



**Energy and Commerce Committee
U.S. House of Representatives**

Hearing on

Gasoline: Supply, Price and Specifications

Testimony of

Bob Dinneen

President

Renewable Fuels Association

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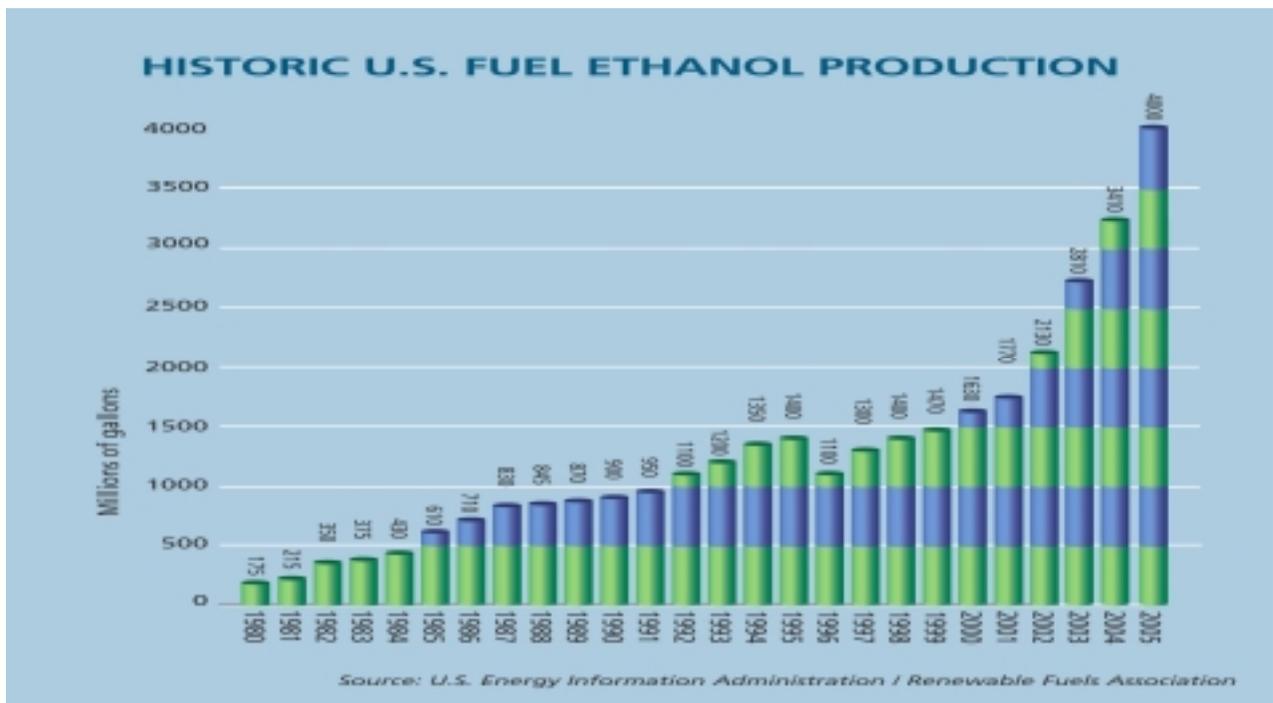
Good morning, Mr. Chairman and Members of the Committee. My name is Bob Dinneen and I am president of the Renewable Fuels Association, the national trade association representing the U.S. ethanol industry.

This is an important and timely hearing, and I am pleased to be here to discuss the unprecedented growth in the domestic ethanol industry, and the attendant economic, energy and environmental benefits resulting from that growth.

Ethanol has become a ubiquitous component of the U.S. motor fuel market. Ethanol is blended in more than 40% of the nation's fuel, and is sold virtually from coast to coast and border to border. As refiners have made the decision to remove MTBE from gasoline, ethanol has been there to replace the lost octane and volume of MTBE, without sacrificing the air quality benefits of the RFG program or increasing consumer costs. The transition from MTBE to ethanol is now largely complete, and is a testament to what can be accomplished when oil refiners, gasoline marketers and ethanol producers work together for the benefit of consumers.

Background

Today's ethanol industry consists of 97 biorefineries located in 19 different states with the capacity to process more than 1.7 billion bushels of grain into nearly 4.5 billion gallons of high octane, clean burning motor fuel and 9 million metric tons of livestock and poultry feed. It is a dynamic and growing industry that is revitalizing rural America, reducing emissions in our nation's cities, and lowering our dependence on imported petroleum.



The 4 billion gallons of ethanol produced and sold in the U.S. last year contributed significantly to the nation's economic, environmental and energy security. According to an analysis completed for the RFA¹, the 4 billion gallons of ethanol produced in 2005 resulted in the following impacts:

- Added \$32 Billion to gross output;
- Created 153,725 jobs in all sectors of the economy;
- Increased economic activity and new jobs from ethanol increased household income by \$5.7 Billion, money that flows directly into consumers' pockets;
- Contributed \$1.9 Billion of tax revenue for the Federal government and \$1.6 Billion for State and Local governments; and,
- Reduced oil imports by 170 million barrels of oil, valued at \$8.7 Billion.

In addition, because the crops used in the production of ethanol absorb carbon dioxide, the 4 billion gallons of ethanol produced in 2005 reduced greenhouse gas emissions by nearly 8 million tons.² That's the equivalent of taking well over a million vehicles off the road.

Energy Policy Act Has Stimulated Significant New Ethanol Production

Mr. Chairman, in large part because of the Energy Policy Act of 2005 (EPAct), the U.S. ethanol industry is today the fastest growing energy resource in the world. With your leadership, and the tremendous support of members of the Committee, the Congress last year

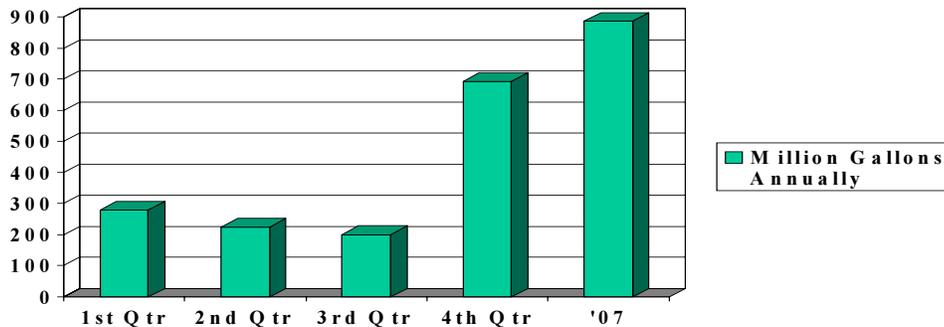
¹ *Contribution of the Ethanol Industry to the Economy of the United States*, Dr. John Urbanchuk, Director, LECG, LLC, February, 2006.

² Argonne National Laboratory, U.S. Department of Energy, GREET Model, February, 2006.

enacted an historic Renewable Fuel Standard (RFS) requiring the use of at least 7.5 billion gallons of renewable fuels by 2012. That provision signaled a clarion call to the ethanol industry and the financial community that demand for ethanol and biodiesel was no longer uncertain, allowing the renewable fuels industry to grow with confidence.

Indeed, there are currently 35 plants under construction. Twenty-one of those have broken ground just since last August when President Bush signed EPAct into law. With existing biorefineries that are expanding, the industry expects more than 2.2 billion gallons of new production capacity to be in operation within the next 12 to 18 months. The following is our best estimate of when this new production will come on stream.

Projected Ethanol Production Capacity



This preceding chart reflects eight plants and three expansions we believe will be complete before July, representing more than 500 million gallons of production capacity; and another 16 plants and 2 expansion that will be complete before the end of the year, adding about 900 million gallons more. This new 1.4 billion gallons of new capacity represents a 32% increase in production, a phenomenal rate of growth, particularly when viewed in light of the 20-plus percent growth the industry has already achieved in each of the past several years.

Rapidly Increasing Demand

While ethanol supply is growing exponentially, ethanol demand is increasing as well. Indeed, ethanol demand in 2006 is significantly higher than that required by EPAct. The reason for that is refiners have chosen to eliminate the use of MTBE in many of the reformulated gasoline areas where it has not already been removed.³ Those areas include the Mid-Atlantic, New England and Texas. The Energy Information Administration believes as much as 130,000 barrels per day of ethanol will be needed to meet the demand created by refiner decisions to replace MTBE.

³ It is important to note that no provision of the Energy Policy Act or the Clean Air Act requires refiners to eliminate MTBE, nor are they required to use ethanol. This is a decision refiners are making because replacing MTBE with ethanol is the most cost-effective means of meeting Clean Air Act standards while maintaining the octane and performance consumers expect.

Some have questioned the ability of the ethanol industry to meet such rapidly increased demand. But given the tremendous growth in ethanol production capacity cited above, most analysts now agree there will be sufficient ethanol supplies. For example, Valero Energy CEO William Klesse recently stated, “[t]he US will have enough ethanol to blend into gasoline during the current spike in demand as companies transition away from the oxygenate MTBE.”

In addition to increased production, ethanol supplies will flow from existing conventional gasoline markets to MTBE replacement markets where it is needed more.

The market will also encourage increased imports in the short-term. Approximately 130 million gallons of ethanol were imported in 2005, and even higher imports are expected this year. Twenty-five million gallons of ethanol were imported in February alone.⁴

Approximately 115 million gallons of ethanol per month are required to meet mid-Atlantic and Northeast ethanol demand as MTBE is removed from gasoline. Currently, there is about 95 million gallons of ethanol in working inventory at terminals in this area. That equates to 25 days of demand on hand in the Northeast and mid-Atlantic region. Ethanol supply is NOT a problem.

Some have suggested repealing the secondary tariff on imported ethanol is necessary to increase supplies. But, as noted above, there is no shortage of ethanol. Moreover, the secondary tariff is not a barrier to entry. The secondary tariff merely offsets the tax incentive oil companies receive for blending ethanol, regardless of its source. Eliminating the secondary tariff would only result in U.S. taxpayers subsidizing already subsidized foreign ethanol. At a time when Congress is contemplating reduced domestic farm programs, it is neither wise nor necessary to begin subsidizing foreign ethanol and foreign sugar growers. Finally, eliminating the tariff now, as the financial markets are contemplating significant investments in U.S. ethanol, including cellulosic ethanol, would send a chilling signal to those markets at a critical time and potentially discourage further investment in this promising technology.

The Transportation, Distribution and Blending Infrastructure will be Ready.

The ethanol industry has worked diligently with our refiner customers, gasoline marketers, terminal operators and the fuel distribution network to assure a successful transition from MTBE to ethanol in these areas.

Over the past several years, the ethanol industry has worked to expand a “Virtual Pipeline” through aggressive use of the rail system, barge and truck traffic. As a result, we can move

⁴ Brazil is the world’s largest exporter of ethanol, and significant volumes of ethanol come from Brazil directly. Other Brazilian product is imported through the Caribbean Basin Initiative, which allows up to 7% of the U.S. market (~270 million gallons in 2006) to enter duty free. Ethanol produced in Canada and Mexico is also duty-free today.

product quickly to those areas where it is needed. Many ethanol plants have the capability to load unit trains of ethanol for shipment to ethanol terminals in key markets. We are also working closely with terminal operators and refiners to identify ethanol storage facilities and install blending equipment.

Sewaren, NJ is expected to be the primary gathering point for ethanol for East Coast markets in 2006 because it has both unit rail car capacity and marine access. Ethanol will be trucked to serve New York and New Jersey, and product will flow out by barge to Providence, Boston and Baltimore. Additional terminal capacity exists in Albany, Philadelphia, Newark, Paulsboro, Carteret, Perth Amboy, Norfolk, and Richmond.

Great credit must be given to the petroleum industry for the effort that is being made to assure success. Examples of some of the investments being made to accommodate the switch from MTBE to ethanol in key markets include the following:

- Unit Train unloading facilities are either being built or planned for Providence, RI, Linden, NJ, Baltimore, MD, and Dallas, TX. Already, a unit train breakout facility is in operation in Albany, NY.
- Barge receiving capability is either in place or being built in Philadelphia, Baltimore and Houston.
- Transloading (rail to truck) capability is being developed as a transitional step for Richmond, Washington and Dallas. More permanent rail terminals are being developed for these areas.

There is no question that the dramatically accelerated removal of MTBE challenged the marketplace. The EPA requirement to completely drain MTBE-RFG tanks and clean them before loading Reformulated Blendstock for Oxygenate Blending (RBOB) created some difficulties in a few locations. But the problems were very short-lived and the transition is now largely complete. As one industry analyst observed recently, “The very fact that these companies are on the record as discontinuing MTBE and replacing it with ethanol tells us one very important fact – they are prepared.”⁵

New Technologies

The only thing more astonishing than the growth in the ethanol industry is the technological revolution happening at every biorefinery and every ethanol construction site across the country. Plants today are using such innovations as no-heat fermentation, corn fractionization and corn oil extraction. With today’s natural gas prices, plants are also looking toward new energy sources, including methane digesters and biomass gasification. In short, the ethanol industry is unrecognizable from what it was just five years ago, and it will be unrecognizable again five years from now.

⁵ The Ethanol Monitor, published by Oil Intelligence Inc., Oceanport, NJ, Volume 2, No. 11, March 27, 2006.

To continue this technological revolution, however, continued government support will be critically important. DOE's biomass and biorefinery systems research and development program has been essential to developing new technologies. Competitively awarded grants provided by this program have played a very important role in developing new technology.

Recently, DOE informed the renewable fuels industry that it was canceling research contracts. Many of the grants provide technologically promising projects that would help move the industry forward. The RFA encourages Congress to continue to provide additional funds for competitive solicitations.

New Feedstocks

To date, the ethanol industry has grown almost exclusively from grain processing. In the future, ethanol will be produced from other feedstocks, such as cellulose. Cellulose is the main component of plant cell walls and is the most common organic compound on earth. However, it is more difficult to break down cellulose and convert it into usable sugars for ethanol. Yet, making ethanol from cellulose dramatically expands the types and amount of available material for ethanol production. This includes many materials now regarded as wastes requiring disposal, as well as corn stalks, rice straw and wood chips or "energy crops" of fast-growing trees and grasses. Cellulosic ethanol production will augment, not replace, grain-based ethanol, but ultimately exponentially expand potential ethanol supplies.

Many companies are working to commercialize cellulosic ethanol production. Indeed, there is not an ethanol biorefinery in production today that does not have a very aggressive cellulose ethanol research program. The reason for this is that they all have cellulose already coming into the plant. If they can process that material into ethanol, they will have a significant marketplace advantage.

Many companies are working to commercialize cellulosic ethanol. Iogen, Inc., a Canadian enzyme company, has been producing cellulosic ethanol from wheat straw since 2004 at a one million gallon plant in Ontario. The company is planning to begin construction of a commercial facility in the U.S. during the summer of 2007. Abengoa Bioenergy Corp., which operates four biorefineries in the U.S. today, has begun construction of a grain and cellulose ethanol plant in Spain. The company plans to bring that technology to the U.S. as soon as the technology is proven successful. Numerous other companies are moving toward commercialization and I am confident cellulosic ethanol will be a reality quite soon.

Conclusion

In his State of the Union Address, President Bush acknowledged the nation "is addicted to oil" and pledged to greatly reduce our oil imports by increasing the production and use of domestic renewable fuels such as ethanol and biodiesel. The Energy Policy Act of 2005 clearly put this nation on a new path toward greater energy diversity and national security through the RFS. And as the ethanol industry continues to grow, through new technologies and new feedstocks, we will move even closer to realizing the President's vision of a more sustainable energy future for all Americans. Thank you.