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SENATE TAXATION

EXHIBIT NO. 2

DATE 4-12-05

BILL NO. HB 756

April 12, 2005

To: Senate Taxation Committee

Re: Testimony on HB 756

Dear Honorable Members of the Senate Taxation Committee,

I will keep my testimonial brief in consideration of everyone's time. I will focus on the economic benefits of the bill with respect to the burden on the general fund.

Sustainable Systems, LLC supports HB 756. HB 756 will help offset the initial costs associated with the installation of processing equipment used in the manufacture of biodiesel. We support this bill as it provides financial incentives as a means to expand the Montana biodiesel industry. In addition, it will encourage investment dollars in this emerging industry the bulk of which will find their way into our rural economy.

I would like to make a note that this legislation will not significantly affect the general fund or special revenue in FY 2006 and 2007. However, this legislation will set the stage and provide incentives for investment in processing equipment and expansion of production capacity. It should be noted that there will be long range impacts on the general fund and special revenue. We estimate a one time fiscal burden of \$800,000. This \$800,000 investment by the state will stimulate an industry that will contribute an expected \$24,000,000 in farm gate revenue as a result of the purchase of oilseeds. These oilseeds will be processed to meet the minimum anticipated production volumes of 8,000,000 gallons of biodiesel fuel which is project to be consumed in Montana as a result of this legislation and HB 776. Non-farm economic activity is anticipated at \$35,000,000 dollars which consists of the sale of the fuel and co-products from the biofuel manufacturing process. The combined total annual economic activity for an \$800,000 investment from the State is over \$50,000,000.

There exists a growing demand for biodiesel in Montana. This fuel is currently being shipped into Montana from out of state primarily from the Mid-west. This bill will stimulate investment and expansion in production capacity within the State to serve the demand in Montana. This bill will provide incentives to the private investment community through tax credits and provide incentives for the expansion of the industry through production increase payments. In addition, this legislation will enhance both the national and state energy security.

For the benefit of both rural and urban Montana, I encourage to you vote yes on this legislation.

Sincerely,

Paul T. Miller
Managing Member



April 12, 2005

To: **(S)Taxation -- Standing Committee**
Montana Senate
PO Box 200400
Helena, MT 59620-0400

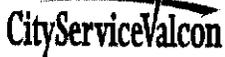
Re: CHS Country Operations – Western Montana Support of HB 776 and 756

Dear Honorable Committee Members and concerned Montana's,

My name is Kyle Stensrud, and I am the energy division manager for CHS Country Operations – Western Montana, retailer of Cenex branded petroleum products, based out of Missoula and serving West to Thompson Falls, South to Darby, North to Kalispell, and east to Deer Lodge. CHS has a strong history of agricultural involvement and support, and we look forward to helping move biodiesel further in the State of Montana. Western Montana CHS has been involved in the distribution and use of Biodiesel in Montana from the fall of 2003 with the opening of our first B20 pump at our Brooks Street Fuel Station. Currently, we operate two B20 pumps in Missoula, our first at Brooks Street and beginning in spring of 2004, at our main location on Reserve Street, and have 3 transportation trucks and 1 bulk truck using B20 biodiesel.

Initially, our decision to dedicate tank space to biodiesel blended product was focused on our belief in biodiesel as a premium diesel fuel product. Our price was determined by the cost of our diesel product, and the higher cost of biodiesel. The resulting price for the Montana Biodiesel B20 product that we offered was \$.20 - \$.30 a gallon more than our diesel #2 product. An increase of cost of this magnitude over the traditional diesel #2 product has made it difficult for consumers to make the switch to B20, not to mention in our ability to make a margin that enables us to expand use and placement of biodiesel blends. HB 776 will help offset the cost of switching to biodiesel blends as well as help stabilize the price of low blends of biodiesel for years to come. In 2006, by mid year, petroleum blenders will be required to sell Ultra Low Sulfur Diesel fuel. This new diesel product will require a lubricity additive of some sort as the removal of sulfur from diesel fuel results in significant lost lubricity. A two percent blend of biodiesel replaces that lost lubricity adequately, can be cost effective, and blended easily. Having this legislation in place will help incentivise petroleum blenders in Montana to use Biodiesel as their lubricity additive of choice. We have examined the benefits of using B2 Ultra Low Sulfur Diesel, and would like to pursue this as our lubricity additive for ULSD.

We believe that biodiesel is an important part of extended and enhancing petroleum product in the United States, and feel this legislation is an important part of helping biodiesel become established as part of the petroleum market. Western Montana CHS is in full support of HB 776. Thank you for your time and consideration of this important issue, and feel free to contact me with any thoughts or questions you may have regarding this legislation.



April 12, 2005

To: **(S)Taxation -- Standing Committee**
Montana Senate
PO Box 200400
Helena, MT 59620-0400

Re: City Service Valcon Support of HB 776 and 756

Dear Honorable Senators,

CityServiceValcon, LLC currently distributes numerous gallons of ASTM D-6751 biodiesel fuel (B100) per year in Montana, Idaho, and Washington. We are currently one of the largest distributors of B100 in our distribution area. Our customers mainly consist of federal, state, and local government fleets as well as many private customers. We currently supply Glacier National Park with B20 that is used in the park's diesel vehicles.

We currently purchase this biodiesel fuel from the Midwest and at times must wait three or more weeks for delivery. We look forward to having a Biorefinery located in Montana to shorten delivery times. In addition, a B100 product that is produced from locally grown oilseeds will have significant marketing appeal to current and new customers who are interested in supporting local agriculture.

Biodiesel blended diesel products are in demand when priced competitively with petroleum diesel. Our customers are very price conscious, so any extra cost is difficult to justify in the fuel market. HB 776 will help reduce the cost to our end users, as well as help covering our cost to switch existing diesel pumps and tanks over to biodiesel blends.

By mid year 2006, our diesel fuel will be required to be Ultra Low Sulfur Diesel fuel. This new diesel product will require a lubricity additive due to the significant loss in lubricity that is a result of the removal of sulfur from diesel fuel. A blend of biodiesel could be used to replace that lost lubricity. There has been testing by the National Biodiesel Board that has shown an addition of biodiesel to diesel fuel results in an increase in lubricity, which could replace lost lubricity in Ultra Low Sulfur Diesel. HB 776 will be an effective financial tool to help entice our industry to consider biodiesel as a home grown premium lubricity additive for diesel fuel.

From our use and distribution of biodiesel, we believe that it is an excellent product that can enrich and extend our petroleum product in Montana, while helping support our agricultural community as well. CityServiceValcon is in support of HB 776 and 756 to promote biodiesel development in Montana. Thank you for your time & consideration.

Sincerely,

Kim Moon
Marketing
CityServiceValcon, LLC