

GAO

Testimony

Before the Honorable Nicholas Mavroules, Chairman,
Subcommittee on Investigations, House Committee on Armed
Services

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GASOHOL

Federal Agencies' Use of
Gasohol

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Mr. Chairman and Members of the Subcommittee:

We are pleased to be here today to discuss the results of our review, conducted at this Subcommittee's request, of federal agencies' use of gasohol (gasoline containing 10 percent ethanol) in the federal government. Specifically, we were asked to review three issues: (1) gasohol's role in federal alternative fuels policy; (2) the actual and potential consumption of gasohol by federal agencies; and (3) whether the fuels industry can supply enough gasohol to meet federal needs and if there are other impediments hindering federal agencies' use of gasohol.

In summary, we found that:

- To help reduce imported oil, the Energy Security Act of 1980 and a 1981 Executive Order directed federal agencies that own or lease motor vehicles to use gasohol where it is available at reasonable prices and in reasonable quantities. In the early 1980s, the General Services Administration (GSA) and the Department of Defense (DOD) provided guidance encouraging the use of domestically produced gasohol in federally owned or leased motor vehicles. GSA and DOD are currently revising guidance on alternative fuels and gasohol in accordance with the administration's National Energy Strategy, issued in February 1991, and an April 1991 Executive Order on federal energy management.
- During fiscal years 1988 through 1991, DOD, which procures motor fuels in bulk for use by all federal agencies, has purchased an average of about 1.6 million gallons of gasohol per year, about 1 percent of the average 154 million gallons of gasoline purchased in bulk each year. Motor fuels can also be purchased at public gasoline stations by individual drivers under a government credit card program and through small quantity local purchase programs, but the large federal motor fuel users do not track gasohol purchased these ways. While exemptions to the use of gasohol allowed by DOD have contributed to limiting bulk purchases in the past, the potential exists for increased use as a result of actions recently taken by DOD to eliminate or tighten a number of exemptions. Credit card purchases of gasohol could also increase with additional planned promotion by DOD.
- Suppliers have not been able to meet all recent federal requests for gasohol. Suppliers we contacted identified several reasons for this, including (1) few sources of gasohol in their regions; (2) limited consumer demand in some regions, discouraging fuel terminal operators from handling gasohol; (3) pressure to use ethanol to satisfy existing or proposed environmental regulations, rather

than to make gasohol; (4) extra handling expenses for gasohol; and (5) lack of information on the part of some suppliers regarding federal gasohol requests.

Before I discuss these issues in more detail, let me provide some background.

BACKGROUND

Based on the latest available information, federal agencies own and operate approximately 530,000 automobiles, buses, and trucks. Fuel for these fleet vehicles is obtained by three methods.

First, the Defense Fuel Supply Center (DFSC), through its Posts, Camps, and Stations (PC&S) program, purchases motor vehicle fuels in bulk for both DOD activities and for federal civilian agencies. Under this program, DFSC requests regional fuel requirements from the government agencies and then issues regional solicitations for contracts with fuel suppliers to deliver a variety of fuels, including gasoline and gasohol, to numerous storage tanks located at federal activities throughout the country.

Second, individual drivers can purchase motor vehicle fuels at public service stations under the government credit card program. DFSC is responsible for contracting with fuel providers to honor the credit cards, while GSA oversees the actual issuance of the cards to users.

Third, individual federal activities can purchase motor fuels in bulk directly from local suppliers if the federal activity uses less than 10,000 gallons of fuel a year.

GASOHOL'S ROLE IN ALTERNATIVE FUELS POLICY

In the Energy Security Act of 1980, Congress found that United States dependence on imported oil should be reduced. To help accomplish this goal, the act requires federal agencies that own or lease motor vehicles capable of operating on gasohol to use gasohol where it is available at reasonable prices and in reasonable quantities. In accordance with the act, Executive Order 12261, "Gasohol in Federal Motor Vehicles" (Jan. 5, 1981), requires federal agencies procuring unleaded gasoline to give preference to gasohol whenever feasible. The order delegates authority and responsibility concerning the use of gasohol to DOD for vehicles that it operates and to GSA for the vehicles that federal civilian agencies operate. It also requires DOD and GSA to develop appropriate guidelines for implementing the order.

DOD issued policy guidance in 1981 that requires DOD, to the maximum extent feasible and consistent with overall defense needs

and vehicle management practices, to contract for the purchase of gasohol for use in motor fleet vehicles owned or operated by DOD. According to the guidance, gasohol and unleaded gasoline are interchangeable. The guidance further provides that DOD will give preference to purchasing gasohol instead of unleaded gasoline when it is offered at a price equal to or lower than the price of unleaded gasoline. In 1988, DOD updated its policy guidance, restating the preference for gasohol and restating its position that gasohol may be used interchangeably with unleaded gasoline.

In line with the executive order, in January 1980, GSA had issued policy guidance on gasohol use to all GSA regional administrators and to the heads of other federal civilian agencies. GSA established a goal of 10 percent gasohol use by GSA motor pools and required all GSA vehicle operators to use gasohol whenever available. Other agencies were urged by GSA to establish programs to promote the use of gasohol by their vehicle operators.

The Clean Air Act Amendments of 1990 promote the use of clean fuels, including alternative fuels, reformulated gasoline, and fuels containing oxygen, which could include gasohol. In February 1991, the administration issued the National Energy Strategy, which encourages, among other things, energy conservation and the use of alternative fuels. Subsequently, in April 1991, the President issued Executive Order 12759 on federal energy management. This order directs federal agencies to reduce motor vehicle consumption of gasoline and diesel fuel by at least 10 percent by 1995. It also requires the purchase of alternative-fueled vehicles by the federal government. To implement the order, DOD and GSA are developing revised guidance that addresses the use of alternative fuels and blended fuels, such as gasohol, which could substitute for gasoline in meeting fuel use goals.

ACTUAL AND POTENTIAL CONSUMPTION OF GASOHOL BY FEDERAL AGENCIES

During the past several years, DFSC's bulk purchases of gasohol for use by federal agencies have been relatively limited. Contract award data furnished by DFSC show that for the past 4 fiscal years (1988-1991) gasoline purchases have averaged approximately 154 million gallons per year. During the same period, purchases of gasohol averaged only about 1.6 million gallons annually, or 1 percent of the total fuel purchases under DFSC's bulk purchase program. In contrast, national retail sales of gasohol have averaged about 7 percent of total gasoline sales over approximately the same period. Among the largest federal users of gasohol were the Departments of Energy and Interior, the National Aeronautics and Space Administration, and a small number of individual DOD facilities.

Under the federal credit card program, DOD officials estimated that gasoline purchases amount to about 140 million gallons annually--somewhat less than the bulk gasoline purchases by DFSC. However, since neither GSA nor DOD currently has the capability of tracking gasohol purchased by credit card, figures on gasohol use under this program are not available. DFSC officials told us that they are currently exploring the potential for remedying this problem by having the major fuel marketers who accept the credit card to voluntarily generate reports on purchases of gasohol, as well as of a number of other products.

Another area of concern regarding the credit card program is the fact that, notwithstanding the policy statements advocating the use of gasohol that I discussed earlier, the Government Vehicle Operators Guide prepared by DFSC does not encourage the use of gasohol. For example, the guide lists the gasoline outlets that accept the credit card more prominently than it does the gasohol outlets, and it says nothing about giving preference to gasohol. Again, DFSC officials told us they are revising the operators' guide to bring it in line with existing policy.

Because DFSC is not responsible for local bulk fuel purchases under 10,000 gallons, it keeps no records of either gasoline or gasohol purchased by this method. Therefore, estimates are not readily available from DFSC of actual or potential gasohol consumption by federal activities using this type of procurement.

According to DOD, DFSC bulk purchases of gasohol have been relatively small in the past in part because DFSC has granted a large number of exemptions to gasohol use. These exemptions, which have been based either on general criteria--such as the adverse impact of gasohol on an agency's mission--or on specific criteria--such as the incompatible storage facilities--have permitted many federal users to refuse gasohol. For example, the U.S. Army, the Air Force, and the Postal Service--which are among the largest users of vehicles and fuel in the federal government--have claimed blanket waivers from requirements for using gasohol.

In March 1992, as required by the National Defense Authorization Act for Fiscal Years 1992 and 1993, DOD and GSA issued to the House Committee on Armed Services a Report on Exemptions Concerning Gasohol Use in the Federal Government. According to the report, during the period 1990-1991, federal agencies claimed 2,200 exemptions and none were disallowed. As a result, federal agencies accepted gasohol in lieu of gasoline to meet only a small portion of their requirements during this period. The report concluded that many of the justifications for granting exemptions, particularly the blanket exemptions, were no longer valid and should be tightened or terminated.

Recent actions taken by DOD to eliminate or restrict a number of exemptions to the use of gasohol by federal agencies could increase the potential for using gasohol. For example, on February 10, 1992, DFSC notified federal agencies in region 7-- comprising the states of California, Nevada, Utah, and Arizona-- that blanket waivers of gasohol use would no longer be accepted. Following this action, requests for gasohol from agencies in region 7 increased from 4 percent of the gasoline requested for the previous delivery period to 81 percent for the subsequent period. DFSC has not yet received bids for region 7 requirements, so the effects of the increased requirements are not yet known. Gasohol requests have gone up substantially in some other regions as well.

While figures on credit card purchases of gasohol are not available, the fact that the operators guide does not promote gasohol use suggests that gasohol purchases could increase considerably under this program. Moreover, according to DFSC officials, some key regional gasohol marketers have not been able to join the credit card program because their accounting systems have been incompatible with the credit card system. These officials believe that they may be able to resolve this incompatibility and thereby increase the number of retail gasohol outlets accepting the credit card.

FUELS INDUSTRY SUPPLY OF GASOHOL AND OTHER
IMPEDIMENTS HINDERING GREATER USE OF GASOHOL
BY THE FEDERAL GOVERNMENT

Concern about gasohol supply stems from statements by DFSC officials that, even when gasohol is included in requests by federal agencies and subsequent contract solicitations, gasoline suppliers seldom offer gasohol when responding to these requests. And, in the few cases where gasohol has been offered, the price has generally been higher than for gasoline, preventing DFSC from accepting the gasohol bid.

We identified fuel suppliers, most of whom provide gasoline to federal agencies through DFSC contracts. We interviewed officials from 20 of these fuel providers and 4 fuel industry trade associations.¹ We did not, however, contact a statistically representative national sample of fuel suppliers. Collectively, those we interviewed offered the following explanations for the limited number of competitive gasohol

¹Fuel providers contacted included 1 ethanol producer and 19 firms that distribute gasoline and/or gasohol. The trade associations contacted were the Society of Independent Gasoline Marketers of America, the Renewable Fuels Association, the American Petroleum Institute, and the Petroleum Marketers Association of America.

proposals in response to DFSC solicitations.

- Limited Availability. About a third of the suppliers contacted said that they did not have access to enough reliable sources of gasohol (or ethanol for blending gasohol) to permit them to bid on a long-term government contract. While they might be able to locate one source of gasohol, they require numerous sources when entering into a long-term contract in order to avoid supply disruptions. This shortage of sources makes offering gasohol in bids on government contracts more risky than gasoline, for which there are numerous sources.
- Supply Problems More Pronounced on East and West Coast Because of Low Retail Sales. Some suppliers indicated that public reluctance to purchase gasohol plays an indirect role in the lack of government suppliers of gasohol. They said that this consumer reluctance is particularly evident on the East and West Coasts. Therefore, these suppliers believe major oil companies sell little gasohol at their stations outside the Midwestern farming region, where ethanol is largely produced, and so they do not handle it at their fuel terminals in those areas. This in turn limits the availability of gasohol supplies that I discussed earlier, because government suppliers rely on the terminals of the major oil companies for their supplies.
- Pressure on Supply and Price Because of Oxygenate Program. A number of suppliers we interviewed identified the forthcoming federal oxygenate program as the key reason for limiting the availability and raising the prices of ethanol. The oxygenate program requires gasoline to have a specified minimum oxygen content during winter months in areas where carbon monoxide emissions are a problem. Blending ethanol with gasoline provides the required oxygen, and suppliers believe that the oxygenate program demand for ethanol has raised the price of ethanol above its traditional value, making less of it available to make gasohol. Suppliers also believe that in anticipation of the federal oxygenate program going into effect this November, some major fuel providers are stockpiling ethanol as part of their strategy to meet oxygenate requirements in key locations such as California. They also believe this diversion of existing ethanol production may be contributing to higher prices and limiting the availability of gasohol to suppliers seeking to bid on regional government contracts.
- Anticipated New Environmental Regulations. The Environmental Protection Agency (EPA) and the California

Air Resources Board (CARB) are considering additional regulations that would require reformulated gasoline to be sold in areas of the country that do not meet clean air standards for ozone. As with the oxygenate requirements, these new requirements may lead to an increased demand for ethanol, which could be used as an additive in reformulated gasoline. Some fuel suppliers we spoke with believe this situation, in turn, may be contributing to additional stockpiling of ethanol. I should add that it is unclear whether reformulated gasoline will contain enough ethanol to qualify for tax benefits. I should also point out that if reformulated gasoline requirements call for less than 10 percent ethanol, gasohol may be prohibited where reformulated gasoline is required to be sold.

- Extra Handling Expenses for Gasohol. Even in locations where supplies of gasohol or ethanol remain available, some suppliers said that the extra costs of handling gasohol often make it uneconomical in comparison with gasoline. For example, some said they have to obtain gasoline and ethanol from two different terminals, and the additional transportation costs make gasohol less profitable than gasoline. Or, even if a supplier can obtain gasohol already blended at a terminal, suppliers say they need extra tankage at their own facilities to handle the gasohol. These suppliers said the cost of the extra tankage may not be justified by the potential profit from a gasohol contract.
- Some Suppliers Poorly Informed About Federal Gasohol Requests. Comments from a few suppliers suggest that a lack of information may be contributing to the small number of bids for gasohol. For example, some suppliers were under the mistaken impression that gasohol bids for federal agencies do not receive the benefit of reduced federal excise taxes, so they considered it pointless to offer gasohol.

Our discussions with DFSC officials indicate that they have recognized a need to identify additional gasohol suppliers and are taking steps to do so. For example, DFSC recently published a notice in several national trade association publications that it is seeking gasohol suppliers. As a result, 37 new suppliers asked to be added to DFSC's mailing lists so that they may receive future solicitations for gasohol.

CONCLUSION

In conclusion, the bulk purchases of gasohol for use in the federal motor vehicle fleet have been limited. In addition, the extent to which gasohol has been used by federal credit card

purchasers of motor fuel is unknown. Efforts to eliminate or tighten exemptions from requirements for the use of gasohol and plans to promote its use among credit card users may increase demand. DOD has advertised the need for additional suppliers in trade publications, and as a result, more suppliers have asked to receive information on future federal contracts. Questions remain, however, concerning DOD's and industry's ability to meet increased demand, particularly given the current limited availability of gasohol; pending environmental regulations that may increase the demand for ethanol; and the cost competitiveness of gasohol when additional handling and other costs are considered.

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This concludes my prepared statement. I will be pleased to respond to any questions you or Members of the Subcommittee may have.