



INDEPENDENT LUBRICANT MANUFACTURERS ASSOCIATION

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September 30, 2005

By Hand Delivery

Honorable Samuel W. Bodman
Secretary of Energy
U.S. Department of Energy
7A-257/Forrestal Building
1000 Independence Avenue, S.W.
Washington, D.C. 20585

Dear Secretary Bodman:

Independent lubricant manufacturers join with every citizen in working for and contributing to a prompt recovery of the Gulf Coast area from the devastation of Hurricanes Katrina and Rita. The Independent Lubricant Manufacturers Association (“ILMA”) appreciates the efforts by the Department of Energy’s (“DOE”) Office of Electricity Delivery and Energy Reliability to keep the public informed, in part, about the status of petroleum refineries affected by the two storms. However, while you and the President have properly focused on the ability of people across the country to get gasoline, ILMA wanted to share its concern with its members’ near-term access to supplies of lubricant base oils, especially “Group II” paraffinic stocks. Our economy – from vehicles to throughout the industrial and manufacturing sectors – cannot operate without lubricants.

ILMA, established in 1948, is a national trade association of 139 manufacturing member companies, consisting largely of small businesses, ranging in size from fewer than 10 to more than 200 employees. As a group, ILMA member companies blend, compound and sell over 25 percent of the United States’ lubricant needs and over 75 percent of the metalworking fluids utilized in the country.

Group II base oil is one of three types of paraffinic base oils produced in the United States and Canada. Paraffinic base oil is used to produce automotive engine oils, industrial lubricants, and other lubricant products. Group II stocks are needed to meet recently-promulgated performance standards (ILSAC GF-4/API SM) for lighter-viscosity motor oil formulations in new automobiles. Group II base oils also are widely used to make lubricants for a variety of industrial applications in plants nationwide.

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As the result of Hurricanes Katrina and Rita, industry experts estimate that approximately 42 percent of the nation's paraffinic base oil production had been shut down as of earlier this week. At the same time, the overwhelming majority of the United States' Group II production remains offline. According to DOE's latest "situation report," the two largest Group II refineries – Shell/Motiva in Port Arthur, Texas and Excel Paralubes (ConocoPhillips/Flint Hills Resources) in West Lake, Louisiana – sustained some damage and remain shut down. ILMA members and other industry participants have received no indication when these affected refineries may resume operations.

Assuming that it takes several weeks to get these Group II refineries restarted, ILMA is concerned that there will be at least a month's shortfall in Group II base oil supply. The nation's distribution system for base oils is such that ILMA members and most industry participants typically do not carry more than one month's inventory of any type of base oils, including Group II stocks. Thus, it is very possible for there to be shortages, leading to nationwide disruptions for manufacturers and consumers who need the lubricants made from Group II stocks. Our economy may take a big blow and not just in the areas directly hit by the two hurricanes. Even if the Group II refineries can be restarted sooner, there still may be supply dislocations (including for Group I stocks, as well) as the result of transportation and logistical issues in the Gulf Coast. ILMA members have not been apprised by their refiner/suppliers of any base oil allocations as the result of any shortfall for Group II stocks or some switching to Group I base oils.

Accordingly, ILMA requests that DOE take the necessary steps to evaluate the supply situation for lubricant base oils, especially Group II stocks, in order to minimize any dislocations and unwanted effects on the economy. We would be happy to meet with you or your staff to discuss the matter and to determine whether there is any action that may be needed to be taken by the Federal government to minimize any disruptions to the lubricants industry and the public.

Sincerely,



James A. Taglia
President

cc: Kevin M. Kolevar, DOE (8H-033/FORS)
ILMA Board of Directors
Jeffrey L. Leiter, Esq.