

**Statement of Randy Schneider**  
**President, North Dakota Ethanol Producers Association**  
**For**  
**United States Senate Budget Committee**  
**Hearing Entitled**  
**“Fueling America’s Future: Exploring our Nation’s Energy Options”**  
**July 2, 2008**

Good afternoon, Mr. Chairman. I appreciate the opportunity to testify today on behalf of the North Dakota Ethanol Producers Association.

In a time when oil is trading at record highs over \$140 per barrel, gasoline prices are averaging over \$4.00 per gallon, natural gas prices have increased 154 percent since last August, and increasing heating and electricity rates; North Dakota stands in a unique position to provide significant amounts of clean, renewable energy including ethanol and wind-generated electricity for our nation.

Fostering development of the renewable energy industries in North Dakota will help us moderate these prices increases, move us toward energy independence, and provide meaningful economic development here in North Dakota.

**Meaningful Results of Ethanol Industry Today**

We are already seeing results thanks to Congressional efforts to enact and expand the Renewable Fuels Standard. The ethanol industry has grown from producing less than a billion gallons in 1990, to an industry with 160 ethanol biorefineries with 9.25 billion gallons of production capacity today. In addition, 43 new plants are under construction and seven more are undergoing expansion which will add an additional 4.35 billion gallons of annual capacity.

Today, ethanol is blended in more than 50 percent of all U.S. gasoline. It is extending our nation’s gasoline supply and helping keep gasoline prices from skyrocketing even higher. In June, Fransisco Blanch, a commodity strategist with Merrill Lynch, reaffirmed that ethanol currently is reducing retail gasoline prices consumer pay by \$0.50 per gallon. A recent study by Iowa State University found similar results that ethanol was moderating gasoline prices by \$0.29 to \$0.40 per gallon. As gasoline prices skyrocket, this savings is significant. North Dakota consumes approximately 330 million gallons of gasoline a year. A \$0.50 savings at the pump means \$165 million to North Dakota motorists on a yearly basis.

Not only is ethanol saving consumers dollars at the pump, but is having a significant impact on economies throughout rural America. According to a recent study by LECG, the ethanol industry added \$47.6 billion to the nation’s Gross Domestic Product, created nearly 240,000 new jobs, and added \$12.3 billion to American consumers incomes in 2007 alone. According to Dr. Donis Petersan of the Nebraska Public District, a 100

million gallon per year ethanol plant on average expands the local economic base by \$233 million each year, increases household income by \$7.9 million annually, creates approximately 45 direct jobs plus 101 indirect jobs throughout the area, and creates millions more in increased local and state tax revenue.

Finally, ethanol is playing a critical role in helping reduce our reliance on foreign sources of fuel. Today, the United States imports about 12 percent -- or 16.9 billion gallons -- of the total refined gasoline consumed across the United States. The ethanol industry is on pace to displace seventy-seven percent of all gasoline imported into the United States each year when all facilities under construction are brought on line.

I mention all of this as a way to illustrate how far we have come in a very short time. And, we can do more.

### **Ethanol Potential Significant**

Thanks in part to Chairman Conrad's leadership in 2006 calling for an expanded Renewable Fuels Standard in the Breaking Our Long-Term Dependence, or BOLD, Energy Act, the expanded RFS enacted into law last December calls for use 36 billion gallons of renewable fuels by 2022 with 15 billion gallons from traditional corn ethanol and another 21 billion gallons from new cellulosic sources.

The North Dakota Ethanol Producers believe that we can meet and exceed 15 billion gallons of ethanol production from corn while continuing to meet all other uses. USDA predicts that corn yields will increase to 178 bushels per acre by 2015. Monsanto predicts 300 bushel per acre corn yields by 2030. Using USDA's data, we could see sufficient corn production on the same number of acres to produce 21 billion gallons of ethanol by 2015, all while continuing to meet base demand from all other uses of corn. Using Monsanto's projections, we could produce 26 billion bushels of corn on the same number of acres as today in 2030 which is enough to meet demand for all other uses of corn and produce 60 billion gallons of ethanol.

These yield numbers show that the Federal government should not artificially limit the amount of ethanol that we can generate from corn. Despite recent rhetoric from ethanol's opponents, we can expand the corn ethanol industry in the United States while continuing to supply sufficient corn for our food, feed, and export markets in the United States.

Additionally, it is critical that the Federal government continue its strong support of the Renewable Fuels Standard to ensure continued investment and development of the cellulosic ethanol industry. Cellulosic ethanol has great promise, but strides must be made to be able to produce it on a commercial scale at a competitive price. Private investors are leveraging federal assistance and the promise of market demand to make the promise of cellulosic ethanol real. That said, investment dollars in second generation ethanol will shrink if it looks like the Federal government is backing away from its commitment of ensuring a place in the transportation fuel supply for renewable

fuels. It is critical that the Federal government not waive the RFS schedule because it would send the wrong message to investors and slow development of the cellulosic ethanol industry.

## **Creating New Markets**

While the ethanol industry will be able to produce enough ethanol to meet the RFS mandate, it is critical that we continue to foster new demand in the transportation fleet. Because of the successful growth of the ethanol industry, it is estimated that we will meet the demand of the current 10 percent blend market with corn-based ethanol within the next two to three years. To meet the calls in the current RFS, policy makers must help facilitate use of higher blends and E85 in order for us to break through the 14 billion gallon blend wall. This will ensure that ethanol from both corn and cellulosic sources can continue to thrive and we can further decrease our dependence on petroleum.

Importantly, we must do more to foster the development of E85 infrastructure in the United States. Today, fewer than 1,500 of the nearly 180,000 retail gasoline stations in the United States offer E85.

Congress has taken steps to help. In last year's Energy Bill, Congress included language prohibiting major oil companies from barring franchise owners from offering non-branded E85. Additionally, the Federal government has included tax credits to offset 30% of the cost of installing E85 pumps. But, more is required.

One of the most significant issues facing significant expansion of E85 is blender economics. Currently, flexible fuel vehicles (FFVs) are not designed to take advantage of E85's high octane. As a result, FFV owners receive fewer miles per gallon running on E85 than on conventional gasoline. This direct impact on consumers requires that E85 be sold at a discount to gasoline for it to be competitive in the marketplace. This has led to fewer gallons of E85 being produced.

Fuel retailers must have confidence that E85 will be priced appropriately and that there will be sufficient consumer demand when determining whether to install an E85 pump.

To improve E85 economics and spur rapid expansion of E85 pumps, the Federal government should create a blenders credit for ethanol blended into E85 within the existing VEETC system. This credit would compensate for the discount resulting from the loss in miles per gallon efficiency. Establishing this incentive serves two purposes. First, it will level the playing field for ethanol blended into E10 versus E85, and will lead to additional E85 pump infrastructure. Second, it will ensure that E85 is priced properly at the pump for consumers. This will help make a fuel retailers decision to offer E85 more straightforward and will provide necessary economic incentive for rapid expansion of E85 pumps across the country.

## **Conclusion**

Rural America already is playing a significant role in reducing our nation's dependence on foreign oil by producing fuels from the farm, such as ethanol and biodiesel. These efforts are revitalizing rural communities across the country while providing critical savings to America's consumers. We must continue to foster the growth and development of this industry, and I look forward to working with you, Mr. Chariman, on this important matters.

Thank you very much.