

**Oral Statement of API President and CEO Red Cavaney  
Before the Senate Energy and Natural Resources Committee**

April 12, 2007

API welcomes this opportunity to present the views of the U.S. oil and natural gas industry on renewable fuels and S. 987, the proposed Biofuels for Energy Security and Transportation Act of 2007.

API supports a realistic and workable renewable fuels standard (RFS). Our industry is the nation's largest user of ethanol and is increasing the volume of renewable fuels in America's transportation fuel portfolio. The industry significantly exceeded the 2006 RFS requirement of 4 billion gallons of renewables and, according to Energy Information Administration (EIA) estimates, should exceed the 2007 requirement as well.

The existing RFS requirements have attracted substantial and significant investment capital to increase ethanol production. At the same time, innovative new approaches to producing and utilizing biofuels in transportation fuels are underway.

The most economical and practical use of ethanol is as a 10 percent blend in gasoline. E-10 is already used in many parts of the country. It requires no modifications to vehicles, no major changes to service station pumps and storage tanks, and has a long history of successful use by consumers.

E-85, a transportation fuel containing 85 percent ethanol and 15 percent gasoline, is an alternative fuel that faces significant technological and economic hurdles. E-85 requires specially built “flexible fuel vehicles” (FFVs) which currently comprise only 3 percent of the existing fleet of 220 million vehicles. EIA estimates that FFV penetration will not rise above 10 percent until sometime after 2030. E-85 also requires special service station pumps and storage tanks, which represent a significant expenditure by our nation’s independent service station dealers that can range from \$20,000 to as high as \$200,000. Most service station owners will need to see significant demand before making such an investment.

Although no one knows the precise ceiling number, at some point in the not too distant future, limits on domestic corn ethanol production will be reached. Too little attention is being paid to the transition from that point forward, especially impacts associated with a delay in mass-scale production of cellulosic ethanol volumes. The Energy Policy Act of 2005 (EPACT) contains language potentially adaptable to such a circumstance, around which stakeholders may want to begin discussions in the near future. The consequences of a failure to be adequately prepared for such a development could adversely affect tens of millions of Americans. Given the limited likelihood that cellulosic technologies can begin providing sizable volumes of ethanol in five years, it is likely that safety valves will be needed.

API offers these specific comments concerning S. 987:

First, restrictions on federal requirements in EPACT should continue. A federal alternative or renewable fuels mandate should not have a per-gallon requirement; require any particular alternative fuel to be used to meet a mandate; require an alternative fuel to be used in any particular geographic area; or require an alternative fuel to be made from a particular feedstock or restrict the use of any feedstock or processing scheme.

Second, states (and their political subdivisions) should be preempted from setting state alternative or renewable fuel mandates. There should be an explicit, complete federal preemption of states from setting alternative fuel standards or controls of any type, or, in lieu of an explicit preemption, restrictions on state latitudes could be enacted.

Third, EPA should be provided with additional authority to grant temporary waivers during supply emergencies.

- There should be federal preemption of existing state fuel and ASTM performance regulations when a waiver is issued during a supply emergency, such as Hurricanes Katrina and Rita.
- There should be emergency waiver authority for up to 90 days. The 20-day limit for waivers provided in EPACT is adequate for most situations but proved inadequate during Hurricanes Katrina and Rita.
- Waiver authority should remain with the EPA Administrator. To change authority to the President would prevent speedy implementation of waivers, which is what was intended under EPACT.

Lastly, all mandates for renewable fuel usage should be accompanied by periodic technology/feasibility reviews that would allow for appropriate adjustments to ensure that energy companies and consumers are not penalized due to the economic and technical hurdles that might prevent reaching alternative or biofuels usage targets or goals. We recognize that S. 987 provides for a National Academy of Sciences review of this type.

API and its member companies stand ready to work with the Committee to provide additional information or assistance on the issues I have addressed, as well as on any other related issues that may arise during the course of Committee deliberations. Thank you.