



**STATEMENT FROM
CURT ANASTASIO, PRESIDENT & CEO
NUSTAR ENERGY L.P.**

**WRITTEN TESTIMONY SUBMITTED TO THE
ENERGY AND WATER APPROPRIATIONS SUB-COMMITTEE
November 20, 2007**

I appreciate the opportunity to submit written testimony related to recent fuel shortages in North Dakota. I first would like to take this opportunity to explain NuStar's role in the supply chain in the region. NuStar is in the petroleum product pipeline, terminal and storage business, so our company transports, stores and distributes petroleum products owned by our customers. Our North Dakota operations include pipelines that make intrastate deliveries from Tesoro's Mandan refinery, and bring fuel to your state from refineries in the lower Midwest region.

As you know, there have been supply constraints throughout the state since the summer due in large part to refinery issues in the Midwest, Rocky Mountain and Texas panhandle areas that supply North Dakota, and the fact that North Dakota is the endpoint of the product pipelines that deliver fuel from that region. And while some of those refinery issues were resolved, other refineries that supply your region are now undergoing planned maintenance, which has continued to constrain product supply for the Dakotas. As a result, we have supply inventories that are below our historical average because the supply available to us is below the historical average. And on top of that, the region is faced with consumer demand that is above the historical average. Obviously, all of this combines to intensify fuel shortages throughout the region.

NuStar has no refining operations in North Dakota or anywhere else, so I regret that I am unable to directly address your specific questions about refinery shutdowns and related issues. But I can tell you that in an effort to meet the strong demand, we have been moving every batch of product that we can obtain through our pipelines. In fact, we have had **record volumes** on our pipelines this year. This is an instance where our financial interests are completely aligned with consumer interests because it is positive for our bottom line to move as much product as possible.

And, recognizing the need to move more product into this area, we have invested **nearly \$15 million** in our pipelines over the past five years. We have also improved our operating procedures. For example, we have increased the horsepower on the pumps that move product through the pipeline, and introduced a drag reduction agent to eliminate friction and allow products to move more easily. We have also optimized the product mix to better meet demand. And at our terminals, we have completed rack automation upgrades that enable carriers to complete their transactions more quickly.

We have also invested in a very effective communication system for keeping our customers up-to-date regarding the supply picture throughout our system. Our Internet Stock Inventory

System (ISIS) enables our customers to access a real-time inventory of supply at all of our terminals 24 hours a day, seven days a week. What's more, each of our terminals has a hotline that carriers can call to get updated information on the product slate. If there are any product outages, they can quickly get an update on when those products are expected to be replenished. And, we have implemented an inventory management initiative at our Geneva, Nebraska fuels terminal in which we are allocating supply of gasoline and diesel to ensure there is product supply at downstream terminals in Iowa, South Dakota and North Dakota. As you can see, we have taken a lot of steps to try to assist our customers in supplying petroleum products to the Dakotas.

From our perspective, the most effective way to ease the supply constraints would be to have one consistent specification for gasoline across the Dakotas. As you likely know, there is a different specification for gasoline supplied to the western region. Having varied product grades slows down both production and transportation, so having one specification would allow for increased production and more movement of product into the area.

I hope this information helps explain the challenges that we face and the measures we've taken to minimize supply disruptions in the region. Please let us know if we can provide further assistance as the committee continues to explore potential solutions to the tight supply-demand balance in North Dakota. Thank you for giving us the opportunity to tell you more about our operations.