Environment and Public Works Committee
United States Senate

Oversight Hearing on

The Impact of the Elimination of MTBE in Gasoline

Testimony of

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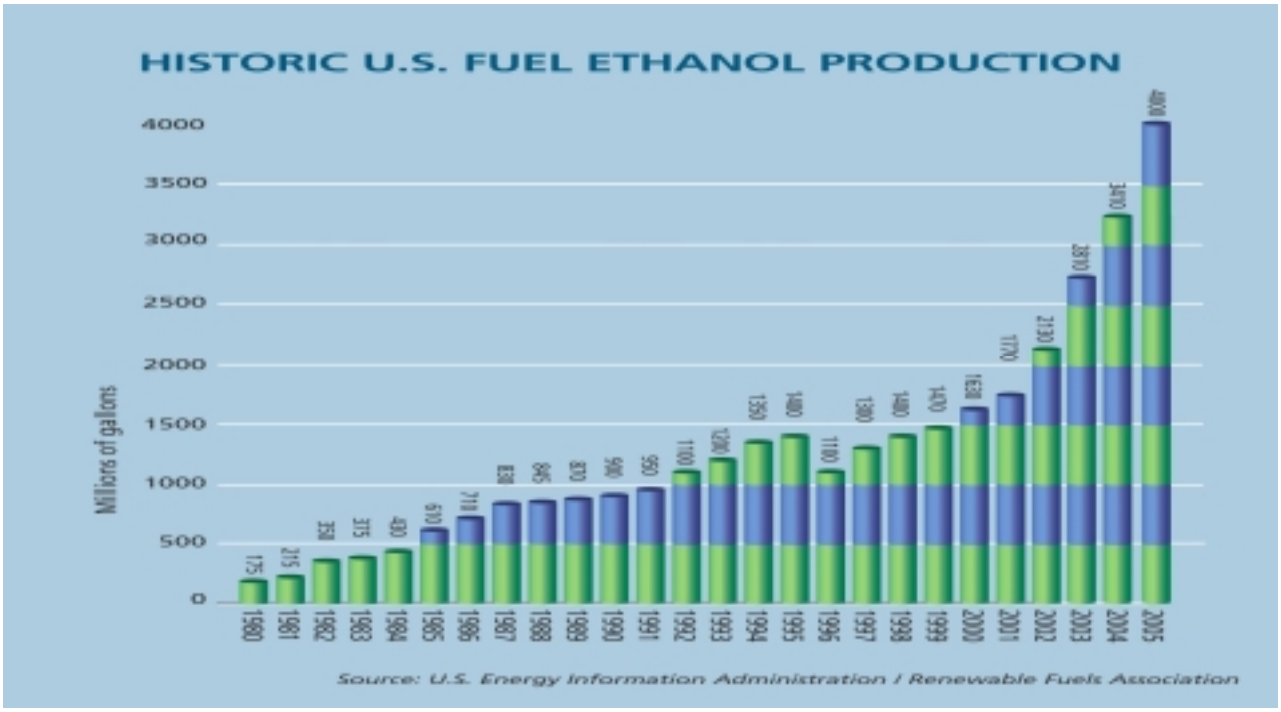
Good morning, Mr. Chairman and Members of the Committee. My name is Bob Dinneen and I am president of the Renewable Fuels Association, the national trade association representing the U.S. ethanol industry.

This is an important and timely oversight hearing, and I am pleased to be here to discuss everything the ethanol industry is doing to mitigate any potential consumer impact resulting from refiner decisions to eliminate the use of MTBE. In short, I can assure you the nation's ethanol producers are working closely with their refiner customers to make the transition from MTBE to ethanol in those areas not yet having made the switch as seamless as possible. I am confident the transition can, and will, go smoothly.

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.

Ethanol has become a ubiquitous component of the U.S. motor fuel market today. Ethanol is blended in more than 30% of the nation's fuel, and is sold virtually from coast to coast and border to border.



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 RFA[1], 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

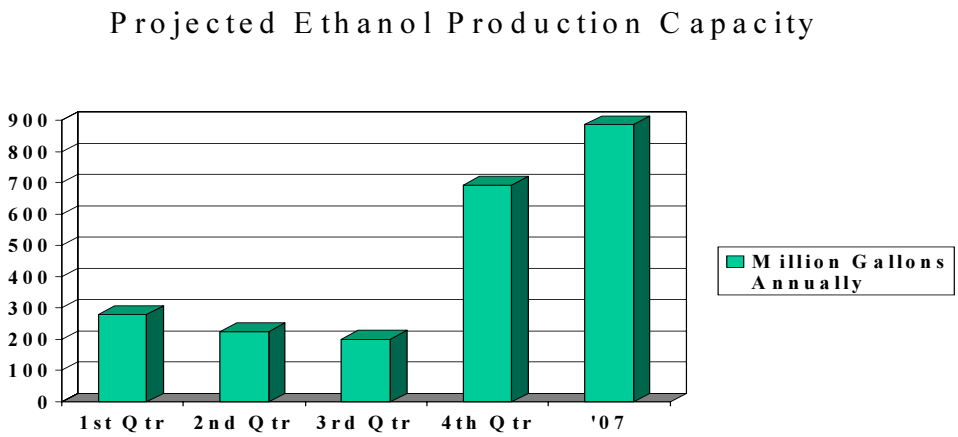
Mr. Chairman, in large part because of the Energy Policy Act of 2005 (EPAct), the U.S. ethanol industry is today the fastest growing energy resource in the world. This Committee should be proud of its role in getting the congressional debate regarding a robust Renewable Fuels Standard (RFS) started. With your leadership, and the tremendous support of members of the Committee, such as Senators John Thune (R-SD) and Barack Obama (D-IL), the

[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.

Congress last year enacted an 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 33 plants under construction. Eighteen 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 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.



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.

MTBE is Hemorrhaging the Marketplace

Another consequence of the Energy Policy Act appears to be a much more rapid elimination of MTBE than analysts anticipated. Because Congress chose not to provide liability protection for refiners and producers of MTBE, virtually every major refiner has decided to eliminate the use of MTBE by the time the federal RFG oxygenate requirement is officially repealed (May 5, 2006). While state legislative actions to prohibit the sale of MTBE had already greatly reduced the volume of MTBE used in reformulated gasoline (RFG),[3] there is still approximately 2 billion gallons of MTBE sold in the Mid-Atlantic, Northeast and Texas. This volume will likely be replaced by ethanol.

[3] Twenty-six states have enacted legislation to prohibit the use of MTBE because of increasing concerns related to MTBE water contamination. These states include the RFG areas of California, Illinois, New York and Connecticut. Ethanol has already successfully replaced MTBE in RFG sold in these areas.

It is important to note, however, that no provision of the Energy Policy Act or the Clean Air Act requires refiners to eliminate MTBE by this date. Refiners are not compelled to use MTBE in RFG, nor are they compelled to use ethanol once the oxygenate requirement is eliminated.[4] The decision to stop using MTBE is the refiners' alone.

There Will Be Adequate Supplies of Ethanol to Meet the Demand Created by the Removal of MTBE.

U.S. ethanol supplies will be available to meet this new demand. First, as noted, dramatically increased ethanol production capacity will satisfy much of the new demand. In addition to the new capacity previously discussed, several ethanol and gasoline marketers have been storing ethanol supplies at terminals in these new markets in anticipation of the transition from MTBE.

Second, several refiners have contracted with Brazilian and/or Caribbean ethanol suppliers for product. Approximately 130 million gallons of ethanol were imported last year. That figure is expected to increase in 2006.[5]

Third, the marketplace will migrate ethanol from existing conventional gasoline areas where it is added for octane or as a gasoline extender to MTBE replacement markets where it will be needed more. Indeed, many refiners and marketers are today renegotiating existing contracts to effect a temporary re-allocation of product and assure a smooth transition in new market areas.

As a result, virtually every refiner and gasoline analyst now acknowledges there will be sufficient ethanol supplies to meet the demand created by MTBE replacement. Consider the following statements:

- "The US will have enough ethanol to blend into gasoline during the current spike in demand as companies transition away from the oxygenate MTBE." Valero Energy CEO William Klesse.

- "We have enough ethanol to replace MTBE when the new ethanol mandate takes effect in May" ExxonMobil CEO Rex Tillerson.

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[4] Based on indications from the refining industry, the Colonial Pipeline had announced that MTBE shipments would not be allowed after March. That decision has been re-evaluated, however, and the pipeline system will allow MTBE RFG to be shipped upon request.

[5] It is important to note that lifting the secondary tariff on ethanol is not necessary to encourage additional imports. Under the Caribbean Basin Initiative, 270 million gallons can be imported duty-free. Moreover, the secondary tariff only exists to offset the tax benefit refiners receive for blending ethanol, regardless of its source. Eliminating the tariff, then, would result in U.S. taxpayers subsidizing already highly subsidized Brazilian ethanol. That is particularly unnecessary as the marketplace is seeing ethanol imports increase under the existing tariff regime.

The Transportation, Distribution and Blending Infrastructure will be Ready.

The ethanol industry is working 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 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 build ethanol storage facilities and blending equipment.

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:

- 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.

- 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 has challenged the marketplace. But the ethanol and petroleum industries have done this successfully before in New York, California and Connecticut. We know we can do it again. 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."[6]

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

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. The unprecedented transition from MTBE to ethanol may present short-term challenges that industry is working cooperatively and diligently to overcome, but it also presents a long-term benefit for the nation, by moving us one step closer to President Bush's vision of a more energy secure America.

Thank you.