

ABC News - Going Green's No Good for Gas Prices

Push for Environmentally Friendly Fuel Makes Oil Companies Fearful to Expand

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Next time you fill up at the pump, think about this: The move toward more environmentally friendly fuels might be pushing up the cost of gasoline.

The big driver behind the current gas price climb is a lack of capacity at the nation's oil refineries.

Building new refineries -- or even expanding existing ones -- is an expensive and time-consuming process. And now it appears that oil companies are also reluctant to do so because of a national push away from their products to biofuels such as ethanol.

Bill Holbrook, communications director for the National Petrochemical and Refiners Association, told ABC News that there are conflicting signals about what path the nation will take coming from both President Bush and lawmakers on Capitol Hill. The president is calling for a 20 percent reduction on gasoline use while some lawmakers are pushing for more biofuels.

If you process gasoline, those in the industry say that none of those developments are necessarily going to make you want to process more.

"If you're a manufacturer in any industry you're going to consider what the implications are going to be 10 years down the road," Holbrook said. "Are you going to make an investment or reinvestment now to expand production ...: to continue making a product that some are trying to limit the distribution of."

For the week ending June 8, the U.S. government's Department of Energy Information Administration reported that the nation's oil refineries operated at 89.2 percent of their total capacity, processing 15.37 million barrels of crude oil each day, down 2.9 percent from the same week in June a year earlier.

At the same time, drivers are using up more gasoline, creating an even larger demand and rising prices.

National gas prices dropped on average 6.7 cents in the past week. A gallon of regular unleaded now stands at \$3.01, according to the EIA.

This marks the third week in a row that gas prices have dropped in every region of the country. However, prices are still nearly 14 cents, or 4.8 percent, higher than the same time last year.

Building a new refinery is not an easy task.

There are numerous hurdles including securing financing, permits and environmental sign offs. Most communities don't want a refinery and even if they welcome one, getting oil and gas to and from the facility can be a challenge.

The last refinery was built in 1976 in Garyville, La.

Although the industry says that through expansions at existing facilities it has essentially added the equivalent of one new refinery a year for some time.

Arizona Clean Fuels hopes to construct a new refinery near Yuma, Ariz., at a cost of \$3.5 billion. But it looks like that project, long in the works, is running into delays. The company's CEO told ABC News nearly two years ago that he hoped to be up and running in 2010. Press reports now peg an opening for 2011.

"It's been difficult to build refineries in the U.S. for many years now," said Greg Priddy, a global energy analyst with Eurasia Group.

Priddy said that the uncertainty about the future of the industry makes companies very reluctant to make the long-term investment needed to increase capacity.

"Congress and the Bush administration are already limited in their ability to affect U.S. gasoline supply and prices, but the biofuels debate adds another layer of complexity to an already intractable problem," the group wrote.

The analysts said there "is a widespread view among the oil industry leadership that it is foolhardy to add refining capacity in a market where the federal government is actively promoting and subsidizing alternative fuels as a substitute for petroleum products."

That reluctance, they said, is likely to keep gasoline prices high for years.

Cindy Schild, refining manager for API, a trade organization for the oil industry formerly known as the American Petroleum Institute, said there are many reasons contributing to refinery shortages including a lack of skilled labor and increase in construction costs, particularly for steel.

"There are numerous factors companies will keep in mind and consider as they're moving forward and evaluating expansion plans but being able to forecast where they think demand is going to be for petroleum products makes a big difference," she said.

"Right now there are a lot of different proposals circulating on biofuels, or alternative fuels or renewable fuels."

In the end, Schild said, this is a business.

"They are in the business to meet demand and have a reliable supply but they are also in the business to see a profit," she said. "If the demand's not going to be there, it doesn't make sense to have that investment."

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