Renewable Fuels Association

March 19, 2007

The Honorable John D. Dingell
Chairman
Committee on Energy and Commerce
2125 Rayburn House Office Building
Washington, D.C. 20515

The Honorable Rick Boucher
Chairman
Subcommittee on Energy and Air Quality
2125 Rayburn House Office Building
Washington, D.C. 20515

Dear Chairman Dingell and Chairman Boucher,

The Renewable Fuels Association (RFA) appreciates the opportunity to provide the following comments to the U.S. House of Representatives Committee on Energy and Commerce regarding the issue of climate change and prospect of federal climate change legislation. The RFA sees climate change as an opportunity to pursue policies that make sense on a variety of fronts, from protecting the environment to promoting U.S. energy security and economic development. We look forward to working with Congress on this important issue.

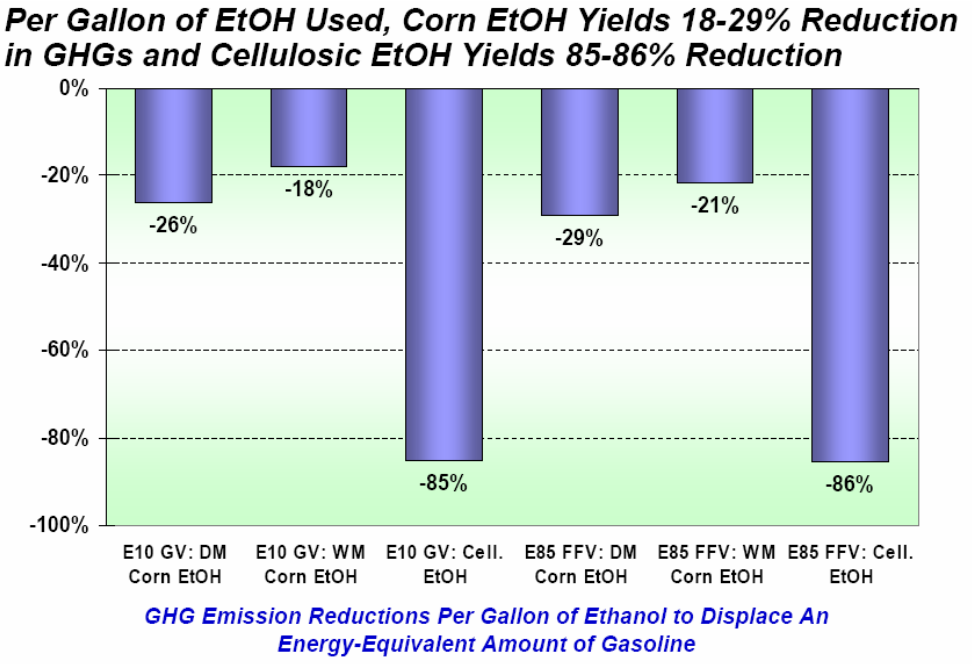
As the national trade association for the U.S. ethanol industry, the RFA promotes policies, regulations and research and development initiatives that will lead to the increased production and use of renewable fuels such as ethanol. In general, the RFA is taking the climate change issue very seriously. Our members are producing a product that reduces climate change emissions from cars and trucks. The RFA has pledged to become carbon neutral. To follow through on this commitment, the RFA has applied to join the Chicago Climate Exchange (CCX), the world's first and North America's only voluntary, legally binding integrated greenhouse gas reduction and trading system for all 6 greenhouse gas emission sources, with offset projects in North America and worldwide. The CCX will evaluate the RFA's carbon footprint and in turn, the RFA will purchase the offsetting carbon credits from CCX. The evaluation will take into account electric and heating fuel purchases, along with business travel including air and auto travel. Once completed, the RFA will be offsetting 100 percent of its carbon emissions.

With regard to the specific questions presented by the Committee, we offer the following:

(1) The RFA generally supports federal efforts to address climate change, in part because one set of uniform, national standards can be more effective than several, overlapping state and regional approaches. For example, the RFA was a chief proponent of the federal Renewable Fuel Standard (RFS) enacted as a part of the Energy Policy Act of 2005. The federal RFS program strikes the right balance between enforcing rigid targets and allowing market flexibility that will be necessary for new climate change legislation as well. The RFS program has simultaneously reduced climate change emissions and U.S. dependence on foreign oil, while creating job and economic opportunities for rural America.

(2) While we cannot speak to the climate change impacts of all new technologies and fuels, we can address the greenhouse gas (GHG) emissions benefits of renewable fuels such as ethanol. The Pew Center for Global Climate Change recently concluded that renewable fuels offer the greatest immediate term opportunity to reduce GHG emissions from the transportation sector. This is true because renewable fuels are readily available and can be used without significant infrastructural or technological advancement. As you may be aware, the United States already uses more than 5.5 billion gallons of ethanol annually. In 2006, ethanol use in the U.S. reduced CO2-equivalent emissions by approximately 8 million tons, according to the Department of Energy. This is the equivalent of removing 1.2 million cars from the road from a climate change perspective.

On a per-gallon basis in comparison to gasoline, using greater volumes of ethanol will have the following GHG benefits, according to the Argonne National Laboratory (GV=gasoline vehicle; FFV=Flex-Fuel Vehicle; DM/WM=Dry/Wet Mill Ethanol Production; Cell EtOH=Cellulosic Ethanol):



It should be noted that even the above reductions in GHG emissions likely underestimate the benefits from the existing grain ethanol industry. The U.S. ethanol industry is in the midst of a remarkable evolution, utilizing new more energy efficient technologies with every new plant that opens and with upgrades made at existing biorefineries as the industry retools. Examples of new energy saving technologies include fluidized bed reactors that utilize the syrup from a biorefinery's evaporators to generate steam, and biomass gasification that allows ethanol plants to utilize locally grown biomass to power the plant. Still other ethanol plants are locating alongside feedlots, allowing them to feed the distillers grains (a high protein co-product of the ethanol production process) without having to dry the material first, while at the same time using the manure from the feed lot to power the plants. These technologies are not only making ethanol biorefineries more competitive, they are greatly reducing the carbon footprint of the industry.

(3) The economics of ethanol are very good. In 2006, the U.S. ethanol industry provided an estimated $2.7 billion of tax revenue to the federal government and $2.3 billion to state and local governments. On an annual basis, a single 100 million-gallon-year ethanol biorefinery generates roughly 1,500 permanent new jobs throughout the economy. In 2006, the U.S. ethanol industry created roughly 160,000 jobs in all sectors of the U.S. economy. Individual states that have invested in ethanol production and use have reaped significant returns. The State of Minnesota believes that every dollar spent incenting ethanol production has returned at least 3 dollars to the state in the form of general fund tax revenue. Another way to look at the economics of ethanol is in comparison to the status quo. It has been estimated that 75 cents of every dollar spent on ethanol produced by locally owned biorefineries recirculates through the U.S. economy, while only 20 cents of every dollar spent on petroleum recirculates domestically. The Oak Ridge National Laboratory concluded in 2005 that foreign oil dependence costs U.S. consumers $150 billion annually. While any economic forecast can be contested with different assumptions, it is clear that reducing U.S. dependence on foreign oil is as much an economic imperative as an environmental one.

(4) Renewable fuels such as ethanol are economically beneficial on the (consumer) demand side as well. In general, the price of ethanol tracks up and down with the price of gasoline. Over the last ten years, ethanol has been roughly at or below the price of gasoline, with the exception of during the MTBE phaseout when ethanol prices increased temporarily due to a spike in demand. A May 2005 report by the Consumer Federation of America found that ethanol blends in New York were 5-7 cents per gallon (cpg) cheaper than competitive blends. The report concluded that oil companies could save consumers up to 8 cpg if greater volumes of ethanol were used. Speaking to the issue of the MTBE phaseout, ethanol met the challenge of replacing billions of gallons of MTBE in a relatively short time frame. While the price of ethanol increased during this period, it has moderated recently as a new generation of ethanol producers has come on line. Even under the high demand scenarios created by MTBE liability and phaseout, ethanol did not negatively impact gasoline supplies or pump prices.

(5) The electric, natural gas and transportation sectors comprise a large majority of U.S. climate change emissions. Any climate program adopted by the federal government should encompass all three of these sectors (i.e. not leaving out the transportation sector). Efficiency is the most oft-stated approach to reducing GHG emissions in the transportation sector. It is equally important,

however, to diversify the fuels market. One of the critical components to any strategy to diversify petroleum fuels is increased reliance on Flex-Fuel Vehicles (FFVs). Because FFVs run on virtually any combination of ethanol and gasoline (or diesel and renewable diesel), they help facilitate an unrestricted, truly competitive transportation fuels market. Like ethanol, FFVs are available now. Automakers including GM, Ford, VW, Toyota and Honda already provide FFVs to the Brazilian automobile market at very little cost. Reportedly, 81 percent of vehicles sold in Brazil in November 2006 were FFVs. FFVs are becoming increasingly popular in the United States. However, more could be done to promote their manufacture and use. The RFA believes that all vehicles, whether gasoline powered, hybrid or advanced technology, should be flex-fuel.

(6) As you are aware, "cap and trade" programs are principally designed to apply to the electricity and energy generation sector, as opposed to the transportation sector. This is true because trading credits in a diverse and fluid transportation market is theoretically very difficult. For example, the Regional Greenhouse Gas Initiative (RGGI) agreement struck by the northeast Atlantic states does not focus on the transportation sector. Likewise, the State of California has separate transportation sector climate initiatives (applying to both vehicles and fuels) that have not yet been folded into a comprehensive climate program. However, there are clear solutions to this problem. At minimum, transportation sector GHG reductions should be available as "offsets" to climate change emissions from other regulated sectors. A fuels or vehicle-based offsetting provision increases compliance flexibility while diversifying the breadth of the program. Both RGGI and the prospective California "cap and trade" program will contain "offsets" and/or alternative market compliance mechanisms that increase the flexibility of the program, especially in the near term. A more aggressive approach would involve capping transportation sector GHG emissions either upstream or downstream, which in turn would force the market to respond by using less carbon intensive technologies and fuels. The key to both of these models, from a planning and investment perspective, is the establishment of rigid targets with enough market-based compliance mechanisms to ensure sufficient program flexibility.

(7) The RFA believes that "early reductions" must be credited in a federal cap and trade program. As discussed, the increased production and use of renewable fuels is being pursued for economic, national security and environmental reasons. In the process, the use of renewable fuels is emerging as the single most effective U.S. transportation sector GHG reduction strategy. States such as California, for example, are advocating for the increased use of renewable fuels as an "early action" measure toward meeting the state's GHG emissions reduction targets. Petroleum refiners and marketers choosing to make the investment now to utilize greater volumes of non-petroleum fuels should be rewarded (and therefore not penalized) for staying ahead of the regulatory curve. Also, with increasing volumes of renewable fuels available on the market, and with the federal RFS rule about to take effect, many transportation fuel marketers must make decisions now that will affect their future use of non-petroleum fuels. If early reductions are achieved through this decision-making process, they should be credited.

(8) As to other, more specific components of a federal climate change program (e.g. auctions, safety valves, etc.), the RFA's position would depend on the foundational design of the program. We recognize that there has been a recent push to auction 100 percent of the allowances in the northeast region's RGGI program. We also recognize that there are various types of safety valves under consideration. We understand that the RGGI program allows greater offsets in the event

that the price per carbon credit exceeds certain thresholds. This type of safety valve, which ties together offsets and the price of the credits, may be an innovative solution to provide market protections without jeopardizing the rigidity of the program.

The urgency of the climate change issue is real for reasons that extend well beyond the environment. Energy innovation will follow good climate policy. We can sit and wait, hedging against the progress of other countries, or we can become leaders in the field. We can play catch up, or ultimately share our policies and sell our innovations to countries and regions that will inevitably have to fall in line. The RFA believes that staying ahead of the curve now will pay dividends later. We believe this is also true for our country.

Thank you for the opportunity to provide information to the Committee, and we look forward to working with Congress on this important matter.

Sincerely,

Bob Dinneen
President & CEO