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Arguments against Laurel Pipeline reversal fall short

By Colin McNickle

To reverse or not to reverse. That is the question facing the Pennsylvania Public Utility Commission (PUC), now considering a request to allow a company to alter part of the flow of a major cross-state fuel pipeline.

And while the proposal has resulted in much s*turm und drang* among some Keystone State refineries, gasoline retailers and pols alike, scholars at the Allegheny Institute for Public Policy have concluded their objections largely are baseless.

Buckeye Partners, owner of the Laurel Pipeline, seeks to reverse the flow of the western portion of the 350-mile pipeline (from Midland in Beaver County to Altoona in Blair County) that now transports gasoline, diesel and jet fuel from Philadelphia-area refineries to Western Pennsylvania.

Buckeye says the reversal would allow for more and cheaper fuel products to be piped into the western half of the commonwealth from Midwestern refineries.

It cites a drastic 80 percent reduction in less-competitive Philadelphia-area product over the last decade. And it's also setting the stage for someday pushing a more competitively priced product to East Coast markets.

Critics, however, contend the move would limit supply (the Laurel Pipeline is the region's sole supplier of East Coast product, they argue) and, thus, create monopoly conditions that would raise prices. They also argue that the Philadelphia-area refineries would be harmed by the reversal and that jobs would be lost.

But the facts suggest otherwise, say Frank Gamrat, a senior research associate at the Allegheny Institute, and Jake Haulk, the Pittsburgh think tank's president *(in Policy Brief Vol. 17, No. 24*).

"Given the East Coast refiners are supplying only a fraction of the transport fuels Western and Central Pennsylvania markets are using, with the rest provided by pipelines from the North and West, the objections to the flow reversal appear to be of very limited or no merit," they say.

"In sum, the PUC's central issue is how heavily to weigh the long term availability and stability of the supply of domestically produced crude and ample supply of refined products," Gamrat and Haulk say.

And it appears there is an ample and stable supply of both.

Citing data from Morningstar Commodities Research, Gamrat and Haulk note there are 26 transport fuel refineries in the Midwest with a production capacity of 3.9 million barrels of fuel per day

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"Unlike refiners in the East, they have increased production by 0.3 million barrels per day since 2010," the scholars say. "And whereas East Coast refiners are largely cut off from domestic crude supplies, Midwestern refineries are awash in domestic crude as well as crude from Canada.

"In short, Midwest refineries are well positioned geographically relative to oil production, now and for the foreseeable future."

And that should translate into lower prices. Despite the protestations of some local gasoline retailers, "post-reversal competitiveness should not be an issue," Gamrat and Haulk say.

Furthermore, the researchers note that if the Philadelphia-area refineries can significantly improve their competitiveness, they still could tap a huge market from Eastern Pennsylvania to Maine.

"Thus, the refinery objections should not be a determining factor in the PUC's decision," Gamrat and Haulk say. "Allowing reversal of the Laurel Pipeline would, in effect, be forcing East Coast refineries to become more cost competitive – a good thing for everyone in the long run."

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