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- International alliances with Brazil, Canada, Mexico, Sweden and Thailand

July 15, 2005

Dear Conferee:

We are writing to express our strong support for those provisions in the Senate’s Energy Policy Act of 2005 that implement the recommendations of the 31 members of the Governors’ Ethanol Coalition.

The recommendations, developed by the Coalition in Ethanol From Biomass: America’s 21st Century Transportation Fuel, will increase the nation’s energy independence, protect air and water quality, stimulate rural economies, and strengthen the nation’s national security through the increased production of domestic, renewable fuels. During the conference committee deliberations, we respectfully urge you to support the following provisions:

8 Billion Gallon Renewable Fuels Standard

An 8 billion gallon renewable fuels standard by 2012 was one of three key recommendations developed by the governors, and we urge your support for that provision in the Senate energy bill. Also included in the Senate bill is a provision that requires the use of 250 million gallons of ethanol from biomass beginning in 2013, stronger credit and waiver language, and an escalation clause that would allow the renewable fuels standard to extend beyond the 8 billion gallon mark if the U.S. Environmental Protection Agency determined it were appropriate to do so.

The House energy bill, however, contained only a 5 billion gallon renewable fuel standard. With ethanol production increasing by more than 600 million gallons a year, the House standard will be surpassed as early as next year — 7 years before 2012.

The long-term impact of the renewable fuel requirement on both the farm and overall economy is significant. By 2012, more than 214,000 new jobs will be created throughout the entire economy. The demand for grain will increase an average of 1.4 billion bushels over the next decade, and more than 1.6 billion barrels of oil will be displaced during the same period. Many more plants are in the development stage, and will likely move forward as soon as the Energy Policy Act of 2005 becomes law.

The Senate provision sets a clear path to expand domestic production of ethanol and other biofuels from a range of agricultural and non-agricultural domestic resources in all regions of the
nation. During the conference committee deliberations, we respectfully urge you to support an 8 billion gallon renewable fuels standard with the ethanol from biomass component that reflects the unprecedented growth in ethanol production.

**Senate Amendment 919**

The Governors’ Ethanol Coalition strongly supports *S. Amendment 919* and we urge your support for this important provision of the Senate energy bill. While not contained in the House bill, the provision reflects the governors’ core recommendations and is a major component of the Coalition’s overall effort to reduce the nation’s dependence on imported oil and expand ethanol production to all regions of the nation. The actions contained in *S. Amendment 919* are linked to the renewable fuels standard so that research and innovative incentives will allow the market to continue to improve both the efficiency of biofuel production and producers’ ability to deliver greater quantities of ethanol without adversely impacting corn prices and livestock feed costs.

In particular, the Coalition believes that *S. Amendment 919*’s Targeted Biomass Research and Production Incentives offer the best near-term opportunity to deliver substantial quantities of cellulosic-derived ethanol at prices competitive with imported fuels. These two key elements of *S. Amendment 919* and their relationship to the governors’ recommendations are highlighted below:

- **Targeted Biomass Research and Development**
  
  The second of the governors’ three recommendations was to provide a targeted investment in research to address the recalibration of biomass, expand co-products, and support advances in feedstock production. Because ethanol production significantly beyond 8 billion gallons a year level could affect corn prices and livestock feed costs, we must expedite the research process in order to deliver ethanol from a wider range of feedstocks, including the biomass associated with the kernel of corn, corn stover, wood wastes, grasses, and other sources. Instead of dollars being spent on imported oil from unstable regions, those dollars would deliver economic development to states with renewable fuel production.

  *S. Amendment 919* addresses research under the section, *Targeted Biomass Research Development*, by updating the *Biomass Research and Development Act of 2000*. The updates include the refinement of program objectives, an increased emphasis on feedstock production and delivery, and a balanced and focused research and development approach. The provision increases the program authorization from the current $54 million to $200 million annually and would distribute funding by technical areas to applied fundamentals, innovation, and demonstration. These research levels were also recommended by a U.S. Department of Energy funded study on the Role of Biomass in America’s Energy Future.

  In arriving at this recommendation, the governors consulted a wide range of public and private experts. All agreed about the reality of cellulosic biofuels, and all agreed about the types of targeted research that needs to occur to produce ethanol in all regions of the nation. However, the House energy bill does not include this provision. We strongly urge you to support this update of the *Biomass Research and Development Act*. 
Production Incentives

The third of the governors’ recommendations addresses the need to incentivize the production of cellulosic-derived ethanol and other biofuels until these new processes become part of the mainstream production of ethanol. The Production Incentives section of S. Amendment 919 embodies the governors’ recommended approach to and we strongly urge your support.

This section directs the Secretary of Energy to establish a program of production incentives to deliver the first billion gallons of annual cellulosic biofuels production. Funds are allocated for proposed projects through set payments on a per gallon basis for the first 100 million gallons of annual production, followed by a reverse auction competitive solicitation process. Production incentives are awarded to the lowest bidders, with not more than 25 percent of the funds committed for each auction awarded to a single bid. Reverse auctions have been successfully employed by several states and the private sector to secure low-cost energy supply contracts. This program uses the same strategy to secure low-cost cellulosic biofuels production contracts with minimum risk to tax payers. This section authorizes $250 million until expended, subject to appropriations.

While the House energy bill does not contain this market-oriented production incentive, if it is enacted with your support — and as recommended by the Coalition — in conjunction with an 8 billion gallon renewable fuels standard and targeted research and development actions, Congress will have created the necessary environment for the private sector to build an expanded and robust domestic renewable energy source for the nation.

As governors acting together and representing 31 states ranging from Hawaii to North Carolina and from North Dakota to Texas, we have seen for ourselves the positive economic and environmental impact that ethanol facilities can have on our states and on our nation. We urge you to support these provisions in the energy bill during conference deliberations. Your support is deeply appreciated.

Sincerely,

Tim Pawlenty
Governor of Minnesota
Chair

Kathleen Sebelius
Governor of Kansas
Vice-Chair

c. Member Congressional Delegations