

Testimony of Kevin J. Lindemer, Kevin J Lindemer LLC, concerning SB 382, AN ACT REQUIRING BIODIESEL BLENDED HEATING OIL AND LOWERING THE SULFUR CONTENT OF HEATING OIL SOLD IN THE STATE, before the Committee on Environment, Connecticut General Assembly

Chairman Meyer, Chair Roy, members of the Committee on Environment.

My name is Kevin Lindemer of Kevin J Lindemer LLC. I have over 25 years of broad-based experience in the international energy industry, including over 8 years experience in the refining and marketing industry and 26 years of experience in energy research and consulting. I have direct industry experience with Cenex Harvest States in Minnesota and Irving Oil. My consulting experience includes 14 years with Cambridge Energy Research Associates where I started the Downstream Oil research and consulting group and with Global Insight where I was the Executive Managing Director of the energy business.

My firm was retained by the National Oilheat Research Alliance to conduct an independent analysis. NORA is the national organization representing heating oil issues on consumer education, technical education and training as well as research and development. One of the purposes of NORA is the research into the very questions we were asked by ICPA to address here today. The purpose of our research was to address, for NORA, the questions of [a] whether there is or will be adequate supply of Ultra Low Sulfur Diesel [ULSD] fuel available to meet certain prospective mandates for its use as a heating fuel, as well as [b] potential price impacts on consumers in consideration of such a move. I am not here as an advocate for any particular position or point of view on this issue. I am here to deliver an outline of what our research has yielded on the questions we were asked.

Our group's study is not yet ready for release as it is just being completed and needs to be first presented to the NORA Board. NORA has, however, authorized me to appear here today and provide you with information relating to ULSD supply for Connecticut as a potential heating fuel, as well as potential price impacts.

NORA has not reviewed nor is responsible for the views that I express here today.

SB 382 would require, as a matter of state law, the statutory specification for heating oil to change from 3000 [three thousand] parts per million of sulfur currently, down to 50 [fifty] parts per million, effective July 1, 2011 and 15 [fifteen] ppm by July 1, 2014.

- **From a market perspective, 2010 is the best time in years to begin the process of moving to ULSD for heating oil applications**
- **USLD exports averaged about 220,000 bpd in 2009 or over 7.5% of the domestic market demand.** This means that domestic refiners produced more ULSD than the domestic market required and found it profitable to export this

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product from the United States, principally to markets in Europe and South America, where there are mandates in place for lower sulfur distillates. 220,000 barrels per day equates to 65,700,000 barrels of ULSD exports over a year.

Connecticut's anticipated demand for ULSD as a heating fuel would be 14.5 million barrels, or a relatively small 1.4 percent of US ULSD demand.

- **ULSD exports are lower than the total demand for heating oil in the residential/commercial sectors.** This simply means that after ULSD production has met domestic transportation needs, there is sufficient amounts of ULSD left in surplus of those needs to allow for the product remaining to be used as a domestic heating fuel without adverse effects on the transportation market.
- **A shift to ULSD for heating oil will result in cost savings for consumers for heating system maintenance and wear and tear.** *NORA estimates the heating plant service cost savings for a typical homeowner would be about \$50 per year.*
- **Refiners will not switch from heating oil to ULSD on their own.** They must have some signal from the market or from regulators. It is important to note that every significant change in either gasoline or diesel fuel specifications to reduce sulfur came about through legislative mandate – and over the twenty years of this process heating oil as always been left out.
- **Connecticut's supply diversity will be strengthened, and a somewhat greater measure of energy security achieved, if Connecticut's mandate to change the specification of heating oil to meet a ULSD standard.** This is due to ULSD increasingly becoming a more widely available international product than higher sulfur grades. There is strong production in the United States, Canada, the Caribbean, and around the world. Simply stated, suppliers who bring ULSD to Connecticut have more places from which to acquire supply.
- **Some ULSD refinery upgrade projects have been indefinitely postponed due to the market environment** E.g.; demand for ULSD has fallen and the market does not need the capacity at this time. Here again, this points out the fact that not only does surplus productive capacity result in the US exporting 180,000 barrels of ULSD today, but there are additional refinery upgrade projects to produce more ULSD that has been postpone due to lack of demand and/or sufficient capacity to meet the change to ULSD for on-road and off-road uses.

Thank you for your time and attention and I'd be happy to answer any questions you have on the issues I have addressed here today.