



**Energy & Commerce Committee
Subcommittee on Energy and Air Quality**

Hearing

**The Energy Policy Act of 2005:
Ensuring Jobs for our Future with Secure and Reliable Energy**

Testimony of

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Good morning, Mr. Chairman and Members of the Subcommittee. My name is Bob Dinneen and I am president of the Renewable Fuels Association, the national trade association for the domestic ethanol industry. The RFA represents the 81 ethanol producing companies across the United States that last year produced more than 3.41 billion gallons of ethanol from over 1.25 billion bushels of grain.

I greatly appreciate the opportunity to testify. Your review of national energy policy and your efforts to formulate a comprehensive energy bill are very much needed. With rising crude oil costs, declining gasoline inventories and natural gas shortages across the country, it is clear the nation needs an energy policy that focuses on increased production, particularly from domestic renewable sources like ethanol that can help build a sustainable energy future.

Mr. Chairman, I can tell you the U.S. ethanol industry is already doing its part. Ethanol producers are expanding at an unprecedented rate to extend gasoline supplies and provide the octane and oxygen refiners need to meet air quality and performance standards. When I last testified before this Committee in 2002, I proudly announced the production of more than 2 billion gallons of ethanol for the first time. Since then, the industry has continued its record growth.

In 2004, the U.S. ethanol industry opened 12 new state-of-the-art production facilities, bringing the industry's total annual production capacity to more than 3.6 billion gallons. There are another 16 new plants and 2 major expansions at existing facilities currently under

construction that add another 754 million gallons of capacity and bring the industry's total production capacity to more than 4.4 billion gallons. This year, the U.S. ethanol industry is on pace to process 1.5 billion bushels of grain in the production of more than 4 billion gallons of ethanol.

Today, ethanol is blended into more than a third of the nation's gasoline. This level of ethanol production and use is providing significant economic and energy benefits for the nation.

- Last year, the ethanol industry added more than \$25 billion to the nation's gross economic output through annual operating spending and capital spending for new plants.
- The industry is now responsible for over 147,000 jobs across all sectors of the economy.
- Ethanol producers spent more than \$3.1 billion on grain, using 13% of the corn and sorghum crops and becoming the third largest consumer of each, behind only feed and export. In fact, at a time when export markets are stagnating or declining, ethanol is providing farmers a critically important value added market.
- Another \$4.4 billion went directly to consumers this past year through increased economic activity and new jobs – money that will go to pay for school shoes and college tuition and putting food on the table.
- And federal and state governments collected almost two-and-a-half billion dollars in needed tax revenues from the ethanol industry.

Domestic ethanol production displaced approximately 400,000 barrels of oil a day in 2004, about the volume of oil the U.S. imported from Iraq prior to the war. And the environmental benefits are significant also. According to Argonne National Laboratory, the use of ethanol in 2004 reduced greenhouse gas emissions by 7 million tons, or the equivalent of taking more than a million cars off the roads.

As the industry grows, it is changing, becoming more and more energy efficient with new production facilities using the latest and most efficient technologies. According to the most recent analysis by the U.S. Department of Agriculture, ethanol now yields 167% of the fossil energy used to grow, harvest, transport and refine grain into ethanol. That represents a 24% improvement in efficiency since USDA completed a similar analysis just four years ago.

The industry is changing in other ways as well. Virtually all of the new production capacity is from farmer-owned ethanol facilities as farmers seek to take direct advantage of the value-added and rural economic development benefits of ethanol processing. Indeed, with more than 40 percent of the industry's capacity, taken together farmer-owned ethanol plants now represent the single largest producer of ethanol across the country.

The tremendous growth in ethanol demand over the last several years is a direct response to state efforts to reduce the use of MTBE. To date, nineteen states have acted to phase out the use of MTBE, and the ethanol industry has acted responsibly to build additional capacity so

that refiners could continue to supply consumers with competitive fuels that meet federal Clean Air Act requirements.

The ethanol industry has developed a strong track record of seamlessly replacing MTBE in major gasoline markets. This past year, ethanol successfully replaced MTBE in California, New York and Connecticut. Due to the diligent work of both the ethanol and petroleum industries, the switch to ethanol went off without a hitch. Consider this statement by the Coalition of Northeastern Governors Policy Research Center:

“The supply and infrastructure challenges to implement the New York and Connecticut MTBE bans have been successfully met by the petroleum and ethanol industries to date. An adequate ethanol distribution system was developed; adequate stocks of ethanol have been in place; distribution terminals were retrofitted to accommodate ethanol delivery, storage and blending; and adequate stocks of reformulated blendstock used for ethanol blending have been produced and distributed. *MTBE ban induced price increases have not been reported by EIA [U.S. Energy Information Administration], New York or Connecticut who are monitoring prices. California energy officials report a similar experience in meeting their January 2004 MTBE ban.*” (emphasis added)

While we believe we can continue to successfully replace MTBE in RFG areas where it is being phased out, we have also heard the requests of our customers for greater flexibility in meeting Clean Air Act requirements, i.e., eliminating the federal oxygen standard. Consequently, we have worked for several years to develop a consensus proposal that addresses the concerns of a number of stakeholders, including environmentalists, oil companies and farmers. We are proud to be part of a unique coalition that includes the American Petroleum Institute in support of a fuels package that includes replacing the existing oxygen standard with a new more flexible renewable fuels standard (RFS) while preserving the air quality benefits of the federal reformulated gasoline program.

The RFA commends the leadership of the Chairman and this Committee for including a renewable fuels standard in the draft Energy Policy Act of 2005.

The Energy Policy Act of 2005 provides a federal resolution to persistent concerns related to MTBE, avoiding a patchwork of state actions. It maintains the existing clean air benefits of federal RFG with strong anti-backsliding provisions. It provides refiners with the flexibility they have sought in meeting Clean Air Act requirements by eliminating the federal RFG oxygen standard. And it provides some marketplace certainty to farmers and ethanol producers that have acted responsibly to meet the demand created by current law.

Importantly, the RFS does not require that *any* renewable fuels be used in *any* particular area, allowing refiners to use these fuels in those areas where it is most cost-effective. Moreover, there are several provisions allowing the requirement to be adjusted or eliminated if supply problems occur. Small refiners are exempted from the RFS for several years, allowing those companies an easier transition to the program.

The RFS included in the Energy Policy Act of 2005 boosts the demand for renewable fuels such as ethanol and biodiesel to 5 billion gallons by 2012. An analysis conducted by the U.S. Department of Energy in 2003, "Infrastructure Requirements for an Expanded Fuel Ethanol Industry," concludes, "no major infrastructure barriers exist" to expanding the U.S. ethanol industry to 5 billion gallons per year.

As the industry has now grown to the point that it will produce more than 4 billion gallons of ethanol this year, DoE's conclusion has certainly been validated. Indeed, it should be obvious that the ethanol industry could supply a much greater volume of ethanol under an RFS. With crude oil prices recently topping \$50 per barrel and gasoline prices across the country once again on the rise, consumers are seeking far greater production and use of domestic renewable fuels as a means of adding to supply and lowering prices. Consequently, we would hope that as the legislative process regarding the energy bill progresses, Congress will recognize the potential of U.S. ethanol companies to increase production and seek to maximize the volume of ethanol in the RFS.

Moreover, as the ethanol industry has had to dramatically increase production to respond to increased demand created by state MTBE legislation in the absence of federal action, it is clear that the proposed RFS schedule no longer provides a rational transition from the existing oxygen standard to an RFS. Thus, I would hope the Committee would consider an accelerated schedule as the legislative process moves forward.

Mr. Chairman, the Renewable Fuels Association is committed to working with you and members of the Committee as this process moves forward to finalize an energy bill that assures a reliable fuel supply, lowers consumer fuel costs, protects the environment and stimulates further growth and development in domestic renewable fuels such as ethanol and biodiesel.

Thank you.