SENATE TAXATION
EXHIBIT 1
4-4-05
BILL NO. HB 674

HB 674 – DEQ testimony
Potential unintended consequences of current bill

1. The title of the bill states "prohibiting certain additives in ethanol production" What the bill actually does is prohibit certain additives in gasoline.

2. The title of the bill strikes the reference to amending section 82-15-103 and 82-15-110, MCA. But in the bill, these sections of code dealing with standards for petroleum products (82-15-103) and unlawful acts (82-15-110) are completely eliminated.

3. Section 2 of the bill specifies anhydrous ethanol rather than denatured ethanol. This affects the percentage of ethanol in gasoline and may make the percentage used in this section inaccurate.

Anhydrous ethanol is straight ethanol that has not been denatured with gasoline. Ethanol is not sold or marketed in this condition. Typically, ethanol is denatured by mixing it with a small amount of gasoline. This is done before the ethanol is transported so that it cannot be used for any purpose other than fuel. E-10 is a blend of 10% denatured ethanol. It contains only about 9.5% anhydrous ethanol. (the actual amount may vary as long as it meets ASTM standards.) So, Section 2. (1) (A) would require more ethanol than typical industry standards.

4. Section 2 of the bill specifies 4.5% anhydrous ethanol for mid grade gasoline to allow for blending of gasoline from regular and premium tanks to make a mid grade fuel. A blend of 4.5% is not allowed by the EPA because of reid vapor pressure issues. Ethanol fuels have a higher vapor pressure, and that higher vapor pressure can emit more chemicals. However, the vapor pressure increases the most with the first increment of ethanol that is added. So, the EPA set their requirements at an E-10 blend because the positive environmental effects of ethanol more than offset the initial increased emissions when this amount of ethanol is used.

5. Section 2 (2) (b) prohibits ethyl tertiary butyl ether, known as ETBE from additives added to gasoline in Montana. (page 2, line 4)

Section 5(1) (a) (iii) provides a tax credit for alcohol that "is to be used in the production of ethyl butyl ether for use in reformulated gasoline." This is a confusing section of existing state law. The ethyl butyl ether referred to is actually ETBE. So, the bill bans ETBE while allowing an incentive for ethanol to be used in the manufacture of ETBE. Ethanol made in Montana could be shipped to another state for the manufacture of ETBE.