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Western States Petroleum Association

Senate Committee on Commerce & Consumer Affairs

DATE: Tuesday, February 26, 2013
TIME: 10:15 AM
PLACE: Conference Room 229
RE: SB 15, SD1, Relating to Energy

I am Melissa Pavlicek, testifying in **opposition to SB 15, SD1** 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 15, SD 1 is to broaden the existing ethanol blending mandate to allow other biofuels to be used instead of ethanol – and change the blending requirement from 10 percent to 5 percent. It also expands the mandate to **all liquid fuels sold in the state for use in motor vehicles.**

This bill overlooks the fundamental relationship between vehicles, fuels and consumers. Each of these key elements must be considered carefully when making adjustments that have the potential to negatively impact or be impacted by the others. This bill makes changes to regulations to fuels only and does so without the benefit of public workshops or extensive commentary unlike the more deliberative process used to enact the ethanol-blending mandate.

The law requiring a 10% blend ethanol blend for motor gasoline was adopted into statute to promote the agriculture industry nearly 20 years ago. 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, the addition of ethanol was unnecessary in Hawaii for cleaner combustion, and other consumer impacts. 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 modify 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

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blend a percentage of biofuels into the finished products they distribute (40 CFR § 80.1143 of the Federal RFS program.) Congress has since adopted an RFS2 program, which requires that 36 billion gallons of alternative fuels be blended into transportation fuel by 2020. These requirements raise the renewable fuel blending requirements for refiners and importers.

Passage of SB 15, SD1 would modify the E10 mandate, however, it is unclear whether other biofuels would be compatible with existing gasoline production, distribution or utilization infrastructure and whether therefore they would ever be actually implemented with respect to gasoline.

Even more perplexing is the attempt to introduce a biofuels mandate of 5 percent on other liquid vehicle motor fuels (e.g. diesel) in addition to the gasoline biofuel mandate.

WSPA is concerned that a mandatory introduction of biodiesel may potentially affect fuel quality, mobilize contaminants in the fuel system, or increase the potential for microbial contamination of Hawaii diesel supplies. These performance issues are outside of the scope of Underwriters Laboratories Inc. standards and certification.

Additionally, there are currently several concerns with the introduction of biodiesel in California that are being further evaluated. These concerns include increased NOx emission from B5, increased CO2 emissions, and high aquatic toxicity. It has also been observed that the presence of biodiesel at some levels can actually lead to increased NOx emissions. And, there is debate about the magnitude of the increase, as it may be a function of not only biodiesel concentration but also engine type and duty cycle.

We strongly support flexibility and the maintenance of all options to meet Hawaii's growing energy needs. However, we are concerned that SB15, SD1 will create unintended consequences for fuel supplies and consumers.

Thank you for giving WSPA the opportunity to testify today.