Testimony on Ethanol and Agriculture
Committee on Agriculture
U.S. House of Representatives
March 7, 2007

Introduction

Chairman Holden, Ranking Member Lucas and distinguished members of the committee, thank you for the opportunity to address you regarding the most exciting and rapidly growing industry in the United States; our domestic ethanol industry. My name is Tim Barker and my title is the Executive Vice President of Development for Orion Ethanol. Orion is a renewable fuels company focusing on ethanol production based in Pratt, Kansas. It is nearing completion of its first ethanol refinery in Pratt, Kansas and has 5 more refineries under development, 3 in rural Kansas and 2 in western Oklahoma.

Orion Ethanol, Inc.

Like the entire United States ethanol industry, Orion is a tale of the American dream. It began in the hearts and minds of people from Western Kansas that dreamed of spurring economic growth in their deteriorating home communities. Despite many peaks and valleys along the way, in 4 short years Orion has positioned itself to be on the leading edge of the emerging ethanol industry through its investments and focus on new technologies and infrastructure development. These advancements will allow Orion to be a leader in the challenge we have received from both President Bush and from Congress to become more energy independent.

To stay on the cutting edge of these emerging technologies, Orion is working with and following the progress of several different universities to assist them in making their technology a commercial successes. These universities include Kansas State, Purdue, Oklahoma State and MIT. New technological advances are inevitable in the ethanol industry and only those companies that embrace these changes and growth opportunities will thrive. These new technologies will make ethanol more price-competitive with gasoline and expand the areas in which we can produce ethanol.

Although Orion is a successful business venture and well positioned for rapid growth, the journey has not been without its peaks and valleys. In the spring of 2005, our company lost support of a large financial backer from Wall Street. This particular hedge fund felt uncomfortable investing in the ethanol industry because of its uncertain political future and the industry's dual commodity structure.

It was with the passage of the Renewable Fuel Standard (RFS) in the fall of 2005 that our company gained momentum. I am here before you today, able to discuss the future of the industry and say with confidence that Orion will be a participant in this industry because of your hard work and commitment to a better America. I am proud to tell you today that the RFS is working and want to take this opportunity to thank you for allowing myself, and thousands of other Americans for the opportunity to live the American dream.

The economic impact of the ethanol plant in my home community of 7,000 people is astounding. Our project has a capital cost near 100 million dollars. Small business owners are enjoying their best year in decades. Hotels are full, restaurants are busy and finally, Main Street is full. With the completion of the Pratt, Kansas plant alone, Orion Ethanol will have over 40 full time employees with an annual gross payroll of over 2 million dollars. Your efforts, along with those of your colleagues and President Bush have made this possible.

However, despite the support the ethanol industry has received from the government, our industry is still in its infancy and highly fragmented. America's goal for energy independence is not complete. Candidly, there is more work to be done and we must do better. I would like to address a few key hurdles our industry faces today and offer some suggestions on how the Federal Government and this Committee can help.

Agriculture and Ethanol

It is a great day to be an American farmer. I was raised in the wheat fields of western Kansas and have never seen the enthusiasm and optimism of my brethren so high. The promise of transforming acres from underappreciated agricultural use into one of essential energy production is revitalizing rural America.

The price of corn is at its highest level in more than a decade and near an all time high. Unlike previous spikes in corn prices which have been due to drought and other environmental conditions, today's high prices are being driven by demand (at least perceived demand). Although these high prices are terrific for the American farmer, they have sparked concern over their effect on food prices.

While this Committee debates the current Farm Bill, there are two important issues to address. First, what is the best use of American farm ground and should our Conservation Reserve Program (CRP) be revisited? Second, how can the Farm Bill bring balance to the corn supply and demand equation? Failure to address these two questions appropriately will result in America being dependent on foreign ethanol like we are dependent on foreign oil today.

Our country is undergoing a paradigm shift in how we view agriculture. Traditionally our agricultural resources have served one primary purpose, providing cheap and dependable food for our people. In addition to this noble duty, today's agricultural community is faced with providing the energy necessary to produce our transportation fuel. These are both noble purposes and the Government needs to encourage a healthy balance in order to fulfill both purposes. Providing the American farmer the choice to remove land from the CRP program to grow sources of energy or food is one way this Committee could encourage this balance.

According to Kansas State University there are over 30 million acres of tillable agricultural ground in the United States that are in the CRP program. This represents approximately 10% of total agricultural land in the United States. The program accomplished the goal of removing excess grain supply in order to bolster crop prices. However, with the amount of ethanol production coming on line, this artificial protection is no longer necessary. In the last four years America has raised four of the largest corn crops on record. Yet prices remain near record highs and I believe this can be attributed at least in part to the CRP. The ethanol industry used approximately 15% of the corn crop and 14% of the sorghum crop in the United States last year. According to Wall Street expectations these numbers are projected to grow to over 25% by next year.

Providing the farmer this flexibility would have dramatic effects on rural America. For example, in Pratt County, Kansas there are over 50,000 acres of tillable farm land enrolled in the CRP program. This comes at a cost to the Federal Government of over 2 million dollars per year. If these acres were allowed to be removed from the CRP program, they could grow approximately 5 million bushels of grain, or produce approximately 15 million gallons of ethanol. The net economic impact from this decision would generate an additional 20 million dollars in direct farm revenue at current prices, and 30 million dollars of direct ethanol revenue. This is a net 48 million dollar surplus over the government's current obligation to Pratt County, Kansas alone.

There are additional ways to bring balance to the grain supply and demand issues we face today. A bi-product of the ethanol production process is Distillers Grains (DDG). For every bushel of corn used in the ethanol process approximately 17 pounds of DDG is produced as well. Last year, the ethanol industry produced approximately 8.35 million metric tons of DDG. This is expected to grow to more than 20 million metric tons by 2012. DDG is a value added product and a valuable feed source for the cattle industry. By the end of 2008, the DDG market should reduce the demand for corn used as feed by more than 1 billion bushels.

The DDG market is expected to more than double over the next 3 to 4 years. As with any industry, absorbing this additional supply will take time and investment. Most of the DDG produced in the country today remains near where it is produced. However, this new supply of DDG will have to travel to more distant demand sources, like the feedlots in western Kansas and Oklahoma. This Committee should study ways to encourage the inclusion of DDG into the feed rations in the United States.

Like the rapidly developing ethanol industry, the DDG industry is undergoing rapid technological advances. Advances are being made to improve the quality and consistency of the products, improving the logistical challenges of shipping the product over long distances, and enhancing the product as a feed. One such technology is the fractionization of corn to remove the germ and extract the oil in the seed. This process results in a high protein feed that can penetrate the poultry and hog industries as well. The oil left from the process can be used to produce bio-diesel, creating another value added product.

This technology is in its infancy and its commercial history is limited. Orion's growth strategy includes removing oil from corn at multiple facilities and moving this oil to a central bio-diesel facility. Orion will be one of the first companies to implement such technology. It is through the continued support of this Committee that will make this technology available.

Ethanol and Energy Policy

The Renewable Fuel Standard (RFS) is working. Since the RFS was passed in 2005, the amount of ethanol capacity that is either under construction or currently producing has grown from under 5 billion gallons of annual capacity to over 8 billion gallons. The RFS solidified the role of ethanol in the United States fuel supply. It has helped ease the financial community's concern about the ethanol industry. The only way to ease the investment community's concerns over price volatility is to send a message to that community that you will support its investment. Although you have sent, and the industry has received that message, today the financial community is listening for a reconfirmation of that message.

Even though the RFS has been a resounding success, several headwinds have slowed the building of new ethanol capacity. Corn prices are at the highest level in more than a decade, oil prices have remained volatile, construction costs have risen, and public sentiment has faded. These factors have made it difficult to raise the capital necessary to build new capacity. Although it is important to increase the overall usage of ethanol in the United States, usage in and of itself does not revitalize rural America. It is the injection of millions of dollars of capital into a community that drives rural expansion and creates jobs. American energy policy needs to continue to support the blending and usage of ethanol, but also needs to promote the building of new capacity in America. It is the production of ethanol, not the blending of it, that raises grain prices and revitalizes rural America.

Another issue that is a growing area of concern for the expansion of the industry, whether from grain or other feedstock, is the existing transportation infrastructure. The most efficient way to transport ethanol today is by rail. Our railroad companies have done well to meet the challenge of transporting our product so far. However, these same rail lines are either at or nearing capacity. This is causing our transportation rates to increase. I would urge this Committee and Congress to explore ways to provide incentives for new and innovative ways to transport ethanol. We believe in the ability to transport ethanol in large quantities by pipeline.

Orion Ethanol will be one of the first to utilize pipelines for the transportation of ethanol on a commercial scale.

The history of the petroleum industry is a relevant example. In its infancy, the most common way to transport refined petroleum products was by rail and truck, exactly the way we transport ethanol today. Today however, less than 15 percent of all petroleum products move by rail and truck. The vast majority of these products are moved by pipeline. This radical change took over 50 years to achieve and is one of the greatest entrepreneurial innovations in United States business.

Orion Ethanol is actively pursuing and engaging pipeline partners to advance the ethanol infrastructure. When the ethanol industry matures, we believe that pipelines will have been a major catalyst that made it occur. Existing pipelines will have to be renovated; abandoned and leaking pipelines will be removed and replaced with new, environmentally friendly pipelines. This task will not be easy and we will need your support to make it happen.

RFS and Research Grants

In addition to renewing and expanding the RFS, there are additional ways this Committee can assist smaller, innovative companies like Orion. With the rapid rate of growth in the industry and the inevitability of new and emerging technologies, making these technologies commercially viable is a must. These technologies will not hurt or replace existing grain based ethanol plants. In fact, existing facilities will benefit greatly from the use of cellulose. The current yield of ethanol from a bushel of corn is approximately 2.8 gallons of ethanol. With cellulosic technology this yield could grow to exceed 3 gallons of ethanol for each bushel of grain.

In addition to this increased yield, the proximity of grain based ethanol plants to other crops will allow them to utilize corn stalks, wheat straw, and other biomass feedstocks for additional ethanol production. Rather than considering these biomass materials agricultural wastes, cellulosic technology will allow farmers to benefit from millions of dollars of additional farm income. Grants and incentives available to companies that help implement these technologies on a commercial scale have and will continue to make this increased farm income possible. These grants and incentives are positive for the industry and should be increased.

Summary

The Government and this Committee assisted in the growth of the ethanol industry. The Energy Policy Act of 2005 moved our Country toward energy diversity and reduced dependence on imported oil. Focused research on the logistics and transportation of ethanol, the development of new technologies for ethanol production, the increase in value added bi-products as well as revisiting our CRP policy will ensure that our domestic ethanol industry thrives and is competitive in the global marketplace.

Timothy Clark Barker
60178 NE 15th St., Pratt, KS, 67124
(620) 672-3122
tim@orionethanol.com

EDUCATION

Washburn University School of Law, Topeka, KS
Jurist Doctorate **2004**
Graduated with Dean's Honors

Oklahoma Christian University, Edmond, OK
B.A. Business **2001**

BUSINESS EXPERIENCE

Orion Ethanol, Inc.
Co-Founder, Executive Vice President, Development **2005-Present**
Primary responsibilities include developing or acquiring ethanol capacity.

Jimmy John's Gourmet Sandwiches
Franchisee, Owner **2004-Present**
Multiple Unit owner and Operator in Oklahoma City area.

Midwest Research and Trading
Co-Owner **2004-2005**
Actively trade commodities and stock indexes

Frieden, Haynes and Forbes,
Law Clerk **2002-2004**

Barron Theatre, Pratt KS
Co-Owner **1997-Present**

Committee on Agriculture
U.S. House of Representatives
Required Witness Disclosure Form

House Rules* require nongovernmental witnesses to disclose the amount and source of Federal grants received since October 1, 2004.

Name: Tim Barker

Address: 60178 NE 15th St Pratt, KS 67124

Telephone: 620-672-2814

Organization you represent (if any): Orion Ethanol, Inc.

---

1. **Please list any federal grants or contracts (including subgrants and subcontracts) <u>you</u> have received since October 1, 2004, as well as the source and the amount of each grant or contract. House Rules do <u>NOT</u> require disclosure of federal payments to individuals, such as Social Security or Medicare benefits, farm program payments, or assistance to agricultural producers:**

Source: NA **Amount:** 0

Source: NA **Amount:** 0

2. **If you are appearing on behalf of an organization, please list any federal grants or contracts (including subgrants and subcontracts) <u>the organization</u> has received since October 1, 2004, as well as the source and the amount of each grant or contract:**

Source: NA **Amount:** 0

Source: NA **Amount:** 0

Please check here if this form is NOT applicable to you: √

Signature: Tim Barker

* Rule XI, clause 2(g)(4) of the U.S. House of Representatives provides: *Each committee shall, to the greatest extent practicable, require witnesses who appear before it to submit in advance written statements of proposed testimony and to limit their initial presentations to the committee to brief summaries thereof. In the case of a witness appearing in a nongovernmental capacity, a written statement of proposed testimony shall include a curriculum vitae and a disclosure of the amount and source (by agency and program) of each Federal grant (or subgrant thereof) or contract (or subcontract thereof) received during the current fiscal year or either of the two previous fiscal years by the witness or by any entity represented by the witness.*

PLEASE ATTACH DISCLOSURE FORM TO EACH COPY OF TESTIMONY.