COMMONWEALTH OF PENNSYLVANIA
OFFICE OF THE GOVERNOR
HARRISBURG

THE GOVERNOR

November 2, 2017

The Honorable Scott Pruitt
Administrator
U.S. Environmental Protection Agency
1200 Pennsylvania Avenue, NW
Washington, DC 20460

RE: Petition for RFS Waiver Under CAA Section 211(o)(7)(A)(i)

Dear Administrator Pruitt:

As Governor of the Commonwealth of Pennsylvania, I am requesting that you exercise the waiver authority in Clean Air Act Section 211(o)(7)(A)(i) to reduce the nationwide renewable fuel volume mandates in order to provide relief to refiners in Pennsylvania and elsewhere that are struggling to remain operational given the current and proposed volume requirements. This request is based upon the high cost of compliance associated with the RFS and the impact these costs have on the continued viability of the oil refining sector in the Northeast, as well as on the local and regional economies.

The EPA has the authority to reduce the volume mandates, in whole or in part, upon a determination that "implementation of the requirement would severely harm the economy … of a State, a region, or the United States."[1] Specifically, I request that you reduce the 2017 and 2018 volumes to a level that avoids the severe economic harm experienced by the Northeast region of the United States as a result of the high costs of purchasing RINs to comply with the RFS. The level for the implied conventional mandate should be no more than 9.7% of annual gasoline demand.

The current year's volumes and those proposed for 2018 threaten to "severely harm" the Commonwealth of Pennsylvania, the entire East Coast region, and the national economy by levying significant and unreasonable costs on merchant petroleum refiners, causing harm to their employees and the states and regions in which they operate. A waiver is imperative to protect not only refining jobs, but also the domestic refining capacity in the U.S.

In a recent letter to the President, I outlined how the price of RINs have recently skyrocketed from 3 to 5 cents to over 90 cents, dramatically increasing the compliance costs for Northeast merchant refineries and putting their economic viability and thousands of good paying jobs at risk. For two merchant refiners in Pennsylvania, Monroe Energy and Philadelphia Energy

[1] 42 U.S.C. § 7545(o)(7)(A)(i).

Solutions Refining and Marketing LLC (PES), the cost of purchasing RINs to comply with the RFS now exceeds their payroll costs. PES expects to spend over $300 million this year on RINs and has laid off employees, reduced benefits and delayed capital projects as a result of these costs.[2] Monroe has indicated that its 2016 compliance costs exceeded the $150 million it spent to purchase the refinery in 2012. The escalating cost of RINs is significantly contributing to the economic burden facing refiners in the Northeast, and is greatly reducing the resources these refiners have to spend on capital investments, equipment upkeep, and labor.

In Pennsylvania, PES employs 1,600 people and Monroe Energy employs nearly 500. According to a Pennsylvania Department of Labor study, these direct jobs support over 35,000 indirect jobs in Southeastern Pennsylvania.[3] Each refining job has a large multiplier effect on the regional and national economy. Specifically, each refinery job supports an estimated 18.3 jobs in Southeastern Pennsylvania, 22 jobs state-wide, and 61 jobs nationwide.[4] This study also details that if 1,000 refinery jobs were lost, the region would lose another 18,000 jobs, and that the state and localities would lose $280 million in tax revenue.[5] The current and proposed Renewable Volume Obligations are putting thousands of good paying jobs in my state and elsewhere at risk.

Historically, Philadelphia-area refineries have accounted for half of the East Coast's refining capacity, but this capacity has been sharply curtailed by the relatively recent closure of five refineries in the Northeastern United States that eliminated over 500,000 barrels per day of capacity.[6] The EPA should not wait until another refinery closes in PADD 1 before taking action to alleviate the burdens imposed by the RFS program.

Three merchant refiners in PADD 1—PES, Monroe Energy and PBF Energy—have been hardest hit by the burdens of RFS compliance, and collectively account for over 70% of the remaining refining capacity in the Northeast. The ballooning costs of complying with the RINs requirement in the RFS is endangering their ability to operate. These refiners are in a perilous situation, and we cannot risk their closure. A closure of any one of the four Northeast refineries owned by these companies would have devastating consequences for statewide, regional and national fuel supply.

Replacing this refining capacity by moving fuels to the Northeast from other locations would be difficult and would increase the cost of gasoline and diesel fuel to residents of the

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[2] Renshaw, Jarret. "Philadelphia Energy Solutions laying off nonunion workers: sources." Reuters, Oct. 10, 2016. Available at: http://www.reuters.com/article/us-usa-refineries-pes-idUSKCN12A1VM (last accessed, June 20, 2017)

[3] Center for Workforce Information & Analysis, Reemployment Assessment and Economic Impact of ConocoPhillips and Sunoco Closings, Appendix C (Jan. 9, 2012).

[4] *Id.*

[5] *Id.*

[6] See U.S. Energy Info. Admin., Potential Impacts of Reductions in Refinery Activity on Northeast Petroleum Product Markets (updated May 11, 2012), https://www.eia.gov/analysis/petroleum/nerefining/update/pdf/neprodmkts.pdf ("U.S. EIA, Potential Impacts"); EIA, Refinery Capacity Report, tbl. 13, https://www.eia.gov/petroleum/refinerycapacity/table13.pdf.

Northeast. In addition, these refineries also produce home heating oil and jet fuel, and help to mitigate regional price spikes in these essential commodities. Maintaining refining capacity in the Northeast is critical to prevent exorbitant national fuel price spikes when refining capacity in the Gulf Coast drops due to hurricanes or other natural disasters. As exhibited by Hurricane Harvey, these Northeast refineries were able to help supply the areas impacted by the hurricane. Therefore, it is in the national interest of the United States that its refining sector not become too regionally concentrated in the Gulf of Mexico.

To be clear, I understand and appreciate the benefits of the Renewable Fuel Standard, and support the goals this program was created to serve. It is certainly important that we continue to work to address greenhouse gas emissions and reduce reliance on imported oil. However, these goals were never intended to be pursued in a manner that would prevent U.S. refiners from being able to operate.

By any reasonable measure, the current economic conditions caused by the rapidly escalating cost of RINs to the refining industry in the Northeast are severe and harmful—and without administrative action, we are at risk of losing one of these crucial refineries. The problems we have seen with supply during this current hurricane season will become even worse should even one of these refineries close.[7] For these reasons, I request that you use your waiver authority to reduce the 2017 and 2018 renewable fuel volume mandates, pursuant to Section 211(o)(7) of the CAA. Reducing the implied conventional mandate to no more than 9.7% of annual gasoline demand would significantly reduce the cost of RINs and alleviate the economic burdens that the RFS program imposes on Northeast refineries, while still ensuring significant renewable fuel usage.

Thank you for your consideration of this request. Please feel free to contact Robert Ghormoz on my staff if you have any questions regarding this request.

Sincerely,

Tom Wolf

TOM WOLF
Governor

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[7] The scope of the severe economic harm to PES, the Commonwealth of Pennsylvania and the surrounding regions is discussed in more detailed in comments recently filed before the EPA. *See* Comments on behalf of Philadelphia Energy Solutions Refining and Marketing, LLC, Docket ID. No. EPA-HQ-OAR-2017-0091-3887 (Aug. 31, 2017); Further Comments on behalf of Philadelphia Energy Solutions Refining and Marketing, LLC, Docket ID. No. EPA-HQ-OAR-2017-0091-4115 (Oct. 19, 2017).