

EXHIBIT NO. 10DATE: 2/1/05BILL NO. SB 293

I am Mike Hraban, District Director for ConocoPhillips Pipeline Company, and I am here to provide testimony against Senate Bill 293. Senate Bill 293 mandates the use of ethanol in gasoline sold for on road motor use.

ConocoPhillips is opposed to mandates that are not based on market-driven economics. The free market provides the best clearinghouse for the optimum delivery of goods and services, including gasoline. At the heart of this bill is a burden on Montana taxpayers to significantly subsidize the blending of ethanol into petroleum fuels. There is an attempt by some in this state to paint a picture of building an ethanol plant in Montana as a good thing for Montana's economy. The existing federal and proposed state subsidies, funded by taxpayers, do not justify the limited jobs created.

Blending ethanol into gasoline is an extremely inefficient process. I would like to make five statements, then provide information to support those statements:

1. It is extremely inefficient and difficult to produce ethanol cost effectively as a motor fuel in Montana. Simply put, without subsidies, the ethanol fuel industry would never exist.
2. Ethanol blended fuels cannot be distributed efficiently, and creates a huge operational and logistical burden on the pipelines and terminals distribution systems within Montana.
3. Ethanol would create a heavy financial and logistical burden on the fuels terminaling infrastructure in Montana – during the same time that the federally mandated clean fuels deadline for ultra-low sulfur diesel modifications are being funded and installed.
4. There are compelling arguments that ethanol production for use as on-road fuel actually increases overall pollution, rather than reducing pollution as intended.
5. Ethanol creates added operability problems that can affect individual vehicle performance, potentially stranding motorists.

You are asking yourself, "how can he make these statements?" You are probably like me, you grew up thinking ethanol reduces emissions and helps agriculture, so it has to be good for us. For me you can add that my childhood role model and hero that I grew up looking up to was my father, a full-time federal employee of the Department of Agriculture as a soil conservationist. But the facts speak for themselves, and the pro-ethanol special interest groups are painting their rosiest picture.

The introduction of mandated ethanol blending into the gasoline industry is a guaranteed method of introducing inefficiency and complexity into an industry that, today, is remarkably efficient and streamlined.

Point number 1 - ethanol fuel production would not exist anywhere in the United States without subsidies. In a truly free marketplace, it would not exist at all – it is simply not cost effective. Multiple communities and business persons are gathering momentum to build and operate an ethanol plant in their town. I've heard about Great Falls and Hardin. In Hardin, I've read the design calls for a 60 million gallon per year plant that will

Since we cannot put ethanol blended fuel in the pipelines, the only means of mixing ethanol into gasoline is at the individual distribution terminals. This means that ethanol will likely be delivered to the terminals for blending and distribution by a means less efficient than pipelines. Folks, terminals are built to deliver product, not receive blend stocks and make product. We make money by filling trucks that arrive empty and leave full with gasoline – not by taking up time, space and equipment needed to offload full trucks, blend specific mixtures, perform added quality testing and then distribute the fuel. Yet, all of these inefficiencies will be required of the pipeline and terminal systems. If a pipeline operator is lucky, he will have a way to get ethanol by railcars. Otherwise, the terminal will get ethanol by truck. For the terminals ConocoPhillips operates in Montana, about half will have to get their ethanol by truck. That means we will have to receive one truck load of ethanol for every 10 trucks we load – can you grasp the inefficiency in a system designed to fill trucks that now has to offload them 10% of the time? It comes with a cost – a cost that will ultimately hit the individual consumer and taxpayer.

Point number three - Ethanol would create a heavy burden on the fuels terminaling infrastructure – right during the same time or on the heels of the federally mandated clean fuels deadline for ultra-low sulfur diesel. ConocoPhillips is currently spending millions of dollars and thousands of hours on pipeline and terminal modifications required to meet the June 2006 ultra low sulfur diesel federal clean fuels standards in Montana, alone. Engineering, operations, and qualified contractors are spread extremely thin. In fact, most states, including Montana, have had to give time concessions since January 1 of this year - without penalty - to complete construction and start up of required diesel lubricity additive systems to avoid major diesel outages statewide. Several entities, including the MT DEQ, have carelessly thrown around numbers in the range of \$200,000/terminal to make the modifications necessary to allow ethanol blending at the terminals in our state. I am the district director of over 1000 miles of petroleum pipelines and six major terminals in multiple states. I have 18 years of experience in dealing with petroleum fuels handling. Included in my area of operations is one terminal that already blends ethanol (at lower concentration than the 10% being discussed in Montana) with over five years of blending experience. I am telling each of you point blank that the estimate shared by the DEQ is off by almost a factor of ten. If ethanol blending is mandated, each terminal will need to add ethanol unloading systems, tanks to store the ethanol, gasoline blend tanks, new dedicated ethanol piping, manifolds, strainers, meters, pumps, and other equipment built to specific standards to assure safe operation. This includes specific materials of construction, customized coatings, and post-weld heat treatment of every single weld that will come into contact with the ethanol to avoid the corrosion and failure mechanisms in metal that ethanol promotes. These failure mechanisms are specific and traceable to ethanol and have been found to be the root cause of so many environmental spills – this is personal experience talking. The terminals would also have to invest in added testing equipment and personnel to perform the tests (oxy analyzers, etc) to assure proper rack blending oversight. This comes with a cost estimate of roughly \$1.6 MM minimum per terminal for capital improvements alone, not including added operating costs – an inefficiency, at least partially, passed on to the public, to the taxpayer.

when using ethanol based gasoline based on btu content. Lower gasoline mileage just adds another nail to the ethanol inefficiency coffin.

Senate Bill 293 does not benefit the Montana taxpayer. It adds constraints, cost, and inefficiency with no true benefit - instead it will lead to higher family fuel costs, lower family fuel economy, increased air and water pollution, increased family tax rates, reduced highway safety and construction, and poorer performing family automobiles. In return, we hope the state gets 35 to 40 jobs that pay \$35,000/yr at a cost of over \$1.48 million/yr/job created in taxes. Corn states produce over three times more ethanol per acre than Montana's farmland - so I fail to see that even these 35 to 40 jobs have a very good chance to truly survive long term once competition with the established eastern state producers of ethanol plays out.

Ethanol is not the answer for Montana. My plea is that we continue to follow the national solutions for clean fuels and continue to search for a TRULY EFFICIENT renewable fuels solution.

Thank You.

employee 33 to 35 employees. This number is supported by research in that Tony Simpson, General Manager of the Michigan Ethanol LLC in Caro, MI, operates a 40 million gallon/yr plant that employs 42 people with an average salary of \$35,000/yr per employee. So what will it cost our taxpayers to create and sustain a single \$35,000/yr job in our state? Let's calculate it. The Federal subsidy for ethanol blending is \$0.54/gal of ethanol blended paid for by the taxpayer – me and my neighbors. The mandate calls for a 10% blend of ethanol in all gasoline consumed in Montana. The 2004 Montana consumption of gasoline was a little over 550 million gallons – so 54 cents/gallon times 550 million gallons of gasoline/yr times 10% ethanol in gasoline equals \$29.7 million/yr in federal taxes charged to the taxpayer. Add to that the proposed Montana state subsidy (funded by me and my neighbor) of 4 cents/gallon on every gallon of gasoline sold in the state – that is 4 cpg times 550 million gallons/yr equals \$22 Million/yr. So the total tax burden to subsidize the ethanol blending in Montana is \$51.7 million/yr. Divide \$51.7 million/yr by 35 employees and you discover that it costs the taxpayers \$1.48 million/yr to fund a single \$35,000/yr job. So this bill would have me and my neighbors funding subsidies at a rate of roughly 42 times more than the jobs it creates. No taxpayer is going to vote in favor of spending \$1.48 million to get a \$35,000 benefit – and it is your duty to represent the taxpayer.

Point number two - Ethanol cannot be distributed efficiently in Montana. Every national statistic collected around fuels distribution will show that the safest, most efficient means of distribution gasoline is via a pipeline system. Pipelines are multiple times more efficient and safe than rail or truck distribution – it costs less to ship by pipeline, it is the safest distribution means for the workers, for the public, and for the environment. But we can not put ethanol blended fuel in the pipelines.

Ethanol has a great affinity to water and other additives. In every fuel, there are trace amounts of water. Normally, these trace amounts are not an issue as they are distributed over great quantities of product. However, once a fuel is mixed with ethanol, water molecules are instantly attracted to the ethanol molecules and cause larger droplets of water to form. Since water is heavier than hydrocarbon fuels, these droplets eventually come to rest in low points along the pipelines or in tanks. These pockets of accumulated water lead to:

- a) internal corrosion of the pipes and tanks – leading to, best case, added maintenance costs; or worst case, a leak that can run \$100,000's or millions of dollars in damage and product outages. Internal corrosion is the best pipeliners can hope for with ethanol.
- b) The worst case for ethanol in a pipeline is that ethanol creates catastrophic contamination issues in other fuels. Jet fuel for instance – even minute quantities of ethanol with their affinity to water would accumulate enough water to crystallize and freeze in the fuel lines and injectors at the very low temperatures of high altitude flight. The frozen lines would cause engine failure and crashes on commercial jet aircraft.

Therefore, even trace amounts of ethanol must never enter a pipeline that carries jet fuel where trail back could be deadly.

I have taken a lot of your time – but I do want to mention four more issues.

One is that there are compelling arguments being presented in California and New York and other states that ethanol – the fuel that is suppose to be so environmentally friendly – actually increases overall emissions. But who is presenting the argument that ethanol increases pollution? Actually it is environmental groups making these accusations. Their reasoning is based on several sound facts including – increased water contamination based on increased fertilizer usage impacting streams, rivers, and bay eco-systems. Also, since ethanol fuel is primarily transported by road or rail, there are increased emissions to get the ethanol to the terminals. The required ground transportation to get the ethanol to the terminals would entail railroad emissions from high sulfur off-road diesel used in railroad engines, as well as, increased on-road diesel truck traffic to deliver to terminals without rail service. Ethanol also will increase VOC and nitrogen oxides emissions via the vapor pressure waiver as documented by both the Environmental Protection Agency and the National Academy of Sciences. A new grade for blending of RBOB gasoline will create a logistics handling issues. As a taxpayer, you and I would pay more for fuels that increase overall pollution.

The second quick issue I wanted to at least mention is that ethanol in gasoline can cause engine problems. The high vapor pressure allowed by the waiver on RVP for ethanol blended gasoline causes vapor lock, especially in the summer and at higher elevations. Try to explain to a motorist stranded on their summer vacation at the top of Homestake or Elk Park Pass that ethanol based fuel is good for them. Also, ethanol blended gasoline contains sulfates that precipitate salt compounds that in turn cause fuel injector plugging. Within the last two years, Milwaukee, Wisconsin, became one of the most recent metropolitan areas to switch to oxygenated fuels. The region has reported over one hundred complaints to the State and the EPA for clogged fuel injectors due to the fuel requirements – all due to salt precipitation. Water has a tendency to accumulate in service station gasoline tanks during wet weather. The water stays separate from the gasoline until the station operator removes it. However, if the gasoline is blended with ethanol, this water mixes right in with the fuel and is sold to the consumer. If the concentration of water is small the motorist only experiences poor engine performance. If the water concentration gets high enough, the car stalls. Be it dead stops from vapor lock or water entrainment or poor running engines due to clogged fuel injectors, either way ethanol leads the way to inefficiency.

Thirdly, the dollars for part of the federal subsidies for the ethanol producer come directly from the taxes that otherwise would have gone to highway construction – so our highway budgets and highway safety will suffer.

And finally, ethanol delivers lower fuel economy. Studies prove that the average consumer can expect to lose over 3% on their personal gas mileage per gallon