



Designate and Track

November 16, 2004



OVERVIEW



- The Program requires refiners and importers to designate the volumes of diesel fuel they produce and import.
- They will identify whether:
 - The fuel is highway, NRLM, heating oil or other category; and
 - The applicable sulfur level.
- Refiners/importers may fungibly ship highway and NRLM diesel fuels that meet the same sulfur specification without dyeing the NRLM at the refinery/terminal gate.
- The volume designations will follow the fuel through the distribution system, but terminals are permitted to change the designations subject to certain limitations.
- Designate and Track includes recordkeeping and reporting requirements for all parties in the fuel distribution system until the fuel exits the terminal.

OVERVIEW (continued)



- Each entity in the fuel distribution system, up through and including the point where the fuel is loaded onto trucks, must register each of its facilities with EPA no later than December 31, 2005.
- Terminals are already familiar with tracking systems—the IRS Exstars report. However, Designate and Track is more complex.
- It is a more layered approach:
 - The terminal tracks products in and out of the facility;
 - The terminal ensures appropriate volumetric balances; and
 - The terminal may redesignate fuels but must restore volumes to meet compliance requirements.

Terminal Obligations



The fuel received by terminals will be designated by volume, sulfur content and type of fuel. The tracking provisions are designed to ensure that certain fuel shifts do not occur:

- 500 ppm sulfur NRLM diesel fuel may not be shifted to the highway market
- 500 ppm LM diesel fuel may not be shifted into the nonroad market;
- Inappropriate downgrading of 15 ppm highway to 500 ppm highway is prevented; and
- Heating oil is not shifted to the NRLM market.

Terminal Obligations

In addition, terminals must ensure that the running balance of total highway-designated fuel that they delivered from the beginning of the program does not exceed the volume of highway fuel they received and had in their possession at the beginning of the program (adjusted for changes in inventory).



Redesignation

Terminals may redesignate fuels on a daily basis to respond to market conditions (e.g., a cold snap hits and additional heating oil is needed).

Terminals may redesignate fuel while in its custody, subject to certain volume balance requirements that must be maintained each quarter:

- Volumes of 15 ppm and 500 ppm highway received must be compared to volumes of these fuels delivered;
- Volumes of 500 ppm highway and 500 ppm NRLM received must be compared to volumes of these fuels delivered;
- Volumes of 500 ppm NR and LM received must be compared to volumes of these fuels delivered; and
- Volumes of heating oil received must be compared to volumes delivered.

Recordkeeping - Basic Tracking



New recordkeeping procedures are a key component in tracking the fuels.

To track products in and out of the facility and ensure appropriate volumetric balances, a terminal must maintain records of each batch:

- Batch number and an indication as to whether the batch was received into the facility or delivered from the facility;
- The date and, if multiple batches are delivered per day, time of day that custody was transferred;
- Designation;
- Volume in gallons of each batch; and
- The name and the EPA entity and facility registration number to or from which such batch was transferred.

Recordkeeping for Redesignation

In particular, the terminal will need systems and procedures to ensure that, when fuels are redesignated, the terminal still achieves the volume balance requirements. Not easy to meet these requirements because the volumes redesignated are not generally ratable:

- Volumes vary due to seasons and weather conditions.
- Even in a given quarter (e.g., January to March), volumes of redesignated fuel may vary significantly.



Recordkeeping for Redesignation

(continued)



Terminals will likely need customized software to ensure accurate tracking of redesignated fuels and to facilitate maintaining the required compliance balances.

It would be most helpful if such software identified with specificity the redesignated fuel and routinely informed the operator of the volume of fuel that must be restored within each quarter.