SENATE HIGHWAYS
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Montana Petroleum Association
State Level Ethanol Mandate White Paper

Ethanol Incentives Currently Available

Montana motor fuel excise tax reduction for ethanol blended gasoline = 4.05 cents less state excise tax per gallon of 10% blended gasoline

Montana ethanol production tax credit, 30 cents per gallon of ethanol or 3 cents tax credit per gallon of 10% ethanol blended gasoline (Statute passed in early 1980's)

Montana business equipment tax 10-year exemption for ethanol production facilities and for equipment used in construction of an ethanol facility

Federal ethanol excise tax credit/refund, 51 cents per gallon of ethanol = 5.1 cents less federal tax per gallon of 10% blended gasoline

Federal small producer tax credit of 10 cents per gallon.

Ethanol Blending Requires a "Boutique" Base Gasoline

"Boutique" fuels are special formulations required in limited areas or regions. Producing "boutique" fuels reduces economies of scale thus increasing the cost.

Ethanol has higher volatility – evaporative properties – than gasoline and to meet vapor requirements, gasoline to be blended with ethanol, particularly in summer, must be formulated with lower evaporative properties than gasoline that is to be sold for direct use. 60% of Montana's fuel production is exported and the 30% to be sold in-state, ethanol blended will require different formulation for.

Ethanol Distribution Requires Fuel Delivery Systems Modifications

Ethanol attracts water and if transported in a petroleum fuels pipeline, will cause water to come out of suspension, leading to corrosion in the pipe. Therefore, ethanol will be transported by less economical rail car and tanker trucks.

The 100% ethanol is "splash" blended with gasoline when the ethanol blend is loaded onto tanker trucks at refinery racks and pipeline terminals for delivery to retail stations. With an ethanol mandate, refiners and pipeline terminals will be required to engineer, install and pay for delivery modifications to deliver some one else's product, i.e. ethanol.

Energy Equivalency of Gasoline to Ethanol

One gallon of gasoline has energy equivalent to 1.45 gallons of ethanol.

One gallon of ethanol produced consumes the energy equivalent of at least ½ gallon of gasoline for growing, harvesting, and producing the ethanol (based on Renewable Fuels Association estimates)

Air Emissions from Vehicles

Oxygenates – ethanol and others – reduce carbon monoxide and volatile organic compound emissions. Reduced carbon monoxide vehicle emissions is why oxygenated gasoline is required by the Federal Environmental Protection Agency to improve non-compliant air quality in Missoula in the winter.

Oxygenates – ethanol and others – increase nitrogen oxides emissions which contribute to ground level ozone "smog" creation.

Primary Grain Sources for and Producers of U.S. Ethanol

Corn constitutes about 90% of the feedstock for ethanol in the U.S. One bushel of corn generates approximately 2.5 gallons of ethanol.

Sorghum along with some barley, wheat, cheese whey and potatoes constitute 10% of the feedstock.

Almost 90% of ethanol production occurs in five Midwest states: Nebraska, Iowa, Minnesota, Illinois, and Indiana.

Archer Daniels Midland (ADM) produced 39% (797 million gallons) of U.S. ethanol in 2001. Minnesota Corn Processors, Williams Energy Services, and Cargill produced about 5% each (100-110 gallons) of U.S. ethanol in 2001.

Ethanol Consumption Increases Without Mandates

Ethanol blended 10% in gasoline nearly doubled in the U.S. from 1996 to 2000 (660,200 to 1,011,800 thousand gasoline-equivalent gallons) DOI statistics

Ethanol consumption in North Dakota increased by 150% between 2001 and 2003; increased market share from 12% in January 2001 to 29% in January 2003.

In 2003 ethanol had a 49% market share in South Dakota and the state had 7 ethanol producing plants with 3 more proposed – without an ethanol mandate.

Marketing Works

South Dakota Corn Growers have been actively promoting ethanol incentives and ethanol use since 1986, and used a corn check off program to fund an active ethanol advertising program.

Nebraska Ethanol Board, the Nebraska Corn Board and the Nebraska Corn Growers Association created, through a cooperative effort, promotional materials, radio announcements, television commercials, and educational advertising to encourage consumers to use ethanol fuels. Nebraska representative speaking to Montana interim committee in January 2004 "every gallon of ethanol finds a market." He stated that a mandate is not necessary and can create resentment in consumers.

Minnesota does have a mandate – an oxygenated mandate with ethanol being the only oxygenated allowed – yet Minnesota still has an education program to provide facts to the consumer and a 24 hour hotline for consumer questions and problems.

Ethanol Plants in Montana

First plant in Montana, 1980; six have failed. (source DEQ Howard Haines)

Currently, plant under construction in Hardin and proposed for construction in Great Falls

2-17-412. Assignment and transfer. (1) The department of transportation may assign the use of state-owned or leased motor vehicles under its control to state officers, state agencies, or employees of state agencies.

(2) All motor vehicles in the custody of the department of transportation that are not placed under custody of the department by 2-17-411 must be equitably transferred to the custody of those agencies that have need of vehicles as demonstrated by use records.

History: (1)En. Sec. 2, Ch. 320, L. 1971; amd. Sec. 174, Ch. 316, L. 1974; amd. Sec. 2, Ch. 355, L. 1974; Sec. 53-515, R.C.M. 1947; (2)En. 53-519.1 by Sec. 7, Ch. 355, L. 1974; Sec. 53-519.1, R.C.M. 1947; R.C.M. 1947, 53-515(part), 53-519.1; amd. Sec. 3, Ch. 512, L. 1991; amd. Sec. 3, Ch. 535, L. 1991.

2-17-413. Repealed. Sec. 6, Ch. 431, L. 1999.

History: En. 53-519.2 by Sec. 8, Ch. 355, L. 1974; R.C.M. 1947, 53-519.2; amd. Sec. 3, Ch. 512, L. 1991; amd. Sec. 4, Ch. 535, L. 1991.

2-17-414. State vehicles to use ethanol-blended fuel — definition. (1) A department, agency, institution, office, board, and commission of the executive, legislative, and judicial branches of state government and a state institution of higher education owning or operating a motor vehicle capable of burning ethanol-blended fuel shall take all reasonable steps to ensure that the operators of those vehicles use ethanol-blended fuel in the vehicles if ethanol-blended fuel is commercially available within the operating area of the vehicle and is priced competitively with the motor vehicle fuel otherwise used by the vehicle.

(2) For purposes of this section, "ethanol-blended fuel" means a fuel mixture that is 90% gasoline and 10% anhydrous ethanol produced from agricultural products, including grain and wood or wood products, and that is used for the purpose of effectively and efficiently operating internal combustion engines.

(3) An entity subject to the requirements of subsection (1) may not take any disciplinary, judicial, administrative, or other adverse action against the operator of a motor vehicle for failing to purchase ethanol-blended fuel for the operation of the motor vehicle.

History: En. Sec. 1, Ch. 462, L. 1991; amd. Sec. 1, Ch. 70, L. 1999.

2-17-415 through 2-17-420 reserved.

2-17-421. Use — state business only — exception — compensation for driving personal vehicle — penalty for private use. (1) Except as provided in 2-17-424, a state officer or state employee may not use a state-owned or leased motor vehicle for personal use nor be compensated for driving a personal motor vehicle unless that motor vehicle is used on state business.

(2) Except for vehicles that have been approved for confidential license plates by the attorney general in accordance with 44-4-201, a decal must be affixed to the windshield of each state-owned or leased vehicle, with the following information contained on the decal:

"Any officer or employee of state government who uses or authorizes the use of any state-owned or leased motor vehicle in violation of the acceptable use rules provided for in 2-17-424 may be removed from office by the head of the department or establishment concerned."

(3) The head of a department or agency may terminate the employment of any state employee using state-owned or leased vehicles for personal use in violation of the rules provided for in 2-17-424.

History: En. Sec. 4, Ch. 320, L. 1971; amd. Sec. 176, Ch. 316, L. 1974; amd. Sec. 4, Ch. 355, L. 1974; R.C.M. 1947, 53-517; amd. Sec. 3, Ch. 512, L. 1991; amd. Sec. 5, Ch. 535, L. 1991; amd. Sec. 2, Ch. 226, L. 1999; amd. Sec. 3, Ch. 431, L. 1999.

Cross-References

Mileage allowance — private vehicle for state business, 2-18-503.

2-17-422. Operating history. Each state agency shall maintain motor vehicle operating history records for motor vehicles under control of the agency. These records must show the purchase price of the vehicle and the items of expense incurred in the operation of the vehicle, including the expenses of gas, oil, repairs, labor, storage, and service. A complete summary of the operating cost and history record of all state-owned or leased vehicles and trucks must be prepared for each fiscal year.

History: En. Sec. 6, Ch. 320, L. 1971; amd. Sec. 178, Ch. 316, L. 1974; amd. Sec. 6, Ch. 355, L. 1974; R.C.M. 1947, 53-519(2); amd. Sec. 3, Ch. 512, L. 1991; amd. Sec. 6, Ch. 535, L. 1991; amd. Sec. 4, Ch. 431, L. 1999.

Part 10
State Energy Policy — Goal and Development Process

90-4-1001. State energy policy goal statement. (1) It is the policy of the state of Montana to promote energy conservation, production, and consumption of a reliable and efficient mix of energy sources that represent the least social, environmental, and economic costs and the greatest long-term benefits to Montana citizens.

(2) In pursuing this goal, it is the policy of the state of Montana to:

(a) recognize that the state's energy system operates within the larger context of and is influenced by regional, national, and international energy markets;

(b) maintain a continual process to review this energy policy statement and any future changes so that Montana's energy strategy will provide for a balance between a sustainable environment and a viable economy; and

(c) adopt a state transportation energy policy as provided in 90-4-1010 and an alternative fuels policy and implementing guidelines as provided in 90-4-1011.

History: **En. Sec. 1, Ch. 242, L. 1993; amd. Sec. 1, Ch. 311, L. 1995.**

90-4-1002. Definitions. As used in 90-4-1003, the following definitions apply:

(1) "Council" means the environmental quality council established in 5-16-101.

(2) "Department" means the department of environmental quality established in 2-15-3501.

History: **En. Sec. 2, Ch. 242, L. 1993; amd. Sec. 494, Ch. 418, L. 1995; amd. Sec. 310, Ch. 42, L. 1997.**

90-4-1003. Energy policy development process. (1) The department and the council, in cooperation with the consumer counsel and the public service commission, shall maintain a continual process to develop the components of a comprehensive state energy policy.

(2) Because of limited state resources and the need to focus intensive effort on specific issues of importance, the development of a comprehensive state energy policy must occur on an incremental basis. As the need arises, the department, in cooperation with the appropriate state agencies and with extensive public involvement, shall identify and recommend to the council specific components of a state energy policy for development under the consensus process described in subsection (3).

(3) (a) Upon selection of a specific energy policy component, the council shall assign to a working group composed of representatives of the parties with a stake in that specific component the task of developing consensus recommendations for that component of state energy policy.

(b) The working group must include the broadest possible representation of stakeholders in the issues to be included within the specific component of state energy policy.

(c) Whenever possible, the working group shall use a consensus process to develop recommendations for a specific energy policy component to be submitted to the council. Recommendations that are not based upon consensus must be so noted by the working group. Upon consideration of the working group's recommendations, the council shall forward its recommendations to the legislature and to the appropriate state agencies for adoption.

(d) The department shall:

(i) provide staff support to the working group, including policy analysis, data gathering, research, technical analysis, and administrative support;

(ii) provide administrative coordination among the appropriate state agencies in the energy policy development process;

(iii) prepare reports for and make recommendations to the council; and

(iv) consult regularly with the council to coordinate each agency's activities.

(4) In carrying out their responsibilities under this section, the department and the council may contract with experts, consultants, and facilitators and may seek funding from a variety of private and public sources for technical and other assistance necessary to accomplish their responsibilities.

History: **En. Sec. 3, Ch. 242, L. 1993.**

90-4-1004. Terminated. Sec. 5, Ch. 242, L. 1993.

History: **En. Sec. 4, Ch. 242, L. 1993.**

90-4-1005 through 90-4-1009 reserved.

90-4-1010. Transportation energy policy. It is the transportation energy policy of the state of Montana to promote actions that encourage the conservation of energy through the environmentally responsible management and planning of efficient transportation systems. This policy further recognizes that energy conservation must be balanced with the state's interest in establishing, preserving, and maintaining a safe, efficient transportation system that equitably meets the mobility needs of Montana's citizens and connects them to the nation's economy.

History: **En. Sec. 2, Ch. 311, L. 1995.**

90-4-1011. Alternative fuels policy — implementing guidelines. (1) The state of Montana encourages the use of alternative fuels and fuel blends to the extent that doing so produces environmental and economic benefits to the citizens of Montana.

(2) To implement the policy stated in subsection (1), the legislature recommends the following guidelines:

(a) All policies and programs should have in-state benefits.

(b) Policies and programs should be coordinated among the affected agencies.

(c) The state recognizes incentives as a temporary tool to implement the alternative fuels policy. Recipients of those incentives should develop a plan, including an educational component, to phase out the incentive. In determining incentives, the state should:

(i) consider incentives for the producer, retail, and consumer levels;

(ii) establish a logical link between revenue sources and incentives; and

(iii) encourage the use of self-sufficient markets.

(d) Any state alternative fuels program should have measurable benefits that are communicated to the public.

(e) State and local governments should be encouraged to set an example with their vehicle fleets in the use of alternative fuels and fuel blends.

(f) Consistent with the guidelines in subsections (2)(a) through (2)(e), the state encourages production of alternative fuels and fuel blends.

History: **En. Sec. 3, Ch. 311, L. 1995.**

Cross-References

State vehicles to use gasohol, 2-17-414.
Gasohol production equipment — classification for tax purposes, 15-6-135.
Gasohol tax per gallon, 15-70-204.
Refund of tax for certain uses of gasohol, 15-70-221.
Tax incentive for production of alcohol to be used as gasohol, Title 15, ch. 70, part 5.

(v) all trailers as defined in 61-1-111, semitrailers as defined in 61-1-112, pole trailers as defined in 61-1-114, and travel trailers as defined in 61-1-131;
(w) all vehicles registered under 61-3-456;
(x) (i) buses, trucks having a manufacturer's rated capacity of more than 1 ton, and truck tractors, including buses, trucks, and truck tractors apportioned under Title 61, chapter 3, part 7; and
(ii) personal property that is attached to a bus, truck, or truck tractor that is exempt under subsection (1)(x)(i);
(y) motorcycles and quadricycles;
(z) the following percentage of the market value of residential property described in 15-6-134(1)(e) and (1)(f):
(i) 31% for tax year 2003;
(ii) 31.4% for tax year 2004;
(iii) 32% for tax year 2005;
(iv) 32.6% for tax year 2006;
(v) 33.2% for tax year 2007;
(vi) 34% for tax year 2008 and succeeding tax years;
(aa) the following percentage of the market value of commercial property as described in 15-6-134(1)(g):
(i) 13% for tax year 2003;
(ii) 13.3% for tax year 2004;
(iii) 13.8% for tax year 2005;
(iv) 14.2% for tax year 2006;
(v) 14.6% for tax year 2007;
(vi) 15% for tax year 2008 and succeeding tax years;
(bb) personal property used by an industrial dairy or an industrial milk processor and dairy livestock used by an industrial dairy;
(cc) items of personal property intended for rent or lease in the ordinary course of business if each item of personal property satisfies all of the following:
(i) the acquired cost of the personal property is less than $15,000;
(ii) the personal property is owned by a business whose primary business income is from rental or lease of personal property to individuals and no one customer of the business accounts for more than 10% of the total rentals or leases during a calendar year; and
(iii) the lease of the personal property is generally on an hourly, daily, or weekly basis;
(dd) all manufacturing machinery, fixtures, equipment, and tools used for the production of ethanol from grain during the course of the construction of an ethanol manufacturing facility and for 10 years after completion of construction of the manufacturing facility;
(ee) light vehicles as defined in 61-1-139; and
(ff) the following property, except property included in 15-6-135, 15-6-137, 15-6-141, 15-6-145, and 15-6-156, if the tax rate in 15-6-138 reaches zero:
(i) all agricultural implements and equipment;
(ii) all mining machinery, fixtures, equipment, tools, and supplies;
(iii) all oil and gas production machinery, fixtures, equipment, including pumping units, oil field storage tanks, water storage tanks, water disposal injection pumps, gas compressor and dehydrator units, communication towers, gas metering shacks, treaters, gas separators, water flood units, gas boosters, and similar equipment that is skidable, portable, or movable, tools, and supplies;
(iv) all manufacturing machinery, fixtures, equipment, tools, and supplies;
(v) all goods and equipment that are intended for rent or lease;
(vi) special mobile equipment as defined in 61-1-104;
(vii) furniture, fixtures, and equipment;
(viii) x-ray and medical and dental equipment;
(ix) citizens' band radios and mobile telephones;
(x) radio and television broadcasting and transmitting equipment;
(xi) cable television systems;