

## PlaNYC Proposed Energy Mandates, by Carla L. Romita The Mann Report, July/August 2007

Recently, Mayor Bloomberg's office published a series of coordinated initiatives to address problems related to land, water, transportation, energy, air quality and climate change in New York. PlaNYC, contains proposals intended to improve the City's infrastructure, open spaces, air and water quality and avert threats associated with climate change. As many property owners and managers are undoubtedly aware, energy politics at state and national levels are emphasizing carbon reduction. In fact, New York State requires that 2% of the fuel supplied to its properties be bio-fuel. PlaNYC now proposes to curb energy demand and improve air quality through a series of incentives and mandates over the next few years to reduce sulfur content of heating fuels, require minimum percentages of bio-fuels in heating fuel products and require retrofitting older heating plants to more efficient equipment. Major targets of the mayor's energy efficiency plan are commercial and industrial buildings as well as multi-family residential buildings which account for 2/3 of the City's energy consumption. Some city lawmakers have proposed rapid migrations to dramatically lower sulfur standards and bio-fuel mandates. It has even been suggested that heavier grades of heating oil that do not meet greatly reduced sulfur standards almost overnight should be off limits to New York property owners. These flawed proposals are unlikely to succeed because they are premised upon a misunderstanding of international markets and industry distribution chains.

The oil industry supports the introduction of cleaner burning heating and bio fuels and is working with lawmakers to implement their integration into the marketplace. Suppliers, refiners, and distributors already have migrated towards lower sulfur standards for most diesel products. As of 2007 the vast majority of the on-road diesel produced and distributed within the United States contains no greater than a 15 parts per million (ppm) sulfur content – a major focus for achieving cleaner air standards compared to the prior standard of 500 ppm. The industry is working to decrease the sulfur content of heating oil. However, the seasonal nature of demand in New York, as well as the influence of external market forces, requires a rational stepped approach – one that is coordinated at the regional level.

For several years, refiners have invested heavily to meet mandates for cleaner burning gasoline and diesel. Given these recent capital projects, refiners will not immediately invest in producing lower sulfur heating oil simply because of a politically driven increase in localized demand that occurs for just 90 days a year. Even if demand were great enough to justify such a shift in production, domestic refiners would need extensive lead times to invest in new equipment and bring the product to market. Moreover, domestic refiners alone simply do not have the capacity to produce enough heating oil to meet the peak winter needs of New York and surrounding States.

Currently, New York relies upon foreign imports for about one half of its mid-winter heating oil needs. While many of the foreign countries from which New York receives its supply are producing cleaner burning fuels, some, such as Russia and Venezuela, do not and have no plans to do so. Accordingly, forcing lower sulfur standards on New York consumers would cut available imports during periods of peak demand. Moreover, the diesel transportation market already has built up significant regional, domestic, and international demand. As European countries continue to push for lower sulfur standards in diesel, the global increase in demand for this product will magnify the supply shortfall by driving investment dollars towards the supply of low sulfur diesel at the expense of low sulfur heating oil.

Distribution issues also illustrate the need for an integrated, regional approach. To prevent cross-contamination, different grades of heating oil must be segregated into a separate system from refinery to barge to terminal to truck in order to prevent contamination with other products. Constructing a localized supply system to handle a boutique grade of heating oil is useless if each link in the upstream supply chain is not also segregated.

The industry has reached out to regional agencies to ensure that New York and the other Northeast states move in a coordinated and consistent fashion. If properly phased in on a regional level, cleaner burning heating fuels should pay significant dividends by extending the useful life of heating equipment, allowing the use of higher efficiency equipment, and lowering maintenance costs. However, if improperly implemented without due consideration for national refining capacity, import patterns, and distribution chains, rushing towards cleaner heating fuels will result in significant supply disruptions and higher, more volatile heating costs at the worst possible times. The most dramatic effects would take place during the heating season, when local demand is greatest and much of the fuel oil that supplies the New York market is shipped from overseas.

New York's oil industry supports the move to low sulfur heating fuels. It will be beneficial to their businesses, reduce the maintenance costs of your equipment, and allow the use of more efficient heating equipment. However, the primary concern is that you do not run out of fuel and are not subjected to uncontrolled and unnecessary price spikes in the middle of the winter. While industry applauds the Mayor's efforts toward ensuring that New York remains the greatest city in the world, we urge lawmakers to adopt a realistic schedule, coordinated among all levels of the fuel oil industry, so as to not harm the consumer.