TESTIMONY OF STEVE COUSINS

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EL DORADO, ARKANSAS

BEFORE THE

HOUSE ENERGY AND COMMERCE COMMITTEE'S

SUBCOMMITTEE ON ENERGY AND THE ENVIRONMENT

HEARING ON

"ALLOWANCE ALLOCATION POLICIES IN CLIMATE LEGISLATION: ASSISTING CONSUMERS, INVESTING IN A CLEAN ENERGY FUTURE, AND ADAPTING TO CLIMATE CHANGE"

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Chairman Markey, Ranking Member Upton and Members of the Subcommittee, my name is Steve Cousins and I am the Vice President of Refining for Lion Oil Company. My training is as a chemical engineer and I have spent my 31 year professional career at Lion Oil.

Lion Oil is headquartered in El Dorado, Arkansas and has been in operation for over 85 years. Our refinery produces approximately 70,000 barrels per day and our main products are gasoline, diesel fuel and asphalt. We sell to customers throughout a five state region surrounding Arkansas which results in employment of 1,200 direct employees in our unionized El Dorado facility and approximately 3,600 other individuals that depend indirectly on Lion's plant for their livelihoods. Lion Oil is a leading economic engine in Southeastern Arkansas.

Thank you for inviting me to testify. The subject of this hearing – the allocation of CO_2 allowances under the cap and trade legislation which passed in the House Energy and Commerce

Committee on May 21st – is extremely important to me and Lion Oil. My fundamental message to this Subcommittee today is very simple and very direct. From Lion Oil's point of view, the proposed allocation of allowances under ACES – if not changed dramatically between now and enactment into law – will result in the shuttering of our refinery and the destruction of the 1,200 jobs that we have worked for decades to bring to Southeastern Arkansas.

I would first like to note that including fuels in a cap and trade program is redundant and unnecessary. In 2007, Congress passed and the President signed into law the Energy Independence and Security Act, or EISA. This legislation already requires refiners blend 36 billion gallons of renewable fuels into the nation's fuel supply by 2022. These fuels have to meet specific carbon reduction targets and come at a significant cost to refiners and consumers. In addition to the biofuels requirements, EISA also increased CAFÉ standards, requiring auto makers to achieve a fleetwide average of 35 miles per gallon by 2020. Furthermore, the Obama Administration recently announced that EPA and DOT will start working on a nationwide greenhouse gas tailpipe standard. With all these initiatives underway, it is not necessary to impose further regulations on transportation fuels and consumers in a CO2 cap and trade bill.

If Congress insists on including transportation fuels in a cap and trade program and making refiners hold allowances for those products, it must provide the industry with a fair and equitable allowance allocation. According to EPA's best estimates, the combined CO2 emissions from domestic petroleum refineries and the combustion from customers of these products constitute approximately 35 percent of the nation's current CO2 inventory. These emissions also represent approximately 52 percent of ACES' total emissions allowance pool in 2014. And yet, the bill as currently drafted only provides our industry with two percent of the CO2 emissions allowances during the early years of the cap and trade program. In other words, ACES would force the domestic refining industry to purchase over 90 percent of the allowances it would need for compliance with the legislation.

Compare that proposed allocation to other industries under the bill. Electricity generators would receive allocations for 90 percent of their CO_2 emissions. So-called "energy intensive industries," would receive allocations for 100 percent of their CO_2 emissions. And remarkably, domestic auto manufacturers – who in fact are not responsible for CO_2 emissions at all under the bill – would receive three percent of the CO_2 allocations under the bill.

Stated simply, domestic petroleum refiners like Lion Oil are short-changed dramatically in this legislation. While I respect the position of the Chairman and the proponents of this bill, the fact is that petroleum will continue to be the primary transportation fuel for this country for the next several decades, and therefore, the current allocation formula must be changed drastically.

I am not an economist, an academic or a consultant. I run a petroleum refinery. But I strongly believe that if the bill's current allocations stand, the impact on Lion Oil will be profound. It is estimated that our refinery and the fuels we produce there emit 10 million metric tons of CO_2 each year. Therefore, under this bill's mandates we will have to purchase on the open market 9 million CO_2 allowances annually. If it is assumed that those allowances will cost $20.00 per ton (which likely underestimates the actual costs), Lion Oil will have to spend $180 million a year to purchase allowances in the first years of the cap and trade program under this bill. In the later years of the program, some estimates indicate our company could be forced to spend approximately $750 million in 2030 and nearly $2 billion in 2050.

Lion Oil is not a company that can offset such costs through profits from other lines of business, such as upstream oil production or retail. Lion is a pure play independent refiner. Our refining operation has to pay for itself or the plant cannot continue to operate. In short, without a fair and equitable allowance allocation, our company will be unprofitable in year one and insolvent within a matter of months, not years.

A quick comparison of our net profits to the cost of allowances should make it clear that we cannot absorb even a relatively small portion of the costs of compliance and remain a viable company. Over the last 23 years, Lion Oil's average annual net profits have been $13 million per year. It is not hyperbole to say that the addition of $180 million per year to the operating costs of a refinery that averages $13 million per year in net profits will make our survival impossible.

The proponents of this bill counter that I am wrong and that Lion Oil will simply pass these compliance costs through to consumers in the form of higher retail pump prices for gasoline and diesel fuel. This argument reveals a fundamental disconnect between academic economics and the real world in which I and my company operate. To put it bluntly, proponents of such "pass through" concepts are wrong.

Let me give you a brief example of why they are wrong and why markets pure play – driven by millions of consumer choices, not just costs – set the price of gasoline and diesel fuel on the street. Between 2005 and the summer of 2008, the price of crude oil rose 231 percent, while the price of gasoline on the street rose only 122 percent. If refiners like Lion Oil are able to "pass through" the brunt of our increased crude oil costs to our customers, don't you think we would have done so during this period?

Even if it is assumed 90 percent of carbon costs can be passed through – an extremely tenuous assumption – for my company, the remaining ten percent – $18 million dollar per year in compliance costs – represents almost 150 percent of our annual net profit. No company, including ours, can survive such negative financial results for long.

In the real world, this bill's treatment of domestic refiners with respect to allocation of allowances is simply a thinly-veiled attack on crude oil as an energy source and domestic refiners as a provider of energy to consumers, farmers and truckers.

The Members of this Subcommittee, and the American consumers, should care about this attack and should fight back against it for several reasons. First, even if the rosiest projections for the development of renewable and alternative transportation fuels are accurate, petroleum will continue to be the dominant form of energy for transportation for the next two or three decades. Second, this bill will give an insurmountable competitive advantage to foreign refiners over domestic refiners like Lion Oil, and will result in the outsourcing of our energy future and the loss of hundreds of thousands of domestic jobs in the refining industry and at the companies that rely on our industry.

Third, this attack on domestic refiners cannot be justified on an environmental or climate change basis given the generous allowances allocated to other industries that emit CO_2. And finally, it is the consumers that ultimately will pay for this bias against domestic refiners, either through higher retail prices for gasoline and diesel, higher food prices due to higher energy costs to farmers, increased dependence on foreign oil and refined petroleum products or higher costs for all products due to higher transportation energy costs.

I would like to briefly elaborate on the previously mentioned threat from foreign competition. This point is significant, given the fact that India is building a one million barrel per day refinery to make transportation fuels that will be exported almost exclusively to the U.S. and European markets. This massive refinery – larger than any refinery in the United States – is equal to the total capacity of about 15 Lion Oils. Under this bill, this Indian refinery, which already operates at a significant cost advantage, will not be required to purchase allowances for the CO_2 emitted from its plant. As a result, Lion Oil and other domestic refiners will be placed at an immediate and perhaps fatal competitive disadvantage with respect to this Indian refinery and other foreign refiners. Such a competitive disadvantage will inevitably lead to U.S. domestic refining capacity being shut down – to be replaced entirely by transportation fuels imported from foreign refineries.

To summarize, the current allocation of allowances under this bill is at best unfair and at worst punitive. It will cause my company, and perhaps many other refiners across the United States, to close their domestic refining operations. This bill should be defeated in its current form to protect the domestic refining industry and the quality jobs we provide to tens of thousands of individuals across the country, and to protect consumers, farmers and truckers from higher gasoline and diesel fuel prices.

I appreciate the opportunity to appear before you today and I would be pleased to answer any questions that you may have.