead of gasoline.

The energy legislation pushed through the Senate this week provides a roadmap to the future, demanding higher automobile fuel economy, mandating huge increases in ethanol as a motor fuel and supporting more research into building "plug-in" hybrid-electric vehicles.

While Senate Republicans complained that the bill does nothing to increase domestic oil production, Democrats said that's because the nation must move energy policy away from its heavy reliance on oil.

The House is preparing its own version.

The Senate bill requires automakers to increase fuel economy to 35 miles per gallon, about a 40 percent increase over what cars, SUVs and small trucks are required to achieve now. It would lump all the vehicles under a single regulation, but also give manufacturers flexibility so large SUVs wouldn't have to meet the same requirements as smaller cars.

It requires a yearly increase of ethanol production to 36 billion gallons a year by 2022, a seven-fold increase from today. By 2015 half of the new vehicles offered to buyers — as many as 10 million — will have to be capable of running on 85 percent ethanol, biodiesel or some other alternative energy source.

And for the first time, the president must find ways to cut

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oil demand by 20 percent of what it is expected to be in 2017 — a target President Bush has embraced — and attain further reductions after that. Gasoline demand is expected to grow 13 percent to 261 billion gallons a year by 2017 without some fuel-saving measures.

But will auto showrooms provide the same selection of vehicles? Will they be as big, as powerful, as safe?

“I would expect them to look a lot like they do today, the same size, the same acceleration and the same or even better safety,” says David Friedman, director of the clean vehicles program at the Union of Concerned Scientists.

He maintains they will have better technology, better engines, more efficient transmissions and stronger aluminum bodies. They’ll cost a little more but use much less gasoline.

“The goal is to replace fossil

fuels with alternative fuels and use conservation,” said Sen. Maria Cantwell, D-Wash., who was involved in the discussions on many of the auto fuel economy and motor fuel issues that ended up in the bill.

What has changed from a few years ago, she said, is there no longer is “a fear factor that you’re going to be in itty bitty cars” if the government requires automakers to make more fuel efficient vehicles.

In addition to making conventional cars more fuel efficient, the bill seeks to boost research into use of lithium-ion batteries — like those used in laptop computers and cameras — in vehicles.

Should ways be found to make them more durable in a vehicle environment, cars could be plugged into an electric socket at home, relying only rarely on gasoline, says Friedman. Some studies have estimated the fuel cost — mostly the cost of electricity and a small amount of gasoline — would be equivalent to about \$1 a gallon, said Cantwell. ✓

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and then you take a rural state like North Dakota, where we rely on our combines and our cars for livelihoods,” Van Dyke said. “It’s a complicated issue and if there was an easy solution, we’d have found it.”

This is the first time Hansen, director of NASA’s Goddard Institute for Space Studies in

New York, has called for an end to coal burning. He said it’s the No. 1 solution to global warming, and that so far, no coal-fired plants can capture carbon dioxide emissions so they are not released into the atmosphere.

While burning oil and natural gas also release carbon dioxide, they will run out and there’s more coal to burn and pollute the Earth, so it’s more of a threat, Hansen said.

“Coal is the big amount,”

Hansen said. “Until we have that clean coal power plant, we should not be building them. It is as clear as a bell.”

Hansen, who said he was speaking as a private citizen, also told the press club that by mid-century all coal-fired power plants that do not capture and bury carbon dioxide “must eventually be bulldozed.” It’s foolish to build new ones if the emissions can’t be dealt with, he said.