SB717 SD1

Measure Title:	RELATING TO ETHANOL.
Report Title:	Ethanol; Motor Vehicles; Energy Efficiency
Description:	Repeals existing requirement that gasoline for motor vehicles be composed of ten per cent ethanol. (SD1)
Companion:	HB743
Package:	None
Current Referral:	ENE, CPN
Introducer(s):	BAKER, CHUN OAKLAND, DELA CRUZ, ENGLISH, GABBARD, GREEN, KAHELE, KIDANI, NISHIHARA, RIVIERE, RUDERMAN, WAKAI, Espero, Galuteria, Ihara, Keith-Agaran, L. Thielen

Sort by Date		Status Text
1/23/2015	S	Introduced.
1/26/2015	S	Passed First Reading.
1/28/2015	S	Referred to ENE, CPN.
1/30/2015	S	The committee(s) on ENE has scheduled a public hearing on 02-03-15 2:45PM in conference room 225.
2/3/2015	S	The committee(s) on ENE recommend(s) that the measure be PASSED, WITH AMENDMENTS. The votes in ENE were as follows: 3 Aye(s): Senator(s) Gabbard, Ihara, Slom; Aye(s) with reservations: none ; 0 No(es): none; and 2 Excused: Senator(s) Green, Galuteria.
2/10/2015	S	Reported from ENE (Stand. Com. Rep. No. 69) with recommendation of passage on Second Reading, as amended (SD 1) and referral to CPN.
2/10/2015	S	Report adopted; Passed Second Reading, as amended (SD 1) and referred to CPN.
2/20/2015	S	The committee(s) on CPN will hold a public decision making on 02-24-15 9:30AM in conference room 229.

DAVID Y. IGE
GOVERNOR

LUIS P. SALAVERIA
DIRECTOR

MARY ALICE EVANS
DEPUTY DIRECTOR

DEPARTMENT OF BUSINESS, ECONOMIC DEVELOPMENT & TOURISM

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Statement of
LUIS P. SALAVERIA
Director
Department of Business, Economic Development, and Tourism
before the
SENATE COMMITTEE ON COMMERCE AND CONSUMER PROTECTION

Tuesday, February 24, 2015
9:30 a.m.
State Capitol, Conference Room 229

in consideration of
SB 717, SD1

RELATING TO ETHANOL.

Chair Baker, Vice Chair Taniguchi, and Members of the Committee.

The Department of Business, Economic Development & Tourism (DBEDT) offers comments on SB 717, SD1, which repeals the existing requirement that gasoline for motor vehicles be composed of 10 percent ethanol.

DBEDT acknowledges that ethanol has played a mixed role in Hawaii's renewable energy mix for transportation. Although ethanol has reduced the consumption of petroleum products in the transportation sector, it has been imported and has not been produced locally despite the availability of production tax credits. As Hawaii refiners face a more challenging future consistent with the findings of the 2014 Hawaii Refinery Task Force Final Report[1], any added costs associated with ethanol blending could adversely affect gasoline price and supply.

Thank you for the opportunity to offer these comment\s regarding SB 717, SD 1.

[1] *See* Hawaii Refinery Task Report, Final Report (April 9, 2014) at 38, available at http://energy.hawaii.gov/wp-content/uploads/2011/08/HRTF_Final-Report_04-10-14.pdf

BIOENERGY ASSOCIATES LLC
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HONOLULU, HI 96813

February 23, 2015

Senator Roslyn H. Baker, Chair
Senator Brian T. Taniguchi, Vice Chair
And Members of the Committee on Commerce and Consumer Protection
Hawaii State Capitol
415 S. Beretania
Honolulu, HI 96813

Re: SB 717 SD1 – Relating to Ethanol

Dear Chair Baker, Vice Chair Taniguchi and Members of the Committee,

My name is William Maloney and I am the President of Bioenergy Associates LLC, a consulting firm specializing in the renewable fuels and renewable energy. I am an internationally recognized expert on biofuels, and provide consulting services to both petroleum companies and biofuel producers and traders, and have been active in Hawaii in both project development and the petroleum and renewable fuels trade for many years. I was intimately involved in the promulgation of the rules relating to the Hawaii ethanol blending requirement and I am also uniquely aware of the price relationships with ethanol and gasoline because I act as a consultant for Hawaiian petroleum company. I testify today in opposition to SB 717 SD1 which would repeal the ten per cent ethanol by volume requirement for gasoline sold in Hawaii for use in motor vehicles.

Section 1 of SB717 SD1 states that "This requirement of blending ethanol into Hawaii's gasoline does not produce any economic benefit for the State; further, the import of ethanol creates an economic burden for state residents." This premise on which the bill is based in simply factually incorrect, as the opposite is true – even if the ethanol being blended into Hawaii's gasoline is imported.

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, importantly; 6) to lower the carbon content of Hawaii's fuels and thereby reduce greenhouse gas emissions.

While there has yet to be local ethanol production, despite the efforts of many, and millions of dollars of investment in attempts to create local production, the ethanol mandate has been very successful in accomplishing <u>all of the</u> other very desirable objectives – and perhaps most importantly, has and will continue to benefit Hawaii's consumers with price competition by <u>reducing wholesale gasoline prices</u> 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 then it would gain.

We believe it is clear that repeal will eliminate any further investment initiatives in local ethanol production, will reduce competition in the petroleum sector, may create upward pressure on petroleum prices, possibly lead to increased pollution from toxics, and potentially increase dependence on foreign fossil fuels, and contribute to increased greenhouse gas emissions.

Firstly, it must be noted that the ethanol blending requirement, current law, only requires ethanol be blended in 85% of Hawaii gasoline – **and only 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.** Thus, Hawaii's consumers are protected from any economic burden by the very structure of the ethanol mandate.

The historical and current price relationships between ethanol and gasoline make it clearly evident that Hawaii has benefitted from the ethanol blending requirement, and will continue to benefit from the ethanol blending requirement. Currently, the Oil Price Information Service ("OPIS") reports that the West Coast prices of ethanol and gasoline, which Hawaii's ethanol and gasoline petroleum prices relate to, indicate that ethanol is currently priced ~$0.47 per gallon below the price of gasoline[1]. Data from OPIS and the US Energy Information Administration (US EIA) indicate that just over the period 2011 – 2014 net ethanol prices averaged ~$0.37 per gallon less than gasoline prices. **Assuming 36 million gallons per annum of ethanol blended in Hawaii annually, over the four year period 2011 – 2014 alone this resulted in over $53 million of cost savings attributable to the ethanol blending requirement.** This cost savings figure would likely more than double if one calculates back to the inception of the ethanol blending requirement in 2006.

I note in previous testimony regarding this bill that a statement was made that due to the national Renewable Fuel Standard ("RFS'), which requires refiners to either blend renewable fuels, like ethanol or biodiesel, or purchase credits, if they do not blend, that the State's ethanol blending requirement is "duplicative". While on initial perception this might appear to be the case, in fact, it is not entirely duplicative. The federal RFS offers a refiner the option to not blend ethanol. A refiner can instead purchase credits, known in the trade as "RINS" which represent ethanol blended on a per gallon basis. RINS are currently traded at ~$0.71 per gallon – meaning that a refiner can opt to not blend cheaper, cleaner, greenhouse gas reducing ethanol, and simply buy the RINS and pass the cost of the RINS on to their customers, be they end-use consumers or petroleum distributors that compete with refiners in the marketplace. It should be noted that prior to the enactment of the State ethanol blending requirement Hawaii's refiners refused to produce a base gasoline suitable for ethanol blending, successfully impeding price competition from distributors for many years.

In summary, yes, unfortunately, the ethanol blending requirement has not yet led to a successful ethanol production facility in Hawaiii, however, the other important and positive goals have been achieved – 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)). Hawaii's gasoline is cleaner than it

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[1] Oil Price Information Service, EBIS Report, Volume 12, Issue 8, February 23, 2015

was before, and possesses a lower carbon footprint and thereby has resulted in reduced greenhouse gas emissions, and, importantly, since ethanol's cost has been significantly less than gasoline, and can only exert downward pressure on gasoline prices, its required use has increase competition in the petroleum sector, and benefitted Hawaii's consumers.

Facts do matter, and the facts, as summarized above, reveal that 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.

Are Hawaii consumers better off with gasoline being required to include the lower cost high octane blendstock, ethanol, only if it costs less than gasoline, or would they be better off removing this requirement and potentially opening the door to refiners reverting to higher priced imported fossil fuels, and then buying RFS RIN credits and simply passing the costs on to consumers? Based on the facts, the answer is obvious.

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. 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. 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 oppose SB 717 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
Bioenergy Associates LLC

From:	mailinglist@capitol.hawaii.gov
To:	CPN Testimony
Cc:	mendezj@hawaii.edu
Subject:	*Submitted testimony for SB717 on Feb 24, 2015 09:30AM*
Date:	Friday, February 20, 2015 5:07:42 PM

SB717

Submitted on: 2/20/2015

Testimony for CPN on Feb 24, 2015 09:30AM in Conference Room 229

Submitted By	Organization	Testifier Position	Present at Hearing
Javier Mendez-Alvarez	Individual	Support	No

Comments:

Please note that testimony submitted less than 24 hours prior to the hearing, improperly identified, or directed to the incorrect office, may not be posted online or distributed to the committee prior to the convening of the public hearing.