

## **Governors' Ethanol Coalition Talking Points**

### **July 9, 1998**

As always, on behalf of our member companies I appreciate the opportunity to share with you what we are doing. It certainly has been a good couple of months since we last met. I looked at the minutes from the February meeting and we all were very focused on the tax exemption extension. With that now passed, CFDC is zeroing in once again on developing the market for ethanol and clean fuels which is, by the way, our charter and mission.

I think that point is worth underscoring because 10 years ago that is what led to the formation of the CFDC -- expanding the market. That has been particularly important to many of our ethanol members who were small and trying to expand or in many cases were not even in the business yet. Therefore, as critical as the tax incentive is, the assurance of a market is equally important to many. In cases of new production technologies and feedstocks this is certainly the case. Much of our market work has primarily been tied to legislative and regulatory programs. Many of these programs have an impact on a number of people besides just our ethanol members so our approach has been to reach out and work with them.

The granddaddy of these regulatory programs is the reformulated gasoline program. The RFG program is kind of like having kids in that it has the potential to be either the source of our greatest joy or our greatest disappointment.

When Mike Bryan called on your behalf, he rightfully mentioned there was not a great deal happening on the legislative front and could I direct my remarks to how we plan to deal with Phase II volatility restrictions. Since Phase II is such a key part of the future market potential there is no question we have to talk about it but there are a number of air and fuel quality issues that have to be woven in to any such discussion. What we are really seeing here at CFDC is community after community, in state after state trying to reduce air pollution and asking what can we do with fuels? Or, put another way they look to us and say how can you help?

Our thinking is that it is very important we be part of the solution and not part of the problem. Therefore, although it is naive for them to hope to gain consensus from everyone involved, in the case of reformulated gasoline at least we have been able to get a majority of support so in many cases it has been an easy and obvious answer. The fact that ethanol is disadvantaged in RFG is of little concern to them compared to their primary interest of clean air so demanding that ethanol be accommodated could be seen by some as being part of the problem.

St. Louis is a good example of the dilemma we face these days and since the southern tier status of St. Louis is what the whole country will look like, it is a good look at the future as well. On the plus side, members of Congress like Dick Gephardt, community

and business leaders, health experts and advocacy groups like ALA, stationary source power providers, the refining and auto industries, and others all support opt in. In addition: EPA indicated they would approve an opt in request; refiners agree it could be done quickly and meet the Missouri requirement that a program be in place by June 1999; it creates an oxygen demand where there was none; and generally makes everyone happy. Well, not everyone. The problem? The restriction on ethanol blends to the 7lb RVP limit.

So now the discussion focuses on how ethanol blends get into the deal and critics see that as straying from the primary goal of achieving clean air. In fact we heard exactly that criticism in St. Louis.

But ethanol in fuel is **not** mutually exclusive from clean air, it is a key component. One of the reasons we are so hot on RFG is that it consistently outperforms low RVP, both in terms of real world reductions and credits from EPA. I maintain that is because of the tailpipe benefits resulting from oxygen rather than just evaporative emissions. Therefore, as an oxygenate, ethanol can be part of the solution. This certainly helps the reactivity argument of oxygen compensating for increasing evaporative emissions. Since RFG has an oxygenate requirement, I think the issue becomes what do we have to do to make ethanol that oxygenate? Within the federal program the choices are to:

- X Etherify it -- a lot of pros (low vapor pressure, preferred physical and handling characteristics, sulfur and toxics dilution) a few cons (cost, ether problems).
- X Incentivize it -- give it money or surround with circumstances to encourage more use (e.g., statewide 2.7 percent oxygen or more).
- X Require it -- ala the Renewable Oxygen Standard.
- X Allow it to exceed standards -- of the above choices, this one is the most problematic from a clean air standpoint.

If you still do not like the federal program and develop a state program, then there are a number of custom touches that could conceivably help ethanol. At that point, any hope of consensus, particularly from petroleum industry, comes apart.

Since most of these communities and states need to get all the reductions they can from every sector, the stationary sources do not look too favorably on the fuel sector coming up short in its contribution. Example: a state designs an RFG, including an oxy requirement, but allows a one pound waiver. If the baseline RVP is 7.0, but 30 percent of the gas is ethanol blends at 8.0 lbs. to meet the oxy requirement, now you have a local average of 7.3 -- not 7.0. In the world of SIP/VOC credits that has to be made up somewhere. Put another way, all we do is point the barrel of the gun at someone else. In some cases that will work, in others it won't.

Always lurking is the petroleum industry with the dreaded performance fuel. This was the Bilbray approach, i.e., get the reductions by model in a performance fuel without specifications like oxygen.

But back to a state formulation, there are some advantages and opportunities, e.g., low sulfur: there may be value in VOC and octane and it would have the auto support. This disadvantage is that the same auto support does not necessarily include oxygen. One of the most attractive features of RFG is that it is a package and as that is bound by law. So while the autos, for example, would prefer a standard for sulfur lower than what RFG calls for, they will take it. In so doing, they endorse oxygen which is part of this recipe.

The GEC should be very careful not to support de-coupling the recipe and starting down the slippery slope of fuels being designed according to who has the most lobbyists. In addition, there would be tremendous opposition by refiners who dread a patchwork of fuels. For every difficulty they claim comes with RFG like cost and handling, it is exacerbated by small pockets of designer fuels. For any state program to be approved by EPA, there are countless hoops, hurdles, and obstacles that many states simply are not prepared to go through.

Another option of simply lowering vapor pressure is just not enough any more and although you could blend ethanol in that situation, unless there is already an established ethanol market, it is unlikely this would represent growth. Atlanta is a good example of this. They basically went with RFG without the oxygen requirement. Probably other combinations could be put together but when you consider all of the difficulties of each, RFG seems to be the clean fuel program with the path of least resistance. So once again, how do we make that work? At CFDC.....

- X We remain interested in ETBE and mixed ether and alcohol blends. It could be a way to use more ethanol than ETBE alone. (Toxics, lower sulfur through dilution, EPACKT, etc.)
- X In states like Missouri where they want to see ethanol used, I think some hybrid of an RFG Minnesota program should be looked at (2.7 or 3.1 average).
- X State incentive (Illinois).
- X CO<sup>2</sup> credits (greenhouse gas = chance for large volume).
- X Imported methanol and MTBE (80,000 barrels/day, 1/3 of market).

As we may hear from EPA, even favorable NAS may result in a certification process that weighs ETOH differently in different airsheds. It could be that at the end of the

day, ethanol draws its value from a number of things, some offset through reactivity; value for sulfur dilution, value for toxic and aromatic reduction, value for meeting CO<sup>2</sup> reduction; etc.

In some cases, ethers may be more valuable than blends so we need to make sure we don't throw the baby out with the bathwater. With all the new tanks being required to be replaced we may not have the problems we have had and we are beginning to work with DOE and EPA to answer some of these ether questions.

A couple of closing notes:

- X Working with auto members in support of their low sulfur petition (recent letter from several Governors is a problem). The GEC needs to avoid any action to block this effort and needs to be aware of issues like this that need to be integrated into your policy decisions.
- X Efforts to have infrastructure and LEV certification issues resolved could be at risk.
- X We continue to support E-85 whenever possible (Arizona Workshop with Ford).
- X We continue to work with the biofuels groups (successful California conference last March; disagree with Eric; CEC, CARB, heard our story).

Thanks again, happy to answer questions.