

**DEPARTMENT OF BUSINESS,  
ECONOMIC DEVELOPMENT & TOURISM**

NEIL ABERCROMBIE  
GOVERNOR

RICHARD C. LIM  
DIRECTOR

MARY ALICE EVANS  
DEPUTY DIRECTOR

No. 1 Capitol District Building, 250 South Hotel Street, 5th Floor, Honolulu, Hawaii 96813  
Mailing Address: P.O. Box 2359, Honolulu, Hawaii 96804  
Web site: [www.hawaii.gov/dbedt](http://www.hawaii.gov/dbedt)

Telephone: (808) 586-2355  
Fax: (808) 586-2377

Statement of  
**MARK B. GLICK**  
**Administrator, Hawaii State Energy Office**  
Department of Business, Economic Development, and Tourism  
before the  
**HOUSE COMMITTEE ON TRANSPORTATION**  
Monday, March 12, 2012  
9am  
State Capitol, Conference Room 309  
in consideration of  
**SB2339 SD1**  
**RELATING TO ETHANOL.**

Chair Souki, Vice Chair Ichiyama, and Members of the Committee.

The Department of Business, Economic Development, and Tourism (DBEDT) has concerns on SB2339 SD1, which would repeal the ten per cent ethanol by volume requirement for gasoline sold in Hawaii for use in motor vehicles.

During 2010 and 2011, Morgan Stanley data<sup>1</sup> shows that ethanol was consistently priced less than gasoline on an equivalent gallon basis, making it clear that the 10% ethanol mandate did not adversely impact the price of gasoline during that time.

No ethanol plants have yet been built in Hawaii, but several biofuels producers have left the door open to consider ethanol production. Therefore, it may be premature to repeal the ethanol blending law while local biofuels producers consider research, development and deployment (RD&D) projects in Hawaii.

Thank you for the opportunity to offer these comments.

<sup>1</sup> Sources: U.S. Energy Information Agency and Thomson Reuters, *Daily New York Harbor Conventional Gasoline Regular Spot Price FOB*; CBOT/OPIS for ethanol data.

**PACIFIC WEST ENERGY LLC**  
**1088 BISHOP STREET SUITE 1220**  
**HONOLULU, HI 96813**

March 10, 2012

Representative Joseph M. Souki, Chair  
Representative Linda Ichiyama, Vice Chair  
And Members of the Committee on Transportation  
Hawaii State Capitol  
415 S. Beretania  
Honolulu, HI 96813

Re: SB 2339 SD1 – Relating to Ethanol

Dear Chair Souki, Vice Chair Ichiyama and Members of the Committee,

My name is William Maloney and I am the President and Chief Executive Officer of Pacific West Energy LLC and its affiliate, Pacific West Energy Kauai LLC (“PacWest”), the developers of an integrated agriculture to green power and biofuel project on Kauai. I am also an internationally recognized expert on biofuels, and provide consulting services to petroleum companies and biofuel producers and traders. I am also uniquely aware of the price relationships with ethanol and gasoline because I act as a consultant for Aloha Petroleum Ltd., and arrange their ethanol purchases through an RFP process involving more than ten ethanol suppliers. I testify today in opposition to SB 2339 SD1 which repeals the ten per cent ethanol by volume requirement for gasoline sold in Hawaii for use in motor vehicles.

PacWest continues to pursue the development of an ethanol (biofuel) production facility on Kauai, integrated with a renewable energy electricity cogeneration facility. We have expended over \$10 million to date. The total project cost is approximately \$140 million. Nobody and no organization is more frustrated with the time delays and hurdles that have had to be overcome to develop ethanol production, and no other entity has taken the financial risks we have in pursuit of ethanol production. Fortunately, technology has caught up with our delayed project, and we now intend to develop the project by deploying exciting new next-generation technology. To this end, we are in negotiation with technology providers and major equity investors for an all-equity financed project – a project that will be a model for advanced ethanol production worldwide. We are working with State agencies for lands, and negotiating contract farming agreements. We will produce biofuels for the local Hawaiian motor fuel market and produce renewable electricity and employ hundreds of workers.

Our project has been delayed to many circumstances beyond our control, but we still intend to proceed, provided there is a local market for the ethanol we would produce. This local market can only be assured if the ethanol blending requirement remains in place. An export oriented project is simply not financeable.

The ethanol blending mandate was enacted for several reasons, including: 1) to ensure a local market for fuel ethanol, and thereby to spur investment in local ethanol production; 2) to introduce price competition into Hawaii’s petroleum sector, as previous to the mandate the local refineries refused to produce a base gasoline suitable for ethanol blending, blocking independent oil companies from blending

the less-expensive ethanol, and stifling competition in the petroleum sector; 3) to provide Hawaii's consumers with cleaner burning gasoline, reducing toxic emissions; 4) to reduce the use of fossil fuels, and convert to renewable fuels; 5) to reduce imports of petroleum from non-US sources, and; 6) to reduce greenhouse gas emissions.

While there has yet to be local ethanol production, despite our continuing efforts and many millions of dollars of investment to date, the ethanol mandate has been very successful in accomplishing all of the other very desirable objectives – and perhaps most importantly, has and will continue to benefit Hawaii's consumers with price competition by reducing wholesale gasoline prices with E-10 blends.

So, in evaluating whether to repeal the ethanol mandate we request that the Committee evaluate the facts regarding ethanol blending, and weigh the positives to be gained by repealing the mandate, with the negatives, the costs associated with repeal. We believe an objective review will show unequivocally that Hawaii stands to lose far more by repealing the mandate than it would gain.

We believe it is clear that repeal will eliminate any further investment in local ethanol production, will reduce competition in the petroleum sector, will create upward pressure on petroleum prices, lead to increased pollution and dependence on foreign fossil fuels.

Firstly, it must be noted that the ethanol blending requirement, current law, only requires ethanol be blended in 85% of Hawaii gasoline – **if it costs less than the wholesale price of gasoline**. This means that **if ethanol were to cost more than gasoline, and exert upward pressure on gasoline prices by blending, there is no requirement to blend ethanol**.

It is apparent to me that some of the impetus to repeal the ethanol blending requirement is due to a lack of correct information being provided to legislators regarding the relative prices of ethanol and gasoline. Paramount is the concern that ethanol blending is increasing gasoline prices. I suspect the primary reason for his apparent (but mistaken) contention that ethanol might contribute to higher gasoline prices arises from the fact that in early-December 2011 Chevron issued a letter to all of their dealers that due to the expected expiration of the federal Volumetric Ethanol Excise Tax Credit ("VEETC") on December 31, 2011, worth \$0.45 per gallon of ethanol blended, they would be increasing gasoline prices, in order to maintain their margins. This letter received wide cover in the trade press.

At the time of the Chevron announcement (early-December 2011) ethanol prices were high relative to gasoline (ethanol at ~\$2.40 per gallon, after the VEETC, and gasoline at ~\$2.55 per gallon), leading the uninformed to conclude that with the expiration of the VEETC, ethanol would cost significantly more than gasoline, and thus blending ethanol would have an upward pressure on gasoline prices. In fact, ethanol prices were super-heated at that time, as petroleum companies and traders were aggressively buying ethanol in order to take advantage of the expiring VEETC, with large volumes also being exported to Brazil and Europe, after claiming the VEETC. However, since early December the ethanol / gasoline prices have shifted considerably. The March 9, 2012 prices for ethanol were ~\$2.35 per gallon (LA) and \$2.25 (CBOT), while gasoline has increased from December's ~\$2.55 per gallon to \$3.33 per gallon (NY RBOB), and even higher on the US West Coast – Hawaii's gasoline trading price basis. **So ethanol today costs more than \$1.00 less per gallon than gasoline!**

Again, in December 2011, with an overheated ethanol price and the VEETC in effect ethanol was ~\$0.15 per gallon less than gasoline, and today, with no VEETC at all, ethanol is more than \$1.00 per gallon lower priced than gasoline! (see attached charts).<sup>1</sup>

This current price relationship, where ethanol is trading at a deep discount to gasoline, is expected to continue for the foreseeable future. This is reflected in futures markets (see attached chart).

The ethanol supplied to Hawaii is currently based on LA OPIS prices, and has been based from time to time on Chicago CBOT. Gasoline is priced in Hawaii often related to LA OPIS gasoline – which sells at a premium to NY RBOB – so if anything, I have understated gasoline prices and therefore the actual discount for ethanol is greater than presented.

In addition to the substantial error on the price relationships between gasoline and ethanol there have been represented several other false, or incorrect, statements regarding ethanol, and therefore providing legislators faulty premises on which to base any decision to repeal the blending requirement. I address several of these specific issues in more detail below.

*Assertion – The ten per cent ethanol requirement under section 486J-10, Hawaii Revised Statutes, was to reduce statewide gasoline consumption, to establish industrial plants to produce ethanol locally, and to achieve independence from foreign oil. However, since enacting the ethanol content requirement in 2006, Hawaii has experienced higher fuel prices and increased its dependence on imported oil.*

Response – The ten percent requirement has not yet led to a successful production facility, however our company, Pacific West Energy LLC, continues to aggressively pursue the development of a production facility – dependent on the continuation of the blending requirement (a local market must be assured for project success). The other noted goals – a reduction of statewide gasoline consumption and to achieve independence from foreign oil – are two areas where ethanol use has been successful – ethanol has displaced over 35 million gallons per year of foreign sourced petroleum products (its use is self-evident), and all of the ethanol in use today in Hawaii is US-sourced. As noted above, ethanol's cost is significantly less than gasoline, so it can only exert downward pressure on gasoline prices and increase competition in the sector.

*Assertion - The ten per cent ethanol requirement has not yielded the lower fuel prices or energy independence that was expected when the law was passed. To the contrary, the ethanol requirement has helped keep fuel prices high by forcing refiners to import the ethanol additive.*

Response – Facts matter. The facts, presented via the enclosed charts are clear – ethanol has cost significantly less than gasoline, costs less now, and is expected to cost significantly less than gasoline in the future. The blending requirement has achieved the price benefits studies and proponents had stated would be realized. Again, it must be noted that the current blending mandate is only in effect if ethanol costs less than gasoline, i.e. - there is no blending requirement if ethanol in Hawaii costs more than local wholesale gasoline.

*Assertion - Despite several planned ethanol plants and an abundance of vacant sugarcane land, no plants have been built and a meaningful quantity of ethanol has yet to be produced in Hawaii.*

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<sup>1</sup> Sources: Oil Price Information Service (OPIS); Chicago Mercantile Exchange, NYMEX, Morgan Stanley Commodities.

Response - Correct, no plants have been built, however, we, and I believe others have been and continue to try to develop such facilities. PacWest has invested over \$10 million on our project. Though there are tens of thousands of acres of vacant sugar cane land the State has yet to conclude leases with PacWest, and has instead leased thousands of acres of lands to seed corn companies, who use only small parcels at any one time, and produce neither food or fuel, two stated State priorities. Efforts continue, and we have just recently been awarded some State land, and are expecting additional acres to be made available in coming months. We are making real progress and success can be achieved.

*Assertion - Producing ethanol in Hawaii remains economically unfeasible unless subsidies are provided.*

Response – The ethanol facility investment tax credit was enacted only after two independent cost-benefit analysis concluded that the incentive would be revenue positive to the State of Hawaii. If this were not the case, the incentive would not have been enacted, and PacWest would not have supported or support such an incentive then (or in the future). With the advent of the federal Renewable Fuel Standard (“RFS II”) it is becoming likely that subsidies will not be required in the future.

*Assertion – Since ethanol is currently imported gasoline prices in the State will continue to reflect the added expenses of purchasing ethanol from foreign suppliers and transporting it to the State. These additional costs to consumers are unnecessary and must be reduced.*

Response – A completely false assertion. All liquid fuels are imported into the State, and as noted and exhibited with the price information ethanol in Hawaii costs significantly less than gasoline – and there is no requirement to blend ethanol if this is not the case. Eliminating the mandate may increase prices to consumers, by possibly reducing competition in the petroleum sector, and, because ethanol use or the purchase of credits is required under the federal Renewable Fuel Standard (“RFS”), refiners could block independents from blending lower-priced ethanol and buy credits, and then pass the cost of the credits on to Hawaii’s consumers. Also, it should be noted that all current ethanol in Hawaii is produced in the U.S.

Are Hawaii consumers better off with gasoline being required to include a lower cost blendstock, ethanol, only if it does cost less, or better off if refiners revert to higher priced imported fossil fuels, and then buy RFS RIN credits and pass these higher costs on to consumers? Of course they are better off using the lower cost blendstock!

*Assertion - In 2011, federal tax credits for producing ethanol expired. This will increase the price of ethanol and further increase the price of gasoline.*

Response – The federal \$0.45 per gallon VEETC expired December 31, 2011. While this was once required to make ethanol prices competitive with gasoline, ethanol currently is priced \$0.60 - \$0.70 per gallon less than gasoline, as noted previously, a greater discount than existed in December 2011 when the VEETC was in place. The expectation Chevron projected in December 2011 was completely different than the reality come March 2012.<sup>2</sup> The fact is that the expiration of the VEETC has not increased ethanol prices – and futures markets project a similar large discount in ethanol’s price relative to gasoline (see enclosed charts).

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<sup>2</sup> It should be noted that most of the industry was aware of the expected change in ethanol prices as the futures markets reflected the declining ethanol prices, leading one to conclude that Chevron’s letter was issued for political purposes, in an effort to have

*Assertion – Motor vehicles obtain lower gas mileage when using ethanol-treated fuel. This forces drivers to refuel more frequently.*

Response – This issue is far more complex than simply applying the Btu content of ethanol with that of gasoline, which is itself a blend of chemicals. In fact, new studies have shown that with today’s and the future’s higher compression engines ethanol, and its high octane, actually increase fuel efficiency. Previously, only the volume displacement and energy content of ethanol were used to estimate fuel efficiency. New engines require more octane to operate and achieve high fuel efficiency, and ethanol’s octane is 112.5 versus 87 for regular gasoline. There is a great deal of misunderstanding about the fuel economy (miles per gallon) of various gasolines, especially those containing ethanol. There are a number of variables that confound accurate fuel economy measurements in anything short of a controlled test or large well documented fleet study. Besides fuel related factors, there are a number of vehicle and climate related issues to consider. Vehicle technology, state of tune, ambient temperatures, head winds, road grade, tire pressure, use of air conditioners, and numerous other factors have an impact on fuel economy. Some of those that have been documented in testing are covered in the table below. Even whether or not the car is level each time you fill it can distort fuel economy readings by several percentage points. It is easy to see from the table below why an individual using one or perhaps a few vehicles cannot make an accurate determination of the fuel economy impact of various gasolines. There are simply too many variables.

Factor	Factors That Influence Fuel Economy of Individual Vehicles	
	Average	Maximum
Ambient temperature drop from 77°F to 20°F	-5.3%	-13.0%
20 mph head wind	-2.3%	-6.0%
7% road grade	-1.9%	-25.0%
27 mph vs. 20 mph stop and go driving pattern	-10.6%	-15.0%
Aggressive versus easy acceleration	-11.8%	-20.0%
Tire pressure of 15 psi versus 26 psi	-3.3%	-6.0%

Vehicle technology and state of tune also play a role in fuel economy variations. For instance older vehicles, which operate rich at specified settings, may actually show a fuel economy improvement on E10 blends. This is because the chemical enleanment from the oxygen results in more complete combustion of the fuel, which partially or totally compensates for the slightly lower Btu value. In many cases refiners often alter the base fuel to which ethanol is added, resulting in the gallon having approximately the same Btu content as the original all hydrocarbon gallon, even with the inclusion of ethanol.

*Assertion - Ethanol-treated gasoline is more damaging to marine engines and small gasoline engines. This results in expensive repairs for individuals who own boats and watercraft.*

Response – Ethanol has been in use for over five (5) years in Hawaii, and is in use throughout the US, where boaters are as active as in Hawaii. The mandate does not require all gasoline contain ethanol (only 85%) and the petroleum sector has responded to the concerns of boaters and others by offering clear gasoline in certain markets, particularly marina-area markets. Removing the State mandate may not

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the US Congress retain the VEETC, while also using the expiration of the VEETC as a rationale for increasing the wholesale price of gasoline to their jobbers and dealers, and thereby maintaining or increasing their margins.

eliminate ethanol blends due to the continuing economic advantage of ethanol prices over gasoline, and the federal RFS. It should be noted that outdoor power equipment maker Husqvarna has approved ethanol blends for all its power equipment produced since 2005.

*Assertion - The production of fuel crops has replaced the production of food crops in the agricultural industry. This shift has increased the prices of staple foods. In some parts of the world, it has resulted in food shortages and social unrest.*

Response – While there have been a number of stories in the media over the last few years indicating consumer food prices are being driven higher by an ethanol-induced increase in corn prices (the primary US ethanol feedstock), there is little evidence of such a simplistic cause-and-effect linkage. In reality, a complex set of factors drives the food CPI. In fact, the marketing bill, defined as the portion of the food dollar that is not related to the farm value of raw materials, has a stronger relationship with the food CPI than does the cost of corn.

Statistical evidence does not support a conclusion that the growth in the ethanol industry is the driving force behind higher consumer food prices. Ethanol has not been the only factor influencing corn prices, other supply and demand factors have also been at play. Furthermore, corn prices have a relatively weak correlation with food prices, as the farm share is a relatively small portion of the overall retail food dollar and for many products corn is only a portion of the farm value.

While an increase in corn prices will affect certain industries – for example, causing livestock and poultry feeding margins to be lower than they otherwise would have been – the statistical evidence does not support a conclusion that there is a strict “food-versus-fuel” tradeoff that is automatically driving consumer food prices higher.<sup>3</sup>

Ethanol production does not reduce the amount of food available for human consumption. U.S. ethanol is primarily produced from field corn fed to livestock, not sweet corn fed to humans. Importantly, ethanol production utilizes only the starch portion of the corn kernel, which is abundant and of low value. The remaining vitamins, minerals, protein and fiber are sold as high-value livestock feed. An increasing amount of ethanol is produced from nontraditional feedstocks such as waste products from the beverage, food and forestry industries. In the very near future US ethanol will also be produced from agricultural residues such as rice straw, sugar cane bagasse and corn stover, municipal solid waste, and dedicated energy crops such as switchgrass. U.S. ethanol production accounts for just 3% on a net basis of the second-largest global grain supply in history - 2.6 billion metric tons. That means 97% of all the grain produced in the world is available for other uses.

A newly released report from the Development Prospects Group at the World Bank, concluded that “...the effect of biofuels on food prices has not been as large as originally thought, but that the use of commodities by financial investors (the so-called “financialization of commodities”) may have been partly responsible for the 2007/08 spike.” The World Bank had a “leaked” report in 2008 that erroneously blamed biofuels for 75 percent of the commodity price spike, and received widespread international media coverage.

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<sup>3</sup> Informa Economics, July 2011

John Baffes and Tassos Hanriotis, authors of the World Bank report entitled "Placing the 2006/08 Commodity Price Boom into Perspective", argue that energy prices, and as noted above speculation, played significant roles in the non-energy commodity price spikes seen in the recent past. "We conclude that a stronger link between energy and non-energy commodity prices is likely to have been the dominant influence on developments in commodity, and especially food, markets. Demand by developing countries is unlikely to have put additional pressure on the prices of food commodities, although it may have created such pressure indirectly through energy prices."<sup>4</sup>

The authors pointed out: "Yet, worldwide, biofuels account for only about 1.5 percent of the area under grains/oilseeds. This raises serious doubts about claims that biofuels account for a big shift in global demand. Even though widespread perceptions about such a shift played a big role during the recent commodity price boom, it is striking that maize prices hardly moved during the first period of increase in US ethanol production, and oilseed prices dropped when the EU increased impressively its use of biodiesel. On the other hand, prices spiked while ethanol use was slowing down in the US and biodiesel use was stabilizing in the EU."

*Assertion - Additionally, the consensus among the scientific community is that there is no net energy gain from the use of ethanol over traditional fossil fuels. The production cycle of ethanol, which includes growing, harvesting, and refining, requires more energy input from fossil fuels than the energy output of the finished ethanol product. This paradox has the undesirable effect of increasing our use of fossil fuels, makes Hawaii more dependent upon foreign sources of fuels, and increases overall greenhouse gas emissions.*

Response – This is simply false. USDA's Chief Economist concluded, in relation to corn ethanol, (perhaps the least efficient from a life-cycle standpoint), "together, the recent energy use estimates show that the ratio of energy in ethanol to the external energy used to produce ethanol is about 1.4, even without allowing for the processing component of the byproduct credit. After fully allowing for heat used to produce byproducts, the energy ratio is between 1.9 and 2.3."<sup>5</sup> It is suggested that the intensive examination undertaken by the California Energy Commission as part of their implementation of their Low Carbon Fuel Standard are very informative on the life-cycle analysis and energy balance from ethanol.

Further, using ethanol in place of gasoline helps to reduce carbon dioxide (CO<sub>2</sub>) emissions by up to 29% given today's technology. Because ethanol is made from renewable, plant-based feedstocks, the CO<sub>2</sub> released during a vehicle's fuel combustion is "recycled" during the growth of ethanol feedstocks. Independent analyses comparing ethanol and gasoline show ethanol reduces GHG emissions from 30-50%. A study published by Yale University's Journal of Industrial Ecology found that GHG emissions from ethanol produced at modern dry-mill facilities are "... equivalent to a 48 percent to 59 percent reduction compared to gasoline, a twofold to threefold greater reduction than reported in previous studies." New technologies, additional feedstocks, and higher blends of ethanol including E85 all promise greater CO<sub>2</sub> reductions.

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<sup>4</sup> Placing the 2006/08 Commodity Price Boom into Perspective, John Baffes and Tassos Hanriotis. World Bank, July 2010.

<sup>5</sup> 2008 Energy Balance for the Corn-Ethanol Industry, USDA, Office of the Chief Economist, June 2010.



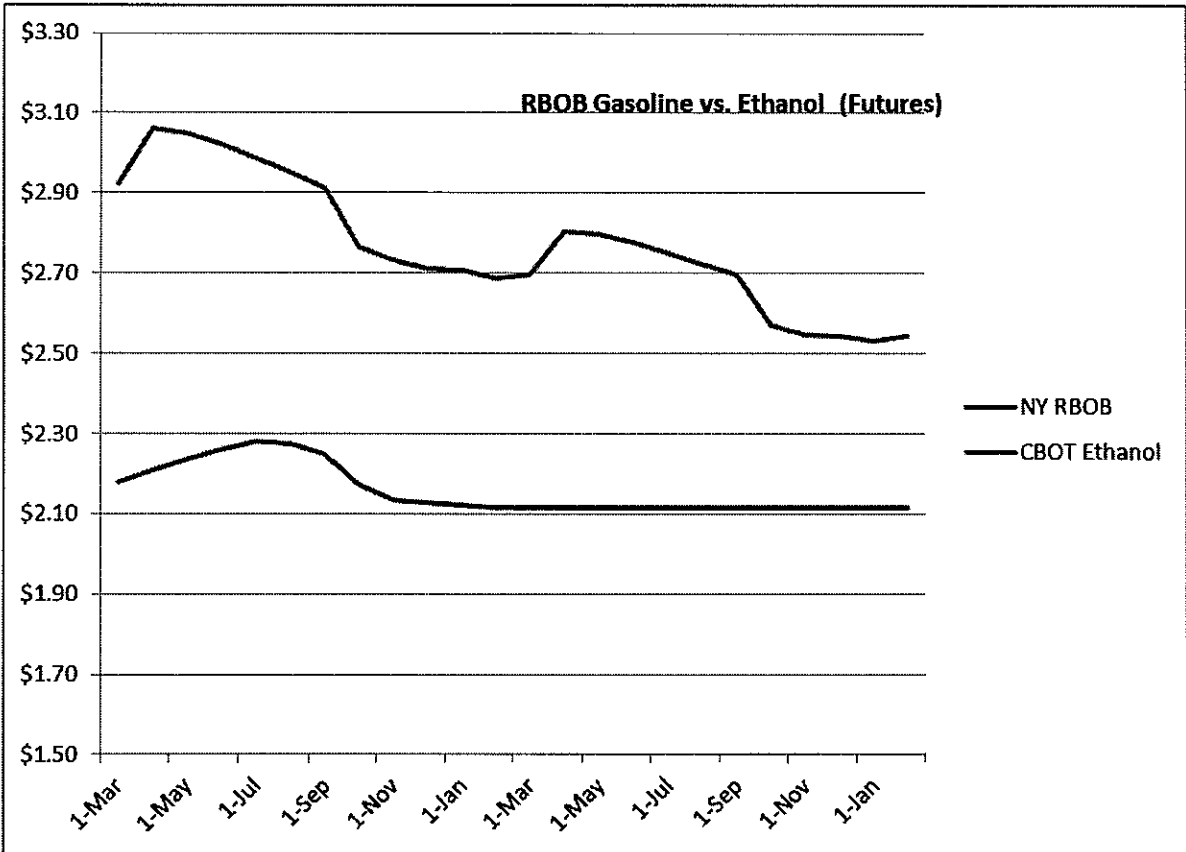
In conclusion, as the Committee, and the Hawaii legislature, examines ethanol use in gasoline, and the requirement to blend 10% ethanol in 85% of Hawaii's gasoline, it is important to review the facts – and recognize that facts do matter. Anecdotes and assertions not supported by independent facts or publicly disseminated market pricing should not form the basis of public policy decisions. Blending ethanol in Hawaii is a significant net benefit to Hawaii, and its consumers, even without a local production facility. Efforts are still being made in earnest to develop local production, and this can only continue with an assurance of a local market, which can only be guaranteed with the local mandate in place. I urge you and your colleagues to apprise yourselves of the facts included herein and in the enclosed publicly available data, and to stop attempts to implement poor public policy decisions by based on false premises or misrepresented or misunderstood information.

I urge you to not approve SB 2339 SD1, as the basis for ceasing the ethanol blending requirement are incorrect, and the benefits to Hawaii far outweigh any negatives.

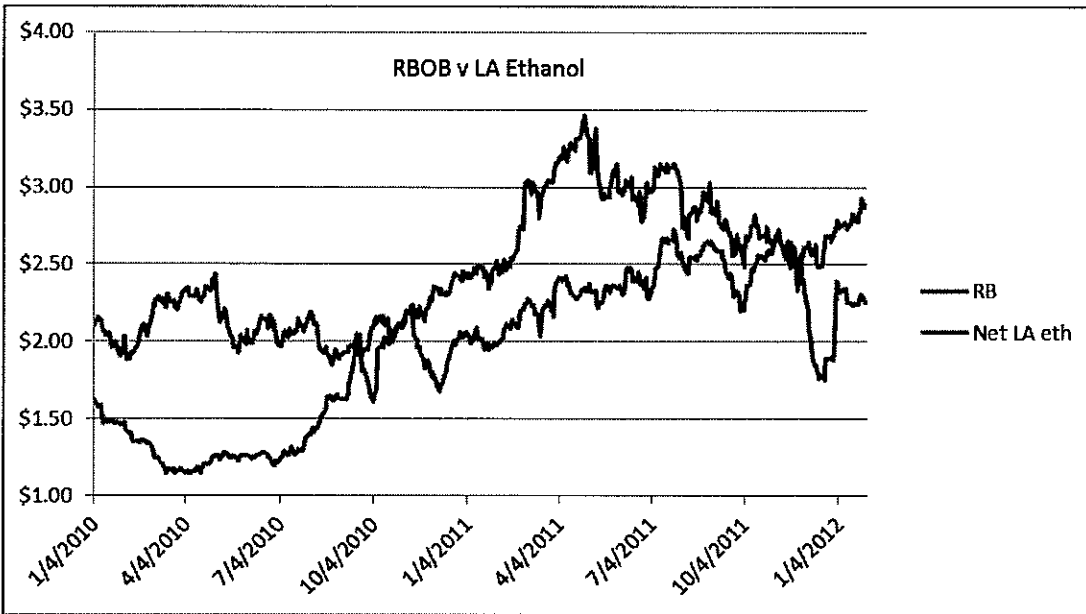
Thank you for your consideration.

Sincerely,

By /s/ *William M. Maloney*  
William Maloney  
President  
Pacific West Energy LLC

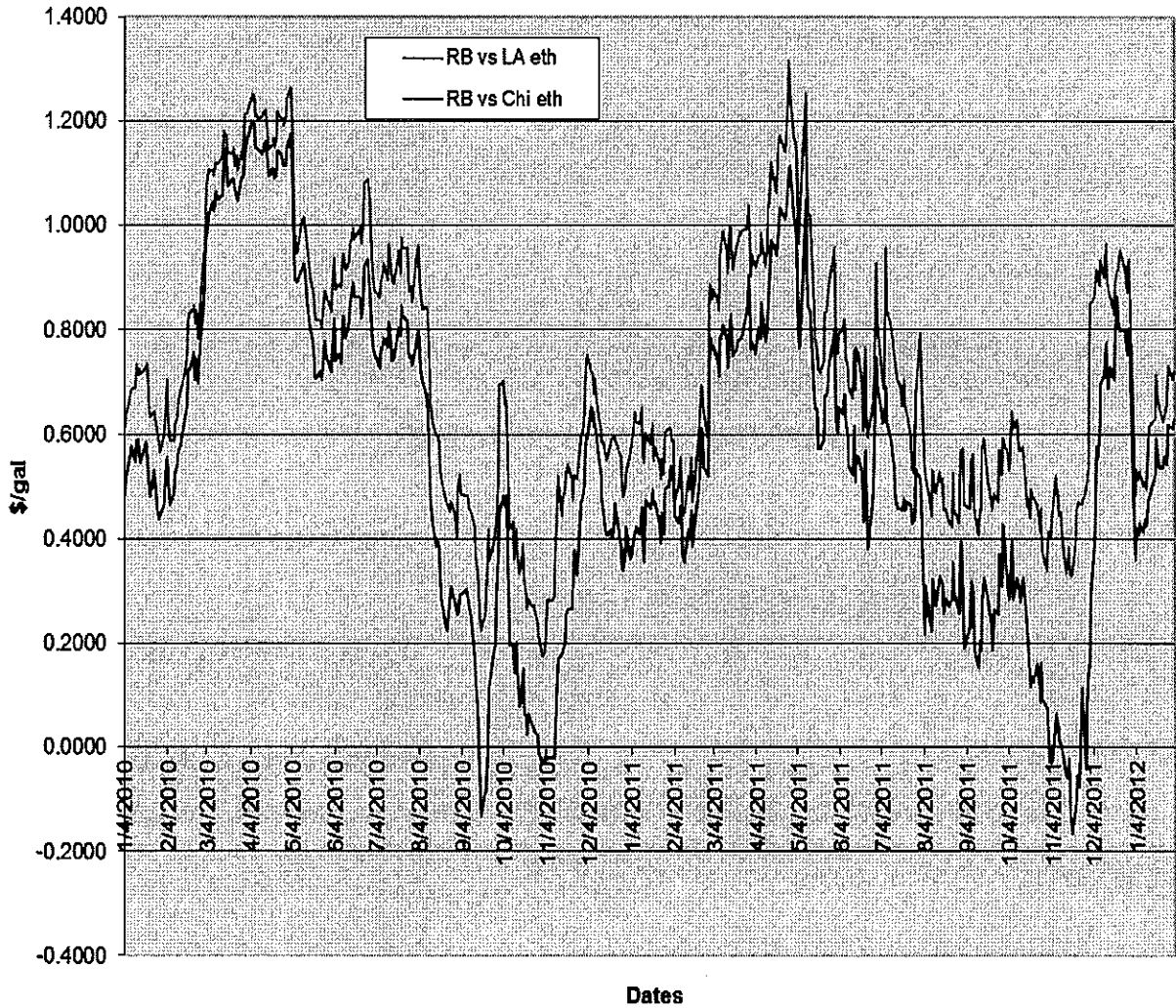


Source: CME (CBOT Ethanol), NYMEX



Source: Oil Price Information Service, CME (NYMEX)

### Rbob vs Ethanol



Source: Oil Price Information Service, CME (CBOT), NYMEX

**From:** opisethanol@opisnet.com **Date:** January 31, 2012 12:28:13 PM PST **To:** "OPIS Ethanol Updates"  
<opisethanol@announce.opisnet.com> **Subject:** BIOFUELS UPDATE: \*\*\*VALERO: WEAKER ETHANOL MARGINS  
TIED TO SEASONAL GASOLINE DEMAND SLUMP

2012-01-31 03:26:46 EST \*\*\*VALERO: WEAKER ETHANOL MARGINS TIED TO SEASONAL GASOLINE DEMAND  
SLUMP Ethanol margins have narrowed considerably since the fourth quarter but are expected to improve later in the year, Valero Energy executives said today during its fourth quarter earnings conference call with analysts. Valero's ethanol segment in the fourth quarter reported its highest quarter ever with \$181 million in operating income, mainly due to higher gross margins and an increase in production volumes to a record-high quarterly average of 3.5 million gallons a day. The ethanol segment also set an annual record with \$396 million in operating income in 2011. Valero execs said that the company's ethanol margins averaged around 56cts/gal during fourth quarter 2011 on an EBITDA basis, and margins averaged about 35cts/gal during full-year 2011. Currently, those margins are somewhere between break-even and a nickel a gallon. Valero execs don't tie the weaker margins to the end of the Volumetric Ethanol Excise Tax Credit (VEETC), which expired at the end of 2011. They noted that ethanol is currently about 66cts/gal under gasoline on the U.S. East Coast, so that's a sizable margin for blenders with or without the blending credit. Rather, it's a question of supply and demand, with ethanol blending down because of the seasonal drop in gasoline demand. Valero execs peg U.S. ethanol blending at about 750,000-760,000 b/d currently. Meanwhile, as OPIS reported last week, the most recent U.S. Department of Energy figures put U.S. ethanol production at about 934,000 b/d. Ethanol exports haven't been sufficient to pick up the seasonal slack in U.S. gasoline/ethanol demand. However, Valero execs said that ethanol blending is bound to pick up at some point, and not only because of rising gasoline consumption as the summer driving season approaches. The U.S. Environmental Protection Agency's renewable fuel standard (RFS) mandates the use of 13.2 billion gal/year of conventional biofuel (primarily traditional ethanol) during 2012, which as Valero execs note works out to about 860,000 b/d. Fuel suppliers are currently blending below mandate and are using credits to make up some of the difference. But ethanol blending is bound to pick up in order to meet the mandate. Valero in 2011 spent \$155 million on renewable identification numbers (RINs), and Valero estimates that it will spend twice that much on RINs in 2012 (including biodiesel and cellulosic fuel).

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Ocean Tourism Coalition

*The Voice for Hawaii's Ocean Tourism Industry*  
1188 Bishop St., Ste. 1003  
Honolulu, HI 96813-3304  
(808) 537-4308 Phone (808) 533-2739 Fax  
timlyons@hawaiiantel.net

Testimony to the Committee on Transportation  
Monday, March 12, 2012, 9:00 pm  
Conference Room 309

### **Speaking in Support**

**RE: SB 2339 SD1  
RELATING TO ETHANOL**

Chair Representative Joseph Souki, Vice Chair Representative Linda Ichiyama,  
and Members of the Transportation Committee:

My name is James E. Coon, President of the Ocean Tourism Coalition. The OTC represents over 300 small ocean tourism businesses state wide. Ethanol mixed gasoline presents real hardships for boating community in running this fuel in their outboards. There are many reasons but the essential issue is that ethanol does not have as much energy as petroleum and collects water in the fuel. It can cause major damage to outboard engines and requires many additional additives and filters.

We believe this bill will resolve this issue by eliminating the requirement to have ethanol added to gasoline in Hawaii. The fifteen thousand boaters of the State of Hawaii will be very appreciative to be able to purchase ethanol free fuel for their vessels.

Thank you for the opportunity to submit testimony. If you have any questions, please contact me at 808-870-9115.

Sincerely,

James E. Coon, President



## **Western States Petroleum Association**

House Committee on Transportation  
The Honorable Joseph Souki, Chair  
The Honorable Linda Ichiyama, Vice Chair

DATE: March 12, 2012

TIME: 9:00 a.m.

PLACE: Conference Room 309

RE: SB 2339, SD1 Relating to Ethanol

I am Melissa Pavlicek, testifying on behalf of the Western States Petroleum Association (known as WSPA). WSPA is a non-profit trade association representing a broad spectrum of petroleum industry companies in Hawaii and five other western states. The purpose of SB 2339, SD1, is to repeal the 10 percent ethanol by volume requirement for gasoline sold in Hawaii for use in motor vehicles.

WSPA offers the following comments on SB 2339, SD1.

The law requiring a 10% blend ethanol blend for motor gasoline was adopted into statute to promote the agriculture industry in 1997. Subsequently, the administrative rules requiring 85% of all motor gasoline distributed in Hawaii contain 10% ethanol (E10) was adopted by DBEDT in 2004. Allowing for an 18 month transition period, E10 started in April 2006. The adoption of blending rules was opposed by members of the petroleum industry on the basis that mandates distort markets, adding ethanol was unnecessary in Hawaii for cleaner combustion and other consumers impacts now cited in the SB 2339, SD1. More importantly, the industry noted the significant cost to comply with a mandate and warned against a "start/stop" reaction if the questionable economic benefits including renewed agricultural activity and job creation were not realized.

In deciding whether or not to repeal Hawaii's ethanol blending mandate, the Legislature should also be aware of that Hawaii opted into the Federal Renewable Fuels Standard (RFS) program that sets quotas via a formula for refiners and importers of gasoline to blend a percentage of biofuels into the finished products they distribute (40 CFR § 80.1143 of the Federal RFS program ) Congress has since adopted a RFS2 program which requires that 36 billion gallons of alternative fuels are blended into transportation fuel by 2020. These requirements raise the renewable fuel blending requirements for refiners and importers.

**841 Bishop Street, Suite 2100, Honolulu, Hawaii 96813  
(808) 447-1840**

Passage of SB 2339, SD1, would repeal the E10 mandate, however, the RFS2 requirements place considerable pressure on refiners and importers to meet the nationally adopted quotas. It is not possible to accurately predict how market participants or the market itself will react to the proposed regulatory change. We feel obligated to make it clear to you that repealing the ethanol mandate in Hawaii will not necessarily mean that ethanol is no longer blended in our state. The market and individual companies RFS2 compliance decisions will make that decision.

Thank you for giving WSPA the opportunity to testify today.