

**Exhibit Number: 1**

**SB 293**

**Senator Jerry Black**

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Update March 22,2005

Ethanol Pricing Model

2-Emails

Commissioner Hugoson's Testimony

Promoting Economic Development with Ethanol Report

**The following exhibit has several pages of text from a Report. This report exceeds the 10-page limit therefore it cannot be scanned. A small portion has been scanned to aid in your research for information. The exhibit is on file at the Montana Historical Society and can be viewed there.**

# UPDATE

## New pages inserted and updated on March 22, 2005

The updated pages include copies of:

- Ethanol Pricing. This page shows the comparison of gasoline blended with ethanol at a 10% level to straight, un-blended, Un-Leaded gasoline from the refiners.
- Quote From D. Duane Gilliam. Mr. Gilliam is the Executive Vice President of Marathon Ashland Petroleum Company.
- Quote fro Red Cavaney. Mr. Cavaney is the President and CEO of the American Petroleum Institute.
- Testimony from Gene Hugoson. Mr. Hugoson is the Commissioner of the Minnesota Department of Agriculture and this Testimony is from his appearance in front of the Iowa State Senate and House Hearings regarding Minnesota's oxygenated fuel program.

**ETHANOL PRICING MODEL**

<i>Assume: State of Montana (no blender credit)</i>				
	3/22/2005			
Price Parameters				
Rack Price - Premium	\$17.290			
Rack Price - No Lead as of:	\$15.890			
Ethanol/Gallon FOB Helena	\$1.7200			
	Blended 10%	Regular, No Blend	Premium 10% Blen	Premium No Blend
Rack Price x 10 gallons		\$15.89000		\$17.29000
Rack price x 6 gallons premium			\$10.3740	
Rack price x 3 gallons no-lead			\$4.7670	
Rack Price x 9 gallons	\$14.30100			
<b>TOTAL</b>	<b>\$14.30100</b>	<b>\$15.89000</b>	<b>\$15.14100</b>	<b>\$17.29000</b>
Applicable Taxes				
A. State Tax \$.2775 x 10 gallons		\$2.77500	\$2.77500	\$2.77500
State Tax \$.2775 x 10 gallons	\$2.77500			
B. Federal Tax \$.184 x 10 gallons		\$1.84000	\$1.84000	\$1.84000
Federal Tax \$.184 x 10 gallons	\$1.84000			
Add One (1) Gallon Ethanol	\$1.72000		\$1.43000	
Ten (10) Tax Paid Gallons	\$20.63600	\$20.50500	\$21.18600	\$21.90500
Less Federal Tax Incentive	(\$0.51000)	\$0.00000	(\$0.51000)	
<b>TEN TAX PAID GALLONS:</b>	<b>\$20.12600</b>	<b>\$20.50500</b>	<b>\$20.67600</b>	<b>\$21.90500</b>
<b>ONE TAX PAID GALLON:</b>	<b>\$2.01260</b>	<b>\$2.05050</b>	<b>\$2.06760</b>	<b>\$2.19050</b>
Advantage (Disadvantage) Blend	\$0.03790		\$0.12290	

**mikea**

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**From:** "Monte Shaw" <mshaw@ethanolrfa.org>  
**To:** <mikea@allenoilcompany.com>  
**Sent:** Monday, March 21, 2005 3:10 PM  
**Subject:** another quote

D. Duane GILLIAM, Executive Vice President, MARATHON ASHLAND PETROLEUM LLC,  
speaking to the 2001 National Ethanol Conference on February 19, 2001:

“Whether oxygen-content regulations are abandoned or not, as MTBE is banned either nationally or state by state, considerable volumes of ethanol still will be needed because of this blendstock’s favorable octane rating, its dilution value and its ability to extend the gasoline pool...”

The future of ethanol is bright. It is here to stay as a key component in the U.S. gasoline pool.”

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Monte Shaw  
Communications Director  
Renewable Fuels Association  
202-289-3835

3/22/2005

**mikea**

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**From:** "Monte Shaw" <mshaw@ethanolrfa.org>  
**To:** <mikea@allenoilcompany.com>  
**Sent:** Monday, March 21, 2005 2:44 PM  
**Subject:** one oil quote

“Ethanol can deliver a number of important benefits to gasoline. For example, it is a valuable source of octane, and it will help refiners meet air toxics emissions standards. Because these properties, its use is likely to substantially increase.”  
Red Cavaney, President and CEO of the American Petroleum Institute, speaking to RFA’s 2002 National Ethanol Conference

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Monte Shaw  
Communications Director  
Renewable Fuels Association  
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3/22/2005



MINNESOTA DEPARTMENT OF  
**AGRICULTURE**  
FROM THE FARM TO YOUR FAMILY

## Commissioner Hugoson's Testimony

Gene Hugoson, Commissioner  
Minnesota Department of Agriculture

### Testimony, Iowa State Senate and House Hearings

#### Minnesota's Oxygenated Fuel Program

I have been asked to address this body about the status of Minnesota's oxygenated fuel program. Agriculture Department staff and I have been in contact with public and private participants in the development and implementation of our law. We look forward to answering any questions you may have.

On November 1, 1992, the EPA oxygenated fuel program began in the Twin Cities area. The program, required by the Federal Clean Air Act of 1990, prescribed the use of oxygenated fuel in the 10-county metropolitan area during the annual "carbon monoxide nonattainment period", which runs from October 1 through February 1.

In October 1995, the state program provided for a year-round oxygenated fuel requirement in the 10-county "nonattainment area". In October 1997, the oxygenated fuel requirement was implemented statewide.

The compliance rate for this state law is estimated by the Department of Public Service to be well in excess of 95 percent.

Department of Agriculture was given the responsibility for the education and outreach functions of the oxy-fuel program. We maintain a 24-hour hot line to answer concerns or questions by consumers and industry members about the

use of oxygenated fuels. We have answered thousands of calls since 1992 and today we get an average of about two or three calls a week.

Most of these calls we get involve questions about the program. Occasionally, we receive calls about operational problems on various automotive or small engine applications. The vast majority of problems reported are found to be mechanical in nature or caused by improper handling or storage of the fuel.

Before our program began, we heard a variety of concerns about problems that might occur if the oxygenated fuel program were implemented. You may have heard many of these same concerns expressed in hearings or in conversations with lobbyists or members of the public. I will briefly review a few of these concerns and explain the outcomes we observed as our program was implemented.

**1) Enforcement:** Many concerns were expressed about the burden of enforcement that would be experienced by fuel retailers and state agencies. Mike Black, Director of the Weights and Measures Division of the Minnesota Department of Public Service, reported that the program was implemented smoothly and continues to experience a high rate of compliance. Compliance means that un-oxygenated fuel is premium grade and is available only at prescribed locations or has a label similar to the one in the bill you are considering. A few merchants advertised in a manner that seemed to suggest un-oxygenated gasoline for general use was available at their stations. In these cases other local merchants complained of the infractions and the ads were dropped immediately.

Premium non-oxy gasoline is not necessary for automotive or small engine application and is generally more costly than oxygenated gasoline. The demand for it is created only if consumers are convinced to avoid ethanol blends.

**2) Underground tanks:** Suggestions were made that some materials in underground tanks were not compatible with ethanol blends. To date, inquiries to the Weights and Measures and to the Underground Tank Section of the Minnesota Pollution Control Agency reflect the same experience of Ag Department staff. There were no reports or discoveries of underground systems damaged in any way by ethanol blended gasoline.

**3) Availability:** It was suggested that our oxygenated fuel law would make non-oxygenated gasoline hard to find. Availability has not been a problem except in the metropolitan area during the "carbon monoxide non-attainment period." After considerable research into the matter, EPA officials could find no technical reason to provide exemptions to their oxygenated fuel requirements. Outside of federal restrictions we have found that if there is consumer demand for the non-oxygenated fuel, the marketplace will make it available.

**4) Gasoline Prices:** Before the oxy-fuel program was initiated there were predictions that the program would trigger higher prices for gasoline. A report was even distributed by Minnesota's Legislative Auditor suggesting that this would be the case. However, Department staff determined the report was flawed. I would like to present you with copies of the Agriculture Department's official response to the report. It was presented to our state Senate and House committees at the same hearing where the Auditor's report was presented. The response points out errors in the study.

Historical price data illustrated that blenders can usually produce an ethanol blended gasoline for a lower cost than a straight hydrocarbon fuel of the same octane.

**5) Consumer Acceptance:** Consumer acceptance of ethanol blends has been excellent. It is estimated by the Energy Division of the Minnesota Department of Public Service that at least 96 percent of all the gasoline sold in Minnesota is blended with ethanol. If there were real problems caused by the fuel, our hot line to be very busy and Ralph Groschen wouldn't have been able to be here today.

**6) Mandate:** One of the major concerns expressed by opponents of the oxy-fuel bill was that it was a mandate. People would be forced to use ethanol blends against their will. One of the things we have learned in the process of implementing this law is that the fear of ethanol is based on the perception that it is an inferior fuel component and will cause problems when consumers use it. In fact, ethanol is a superior fuel component. Our idle hot line is proof that all the dire predictions did not come true.

Another lesson we learned is that "pure gasoline" is a complex mixture of chemicals. A chemical may be present at different levels in various gasoline products. Some of these components are extremely volatile and can cause vapor lock or poor starting and performance if their levels are too high or too low. Some of these components are hard on plastic components of fuel systems. Some oxidize readily and cause gasoline to go "sour" in storage.

Many factors impact fuel performance in an engine, including the composition of the crude oil, the refinery equipment, and the storage and handling of the fuel before it is used. In fact, the retailer and the consumer have no control over the composition of the gasoline they buy. Government regulations require that these components are present at levels that provide reasonable assurance that gasoline will perform well under most conditions and are appropriate to the season in which they are sold.

Of all the various components of gasoline, only ethanol requires a label in most states. We found that gasoline retailers considered the label a nuisance. Minnesota's legislature decided that either all the components of gasoline should be labeled or none should be labeled. Ethanol market share in Minnesota increased steadily ever since the ethanol pump label requirement was eliminated in 1989.

Since lead, a highly toxic poison, was banned from gasoline, the only component of gasoline consumers, mechanics and engine manufacturers can name is ethanol. Benzene, butane, olefins and many other chemicals are present in all gasoline. Their presence is mandated, not by law, but by the content of the crude oil from which they are made and by refinery economics.

Ethanol is the only component of gasoline that is grown and manufactured in Minnesota and Iowa. By using ethanol, we reduce the money we spend on imported petroleum by millions of dollars each year (about \$100 million annually for Minnesota). Each year ethanol provides a market for millions of bushels of Minnesota and Iowa corn.

Meanwhile, state and federal legislatures pass laws each year. We are all mandated to obtain a drivers license before we drive an automobile on public streets. We are mandated to follow a wide variety of laws that protect our families and our property and that promote the common good. We cannot avoid mandates, but we should pick our mandates carefully. This "mandate" may not be so good for OPEC or multinational oil companies. But it is a good law for Minnesota and Iowa agriculture, for the local gas stations that depend on a healthy rural economy, for the environment, and for the economies of our states and the nation.

We are proud of our oxygenated fuel program in Minnesota. So far, we use more than we produce. Iowa, on the other hand, produces more than 400 million gallons of ethanol each year and uses only about 10 percent of that amount in their gasoline. Less than 50 percent of Iowa's gasoline contains ethanol. This isn't because Iowans reject ethanol. People buy what's in the pump. We just want fuel for our cars so we can get to work, to church or to the kids' basketball game. I can tell you that cars, outboard motors and snowmobiles are all running great in Minnesota. They're running on ethanol blends and we're all breathing easier because of it.

MDA Contact

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# Promoting Economic Development with Ethanol

SB 293  
Senator Jerry Black