Testimony Summary:
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Office of Air and Radiation, U.S. Environmental Protection Agency
before the House Energy and Commerce Committee, Subcommittee on Energy and Air Quality
June 7, 2007

Introduction

In his 2007 State of the Union Address, the President challenged the nation to address our growing reliance on oil by taking several concrete actions. He called for a Twenty in Ten plan to reduce gasoline consumption by 20 percent in the next 10 years. Earlier this year, the Administration sent Congress two legislative proposals to achieve the Twenty in Ten plan.

The first proposal sent to this committee would reform and modernize Corporate Average Fuel Economy (CAFE) standards for cars; the Twenty in Ten plan also calls for further increases to CAFE standards for light trucks. The second legislative proposal is an Alternative Fuel Standard (AFS) which would increase the supply of renewable and other alternative fuels by setting a mandatory fuels standard to require the equivalent of 35 billion gallons of renewable and other alternative fuels in 2017.

Executive Order

On May 14, 2007, President Bush signed an Executive Order directing EPA, together with the Departments of Energy, Transportation, and Agriculture, to take the first steps toward regulations that would cut gasoline consumption and reduce greenhouse gas emissions from motor vehicles and transportation fuel. The President asked that we use the Twenty in Ten plan as a starting point.

Committee Legislation

The discussion draft released June 1, 2007, includes an alternative fuel standard program, a low carbon fuel standard, and revised fuel economy standards for cars and light trucks. Several elements of this discussion draft are similar to the Administration's proposals, and importantly, share a common recognition of the need for greater alternative fuel volumes and increased fuel efficiency. There also are some key differences in the two approaches—the discussion draft includes a longer timeframe to reach the 35 billion gallon target and has different compliance values in the initial years of the program. Also, the Administration's proposal includes a provision for safety valves, which we believe provides important safeguards and critical flexibility to the regulated industry.

The low carbon fuel program proposed in this draft would require EPA to set a carbon intensity target which is tied to the volumes set by the alternative fuel standard. It also requires EPA to use the kind of identification numbers created as part of the Renewable Fuel Standard to determine compliance with this section and to establish methods for calculating the average carbon intensity of fuels. Another section of the draft would limit EPA's existing authority under the Clean Air Act to regulate greenhouse gas emissions from motor vehicles.

Summary

Those are a few of EPA's initial observations on the discussion draft. We will need additional time to fully understand and carefully consider its meaning and potential implications. While we are not able to take a position on the draft legislation at this time, we would be pleased to provide technical advice on the relevant issues to the Subcommittee as the legislation moves forward.

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BEFORE THE COMMITTEE ON ENERGY AND COMMERCE
SUBCOMMITTEE ON ENERGY AND AIR QUALITY
U.S. HOUSE OF REPRESENTATIVES
June 7, 2007

Mr. Chairman, and members of the Subcommittee, I appreciate the opportunity to come before you today to testify on legislation being considered by this Subcommittee concerning alternative fuels, infrastructure, and vehicles.

Introduction

In his 2007 State of the Union Address, the President challenged the nation to address our growing reliance on oil by taking several concrete actions. He called for a Twenty in Ten plan to reduce gasoline consumption by 20 percent in the next 10 years. As I outlined in my testimony of May 8th, this aggressive goal would build upon the programs established by Congress in the Energy Policy Act of 2005, in particular the renewable fuel standard (RFS) established in that legislation. The 20 in 10 plan also seeks to reform CAFE standards for passenger cars and extend the current light truck rule promulgated by the National Highway Traffic Safety Administration.

On May 14, 2007 President Bush signed an Executive Order directing EPA, together with the Departments of Energy, Transportation, and Agriculture, to take the first steps toward regulations that would cut gasoline consumption and reduce greenhouse gas emissions from motor vehicles and transportation fuel. The President asked that we use the Twenty in Ten plan as a starting point.

This recent announcement both responds to the Supreme Court's April 2, 2007 ruling in *Massachusetts v. EPA* and provides a path forward for improving our energy security by reducing U.S dependence on oil. However, the President also indicated that this initiative is not a substitute for effective legislation. Earlier this year, the Administration sent Congress two legislative proposals to achieve the Twenty in Ten plan.

The first proposal sent to this committee would reform and modernize Corporate Average Fuel Economy (CAFE) standards for cars; the Twenty in Ten plan also calls for further increases to CAFE standards for light trucks. The second legislative proposal is an Alternative Fuel Standard (AFS) which would increase the supply of renewable and other alternative fuels by setting a mandatory fuels standard to require the equivalent of 35 billion gallons of renewable and other alternative fuels in 2017.

As I testified before this Subcommittee last month, the AFS would build on EPA's recently completed national Renewable Fuels Standard (RFS) -- the first milestone in increasing the amount of domestically-produced renewable fuels used in motor vehicles. The AFS would include all fuels that are currently part of the RFS and would include fuels currently classified as "alternative fuels" under the Energy Policy Act. It would also allow other types of fuels to qualify as alternatives for compliance, adding competition in the alternative fuel marketplace. The AFS includes fuels or fuel components such as ethanol (derived from a variety of sources, including corn and cellulosic feedstock), biodiesel, butanol, as well as other alternatives to crude oil-based fuels such as natural gas, hydrogen, and coal-to-liquids. The AFS would also include the use of electricity to power advanced vehicles, including “plug-in” hybrid vehicles.

As proposed by the Administration, the AFS would replace the RFS in the year 2010, but would retain the flexible credit, banking and trading mechanisms contained in the RFS. The legislation provides an accelerating schedule for AFS requirements in the years 2010 to 2017. After 2017, similar to the RFS, the level of the AFS would be set administratively based on several factors including the impact of alternative fuels on energy security and diversification, costs to consumers, job creation and the environment.

The AFS also includes “safety valves” to protect economic and environmental interests. For example, the Administration would be required to review the impact of the AFS annually and may adjust the annual requirement if short or long term conditions exist that adversely affect the production or importation of alternative fuels. Under certain circumstances, the Administration could issue a temporary waiver of any or all the requirements of the AFS. The AFS also includes an automatic “safety valve” that would serve as an “economic backstop” to ensure that mandating 35 billion gallons of alternative fuel does not excessively increase the cost of gasoline and diesel to American consumers, or exclusively distort other markets. By allowing the sale of credits at $1 per gallon of gasoline equivalent (or about $0.67 per gallon of ethanol), the “safety valve” would guard against unforeseen increases in the prices of alternative fuels or their feedstocks, protecting other markets from being adversely impacted and minimizing costs to consumers. This feature provides some market certainty—businesses can calculate their maximum cost of compliance.

Executive Order

While we are hopeful that Congress is able to act on these legislative proposals, the President has directed EPA, DOE, DOT and USDA to use the regulatory process to start working toward these goals now. The steps called for in the May 14th Executive Order will ensure coordinated efforts on regulatory actions aimed at protecting the environment with respect to greenhouse gas emissions from new motor vehicles that proceed in a manner consistent with sound science, analysis of benefits and costs, public safety and economic growth. The President additionally directed Administration officials to listen to public input before any decisions are reached and carefully consider available technology.

In his announcement accompanying the Executive Order, the President directed EPA and the other federal departments and agencies to complete the regulatory process on greenhouse gas emissions from motor vehicles by the end of 2008. This is an aggressive timeframe, but one that I am confident that EPA staff, working with our federal partners -- the Departments of Transportation, Energy, and Agriculture – can achieve.

Committee Legislation

Mr. Chairman, on June 1, the Agency received a discussion draft of legislation concerning alternative fuels, infrastructure, and vehicles. We conducted an initial review of the draft but we will need additional time to fully understand and carefully consider its meaning and potential implications. Following are some preliminary comments I would like to share with the Subcommittee.

The discussion draft includes an alternative fuel standard program, a low carbon fuel standard, and revised fuel economy standards for cars and light trucks. Several elements of this discussion draft are similar to the Administration's proposals, and importantly, share a common recognition of the need for greater alternative fuel volumes and increased fuel efficiency. The Alternative Fuel Program in the discussion draft provides much of the same framework that exists in the Administration's draft, including a common list of alternative fuels and the ability for obligated parties to trade alternative fuel credits. There also are some key differences in the two approaches—the discussion draft includes a longer timeframe to reach the 35 billion gallon target and has different compliance values in the initial years of the program. Also, the Administration's proposal includes a provision for safety valves, which we believe provides important safeguards and critical flexibility to the regulated industry.

The low carbon fuel program proposed in this draft would require EPA to set a carbon intensity target which is tied to the volumes set by the alternative fuel standard. It also requires EPA to use the kind of identification numbers created as part of the Renewable Fuel Standard to determine compliance with this section and to establish methods for calculating the average carbon intensity of fuels. Another section of the draft would limit EPA's existing authority under the Clean Air Act to regulate greenhouse gas emissions from motor vehicles. However, EPA is asked to require motor vehicle manufacturers to report the projected lifetime carbon emissions from new motor vehicles.

Conclusion

Those are a few of EPA's initial observations on the discussion draft While we are not able to take a position on the draft legislation at this time, we would be pleased to provide technical advice on the relevant issues to the Subcommittee as the legislation moves forward.

Thank you, Mr. Chairman, and the members of the Subcommittee for this opportunity. This concludes my prepared statement. I would be pleased to answer any questions that you may have.