

2005 CIOMA Government Relations Committee End-of-Year Report

2005 was an extremely active and largely successful year for CIOMA on a number of fronts. Again, we were deeply immersed on a wide variety of highly technical issues and have become an even more recognizable force to state lobbying interests, associations and other organizations. Further, CIOMA bolstered its reputation as an honest broker and trustworthy ally, as well as a group with a deep and well-connected membership.

We continue to make progress in achieving the CIOMA vision, **“To make independent oil marketers so strong that we are *the* dominant force in the petroleum marketing industry.”** *The public is aware of and values the role of independent fuel marketers, and understands the basic issues regarding fuel servicing needs, pricing and similar issues. Legislators, regulators and the press trust CIOMA, and call CIOMA first prior to taking any action related to the fuel marketing industry.*

2005 posed many challenges for the petroleum industry. As Governor Schwarzenegger’s administration began to mature it became clear that he favored “innovative” appointments to state environmental agencies, and his position on environmental issues tended to be unclear, at best. However he strengthened his pro-business agenda as the year progressed, with additional bolstering in his vetoes’ of controversial legislation. And his appointments to environmental agencies started showing some backbone; at least slowing down the rush of expensive, technology-forcing regulatory mandates.

Unfortunately the Governor committed to a confusing and badly-targeted set of initiatives which were soundly defeated in the November special election. This will embolden the liberal left, controlling leadership in both houses of the Legislature, and will provide additional leverage to interest groups such as the trial lawyers, unions, teachers and environmental groups when it comes to negotiating 2006 legislation and budget issues.

The year in review:

January

Opposition begins on controversial SCAQMD proposal to limit service station locations “close” to schools. The district with the most expensive and complicated air regulations, the South Coast Air Quality Management District (SCAQMD) proposes a rule that would prohibit location of existing and new service stations within 1000 feet of a school or school district property slated to be a school. They use air toxics “risk management” techniques that are flawed and unscientific. They contend that service stations should be held to “one death in a million” air quality standards, while ambient air breathed by students presents a risk of about 1400 in a million risk. South Coast CIOMA members fight this battle all year long, with a decision still up in the air at the end of the year.

Buyer announced for Shell Bakersfield refinery. CIOMA’s vigorous efforts to halt the sale of the Shell Bakersfield refinery pay off when Flying J is announced as a buyer for the facility.

CIOMA protests unreasonable Energy Commission fuel marketing reports. CIOMA begins a half-year struggle to eliminate a regulatory proposal that would require most members to provide

monthly reporting to the Energy Commission on fuel purchases, sales and pricing. See more details later in the year.

CIOMA gathers information from members regarding proposed Valero/Kaneb acquisition of terminal and pipeline assets. Valero announces it wants to purchase Kaneb northern California terminal and pipeline assets (along with other Kaneb assets nationally). CIOMA queries members regarding their use of those assets and their concerns. Meetings with Valero are held and CIOMA proposes suggestions to the Federal Trade Commission and the Attorney General's office regarding the purchase.

CIOMA meets with Governor's office on sale of off-spec fuels at Native American retail fuel outlets. A meeting with the Governor's Office is held to discuss Native American tribes selling off-spec fuels at retail locations near the Nevada and Oregon borders. No firm commitment is achieved, but the Governor's Office agrees to include conformity with California environmental requirements as a condition for tribes seeking agreements with the State.

February

Meeting with BOE unveils tax savings available to CIOMA members for off-road and other non-taxable use of diesel. CIOMA members asked for a meeting with the Board of Equalization regarding how to better understand and file for state excise tax exemptions when trucks and equipment, such as power-take-off pumps, are operated in a non-taxable manner. BOE agrees to follow up with more clarity on how marketers should justify their exempt use.

Diesel lubricity additive confusion resolved. A flurry of activity occurred when uncertainty over enforcement of diesel lubricity additives by state agencies erupted between fuel suppliers and pipeline operators. CIOMA was able to get suppliers, terminal operators and government agencies to agree on a solution without disruption to diesel supplies.

CIOMA presses for Water Board/ARB meeting on cross certification of fuel dispensing equipment. A portion of CIOMA's 2004 legislation, AB 2955 (McCarthy) required CARB and the Water Board to cross-certify dispensing equipment and systems to insure that there were no "Catch-22" situations occurring where one agency allowed equipment that did not meet the other agency's OK - this was encountered in 2004. A meeting was held and CIOMA provided input. The final agreements between both agencies insured a more formalized review process as was evidenced by no further problems being encountered in 2005.

Continuing involvement in AST/EVR regulation development. CIOMA continued its active involvement in the development of vapor recovery regulations for aboveground storage tanks. CIOMA helped ARB gain a better understanding of the AST universe and provided input on emission calculation factors.

Discussions with new legislator result in dropping of controversial truck-tracking legislation. CIOMA met with Assemblyman Alberto Torrico who had indicated he was going to introduce, again, controversial legislation requiring state petroleum transport truck to be equipped with expensive tracking and remote-stopping devices. CIOMA was contacted by his office after the meeting to inform us that he would not be carrying the measure.

BOE posts all-inclusive web page on fuel taxes and fees. BOE, at CIOMA's urging, updated their web site on fuel taxes to include all taxes and fees paid by customers on state fuels. Attempting to gather this information previously took visits to numerous web sites and translation into plain-English.

CIOMA meets with Flying J – new owners of Bakersfield refinery. CIOMA members met with representatives from Flying J at the WPMA convention in Las Vegas to discuss their plans and intentions. Rumored concerns with their expansion of Flying J retail sites, and their possible direct-delivery motives, were put to rest.

March

SCAQMD pressures CARB to adopt fuel-forcing regulations struck down by federal Supreme Court. A months-long battle emerged when rumors, and then confirmed reports, were reported that the South Coast District was convincing CARB to take up statewide/regional regulation of diesel fleets which would have banned the use of diesel fuel. SCAQMD had lost a Supreme Court case which overturned its fleet rules, citing that only CARB had the authority to adopt mobile source controls. It decided to try and have CARB adopt similar rules. CIOMA joined a statewide coalition which included fuel refiners, engine manufacturers, impacted fleets and others in an opposition campaign. A major victory, one of the very few the business community has achieved, occurred in September when the CARB Board rejected the fuel-biased fleet rules.

CIOMA continues work on cargo tank emissions enforcement and regulatory proposals. In another ongoing regulatory effort, CIOMA continued to work with CARB staff on cargo tank emission enforcement problems and regulation development. The primary effort in this program was to get CARB to focus on pressure vent relief valves on cargo tanks as a cost-effective upgrade for emission reductions. Meetings continued with CARB staff throughout the year.

GR Committee meets and sets legislative/regulatory priorities. The CIOMA Government Relations Committee met and reviewed the 2005 bill introductions. Over 75 bills of potential interest were reviewed. High priority assessments were given to approximately half of those measures. Regulatory issues and priorities were reviewed as well.

CIOMA alerts members to pending Phase I EVR deadline; keeps fuel deliverers from being liable for knowing which station is in compliance. The deadline for installing new tank-fill equipment approached in March and as happens all too often equipment and qualified installers became scarce. CIOMA held a continuing dialogue with CAPCOA and CARB regarding how this deadline was going to be rationally enforced without shutting many service stations down. Bottom line – local districts developed mechanisms to allow progress to compliance after the deadline, and resisted making fuel delivery truck operators responsible to know which service stations were in compliance.

CIOMA member Tim Ward provides location for AST emissions evaluation. Tim Ward offered a portion of his bulk plant as a location where CARB could test evaporation rates from

aboveground storage tanks in different configurations. This represented the assistance CIOMA members provided environmental compliance agencies in developing accurate data with the involvement of the regulated community.

April

CIOMA instrumental in obtaining CARB letter of concern to DOT regarding "wetlines" proposal. A disturbing proposal by the federal Department of Transportation would require that all fuel transportation trucks be equipped with purging systems to void fuel lines allegedly to decrease the threat of fire in an accident. CIOMA's work with CARB on the cargo tank regulations lead to a suspicion that such purging systems would increase fugitive emission from cargo tanks, leading to a CARB-issued letter to DOT, objecting to the rule on the basis of environmental degradation.

CARB certifies first (and only) EVR system. After 5 years of waiting, and waiting, and waiting, CARB certifies a Healy vac-assist system as the state's only enhanced vapor recovery equipment. The 4-year clock starts ticking for stations to upgrade to certified equipment. One of the serious problems is that there is no certified balance-system available.

Concessions made by CEC in adopting Fuel Marketing Report requirements. After hearing CIOMA testimony at the adoption hearing of the Energy Commission's proposed fuel reporting requirements the Commission agreed that the new reporting requirements on marketers was not appropriate.

CIOMA joins coalition to fight CARB adoption of SCAQMD rules. CIOMA joins the Californian's for a Sound Fuel Strategy – a group of fuel refiners, engine manufacturers, impacted fleets and others formally joining the fight on CARB's attempt to void its fuel-neutral policy on truck fleets.

Legislation heats up – CIOMA opposes Petroleum Reduction Act and steep increases in fuel dispenser accuracy measurement fees. The tempo of legislative activity steepens as the Legislature moves into Committee deadlines. A number of high-oppose measures fly through their initial committees on straight party-line votes (Democrats in favor, Republicans opposed). Two major pieces of legislation emerge, SB 757 (Kehoe) that would mandate the reduction of petroleum consumption in the state, and AB 898 (Ruskin) that would significantly increase fees local weights and measures agencies charge for inspection of fuel measuring devices.

Destruction Derby breaks records for attendance, entrants and PAC funds raised. The CIOMA Destruction Derby has become a Statewide event! Over 1000 people attended; over 50 RV's in the International Village"; 40 vehicles participating; 8 heats; and approximately \$26,000 net proceeds to CIOMPAC!

May

CARB holds "EVR 101 Session" at urging of CIOMA. Over 70 people attended a special workshop on CARB's enhanced vapor recovery requirements. There is much industry confusion over what technology is required, what vendors have been certified, and the timelines for compliance. Of particular interest was a discussion of the In Station Diagnostics

(ISD) element of the EVR program. Previously, very little was known regarding the operation of this equipment, the costs, and the potential liabilities marketers may face when a system is regularly logging operational data of vapor recovery systems. While much was learned at the workshop, even more questions were generated. A similar session was held in Southern California.

Private fundraiser held for Assembly Republican Leader Kevin McCarthy. Over \$17,000 was generated from CIOMA members and friends to support Republican Assembly Leader Kevin McCarthy. Over 20 member participants at the private event got a surprise when Kevin had 4 of his colleagues attend – it was a great evening of quality time with the new leaders of the Assembly Republican caucus.

CIOMA able to persuade Senator to hold truck stop commercialization measure. Mounting a Senate Floor fight on SB 468 (Campbell), CIOMA met with Senator Campbell's staff where he agreed to suspend his legislative proposal that would have significantly increased the ability of Caltrans to allow privatization of their highway rest stops. He responded favorably to the argument that private property owners have invested hundreds of millions of dollars in locating convenient commercial highway facilities, and that government should not compete with those business owners.

June

CIOMA provides guidance regarding "Designated Operator" training requirements. CIOMA provided guidance to members regarding the implementation of the State Water Board "Designated Operator" training requirements, clarifying that employees needed to be trained only to the level of their involvement in underground storage tank management and operation. There was confusion whether employees such as clerks needed to have in-depth operational knowledge of UST systems and components, which was not the case.

First piece of opposed legislation fails. AB 1430 (Goldberg) a high-oppose piece of legislation becomes the first to be defeated in the 2005 session. The bill seriously complicated air emission credit trading by including new, difficult-to-calculate emission reduction factors. Moderate Assembly Democrats, a key element in defeating legislation in 2005, emerged as a deciding factor.

Support penned for up to 10% ethanol in gasoline. CIOMA, at the urging of the ethanol industry, communicates to the Air Resources Board and the Energy Commission supporting allowance of up to 10% ethanol in gasoline. The primary motivation for marketers is to have CARB relax their tight specs on gasoline, allowing variable amounts of ethanol to be blended into the fuel. This might provide marketers with a chance to take direct advantage of the ethanol tax credits, rather than have fuel suppliers gain the total advantage.

CIOMA opposes bill expanding SJVAPCD directors. CIOMA goes on record with a wide variety of agricultural interests in opposing SB 999 (Machado), a bill that would expand Board membership on the San Joaquin Valley Air Pollution Control District with legislative appointments. The District winds up opposing this illogical measure as well.

Valero Deal Approved. An announcement from the Attorney General's Office was released providing state clearance for the Valero acquisition of pipeline and terminal assets from Kaneb. In the deal Valero agreed to build 900,000 barrels of storage at its Benicia refinery to free up on-water space it had used at the Kaneb terminals, sell certain on-water terminal assets, and retain ownership of the Selby and Stockton terminals. Further the AG indicated he would monitor the shipping practices of ethanol by Valero to gauge if it had undue control over that market – a concern CIOMA had raised in its discussions with the AG and FTC.

ORVR Compliance advisory issued. CIOMA provided members with information regarding when members with vac-assist dispensers needed to either upgrade or retrofit their systems to reduce emissions from fuel vehicles with on-board vapor recovery capability.

California Petroleum Conference – many informative sessions held. The CIOMA Annual Meeting, re-branded the California Petroleum Conference, is held in Costa Mesa (Orange County). Many timely and information-laden sessions are held including the ever-popular Regulatory Roundtable where a variety of regulatory representatives offered important insights on regulation development effecting CIOMA members. A well-attended workshop on the advantage of taking stalled UST site closures to the Water Board on appeal was held. Lots of fun (and spending) was had at the annual PAC auction, following the award of the 2004 Legislator of the Year to Assemblyman Kevin McCarthy.

July

Cindy Tuck named as CARB Chair. In an exciting announcement for the California business community, Governor Schwarzenegger announced the appointment of Cindy Tuck, a policy analyst and advocate for the California Council for Environmental and Economic Balance, as chair of the Air Resources Board. Ms. Tuck had a highly regarded reputation as someone who understood air quality policy, law and regulations in an even-handed manner. However, environmental groups quickly engaged in a smear campaign. Ms. Tuck would serve only a short time (see September) as CARB chair.

More high-priority legislation watered down. Two bills on CIOMA's high-priority, oppose list were changed into "study" bills, removing any mandates they contained. SB 1407 (Oropeza) was amended to study the issue of adding an extra 5 cents/gallon to agricultural diesel fuel for vaguely-defined environmental enhancements, rather than require it. AB 1007 (Pavely) would have required the state to enter into an aggressive alternative, non-petroleum fuels purchasing program under the disguise of greenhouse gas reductions – this was also turned into a study measure.

GAO Confirms that special fuel blends add significantly to price. In a final confirmation of a message CIOMA has long promoted, the federal Government Accounting Office released a thorough study corroborating that specialty fuels, such as those in California, add significantly to their price. Officials at CARB and environmentalists often cited California's isolation from other fuel supplies as the price difference culprit. This study showed that there is a unique and identifiable cost related to the adoption of specialty fuel recipes.

Federal Energy and Highway Acts pass Congress. Two major pieces of legislation rolled through Congress in July. The long-awaited Energy Act contained a repeal of the gasoline oxygenate requirement; however a national biofuels content requirement was included. Also some substantial changes were made to the federal UST requirements, although none were important to California as we had similar or more stringent requirements already in place. Not included in the Energy Act was a compromise on the contentious issue of MTBE liability relief. The Highway Act contained several “sleeper” changes to the federal tax code that would create significant problems for California marketers later in the year (see discussion in the following months).

Governor begins Greenhouse Gas emissions program. Governor Schwarzenegger, in a world-wide press announcement, trumpeted a new program in California to study and achieve significant statewide greenhouse gas emission reductions by the year 2050. Declaring frustration with federal GHG reduction efforts, the Governor vowed to plow ahead with a single state program, noting California’s reputation as an environmental leader. The aggressive schedule proposes to reduce California carbon emissions in 2050 to 80% below 1990 emission levels. A vigorous schedule of workshops, hearings and related activities shortly followed the announcement.

August

GR Committee targets bills for last month of legislative session. The Government Relations Committee met in August to go over legislation that was still active (most of our priority bills) and determine priorities on measures for the last, hectic month of the 2005 session. Approximately 25 bills remained in the high-priority, oppose category. In addition a number of regulatory priorities were reviewed and the Governor’s Greenhouse Gas initiative was added to the top priority category.

Attempt to change state law on clear diesel refunds. Resulting from changes made in the newly enacted federal Highway Act, farmers are required to obtain refunds for clear diesel used in non-taxable activities. This creates a two-way refund problem, as the state law *requires marketers* to obtain the refund. Exploration begins on determining if legislation can be passed in the last month to fix the problem.

CIOMA cuts deal on fuel dispensing accuracy measurement fees legislation. Having to swallow a bitter pill CIOMA cuts a deal on AB 898 (Ruskin); the measure that significantly increases the fees that local weights and measures agencies can charge for inspection of fuel dispensing devices. CIOMA is the only organization left opposed to the measure, after other interests cut their own deals. CIOMA is able to get an agreement to a \$1000/facility cap on fees, graduated over a three year period. And, local agencies can only charge *actual costs* when calculating fee increases. CIOMA provides information to members later in the year which can help them argue against arbitrary fee increase proposals by local agencies.

Cindy Tuck denied CARB Chair position. In a blatant exercise of power politics, the Senate Democrats voted as a block to deny Cindy Tuck confirmation for the Air Resources Board chair position. Cindy withstood a grueling 2 ½ hour confirmation hearing with style and dignity. The Senate broke a long-standing tradition of allowing a well-qualified person to at

least serve one year in a position before taking up a confirmation hearing. Environmentalists crowded over this travesty of political gamesmanship.

September

Katrina hits – creates fuel market chaos. Hurricane Katrina created chaos and havoc throughout the nation as it ripped through the heart of the country's petroleum corridor. Beyond the human suffering, loss of life and property, and the massive displacement of disaster area residents, the hurricane exposed the inter-relationships in the country's fragile and finely balanced petroleum refining, transportation and marketing systems. Fuel prices skyrocketed (on a continuing basis, with Hurricane Rita also effecting the petroleum corridor); outages and shortages were common-place in the southeast and up the eastern supply corridor; and extraordinary steps were taken by state and federal governments to help soften the impacts, including fuel specification waivers, allowances to use dyed diesel for on-road purposes and the opening of product and crude reserves. CIOMA kept members up-to-date on the various changes and exceptions, as well as how California might be impacted by refinery damage.

In addition to coping with these breaking developments, marketers showed their support and generosity to hurricane victims. A group of CIOMA members were able to collect donations of fuel and cash enabling them to provide free fuel, driven from California, deep into the heart of the disaster area. And, marketers met the challenge of the POC by providing \$10,000 in contributions, which POC matched with another \$10,000 – to provide \$20,000 to the Red Cross for relief efforts at the 2005 Conference in Reno.

CARB announces relaxation of RVP gasoline requirements. In response to Katrina and Rita, the Air Resources Board quickly took action to relax the state's evaporative control measure on gasoline (RVP) adopting a fall/winter specification 7 weeks before the normal October 31 shift to winter-blend gasoline. This change is needed because to make the summer blend California refineries need imported blend stocks – which are limited due to the refinery damage and crude shortages from the hurricanes in the southeast. CIOMA urged the Board to take quick action immediately after the storms and testified in favor of the adjustment at an emergency regulation hearing.

2005 legislative session ends – only two bills on CIOMA high-priority-oppose list make it to the Governor's desk. As if tracking and communicating the flurry of activity after the hurricanes wasn't enough to keep CIOMA busy, the last two weeks of the legislative session played out in September. However, with the significant assistance of Republicans and moderate Democrats the long list of opposed bills was hacked down. CIOMA worked effectively with other state associations and interests in mounting heavy opposition to key bills – and at the end of the session only two high-oppose measures were sent to the Governor. However, with its two-year session, many of the measures that did not pass will remain active in the 2006 session.

CARB "responds" to CIOMA concerns regarding EVR and ISD issues. In response to mounting confusion over a variety of Enhanced Vapor Recovery and In Station Diagnostic issues CIOMA sent CARB a letter filled with questions in September. CARB responded with a

“nothing burger” basically saying that things were fine and all would work out in the end. This provides more fire to CIOMA’s questioning the basis and process for this extremely complicated regulatory program.

CIOMA web-based regulatory compliance tool unveiled. After 9 months of development CIOMA unveils a web-based environmental compliance tool, in association with ReComply, that will assist members in tracking the variety of environmental and health deadlines and requirements on their facilities. Members can submit the location and type of their facilities, and the permit and compliance requirements will be listed for that facility within one week of submittal.

CARB rejects SCAQMD fleet rules. In a major victory for the California business community the Air Resources Board rejected the adoption of South Coast fleet rules that would have essentially banned the use of diesel in meeting emission reduction requirements. The work of the Californians for a Sound Fuel Strategy coalition was essential to this outcome.

More tax changes emerge from 2006 federal legislation. More changes in tax law emerge from recently passed federal legislation. CIOMA keeps members updated on these confusing and continuing modifications.

San Joaquin marketers begin meetings with Air District to go over enforcement concerns. A group of San Joaquin Valley marketers ban together and start discussion a variety of enforcement issues with SJVAPCD enforcement officials. The primary message is “compliance, not penalties”.

October

Governor vetoes remaining high-oppose measures. Governor Schwarzenegger vetoes the two remaining pieces of legislation that CIOMA opposed “with vigor”. He vetoes SB 600 (Ortiz) which would have set up a complicated and non-science based biomonitoring program in the state. CIOMA expressed concerns about the inappropriate use of biomonitoring conducted under the bill’s guidelines in court proceedings. The Governor also vetoed AB 816 (Lieber) that would have established a redundant and excessive hazardous material reporting requirement. CIOMA also wrote a request for veto on this measure as well. The Governor signed AB 115 which contained an important provision for small independent refiners that allowed them flexibility and tax relief on the transfer to state-required ultra-low sulfur diesel in 2006. CIOMA supported this measure all the way to the Governor’s desk.

CIOMA Lubes Group sets priorities. CIOMA established a Lubes Working Group to review issues and problems related to the lubes sector of the industry. After two conference calls the group sets a priority on developing a relationship with Petroleum Trends International/Jobbers World (who conducted the highly successful Lubes track at the 2005 POC) to provide web links and content through the CIOMA web site on priority issues and concerns.

Fresno tanks issues reviewed. Since 2003 the State has had access to ½ of a new storage tank, built using a state subsidy, rent-free at the Kinder Morgan Fresno terminal. This tank was

built to relieve chronic shortages of diesel at the Fresno location. CIOMA members and others have continually questioned why this extra storage space was not being used, as there continue to be diesel shortages. In a meeting with CARB, the Energy Commission, Ag groups and CIOMA the issues were hammered out and a strategy was developed to move forward. It was found that the state could assign its rent-free space to a third party, and further discussions with Kinder Morgan will be scheduled to see if the agreement can be extended beyond October, 2006 when it is scheduled to end. Further CIOMA members will explore the possibility of setting up a fuel buying group that could take advantage of the free rental space.

ISD enforcement issues discussed with CAPCOA. Reactivating a long-dormant discussion, CIOMA begins discussions with the California Air Pollution Control Officers Association (CAPCOA) regarding the issue of enforcement based upon data gathered from In Station Diagnostic equipment, now required on new service stations by CARB. This issue is that CIOMA believes that the data from ISD equipment is to be a management tool, helping keep vapor recovery systems maintained correctly. However, Districts could use the daily printouts to write tickets, every time the data shows a system to be in non-compliance. CIOMA is asking CAPCOA to provide enforcement guidance to the Districts allowing use of ISD data for enforcement purposes in very limited instances. This is especially necessary during the “break-in” period when this new technology is under review to determine its values and short-falls.

Orange County district meeting held. SC Fuels sponsored a southern California district meeting with Assemblymember Mimi Walters and with Senator Able Maldonado. Nine CIOMA representatives met for over 4 hours, educating these legislators on CIOMA issues and concerns. This is another great example of how the CIOMA Grass Roots program needs to work, and expand.

CIOMA meets with AG’s Office on California fuel prices. CIOMA took the initiative and called for a meeting with the State Attorney General’s office to discuss the post-hurricane petroleum market. A member of the Energy Commission staff also attended the meeting. The purpose of the meeting was to explain how marketers’ and retailers’ prices are directly affected by the wholesale price of fuels, and that the wholesale price was the prime factor in the post-hurricane run-up. The AG’s office asked for a statewide listing of rack price postings pre-Katrina and post-Rita, which was generously supplied by CIOMA members. Affects of speculation on the fuels market was also discussed.

November

Switch to dyed diesel causes loading delays. With the change in federal law regarding farmer refunds on clear diesel, the market saw a significant swing to dyed diesel. Terminals had not prepared for this change resulting in long delays while trying to load the dyed fuel. CIOMA investigated this problem and is working with the Energy Commission to rectify it before the upswing in diesel purchases this coming spring.

Governor’s initiatives go down in flames. As mentioned at the beginning of this report, Governor Schwarzenegger’s set of reform-minded initiatives went down to defeat in the

November special election. A combination of confusing initiatives, strong work by opposing forces, and a general sense of uncertainty by the electorate doomed the measures from the opening hours of the election. The defeat of these measures will embolden the liberal left, which controls leadership in both houses of the Legislature, and will provide additional leverage to interest groups such as the trial lawyers, unions, teachers and environmental groups when it comes to negotiating 2006 legislation and budget issues.

Work begins on 2006 agricultural diesel excise tax refund legislation. Although it was impossible to launch a change in state law during the last few weeks of the 2005 legislature, CIOMA continues to work with the Board of Equalization and others in trying to develop conformity with federal law on refund of excise tax to farmers in the use of clear diesel for non-taxable purposes. CIOMA also begins to organize “town hall” meetings with agricultural customers and organizations to explain what the legislation will accomplish, and why the ag community stands to benefit from the change.

More federal tax changes. CIOMA receives more information about tax changes, such as changes in refunding excise taxes for aviation fuel used in crop dusting, and reports interpretive information to its members. This has truly been one of the most confusing and disorganized years regarding fuel taxation in a long, long time.

December

CIOMA GR Committee Meets to Consider 2006 Priorities. As this report is being written, the CIOMA Government Relations Committee is organizing to meet and start the process all over again – prioritizing and developing strategy on the many issues we will face in 2006.

Conclusion – This report only represents some of the high-radar-screen issues CIOMA addressed in 2005. It shows the vast landscape of problems that members address daily, and the importance of assembling a highly motivated and competent grassroots network. It also shows that CIOMA is attempting to preserve and protect its membership for the long haul. Your dues and participation are *essential* to our continuing involvement and success.

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