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WRITTEN STATEMENT OF
COUNTRYMARK COOPERATIVE HOLDING CORPORATION
AS SUBMITTED TO THE
SUBCOMITEE ON ENERGY AND POWER

Committee of Energy and Commerce
United States House of Representatives

On

“The American Energy Initiative”

WEDNESDAY, MARCH 28, 2012

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Rayburn 2123

I. Introduction

Chairman Whitfield, Ranking Member Rush, and Members of the Subcommittee, thank you for giving me the opportunity to testify in today's hearing on the "The American Energy Initiative." I'm Matt Smorch and I serve as Vice President of Strategy for CountryMark Cooperative. As Congress proceeds with consideration of HR. ____, "The Gasoline Regulations Act of 2012," CountryMark believes it is important for Congress to know about the companies this legislation will impact and how this legislation will affect companies such as CountryMark.

CountryMark is Indiana's only American-owned oil refining and marketing company and is recognized nationwide as a leader in the distribution of biodiesel and ethanol. The CountryMark refinery uses 100% American crude oil sourced from the Illinois Basin located in Illinois, southwest Indiana, and western Kentucky. Our refinery processes 27,000 barrels of crude per day which represents only 0.15% of the entire domestic refining industry. Our capacity is 1/10th the size of the average refinery in our region. Even though CountryMark is small from an industry perspective, we have a large impact on the State of Indiana. CountryMark supplies over 75% of the agricultural market fuels and 50% of school district fuels in the state.

CountryMark is owned and controlled by its member cooperatives that are in turn owned and controlled by individual farmers within our trade territory. Over 100,000 farmers in Indiana, Michigan, and Ohio participate in these local cooperatives who own CountryMark. CountryMark's Board of Directors is comprised of farmers. Each year, profits are distributed back to these farmers via the cooperative system. These distributions remain in rural communities where the dollars support local economies.

CountryMark is a Small Business Refiner, and along with most other small business refiners, we are located in a rural area. We therefore have our strongest economic impact in mostly rural communities. We purchase over \$800 million of crude oil per year from the Illinois Basin. These purchases provide income to the 40,000 royalty owners in the Illinois Basin. Our products are sold and distributed through our branded dealer network providing solid employment throughout the rural communities of Indiana.

CountryMark's operations employ nearly 450 workers, mostly in the rural economy of southwest Indiana and southeast Illinois. In Posey County, Indiana alone nearly \$27 million in wages and benefits are provided every year. These wages are over twice the local average and are paid mostly to hourly workers with little or no local opportunity for other employment equivalent to CountryMark.

In addition to the positive financial impact of CountryMark's crude purchases and payroll, the company placed over \$200 million into the local economy for the purchase of other goods and services. With everything combined, CountryMark's total economic contribution exceeds \$2.5 billion per year. This value stays here in the United States and provides much needed jobs in mostly rural communities.

All Small Business Refiners compete in a highly competitive global commodity market where imported products from foreign competition influence refining margins and economics. Unlike large, fully integrated oil companies, we only operate between two commodity markets: 1) the oil market; and 2) the gasoline market. We must purchase crude oil that is priced in the global market and refine it. We then sell our products into the gasoline market, which is a very sensitive, volatile market. Between these two markets, CountryMark is able to stay in business based on how well we control our costs compared to other fuel suppliers.

Regulations and mandates increase operating costs, which in turn negatively impact Small Business Refiners' ability to manage costs between the oil market and the gasoline market. This impact affects all refiners, but especially Small Business Refiners such as CountryMark. When a refiner cannot pass on or absorb these costs they go out of business. The result is reduced domestic refining capacity and higher gasoline costs for the consumer.

The following sections provide specific examples of how current and proposed regulations drive refiner costs up. These real costs are specific to CountryMark and broken down into three major categories: capital, operating, and product. Eventually, these additional costs are either passed on to the consumer in the form of increased gasoline or diesel prices, or the refinery goes out of business when the costs exceed the capital reserves or credit of the refinery - in the case of a Small Business Refiner, reserve capital and credit are insufficient and do not provide a long term solution.

In addition, several regulations have conflicting consequences so our industry ends up in between the proverbial rock and the hard place. Regulatory development must be coordinated and use a holistic approach so cumulative costs are taken into account and unintended consequences are eliminated.

II. Ultra Low Sulfur Diesel and Low Sulfur Gasoline

EPA's Clean Air Highway Diesel rule and Non-road Diesel rule requires that only 15 ppm sulfur diesel fuel be sold on and off road. To achieve compliance with this requirement and continue to market diesel fuel CountryMark was required to construct and start-up a Distillate Hydrotreater (DHT) unit in 2006.

This project also included construction of sulfur recovery facilities resulting in a total cost of approximately \$45 million. The annual operating cost for the DHT is \$4.4 million.

EPA's Tier 2 Gasoline rules required that gasoline sulfur be reduced to 30 ppm. CountryMark was able to delay implementation of this project until 2011 due to obtaining a Small Business Refiner's extension. This extension only provided a brief delay. CountryMark has since constructed a Low Sulfur Gasoline (LSG) unit in order to continue to sell product and stay in business. The LSG unit cost was \$33 million and has an annual operating cost of \$1.8 million per year.

Tier 3 Fuels

CountryMark participated as a Small Entity Representative (SER) on Small Business Advocacy Review (SBAR) panels for both the Tier 3 Fuels and the "Petroleum Refinery Sector Risk and Technology Review and New Source Performance Standard (NSPS)" proposed rule makings. Meetings were held for both panels on June 28, 2011 and August 18, 2011. At the panel meeting, EPA proposed further lowering gasoline sulfur levels from 30 to 10 ppm, and to reduce Reid Vapor Pressure (RVP), the measurement of gasoline volatility.

Sulfur. CountryMark completed the construction and safe start-up of our Low Sulfur Gasoline (LSG) unit at the end of 2010. The LSG unit cost \$33 million and based on the refinery gasoline blending requirements was designed to reduce Fluidized Catalytic Cracking (FCC) unit gasoline sulfur to meet the overall 30 ppm requirement. To meet the stricter 10 ppm sulfur requirement would require the following:

1. Potential capital cost of \$10 million for modifications to the recently installed LSG unit due to needing an additional reactor.
2. Increased severity of LSG operation to further reduce FCC gasoline sulfur. This requires additional energy input which increases GHG emissions and costs over \$200,000 per year for increased natural gas and catalyst costs.
3. Sulfur must also be removed from Alkylation unit gasoline. New equipment to accomplish this is estimated at an initial capital cost of over \$5 million.

Resultant modifications will reduce approximately 12.7 tons of incremental sulfur in the first year at a cost of nearly \$1.2 million per ton. Our existing LSG unit was built to comply with Tier 2 sulfur requirements and removes 45 tons of sulfur in the first year at a cost of \$740,000 per ton.

A comparison of Tier 2 and Tier 3 sulfur requirements demonstrates two things: 1) the cost to remove sulfur from gasoline was extremely high when based on the amount of the pollutant removed; and 2) it would be more capital efficient to set the sulfur level at the lowest level from the start. Every time the reduction target gets incrementally moved it becomes more expensive on a pollutant removal basis. Being capital efficient is critical to CountryMark's and other small refiners' survival. By requiring multiple reductions in different years, capital costs increase. Multi-staged regulations have the potential to drive small refiners out of business because our capital reserves and credit are limited.

RVP. RVP reduction presents both significant financial risk and capital costs. CountryMark blends the majority of our gasoline with ethanol and meets a 9 pounds per square inch (psi) RVP limit, but relies on the 1 psi waiver for ethanol blending. This 1 psi waiver is critical to successfully meeting our renewable fuels obligation. Without the waiver, CountryMark would need to spend capital and sell butane at a significant economic penalty. Meeting the lower RVP requirement would have the following impacts:

1. Installation of a new distillation tower or replacement of an existing tower. Lowering the RVP will require additional energy which would increase GHG emissions. The capital cost for these modifications are estimated at \$15 million and operating costs would increase by approximately \$700,000 per year.
2. Butane production would increase but the capability to blend it into gasoline would be significantly reduced. CountryMark would either need to build additional storage capacity at significant capital cost or sell butane at depressed prices in the summer months. Selling butane compared to blending into gasoline has a penalty of over \$3 million per year and would require upgrades to our existing rail loading facilities.

RVP reduction could potentially be required to also meet lower ozone levels if it is part of a state's implementation plan. In addition, without the 1 psi blend waiver for 15% ethanol blends, the RVP of the base fuel must be reduced. If all three items are promulgated separately, the likelihood of conflicting requirements greatly increases. Capital costs also greatly increase with segmented implementation. A coordinated implementation would ensure compliance efficiency and possibly mitigate capital costs.

III. Petroleum Refinery Sector Risk and Technology Review and NSPS

CountryMark participated as a Small Entity Representative (SER) on Small Business Advocacy Review (SBAR) panels for both the Tier 3 Fuels and the “Petroleum Refinery Sector Risk and Technology Review and New Source Performance Standard (NSPS)” proposed rule makings. Meetings were held for both panels on June 28, 2011 and August 18, 2011. The information that was provided as part of the “Petroleum Refinery Sector Risk and Technology Review and New Source Performance Standard (NSPS)” was inadequate for the purpose of providing flexibility options to the EPA from the SERs.

At the SBAR Panels, the following complex issues were discussed as potential items in the rulemaking: Risk Review; Maximum Available Control Technology (MACT)/NSPS Technology Review; NSPS for Greenhouse Gas (GHG); and other NSPS issues. The significant financial risks, capital costs, and operating challenges from these potential regulations are outlined in the following sections.

Risk Review. EPA issued an information request to every refinery in the industry in 2011. The manpower required to assemble all of the requested information was significant. The information was intended for use in an extensive refining-industry-wide risk model. Our understanding was the model would determine and identify the single refinery nationally with the highest risk which would then serve as EPA’s proxy refinery for regulating the entire industry. For a Small Business Refiner like CountryMark, located in rural attainment areas with low population density, this approach would apply high population density and non-attainment regulations. This one-size-fits-all approach is clearly inappropriate and, if true, would further damage Small Business Refiners’ ability to stay in business.

While at the time of the SBAR panel the specific emission standards or technology requirements were not identified, one issue was specifically proposed: fence line monitoring. CountryMark is in a rural community; there is considerable green space between the refinery and environmental receptors. Moreover, our refinery is small; therefore, our environmental footprint is smaller than the average size refinery. Fence line monitoring in our rural setting would be expected to be disproportionately expensive, and challenging to maintain because experienced analyzer technicians are difficult to hire in our area. Installing fence line monitoring at our refinery is estimated to have a one-time cost in excess of \$150,000.

NSPS Section Ja and MACT versus EPA Enforcement’s National Petroleum Refinery Initiative. EPA Enforcement continues to pursue its National Petroleum Refinery Initiative that focuses on New Source Review/Prevention of Significant Deterioration (NSR/PSD), NSPS, leak detection programs, and benzene.

As a result of this Initiative and the corresponding settlements reached, the refining industry has spent over \$6 billion to install additional control technologies, paid \$80 million in civil penalties, and paid \$75 million in supplemental environmental projects. As part of this settlement initiative, refineries are required to change their operating air permit to ensure compliance. EPA Enforcement's goal is to "level the playing field" by having all refineries under settlement. Approximately 90% of the refining industry has modified their operation to conform to these settlements.

CountryMark is currently negotiating a settlement as part of the initiative. At this time, complying with the expected settlement agreement that addresses the four issues stated above would require capital expenditures of over \$17 million for CountryMark. Operating expenses are also expected to increase by \$1 million per year as a result of the expected settlement terms.

Settlement Initiative versus new regulation proposed at SBAR panels. Many of the proposed rule amendments discussed in the June 28th SBAR meeting overlap and possibly conflict with settlement requirements and potentially other rules. Two examples are: 1) Fluidized Catalytic Cracking (FCC) unit particulate emissions limits; and 2) Flare system flow limits.

From our understanding, NSPS Section Ja could limit FCC particulate emissions to 0.5 pound per 1000 pounds coke burn while our settlement has FCC particulate limits of 1 pound per 1000 pounds coke burn. The difference in these limits potentially drive technology requirements and resulting capital expense. NSPS Section Ja with lower FCC particulate limits would require an additional \$15 million for the installation of required flue gas stack scrubbing technology. The incremental reduction in particulate material for a small FCC like CountryMark's is less than 10 tons per year at a cost exceeding \$1 million per ton reduction in the first year. CountryMark's refinery is located in a rural farming community; our FCC represents a fraction of the area's particulate emissions, which are largely caused by dust from non-paved roads and farming activities or other manufacturing or mining operations in the area. This reality is not reflected in the proposed FCC particulate limits – in either the settlement or proposed rule.

NSPS Section Ja sets the flare system flow limit at 250,000 standard cubic feet per day. However, flare efficiency and minimization limits require natural gas to be introduced into the flare, thereby increasing flow rates and GHG emissions. Requiring additional natural gas to improve flare efficiency could potentially raise the flow above the limit set in NSPS Section Ja. This would trigger the need to install a

vent gas recovery system at a capital cost exceeding \$10 million. Since these systems use compressors, electrical usage would increase with a corresponding increase in GHG emissions.

These two examples clearly illustrate how different requirements conflict and contradict each other. For CountryMark and other small refiners, compliance costs are disproportionately higher because we lack economies of scale. The total cost of compliance for NSPS Section Ja and a potential settlement agreement is estimated at a combined cost of \$42 million with an additional \$1 million per year of increased operating cost.

Greenhouse Gases (GHG). The rulemaking considers regulating GHG emissions as part of NSPS. With the tailoring rule, existing facilities with carbon dioxide emission exceeding 100,000 tonnes per year are required to obtain an updated operating permit and those facilities that would increase carbon dioxide emissions by 75,000 tonnes per year would trigger Prevention of Significant Deterioration (PSD) permit requirements. At the SBAR panel meetings, EPA outlined a plan to further reduce GHG emissions from refineries. Our understanding was that part of this program would be to set a maximum GHG limit on process heaters that would trigger implementation of Best Available Control Technology (BACT).

At a small facility like CountryMark's 27,000 barrel per day refinery, the average size of process heaters is approximately 30 MMBTU/Hr. They are natural draft design and air pre-heat would not be economical in either a retrofit or replacement scenario. If the GHG limit is set at a level equivalent to our average size process heater, it would be considerably more stringent than current requirements. Requiring BACT for small process heaters could result in 50% additional capital compared to current installation costs. Since most Small Business Refinery projects are sensitive to capital costs, this additional increase would make most modifications uneconomical; limiting or precluding growth at the refinery.

In addition to limited growth, there has been discussion of potential limits put on GHG emissions through implementation of a cap and trade regime. A GHG regulatory regime of the variety discussed in Congress in 2009 would be devastating to CountryMark. The first year compliance costs could exceed annual income, as was the case with some prior legislative proposals.

Other NSPS Requirements. Other requirements proposed in the SBAR panel address Leak Detection and Repair (LDAR) programs and benzene National Emissions Standards for Hazardous Air Pollutants (NESHAPs) requirements for wastewater facilities.

1. CountryMark has significant resources invested in our LDAR program. The current program includes over 6500 monitoring points. Adding the fuel gas system to the leak detection program would increase monitoring points by over 50%. Since we are nearly one hundred miles away from the nearest large refinery, we have little opportunity to use the same reputable contractors at a competitive cost. Therefore, our costs are disproportionately greater. Initial estimates show that the cost of the current program would increase by a minimum of \$500,000 per year due to increased monitoring requirements.
2. Changing the wastewater amendment to require controls for less than 10 Mg Total Annual Benzene-in-waste (TAB) would require significant capital for CountryMark. Based on the estimates provided by the EPA, this could be in the millions. Definitive estimates could not be developed at this time because the proposed Benzene floor is not known. The Benzene requirement appears to be driven by the EPA risk review dealing with cancer and non-cancer risks from refineries. CountryMark's wastewater treatment area is not located near our property boundary. Combined with a low TAB, the risk is most likely lower than the threshold that would drive controls.

The total cost of compliance for our potential settlement is \$17 million with an additional \$1 million per year of increased operating cost. NSPS/MACT is estimated to exceed \$28 million with an additional \$1 million per year of increased operating cost.

IV. Renewable Fuels Standard

CountryMark has blended biodiesel since 2005 and ethanol since 2008. The decision to blend these renewable fuels was driven by customer demand and economics. The marketplace was working to drive the use of these fuels. The Renewable Fuels Standard (RFS) changed the natural progression of these fuels by mandating that obligated parties either purchase and blend ethanol and biodiesel or purchase Renewable Identification Number (RIN) credits. Even though there are four distinct categories of renewable fuels required, ethanol and biodiesel are the only products in commercial volumes that can be used to comply with this complicated rule. Cellulosic biofuels are not commercially available; therefore, obligated parties are required to purchase cellulosic waiver credits from the EPA for compliance.

CountryMark became an obligated party under the RFS in 2011. As an obligated party, CountryMark can calculate the cost of compliance by using the current RIN credit pricing and estimated annual standard requirements. Under the current rule, CountryMark’s estimated compliance costs are \$9 million in 2012 and increase to \$64 million in 2021. The average cost of compliance for this period is nearly \$31 million per year. Thirteen small business refiners were granted an additional 2-year extension for compliance based on economic hardship due to the RFS. However, since these costs increase over time, the hardship will only increase. As of today, we predict these costs will eventually drive some Small Business Refiners out of business.

V. Summary

In summary, the cumulative effect of current and proposed EPA regulations as estimated has significant current and future financial impact on CountryMark. Annually, CountryMark develops a 10-year outlook of potential capital spending. Table 1 provides a summary of costs for the planning period of 2010 through 2021. Capital is one-time costs while operating and product costs are on an annual basis. This is required to ensure adequate funding for capital requirements will be available when it is needed. During this economic downturn, credit markets are extremely tight and the volatility of the commodity market and uncertainty from a regulation standpoint makes funding for Small Business Refiners difficult.

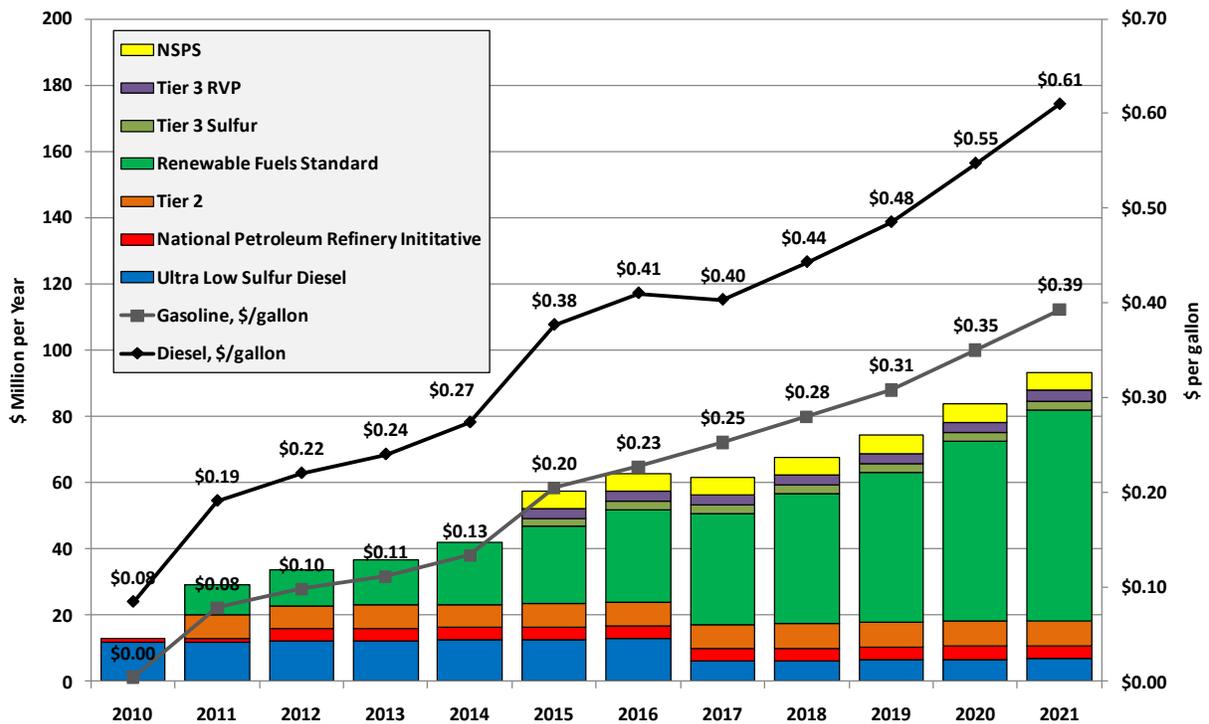
Table 1: Summary of Capital, Operating, and Product Costs

Regulation	Costs in \$Million		
	Capital	Operating	Product
Ultra Low Sulfur Diesel	45	4.4	
Tier 2 Sulfur	33	0.4	
Tier 3 Sulfur	15	0.2	
Tier 3 RVP	15	0.7	3
Refinery Initiative	17	1.0	
NSPS	28	1.0	
Renewable Fuels Standard			31
Total	153	7.7	34

Figure 1 provides the cumulative impact of this spending and the potential impact on gasoline and diesel prices to the consumer. The annual operating cost includes a capital recovery factor which over time

extinguishes when the capital is recovered. However, the timing of current and proposed regulations overlap each other resulting in cumulative increases in cost when viewed in total. This is not to say that all of these costs will be passed to the consumer in every area. Fully integrated oil companies or larger refiners may be able to absorb these incremental costs and continue to maintain profitability. However, for Small Business Refiners like CountryMark these increases cannot be absorbed, they must be recovered. If the market does not bear the additional costs with high prices, eventually marginal refiners will go out of business. Jobs are then lost and gasoline and diesel prices go up. Refinery shutdowns due to lack of profitability are not new to our industry – 117 refineries (nearly half the industry) have shutdown since 1982 according to the Energy Information Agency.

Figure 1: CountryMark Annual Operating Cost and Effects on Gasoline and Diesel Costs



VI. Conclusion

CountryMark operates in a highly competitive commodity market where oil prices and refining margins are influenced by global events beyond our control. Regulation and mandates increase capital requirements, operating costs, and product costs which in turn make refiners, especially those Small Business Refiners like CountryMark, less competitive. When refiners cannot pass on these costs to the

consumer, or absorb these costs, they go out of business. The result is reduced domestic refining capacity and consequentially higher gasoline and diesel costs for the consumer. If domestic refining capacity is reduced, EPA regulations will actually increase U.S. demand for imported fuels and consumer prices will increase.

Currently, EPA reviews and analyzes each regulation separately to determine the impacts on the industry. The current regulatory regime forces our industry to comply with a new rulemaking seemingly about every year or two. The new rules keep coming regardless of environmental improvements that have been made. New rules addressing current rules appear to be proposed before adequate time to determine the benefits of a current rule has occurred.

Industry on the other hand must analyze every aspect of the business including regulation in total. It is critical to understand what the cumulative effects of regulations and mandates are on the business and the timeline over which they will occur. Capital and expense that is spent on regulatory compliance cannot be spent on growth opportunities that lead to higher employment. If these costs cannot be absorbed or passed on to the consumer, refiners will shutdown. Either way, costs will increase in the long term as refining capacity is rationalized.

CountryMark fully supports the requirements of this legislation to take a time out and let the experts review the cumulative aspects of all EPA rulemakings and their effect on the consumer, the industry, and the American worker.

Table of Acronyms

BACT	Best Available Control Technology
DHT	Distillate Hydrotreater
FCC	Fluidized Catalytic Cracking
GHG	Greenhouse Gases
LDAR	Leak Detection and Repairs
LSG	Low Sulfur Gasoline
MACT	Maximum Available Control Technology
NESHAPs	National Emissions Standards for Hazardous Air Pollutants
NSPS	New Source Performance Standard
NSR/PSD	New Source Review Prevention of Significant Deterioration
PSI	Pounds per Square Inch
PSD	Prevention of Significant Deterioration
RVP	Reid Vapor Pressure
RFS	Renewable Fuels Standard
RIN	Renewable Identification Number
SBAR	Small Business Advocacy Review
SER	Small Entity Representative
TAB	Total Annual Benzene-in-waste