

SIGMA WEEKLY REPORT

May 12, 2008

CONSUMER-FIRST ENERGY ACT

On May 7, Democratic Party leaders unveiled the "Consumer-First Energy Act," a measure intended to lower gasoline prices for consumers. The legislation may go to the Senate floor for a vote before the Memorial Day recess in little more than two weeks. The most controversial item in the bill is a call for a 25 percent windfall profit tax on oil companies that are making record profits, with the proceeds dedicated to expanding renewable energy development. It would also roll back \$17 billion in tax breaks over 10 years for the largest oil companies. Other provisions include 1) halting the fill of 70,000 barrels per day into the Strategic Petroleum Reserve; 2) preventing price gouging during emergencies such as Hurricane Katrina; 3) requiring hedge funds and other traders to put up larger "margins" or down payments when they trade oil futures; and 4) allowing the U.S. attorney general to bring enforcement actions against OPEC, which currently enjoys sovereign immunity. The Republican energy bill (S. 2958), the American Energy Production Act, was introduced May 1. It includes drilling in ANWR and lifting offshore drilling bans as the centerpiece. The only provision the two bills have in common is suspension of deliveries into the nation's emergency oil reserve.

RULE TO REDUCE EMISSIONS FROM DIESEL ENGINES

The Environmental Protection Agency is publishing a final rule May 6 geared to reduce particulate matter and nitrogen oxides emissions from locomotive and diesel marine engines. The rule takes effect July 7. The rule requires new engine designs starting in 2009 on new locomotives and marine diesels to reduce particulate matter and nitrogen oxide emissions. These are known as Tier 3 requirements. After 2014 for marine diesels and 2015 for locomotives, the rule implements Tier 4 requirements for high-efficiency catalytic emissions-reduction systems. The rule will require ultra-low sulfur diesel fuel for locomotives and marine diesels after 2012. After 2012, sulfur content in engines will be capped at 15 parts per million.

SEC: BASIC ECONOMICS SUPPORT OIL PRICES

Testifying before the Senate Appropriations Financial Services Subcommittee alongside Securities and Exchange Commission Chairman Christopher Cox on May 7, Commodity Futures Trading Commission acting Chairman Walter Lukken told the panel that the basic economics of supply and demand support the current price of oil. Lukken

also said that speculators are not a major factor in setting oil prices. Lukken credited the real-time reporting of traders' positions and also agency rules that dictate position limits with keeping speculation in check. He also said that speculators provide liquidity for these markets.

MTBE SETTLEMENT

Several major oil companies have agreed to pay \$422 million to settle a case brought by 153 public water providers over drinking water contamination allegedly caused by MTBE. The agreement stems from cases pending in a federal multi-district litigation court in New York established to hear MTBE cases nationwide. Settling defendants included BP Amoco, Atlantic Richfield, Chevron, ConocoPhillips, Shell, Marathon, Valero, CITGO, Sunoco, Hess, Flint Hills, El Paso Merchant Energy, and Tesoro. The agreement also requires the settling defendants to pay a proportionate share of treatment costs for wells owned or operated by the plaintiffs that become contaminated by MTBE in the future and qualify for treatment over the next 30 years. Other defendants, including ExxonMobil Corp., declined to join the settlement.

SENATE REPUBLICANS ASK EPA FOR ETHANOL WAIVER

On May 2, Sen. John McCain (R-AZ), and 23 other Senate Republicans wrote Environmental Protection Agency (EPA) Administrator Stephen Johnson asking the agency to consider waiving requirements enacted in 2007 by Congress for gasoline and diesel fuel to have renewable fuel content. The energy law requires 9 billion gallons of corn-based ethanol or other renewable fuel to be blended with gasoline in 2008 and 36 billion gallons in 2022. In the letter, the lawmakers maintain that to meet this requirement, 30 percent of corn crops and vegetable oils will have to be diverted into fuel supplies, severely impacting food and feed prices. The letter is the latest development in efforts to modify the renewable fuel mandate, with critics of the requirement asserting that the demand for corn-based ethanol is helping to drive up food prices. In similar news, on May 6, a House Energy and Commerce subcommittee heard calls by Republican and Democratic members to roll back federal RFS requirements. At a hearing of the Energy and Air Quality Subcommittee, full committee ranking member Joe Barton (R-Texas) said that he may propose legislation to repeal the increase in the RFS. Full committee Chairman John Dingell (D-MI) says repealing the increase is premature.

REMINDER: RETAILERS MUST SUBMIT INFO TO EPA

In January, the EPA finalized a rule requiring specific vapor controls during the refilling of gasoline storage tanks. All locations selling more than 10,000 gallons per month are required to submit basic facility information to EPA by May 9, 2008. New or reconstructed facilities must comply with regulations by January 10, 2008 or upon start up of the facility. Existing facilities must retrofit equipment by January 10, 2011. Existing facilities that become subject to requirements because of an increase in gasoline throughput must achieve compliance within 3 years of attaining the volume threshold. Click here to download the appropriate form. The final rule requires the following criteria to be met for all gasoline dispensing facilities:

- At all facilities, checking for leaks and using good housekeeping procedures to prevent evaporation of gasoline
- At all facilities with monthly gasoline throughputs of 10,000 gallons or more, submerged fill pipes must be used when loading storage tanks. Tanks of 250 gallons or less are exempt. If a notice of compliance is not sent to the EPA Regional Office, operators must file with the EPA and the appropriate delegated State authority an Initial Notification by May 9, 2008, or at the time a facility becomes subject to the control requirements (exceeds 10,000 gallons per month). This notification shall include:
 - Name and address of owner and operator
 - Address (physical location) of the GDF
 - Statement that notification is being submitted in response to this regulation
- At all facilities with monthly gasoline throughputs of 100,000 gallons or more, vapor balancing should be used between the storage tank and the tank truck. Storage tanks with a capacity less than 250 gallons constructed after January 10, 2008, storage tanks with a capacity less than 2,000 gallons constructed before January 10, 2008, and storage tanks equipped with floating roofs or the equivalent are exempt. Operators must file a compliance report every three years. This report can be submitted in lieu of the initial notification.

SIGMA ISSUES BOOK

The SIGMA Legislative Issues Book is available for you review. This information will be discussed at the Legislative Committee Meeting in Hilton Head, SC on May 19, 2008 during SIGMA's Spring Convention.

FARM BILL INCLUDES CELLULOSIC ETHANOL BOOST

On May 8, Congressional negotiators completed work on a conference agreement to a five-year, \$300 billion farm bill entitled the Food, Conservation, and Energy Act of 2008 (H.R. 2419). The measure includes new incentives to promote cellulosic ethanol and to reduce reliance on corn-based ethanol. The final conference report includes a new tax incentive for developing cellulosic biofuels that will be offset by a gradual reduction of the current ethanol tax credit. Conferees agreed to include a new production tax credit for cellulosic biofuels for up to \$1.01 per gallon, available through Dec. 31, 2012, at an estimated cost of \$403 million over 10 years. Conferees agreed to reduce the current ethanol credit of 51 cents per gallon by 6 cents, after annual production reaches 7.5 billion gallons. Other energy-related measures include an extension of the tariff on imported ethanol through 2010.

CFTC ANNOUNCES ENERGY MARKET COMMITTEE

On May 1, the Commodity Futures Trading Commission (CFTC) announced the members of its recently formed Energy Markets Advisory Committee to include industry and brokerage representatives, trade group officials, and academics. The first meeting of the 25-person committee is scheduled for June 10. Acting CFTC Chairman Walter Lukken will chair the group. In announcing the formation of the group in February, the CFTC said the EMAC would be tasked with: 1) holding public meetings; 2) serving "as a vehicle for discussion" on matters of import to exchanges, firms, end users, and regulators "regarding energy markets and their regulation by the CFTC"; and 3) submitting reports and recommendations to the CFTC. The members are Bob Anderson, Committee of Chief Risk Officers; Laura Campbell, Memphis Light, Gas & Water; Donald Casturo, Goldman Sachs Group Inc.; Paul Cicio, Industrial Energy Consumers of America; Bo Collins, 1.618 Group LLC; Sean Cota, Cota & Cota Oil & Propane; Kevin Fox, D.E. Shaw & Co. L.P.; John P. Heimlich, Air Transport Association; R. Skip Horvath, Natural Gas Supply Association; Brian Kelly, Colonial Energy Inc.; Anthony Mansfield, Heller Ehrman LLP, as a representative of Shell Trading (US) Co.; William McCoy, Morgan Stanley; James Newsome, NYMEX Inc.; Ron Oppenheimer, Merrill Lynch Commodities Inc.; Paul Pantano, McDermott, Will & Emery, as a representative of the Futures Industry Association; Satu Parikh, Lehman Brothers Inc.; Robert Pickel, ISDA; Dr. Craig Pirrong, Bauer College of Business, University of Houston; Michael Prokop, Amerex Brokers LLC; Richard Sandor, Chicago Climate Exchange Inc.; John Shelk, Electric Power Supply Association; Foster Smith, J.P. Morgan; Jeffrey Sprecher, ICE Futures U.S.; Mark Stainton, Citadel Investment Group LLC; and Don Whittaker, American Petroleum Institute.