

MICROFILM DIVIDER

OMB/RECORDS MANAGEMENT DIVISION
SFN 2053 (2/85) 5M



ROLL NUMBER

DESCRIPTION

2282

2001 SENATE TRANSPORTATION

SB 2282

2001 SENATE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. SB 2282

Senate Transportation Committee

Conference Committee

Hearing Date 2-1-01 ~~2-6-01~~

Tape Number	Side A	Side B	Meter #
1		x	0.0-53.2
2-8-01 2		x	0.0-1.9
Committee Clerk Signature 			

Minutes: SB 2282 relates to the sale of alcohol-blended gasoline.

Senator Thane: (District 25; Supports) Increasing demand for energy in USA. We need to look at what ND and USA's resources are. This is corn. Ethanol isn't readily available today. We don't have a great deal of reserves, corn can resolve this issue. You don't need a deicer in gas tank if you use ethanol. ND could see an increase in jobs by more ethanol plants. We can't build them unless we increase the availability of ethanol in ND.

Senator Tallackson: (District 16; Supports) Ethanol is good for Ag, engines, and it promotes clean air. Race cars and airplanes can run on 100% ethanol. Grafton produces 12 million gallons of ethanol a year. MN requires 10% ethanol.

Duane Dows: (Chairman of ND Corn Grower's Association; Supports) Ethanol usage in ND is up 14%. Energy costs will increase even more by next year. This year's costs are up 45% from last year.

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Mark Dillon: (Board of Directors American Coalition for Ethanol; Executive Vice-president Golden Growers Coop; Supports) See attached testimony.

Senator Esgard: Are farmers getting more for their corn today?

Mark Dillon: Yes, the current rate is .60 to \$1.20 per bushel above the value of corn.

Wallie Hardie: (Fairmount, ND; Supports) See attached testimony.

Terry Goerger: (ND Soybean Council; Supports) We need to get into other industries. When Ag does well; farmers don't leave money in there pockets, it trickles on down. This bill would invest in future of ND.

Roger Johnson: (Agriculture Commissioner; Supports) See attached testimony.

Lance Hagen: (Ag Coalition; Supports) Ag needs to get creative in enhancing ND products; this would be value-added.

Bill Dillmore: (ND Corn Grower's Association; Supports) Points out that the tanks in ND are very well kept. In small towns where there are only one tank, we are willing to take that into consideration and add that in.

Bryan Kramer: (ND Farm Bureau; Lobbyist #255; Supports)

Russ Hanson: (ND Petroleum Marketer's Association; Lobbyist # 168; Opposes)

Matt Bjornson: (Chairman of ND Petroleum Marketer's Association; Opposes)

See attached testimony.

Ron Green: (OK Tire; petroleum marketer; Opposes) Businesses shouldn't be forced to offer ethanol. The costs for petroleum marketers will get very high. If you couldn't afford to put in another pump, you couldn't be competitive. If business wants to offer it , that's fine; but you shouldn't be forced to.

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Art Perdue: (Cenex of Minot; Opposes) Ethanol is available at all Cenex's in ND. You should not be forced to do have ethanol.

Dave MacIver: (Bismarck-Mandan Chamber of Commerce; Lobbyist #11; Opposes) Basically the only reason to oppose this bill is the "mandate" part of bill.

Ron Ness: (ND Petroleum Council; Opposes) This is not an oil vs. Ethanol issue, it's a mandate issue. We have availability across the state of ethanol for those who choose to do so. According to proposed bill, if you don't want ethanol, you will be forced to pay more for other types. This is not good.

Senator O'Connell: How much do you reap in profit, where's the ethanol come from and how much would it cost to update sites?

Art Perdue: (Cenex of Minot; Opposes) We pay the same price as regular unleaded so we actually make three cents a gallon less profit. The ethanol comes from Minot, we have a problem with Rolla product. It would cost roughly \$60,000 to \$70,000 to update.

Hearing closed.

Committee reopened on SB 2282 on 2-8-01.

Senator Trenbeath makes a motion to accept proposed amendment. Seconded by Senator O'Connell. Roll Call taken 6-0-0. Senator Trenbeath moves to Do Pass as amended. Seconded by Senator O'Connell. Roll Call taken 6-0-0. Floor carrier is Senator Trenbeath.

Committee closed.

PROPOSED AMENDMENTS TO SENATE BILL NO. 2282

Page 1, line 1, after "A BILL" replace the remainder of the bill with "for an Act to provide for a legislative council study of methods to encourage production and consumption of ethanol."

BE IT ENACTED BY THE LEGISLATIVE ASSEMBLY OF NORTH DAKOTA:

SECTION 1. LEGISLATIVE COUNCIL STUDY. The legislative council shall consider studying methods to encourage production and consumption of ethanol. The legislative council shall report its findings and recommendations, together with any legislation required to implement the recommendations, to the fifty-eighth legislative assembly."

Renumber accordingly

Date: 2-8-01
 Roll Call Vote #: 2

2001 SENATE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 2282

Senate Transportation Committee

Subcommittee on _____
 or
 Conference Committee

Legislative Council Amendment Number 10926.0101

Action Taken Do Pass as Amended

Motion Made By Trenbeath Seconded By O'Connell

	Senators	Yes	No	Senators	Yes	No
1	Senator Stenehjem, Chairman	X		Senator Bercler <u>6</u>	X	
2	Senator Trenbeath, Vice-Chair	X		Senator O'Connell <u>5</u>	X	
4	Senator Espegard	X				
3	Senator Mutch	X				

Total (Yes) 6 No 0

Absent 0

Floor Assignment Sen. Trenbeath

If the vote is on an amendment, briefly indicate intent:

REPORT OF STANDING COMMITTEE

SB 2282: Transportation Committee (Sen. Stenehjem, Chairman) recommends AMENDMENTS AS FOLLOWS and when so amended, recommends DO PASS (6 YEAS, 0 NAYS, 0 ABSENT AND NOT VOTING). SB 2282 was placed on the Sixth order on the calendar.

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Renumber accordingly

2001 HOUSE TRANSPORTATION

HB 2282

2001 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. SB 2282

House Transportation Committee

Conference Committee

Hearing Date March 2, 2001

Tape Number	Side A	Side B	Meter #
1	x		45
Committee Clerk Signature <i>Laura M. Smith</i>			

Minutes: Rep. Weisz - Chairman opened the hearing on SB 2282 as engrossed; A BILL for an Act to provide for a legislative council study of methods to encourage production and consumption of ethanol.

Sen. Thane: I am State Senator from the 25th District which includes Wahpeton and part of Richland County. SB 2282 has changed quite a bit since I introduced it. It is now essentially a study resolution. The president has appointed an energy task force to come up with an energy policy which I think we all will agree is necessary. Gasoline prices and agricultural prices all support finding new energy, and if not new, expanded energy sources. I hope that the legislative council takes this study seriously and urge you to do so.

Senator Tallackson was called home for a family emergency. He couldn't be here. He asked that I extend his support message to you.

Rep. Mahoney: (338) What is the status of research of ethanol being good or not so good in vehicles?

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Sen. Thane: I guess I don't know any more than anyone else. I use it and have for many, many years. I see no problems whatsoever. In older classic cars you might have some problems because they didn't have seals and gaskets that would withstand ethanol's extended use. I know you don't need deicers winter driving.

Rep. Grumbo: (437) I wonder why the State motor pool does not use ethanol blends -- why haven't they taken the lead in a study like this?

Sen. Thane: It's a good question. Maybe they should be.

Rep. Koppang: I signed on to this bill because I think it is a good, needed bill for this country and our state. We need economic development here and expanded use of our farm products in utilizing people for processing, giving employment -- return of tax revenues -- all in all economic development boost.

Roger Johnson: I am State Agriculture Commissioner. A copy of his prepared remarks are attached. He basically urged support for the bill but also urged the bill be amended back to it as original form.

Rep. Jensen: (973) Is ethanol environmentally safe?

Commissioner Johnson: My understanding is that in cooler climates you have no air quality concerns at all. I will ask some of the experts here to address you questions,

Rep. Weisz - Chairman (1171) Do you have any idea how many gas stations would be effected if ethanol were to be required here?

Commissioner Johnson: I don't know that but may be some in the room who will know.

Rep. Thoreson: (1223) North Dakotan use less than 20% of what is already available to them -- why is that?

Commissioner Johnson: My suspicion is that we have not done a good job of marketing.

Rep. Mahoney: (1314) Aren't there some tax exemptions in place now for ethanol?

Commissioner Johnson: I'll let Keith (?) (? Keith Magnuson ?) answer that.

Mike Clemens: I am President of the North Dakota Corn Growers Association. A copy of his written testimony is attached.

Rep. Jensen: (1672) A trivia question -- Can you produce ethanol out of other grains as well?

Mike Clemens: Yes out of most other grains but corn is the most efficient.

Rep. Schmidt: (1714) Would you be in favor of amending this bill back to its original form?

Mike Clemens: we would like to see the amendment but at this time maybe the study would be more appropriate.

Wallie Hardie: I am Director of the North Dakota Corn Growers Association: A copy of his written testimony is attached.

Rep. Carlson: (2172) I know we have some incentives on the books -- could you or someone present tell me what they are?

Wallie Hardie: We have a producer incentive and it goes to the producers right now. It helps the producers and they in turn pass that along the purchaser of ethanol. Its on a gallon -- 40 cents per gallon which equals 2.7 gallons produce per bushel of corn. This is passed on to the user.

Rep. Mahoney: (2248) I am intrigued by the 97% usage figure in Minnesota -- the must not have signs on their pumps --

Wallie Hardie: They do have signs on their pumps -- yes it is all there.

Rep. Weisz - Chairman (What do you expect to get out of the study?

Wallie Hardie: I think we are going to see some very powerful things -- as in Minnesota it has

made a big difference -- and the bottom line is we would like more --

Rep. Jensen: (2374) I am interested in the Minnesota situation -- there is no notification that your a buying ethanol - can you tell us how the legislature did that? Are our consumer rights being violated?

Wallie Hardie: I don't think so -- you know that legislators have legislated what should be in gasoline for a long time -- it really started with the clean air benefit because the Twin Cities was designated by the federal government as a problem area -- they first legislated for the twin cities area and then made it statewide.

Rep. Grumbo: (2467) What about EPA and what is in the future?

Wallie Hardie: Under the Clean Air Act the areas out of compliance -- that is the high pollution areas have to use reformulated gasolines -- nationally we are moving away from the clean air act and it is becoming the thought the our national policy is we should be moving toward alternative fuels.

Rep. Thorpe: (2589) Do you envision this study to include marketing strategies?

Wallie Hardie: I think so -- yes.

Rep. Jensen: (2754) You said that we are moving away from the clean air toward a renewable energy option -- does that imply that ethanol does contribute to air pollution or does it help clear it --?

Willie Hardie: It depends on the kind of air problem you are addressing. His testimony related to difference in Denver versus California -- CO2 or ozone --

Rep. Mahoney: (2854) I notice that when I go to the filling station that it is not the 87 octane

but the 89 octane that has the ethanol -- you testimony references lower octanes being brought up to 87 octane -- what is this -- can you explain because we can't buy 87 octane and I, like many others, at these prices will buy the cheapest gas available -- but I do use ethanol and when the 87 and the 89 octane are the same price I will buy the higher octane --

Wallie Hardie: Again it is a consumer thing -- Well, as I said it is a consumer thing that we do that but here in North Dakota as a matter of law we may not sell gasoline of less than 87 octane. In other states we sell 83 - 85 octane so we can offer 87 octane with ethanol -- as you probably know when we add ethanol to a grade of gasoline we gain 2 octane -- therefore when we start with 87 octane, then add ethanol all we can sell then is 89 octane -- a gasoline with ethanol.

Rep. Price: (2992) You testified that when Minnesota mandated ethanol they took away the incentives -- do you see North Dakota do that too?

Wallie Hardie: Good question -- you understand that Minnesota is still giving an incentive but it is to the plants in the amount of \$27 million -- they are continuing their program to the plant.

Rep. Grumbo: (3042) I am wondering with the different plants we have, would this be an opportunity for diversification for the Pro Gold plant?

Wallie Hardie: As you know Cargil leases that plant -- they are really locked in to producing sweeteners.

Rep. Pollert - Vice Chairman: (3152) Now in South Dakota where I visit Ammoco doesn't offer ethanol at their pumps and here in North Dakota they don't offer it at all in at their stations -- so when there is a 97% share in Minnesota they are offering ethanol in Minnesota. They have to offer it.

Kevin Carlson: I am a Director of the North Dakota Corn Growers Association and I am from

Oakes, ND. A copy of his written testimony is attached.

Rep. Jensen: (3541) Your last line says it is biodegradable and does not contaminate ground water supplies -- what kind of scientific research backs up that statement?

Kevin Carlson: I will turn that over to , Bill -- (?) -- No answer --

Rep. Carlson: (3587) You are a corn grower down in the Oakes area -- where would you send your grain to be produce into ethanol? I believe the two plants we have are in Grafton and Wahalla -- do you send yours to the south Dakota plant?

Kevin Carlson: Right now my corn goes to the local market and where ever they can market it that is where is goes. Some goes to Pro Gold -- ? Or may be even to the Pacific Northwest --

Bill Delmore: I am from the Kelsch Law firm. We represent the North Dakota Corn Growers. One reason this bill became a study was the concern for small operators. We definitely didn't want to cost them money. We do want the study to happen. In my 25 years in the capitol I have seen many studies sit on the table. If some additional wording would help like directing the motor pool to study it -- that would help because our concern is that it happen. Representative Jensen ask about the environmental concerns if any with ethanol -- I believe that ethanol is much more environmentally friendly than conventional fuels. We breath CO2 but the real impact is in the solvents that get into the ground and ethanol is biodegradable.

Rep. Jensen: (4093) What is the scientific basis for your statements if I wanted to validate you research? About biodegradable and less solvents ?

Bill Delmore: I can provide you some of that because of some of the studies we have -- in the Mandan diesel problem but there are other things to be more concerned about? And I can point to a study by Dr. Stanton (or Stankon ? Sp?) From New Jersey showing impacts of those

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materials.

Rep. Thorpe: (4265) I agree with you -- should we be amending line by taking out encourage and add in "increase" for production?

Bill Delmore: Certainly -- that sounds like a good idea.

Harold Newman: President and owner of Alchem, in Grafton. I am here in favor of the study --I have listened to most of the proponents --it seems like get down to one word 'money'. Basically, the problem -- why do we have only 14% of the market -- at Ammoco you can't buy it and Ammoco sells 50 -55% of the market -- in South Dakota has a 2 cent incentive at the pump -- Minnesota provides \$30 million a year for up to 10 ethanol plants to operate -- they produce 10 million gallons per year so that is basically a 30 cents a gallon subsidy -- someone asked what is North Dakota's incentive -- since last session it is 7.5 cents per gallon -- how do you solve it this bill attacks that issue --

Rep. Weisz - Chairman. (5420) Being no one else is wishing to appear either for or against SB 2282 the hearing is closed.

2001 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. HB 2282 B

House Transportation Committee

Conference Committee

Hearing Date March 29, 2001

Tape Number	Side A	Side B	Meter #
1	x		50
Committee Clerk Signature <i>Laura J. Park</i>			

Minutes: Rep. Weisz - Chairman opened the committee work session for action on SB 2282.

SB 2282 had been heard on March 2, 2001.

Rep. Weisz - Chairman (72) We have some proposed amendments and Rep. John Nelson would like to introduce his amendments. Some people have shown some excitement for these amendments ---

Rep. Nelson: Copies of the proposed amendments were handed out for discussion. A copy of these proposed amendments are attached here. To introduce myself, I am Rep. John Nelson, I am representing District 7 and I am a House member from Wolford. I am a farmer as well. This amendments is an effort to promote the use of ethanol in ND -- and to help the

Value added ag industry. What it does in section 1 is simply -- requires that all gasoline sold in ND -- any 87 octane have a 10% blend of ethanol in it. Obviously the word 'mandate' would come up and it certainly is. The testimony that I have handed out and if you go to the second

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page -- at the bottom of the second page it shows -- the market share of an ethanol blend across the midwest region. And as you can see North Dakota is the lowest user of ethanol in the area. I think it horrible that from an ag state that we are not using a product that has proven to be clean fuel -- with the shortages we have experienced last year --the shortage of refining capacity in this country and we are promoting the use of a solution the clean air problems-- in some areas of the country and some areas of the region -- and the supply. This amendments would promote the industry in Nd -- to where wwe could do away with some of the subsidies at a certain point in time and this industry could stand on its own two feet. As any body knows, the developing a market it the hardest part of any business -- this would bring ND into compliance -- and move us forward --- from this legislative body be making a statemet -- that we promote and look at ethenaol as a long term solution to -- not only the fuel problem and the energy problem but also to agriculture problems. It is an excellent fit in between those -- In section 2 for clarification we are asking that this would be implemented in steps, the first year -- by July 31st of this year that cities of 25,000 population and cities in combinations -- Fargo - West Fargo, and bismarck-Mandan would count each as one area -- would be required first and then next year cities of 10,000 pop. Or more and after July 1, 2003 -- it would be implemented across the state.

Rep. Kelsch: (446) Mr. Chairman - this question is not to Rep. Nelson, but it is to you -- It is a procedural question -- are we reopening the hearing on SB 2282 and are we planning on taking testimony from all the people in the room?

Rep. Weisz - Chairman (446) Rep Kelsch -- I don't intend to re-open the hearing but I do plan to take testimony from both sides of the issue. I plan to be sure that each side is heard.

It will be open to questions and answers.

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Rep. Kelsch: (501) What would the direct benefits to the retailers with this amendment?

Sen. Nelson: I guess --- well -- the price of gasoline would be lowered -- and -- when the price of a product goes -- generally more of it is sold --

Rep. Hawken: (554) One of the words you used was 'promoting' -- if in deed that this would lower gas prices why would we need to be mandating it?

Sen. Nelson: I think that has been the policy in ND for years and look at what its got us -- 15% of the market.

Rep. Thoreson: (712) You have proposed a step by step program -- what is the rationale for that

Sen. Nelson: I think it would give the retail establishments a chance to gear- up for this in the rural areas.

Rep. Mahoney: (816) Looking at the statistics North Dakota is the number one leader in production -- it is a sad sate of affairs when you look at these numbers of only 15% utilization. I don't like mandates but I do like the idea of becoming more agressive and proactive -- how has this usage been -- is it staying the same or going up -- how is that?

Sen. Nelson: I don't no the answer to that.

Rep. Weisz - Chairman (10 21) I understand that the usage has gone up in the last ten years from 14% yo 15%.

Rep. Ruby: (1041) You mentioned how hard it is to develop markets out businesses usually determine what the market is and then proceed or do something to deverlop the need -- but here it seems that the government create the market and furnish the product? Bu mandates -- how is it there are not more tax breaks and other incentives?

Sen. Nelson: That is a strategy that could be offered -- but the down side to that is -- the problem

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of trying to match federal highway dollars and then take fuel tax moneys off the back end you are compounding the problem -- and we don't want to harm the petroleum industry in ND -- they have been a great friend to this state

Rep. Grumbo: (1268) When we start asking the citizens of ND to come forward -- I was hoping the state could take the lead with our state fleet --

Sen. Nelson: I guess the state's lead would be included in this.

Rep. Thoreson: (1428) In you opinion would this in effect eliminate regular gasoline from the market place? Especially in rural areas with one pump?

Sen. Nelson: If you are talking about regular gasoline without ethenaol -- ya -- yes.

Rep. Hawken: (1544) South Dakota has a 60% share with 25 million gallons -- I noticed that they are dependent upon scratch and match lotteries -- so peerhaps we should add a lottery into this amendment -- seriously I would like to know why SD is so much more efficient?

Sen. Nelson: We will try to find the answer to that with this study.

Rep. Grumbo: (1651) I do believe that Sd does demand that all their fleet vehicles use ethanol.

Rep. Thorpe: (1681) I see here that SD has a 22 cent a gallon gas tax -- E85 must be the ethanol gas is taxed at 10 cent per gallon.

Sen. Nelson: I think that gets back to the question Rep. Ruby had awhile ago -- it gets back to a different philosophy as to how you go about this.

Lance Hagen: I am here with the ND Ag Coalition -- I think Rep. Mahoney hit this right on the heard -- agriculture is still the number one industry in the state -- this is just one proactive step the state to take to help the corn producers. A little different spin on this -- I have been in Washington the last couple of weeks work over the farm bill -- it is going to be good for the next

7 years -- in my opinion it is not going to be good for the ND farmers. There is not much we can do for the ag economy in this state but this one area we can and should.

Rep. Carlson: (2043) This is for Lance or John -- when you look at the amendment -- it is very clear about the alcohol blend -- it doesn't make any mention where that ethanol would come from -- they have 25 or 28 plants in Minnesota -- in essence we have no guarantee that that ethanol won't come from those Minnesota plants - It will be somebody's ethanol but no assurance that it will be ND's --?

Lance Hagen: I think this is a transportation issue and I can see how it wouldn't help the farmers.

Rep. Carlson: (2148) If I may continue the logic of that -- we just completed the bio-diesel bill in our finance and tax committee -- one of the restrictions we put the bio-diesel was that it had to be produced in a ND plant. Because we don't want to benefit the corn growers in southern Minnesota -- we want to help ND farmers. -- that is if the state is going to subsidize something. This doesn't address that.

OPPOSITION TESTIMONY: (2271)

Russ Hanson: I am with the ND Petroleum Marketers Association. I will be brief and I only want to make a policy observation. Our opinion on this is pretty fundamental --- that is 'to mandate or not to mandate' . This is really a big issue on which you are going to have to make a decision on. We are opposed to mandates. While I am not up on a lot of the details but the time frame issue is a big one for a lot of our smaller dealers and a costly one at that.

Rep. Weisz - Chairman (2504) Didn't we address the mandate issue when we mandated the 87 octane?

Russ Hanson: Here you are mandating the the small dealer bear the expense or go out of business and to use another product or handle another product rather than one they already have

at no cost to them. It is also a basic philosophical question.

Rep. Mahoney: (Is Ammoco part of the group you represent?

Russ Hanson: We represent independents not corporations.

Rep. Price: (2753) How much of this is produced in ND and how much as a country do we import?

Russ Hanson: I am not sure but in petroleum products I -- think we are importing about 55% of our needs.

Rep. Pollert - Vice Chairman: (2838) Ammoco makes a subgrade 83 or 85 octane - I would think this would be a way for them to sell their subgrades by making ethanol blends can you comment on that?

Russ Hanson: Not very well -- I am not in to that kind of marketing --

Ron Ness: I am with the ND Petroleum Council representing refiners and pipelines> A copy of his written testimony is attached. He stated that basically with the bio-diesel bill and this bill it is potentially a double mandate to their industry. This a very big change for the fuels distribution system and it will create a very, very serious problem for them.

Rep. Weisz - Chairman (3745) When they mandated ethanol and these fuels in Minnesota was the so disruptive there -- then?

Ron Ness: There is a refinery here and two pipelines that come into ND -- terminals and refineries do have exchange contracts so they can pull product from when one another needs are to be met. The difference is in the additive and not the raw product. Minnesota has a much better access to distribution systems that we do.

Rep. Thorne: (3978) We have been discussing ethanol usage and I guess I would like to add

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that I believe that pricing strategies have a lot to do with it.

Ron Ness: You have hit right on -- people do buy price.

Rep. Thorpe: (4255) I assume the retailers out there have to try to maintain a per cent mark up to stay in business. Some where along the line one retailer must be able to get a better price break to account for the differences in price.

Ron Ness: Good questions -- being able to buy in bulk helps -- volume sales -- differing overhead costs -- competition -- all enter into it.

Rep. Carlson: (4520) When I go to the pump today and buy ethanol -- I am buying 89 octane right? If I want 87 octane with 10% ethanol -- they are going to have to produce 85 octane so it goes to 87 octane? Why would we lower it to get 89 octane when that is what we are getting at the pump and it already has ethanol in it. May be I am missing something here.

John Berger: BP Ammoco. He clarified some of the previous testimony and stated his opposition to mandates. If the consumers want ethanol you can believe Ammoco will give them ethanol. It is available at most of our competitors yet we have 55% of the market. That should tell you something.

Rep. Thorpe: (5307) Can you give us an unbiased opinion about this amendment?

Ron Ness: I don't know if I can but I will try. I can give a realistic opinion. I think the timing written in the amendment is extremely tight. We sell 630 million gallons of gasoline in ND -- if 100% of that were to be blended with alcohol(ethanol) and we don't make that much gasoline in ND but if we did it would mean that somebody would have to come up with 63 million gallons for that. If you would mandate it on the time schedule you set up it would means --he listed about

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ten things from railheads to production problems that couldn't be met.

Rep. Weisz - Chairman (5745) Of the 630 million gallons sold here is 87 octane?

Ron Ness. Approximately 70%.

Rep. Ruby: (5798) Whether we mandate this or not why would the retailers have spend so much money on new tanks and equipment just to sell ethanol? How many now have blenders?

Ron Ness: I don't know what our all have but I can related to you what was testified to in the Senate. A consultant came in to work up a station with thre new pumps to have one for ethanol-- he found that he was going to have to give up one of his products whether it was premium or whether it was diesel he only had room for three pumps -- in Lakota, ND. And if he put in the blenders to continue to operate - - plus the tanks these were what he needed to be able to offer the three grades and ethanol -- His whole business was only 3 years old and this is hwat it was going to cost him. Besides the decling economy this another reason we are losing retailers.

Side 2 -- OPPOSITION TESTIMONY CONTINUED -

Ron Ness: We are dependent on the agricultural community too -- gasoline -- diesel it is all a part of it. We are not against ethanol just let the consumer pick as they are doing now.

Following committee discussions:

Rep. Mahoney: (98) I move the approval of the proposed amendments,

Rep. Pollert - Vice Chairman: I second Re. Mahoney's motion.

Rep. Kelsch: I guess I have to express the fact that I don't like amendments come in like this at the eleventh hour without a full hearing and complete hearing. I am going to oppose this and I believe the study is needed.

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Rep. Dosch: I share those views.

Rep. Thorpe: I too share the sentiments expressed by Rep. Kelsch and further I don't believe the schedule proposed is workable.

On a roll call vote the motion failed: 6 yeas 8 nays 0 absent.

Rep. Pollert - Vice Chairman: I move a 'Do Pass for SB 2282 as engrossed'.

Rep. Mahoney: I second that.

On a roll call vote the motion carried. 14 yeas 0 nays 0 absent.

Rep. Pollert - Vice Chairman was designated to carry SB 2282 on the floor.

Discussion ended (1218) .

PROPOSED AMENDMENTS TO ENGROSSED SENATE BILL NO. 2282

Page 1, line 1, after "A BILL" replace the remainder of the bill with "for an Act to create and enact a new section to chapter 19-10 of the North Dakota Century Code, relating to the sale of alcohol-blended gasoline; and to provide an effective date.

BE IT ENACTED BY THE LEGISLATIVE ASSEMBLY OF NORTH DAKOTA:

SECTION 1. A new section to chapter 19-10 of the North Dakota Century Code is created and enacted as follows:

Retail sale of alcohol-blended gasoline. A retail dealer must offer an alcohol-blended gasoline containing at least ten percent alcohol from any pump dispensing gasoline with an octane rating of eighty-seven.

SECTION 2. EFFECTIVE DATE. This Act becomes effective after July 31, 2001, within a city or a combination of cities within this state whose city limits are within one mile of each other with a population of twenty-five thousand or more; after July 31, 2002, within a city with a population of ten thousand or more; and after July 31, 2003, in all other areas of this state."

Renumber accordingly

Date: 3/29/01
 Roll Call Vote #:

**2001 HOUSE STANDING COMMITTEE ROLL CALL VOTES
 BILL/RESOLUTION NO. SB 2282**

House Transportation Committee

Subcommittee on _____
 or
 Conference Committee

Legislative Council Amendment Number _____

Action Taken Amend

Motion Made By _____ Seconded By _____

Representatives	Yes	No	Representatives	Yes	No
Robin Weisz - Chairman	✓		Howard Grumbo	✓	
Chet Pollert - Vice Chairman	✓		John Mahoney	✓	
Al Carlson		✓	Arlo E. Schmidt	✓	
Mark A. Dosch		✓	Elwood Thorpe		✓
Kathy Hawken		✓			
Roxanne Jensen		✓			
RaeAnn G. Kelsch		✓			
Clara Sue Price	✓				
Dan Ruby		✓			
Laurel Thoreson		✓			

Total (Yes) 6 No 8

Absent 0

Floor Assignment _____

If the vote is on an amendment, briefly indicate intent:

Date: 3/29/01
Roll Call Vote #:

2001 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. SB 2282

House Transportation Committee

Subcommittee on _____
or
 Conference Committee

Legislative Council Amendment Number _____

Action Taken Dr. Pass Engross

Motion Made By Rep. Pollert Seconded By Rep. Mahoney

Representatives	Yes	No	Representatives	Yes	No
Robin Weisz - Chairman	✓		Howard Grumbo	✓	
Chet Pollert - Vice Chairman	✓		John Mahoney	✓	
Al Carlson	✓		Arlo E. Schmidt	✓	
Mark A. Dosch	✓		Elwood Thorpe	✓	
Kathy Hawken	✓				
Roxanne Jensen	✓				
RaeAnn G. Kelsch	✓				
Clara Sue Price	✓				
Dan Ruby	✓				
Laurel Thoreson	✓				

Total (Yes) 14 No 0

Absent 0

Floor Assignment Rep. Pol

If the vote is on an amendment, briefly indicate intent:

REPORT OF STANDING COMMITTEE (410)
March 29, 2001 2:34 p.m.

Module No: HR-55-7188
Carrier: Pollert
Insert LC: . Title: .

REPORT OF STANDING COMMITTEE
SB 2282, as engrossed: Transportation Committee (Rep. Welsz, Chairman) recommends
DO PASS (14 YEAS, 0 NAYS, 0 ABSENT AND NOT VOTING). Engrossed SB 2282
was placed on the Fourteenth order on the calendar.

2001 TESTIMONY

SB 2282

**TESTIMONY
to the
SENATE TRANSPORTATION COMMITTEE
of the
NORTH DAKOTA LEGISLATURE**

RE: SENATE BILL 2282

**By Mark C. Dillon
Executive Vice President
Golden Growers Cooperative**

**Board of Directors
American Coalition for Ethanol**

February 1, 2001

Chairmen Stenehjem and Members of the Committee:

Thank you for the opportunity to submit testimony on Senate Bill 2282. I urge your DO PASS vote on this bill.

While I have obvious ties to the corn production and ethanol industries, my primary interest in S.B. 2282 is more directly related to economic development for North Dakota.

Governor Hoeven and Lieutenant Governor Dalrymple campaigned on a platform of economic development for our state. Their proposals seemed clear: We must encourage the development of our North Dakota's assets and core competencies to retain and increase jobs, to boost agriculture, to keep rural North Dakota alive and to reverse the trend in out-migration of our citizens, especially our young, well-educated citizens.

S.B. 2282 can help us do exactly that.

North Dakota is an energy-producing state, and we should all be thankful for our fossil fuel assets and the economic boost they provide. But for far too long, we have been neglecting another, equally vital form of energy production.

Simply put, the energy value of a bushel of corn is significantly higher than we receive when that bushel of corn is exported from North Dakota. In today's marketplace, a bushel of corn can produce ethanol worth \$4.50 and still retain one-half of its feed value. At \$1.80 for corn, that 90¢, added to the \$4.50, means every bushel of corn produced on North Dakota could be worth \$5.40 - THREE TIMES what North Dakota farmers are now receiving for that corn. When we deduct for the cost of processing that bushel of corn into ethanol and feed, we still have about \$1.50 per bushel added income for the farmer per bushel.

Evidence of this potential comes from other Midwestern states, where farmer-owned ethanol facilities are currently returning 80¢ to \$1.00 per bushel returns ABOVE THE VALUE OF CORN to their owners for the year 2000, when average ethanol prices were about 35 percent lower than they are today.

If we want to take advantage of this opportunity, we will need more ethanol production in North Dakota. If we want more ethanol production in North Dakota, we need to create additional demand for ethanol in North Dakota. S.B. 2282 helps create that demand in a manner that makes tremendous sense.

Ethanol production facilities create good jobs. They create better markets for grain. They help keep farmers on the farm and they help keep small towns alive. They create very positive economic impact in and around the communities where they are built.

North Dakotans need S.B. 2282. It's good for the economy, it's good for farmers, it's good for main street, it's good for consumers, and it's good for the environment. In short, it's very good for North Dakota. I urge you to give S.B. 2282 your DO PASS vote.

Thank you.

Testimony on SB 2282

**Wallie Hardie
Fairmount, ND**

Those of us involved in agriculture sometimes have legislators say "There's not much we can do at the state level to deal with the crisis." We respectfully disagree. Today, ethanol blends have only 14% of the gasoline market share in this state while Minnesota has 95% and South Dakota has 65%. Since almost all blends are a 1 to 10 ratio, only 1.4% of the gasoline sold here is corn alcohol. By passing SB 2282 you are putting an energy policy in place that says we believe renewable fuels should have a larger slice of the energy pie.

This proposed legislation offers two key benefits including consumer choice and petroleum retailer flexibility. Consumers would be able to purchase an ethanol-blend fuel or a non-ethanol blend at gas stations in North Dakota. Petroleum retailers have the flexibility of offering higher octane fuels with or without ethanol.

All of you are aware that we have a bi-modal economy in North Dakota. The non-farm sector is doing pretty well, but our food-based ag sector is very ill. Agriculture is primed and ready to meet the energy needs of our state and nation. Our fixation and constant activity in food production alone is like rearranging the deck chairs on the Titanic. By passing this legislation you can help us avoid the iceberg that looms ahead of us.

Let's get with it,

North Dakota!

Our nation is again facing an energy crisis with crude oil prices soaring, domestic refining capacities shrinking and US energy demands outpacing available supplies. At the same our producers are looking at commodity prices at 20 year lows, a bumper crop driving carryover stocks, farm income dropping, and petroleum based input costs rising. There has never been a more pressing need to promote the increased value added production and utilization of domestic, renewable ethanol.

Get With It for North Dakota's Economy

- An increased ethanol industry means more employment and capital investment. North Dakota's ethanol industry currently employs 76 people.
- Nebraska's ethanol industry employs more than 800 people, is credited with adding 4,700 jobs in the industry related service sector, and accounts for a capital investment of more than \$800 million in Nebraska.
- A 1997 Minnesota legislative audit indicated that the annual economic impact of Minnesota's ethanol industry was between \$211 and \$327 million.

Get With It for North Dakota Agriculture

- North Dakota currently produces about 35 million gallons per year while North Dakota consumers only utilize 6 million gallons of ethanol per year.
- Industry sources indicate that lower prices for ethanol-blends will result in increased sales. Increased ethanol utilization would also contribute to the feasibility of an additional ethanol plant in North Dakota. This all helps the farmer by creating additional demand for corn.
- The two ethanol plants in ND currently use 12 million bushels of corn while this year's corn harvest produced 100 million bushels of corn.
- An economic impact study by NDSU indicates that the corn used by the two existing plants increases the market price for corn by 6¢ per bushel.

Get With It for Your Car

- Every domestic automobile manufacturer recommends oxygenated fuels—including Unleaded Ethanol Blend.
- The use of ethanol blend is acceptable under warranty guidelines of every major automaker in the world.
- Ethanol blend helps keep fuel injectors clean—and adds 2.5 to 3.0 points of octane to base gasoline.

Get with It for the Environment

- Ethanol blend is a cleaner-burning fuel—and has helped clean up the air in some of America's largest cities.
- Ethanol blend reduces emissions of carbon monoxide and other toxics that pollute the air.
- The use of ethanol blend helps offset greenhouse gas emissions caused by burning fossil fuels.
- Unlike MTBE, which competes with ethanol as a fuel oxygenated, ethanol blend is biodegradable and does not contaminate ground water supplies.

Get With It for America's Energy Future

- Ethanol production today reduces the demand for imported oil by more than 90,000 barrels per day. As consumption of ethanol blend increases, the nation's dependence on foreign oil decreases.
- The market potential for Unleaded Ethanol Blend is roughly three times what it is today.
- 23.8 gallons of domestically-produced ethanol displaces one barrel of imported oil.
- Ethanol is a renewable resource—the plant materials from which it is made are available year after year.

Bill 2282 Details

Putting ethanol in the lowest octane would benefit the consumer by lowering the cost of gasoline. Ethanol increases the octane of gasoline by about 3 octane points. Suboctane gasoline (84-85 octane) can be blended with 10% ethanol to achieve the minimum 87 octane level required in regular gasoline. Suboctane gasoline typically sells at a discount to regular gasoline. This cost savings could be passed on to North Dakota gasoline users.

Currently, not every gas station offers ethanol. This bill requires every station to offer ethanol and gives consumers the ability to purchase ethanol at each gas station in North Dakota. The bill allows for a two part phase in. After December 31, 2001 a dealer would be required to offer alcohol-blended gasoline (ethanol) from at least one pump at each place of business, filling station, or pump station from which motor vehicle fuel is sold or offered for sale at retail to a consumer. After December 31, 2002 a dealer would also need to offer alcohol-blended gasoline at the lowest octane rating of gasoline.

This proposed legislation offers two key benefits including consumer choice and petroleum retailer flexibility. Consumers would be able to purchase an ethanol-blend fuel or a non-ethanol blend at gas stations in North Dakota. Petroleum retailers have the flexibility of offering higher octane fuels with or without ethanol. Ethanol is already in the mid-octane gasoline (89 octane). Petroleum retailers could keep ethanol in this octane in addition to the lowest octane.

Questions, Answers & Issues

How much does ethanol cost compared to gasoline?

The cost of producing ethanol is higher compared to the *market* price of gasoline. The majority of production costs are the result of the cost of the feedstock (i.e., corn). The average cost of producing ethanol ranges from \$1.00 to \$1.25 per gallon. The \$0.54 per gallon of ethanol excise tax exemption provides the price differential between the wholesale price of gasoline (\$0.60 per gallon) and the higher cost of producing ethanol (\$1.10). Therefore, the ethanol incentive allows ethanol to be competitive with gasoline (e.g., \$1.15 ethanol - \$0.54 tax incentive = \$0.61 per gallon)

Does the ethanol incentive stop the construction of highways by taking money out of the Highway Trust Fund? No!

The federal ethanol program does not deny a single state any highway construction funding and has not undermined our nation's transportation infrastructure.¹⁰⁰ Consider the following points:

Approximately \$30 billion is collected in federal highway taxes each year. The reduced tax collections attributable to the partial excise tax exemption for ethanol-blended fuels amounts to less than \$650 million annually, or less than 2% of the total gasoline taxes collected. The Highway Trust Fund currently enjoys a \$20 billion surplus. The effect of the ethanol program, then, is merely to reduce the amount of the surplus by 3%. No state receives less federal highway funding as a result of ethanol sales. States are reimbursed for any reduced payments due to ethanol sales through the Hold Harmless Account.

The impact of the ethanol tax incentive on the Highway Trust Fund (HTF) cannot be viewed simply as a calculation of the incentive times the number of gallons sold domestically (approximately \$650 million), because it is misleading and irrelevant. The more important calculus is what impact the incentive has on highway construction monies available to the states. No state's infrastructure is affected by the ethanol tax incentive.

Under the complex allocation rules of the Interstate Modal Transportation Efficiency Act of 1991 (ISTEA, P.L. 102-240), federal funding for highway projects is almost entirely unrelated to a state's payment into the HTF. This point was clarified by Stephen Kaplan, General Counsel for the Department of Transportation in an August 3, 1994 letter to the U.S. Senate:

"While revenue to the Highway Trust Fund would be reduced by [increased ethanol blend use], DOT does not anticipate a change in distributions to the states under authorizations provided in the ISTEA due to the obligation ceiling established in law."

In fact, of the 13 programs funded by ISTEA, only two are negatively impacted by a state's contribution to the HTF. Those programs that are wholly independent of a state's HTF payment include: interstate construction, Highway Maintenance, National Highway Safety, Bridge Construction, Surface Transportation Program, Congestion Management and Air Quality, Demonstration Projects. These programs represent the large majority of federal highway dollars.

The only programs that are minimally impacted by reduced payments to the HTF are the Minimum Allocation Account and the Donor Bonus Account. Importantly, the Hold Harmless Account provides offsetting additional revenue for reduced payments to these two accounts.

The increased farm income and tax revenues attributable to ethanol production offsets the "cost" of the partial excise tax exemption for ethanol-blended fuels and actually results in a net savings to the federal government of more than \$500 million annually. This means more federal money is available for transportation infrastructure.

COMMISSIONER OF AGRICULTURE
ROXTER JOHNSON



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DEPARTMENT OF AGRICULTURE
State of North Dakota
600 E. Boulevard Ave. Dept. 602
Bismarck, ND 58505-0020

**Testimony of Roger Johnson
Agriculture Commissioner
Senate Bill 2282
Senate Transportation Committee
Lewis and Clark Room
February 1, 2001**

Chairman Stenehjem and members of the Senate Transportation Committee, I am Commissioner of Agriculture Roger Johnson. I am here today in support of SB 2282, which relates to the sale of alcohol-blended gasoline.

North Dakota's two ethanol plants have a combined annual production capacity of approximately 34 million gallons per year. North Dakotans annually utilize less than 20% of that ethanol production.

Energy costs and issues are affecting all Americans. During this past year alone, the United States dealt with disruptions with respect to petroleum supplies and a rash of other energy issues. We have also been faced with dramatically higher prices at the fuel pump for gasoline and diesel fuel. The business of farming and ranching depends heavily on these fuel sources and is further economically pressured by the increased costs.

I believe that increased production and use of ethanol in North Dakota and throughout the United States will provide additional value-added opportunities for our farmers and increase the local demand for corn. This proposed legislation will provide consumers the opportunity to purchase ethanol blend gasoline every time they fill their tanks in North Dakota.

This proposed legislation also provides an exemption for those retail dealers who do not have storage tanks warranted by their manufacturers for the storage of alcohol-blended gasoline. It is my understanding that this provision will eliminate any potential undue burden on stations who may not be able to incur additional expenses to comply with state law.

Chairman Stenehjem and committee members, I ask for your favorable consideration of SB 2282. I would be happy to answer any questions you may have.

COMMISSIONER OF AGRICULTURE
ROGER JOHNSON



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DEPARTMENT OF AGRICULTURE
State of North Dakota
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Testimony of Roger Johnson
Agriculture Commissioner
Senate Bill 2282
House Transportation Committee
Fort Totten Room
March 2, 2001

Chairman Weisz and members of the House Transportation Committee, I am Commissioner of Agriculture Roger Johnson. I am before you today regarding SB ²²⁸²~~2822~~, which relates to the production and consumption of ethanol.

As originally introduced, SB 2282 would have provided consumers the opportunity to purchase ethanol blend gasoline every time they filled their tanks in North Dakota. It also would have provided an exemption for those retail dealers who do not have storage tanks warranted by their manufacturers for the storage of alcohol-blended gasoline, thereby eliminating any potential undue burden on stations who may not be able to incur additional expenses to comply with state law.

As you know, North Dakota's two ethanol plants have a combined annual production capacity of approximately 34 million gallons per year. North Dakotans annually utilize less than 20% of that ethanol production.

Energy costs and issues are affecting all Americans. We have also been faced with dramatically higher prices at the fuel pump for gasoline and diesel fuel. The business of farming and ranching also depends heavily on these fuel sources and is further economically pressured by the increased costs.

SB 2282 was amended to direct the Legislative Council to study methods to encourage production and consumption of ethanol. While I support the intent of studying this issue, I am concerned that North Dakota's lack of action with respect to alternative fuels will put us even further behind other states who are capitalizing and building this industry. Legislatures in nearly a dozen other states are currently considering legislation to provide incentives for the production and consumption of ethanol.

Elected officials on both sides of the aisle continually pledge their support and speak to the benefits of value-added agriculture. I believe that it is time to put action behind the words. If we truly are looking to add value to agricultural products in this state and to encourage new markets and new products, we in government have to be willing to play an appropriate role to foster that process. I believe that increased production and use of ethanol in North Dakota and throughout the United States will provide additional value-added opportunities for our farmers and increase the local demand for corn. What we need is action, not study.

I urge you to amend SB 2282 to include a portion of the bill's original language which would require dealers to offer alcohol-blended gasoline from at least one pump at each place of business. This would provide flexibility to dealers and retailers and would allow North Dakotans the option of filling with ethanol-blend fuel every time they purchase gasoline.

Chairman Weisz and committee members, thank you for this opportunity to testify. I would be happy to answer any questions you may have.

Testimony Outline

SB 2282

February 1, 2001

Mr. Chairman, members of the committee, my name is Matt Bjornson, I am a petroleum marketer and Chairman of the North Dakota Petroleum Marketers.

I. NDPMA is not anti-ethanol

- A. Ethanol blend is an important part of many of our members business**
- B. We are in business to sell the products consumers demand.**

II. Supply Concerns

- A. Effect of the law is to require a 84 sub-octane product for blending.**
 - 1. Important role of Canadian supply for the northern tier of N.D**
 - 2. Williams and Kaneb Pipelines.**
- B. North Dakota market size.**

III. Retail distribution

- A. Blender pumps**
 - 1. Capitol expenditures to change facilities.**

IV. Price concerns

- A. Cost differential**
 - 1. Federal tax is 5.3 cents lower on ethanol blend vs unleaded**
 - 2. Product cost for ethanol blend vs unleaded.**
 - a. Today's prices indicate a cost increase of approximately 2.8 cents per gallon.**

TESTIMONY
To the
HOUSE TRANSPORTATION COMMITTEE
Of the
NORTH DAKOTA LEGISLATURE

RE: SENATE BILL 2282

By Mike Clemens
President: North Dakota Corn Growers Association
Director: American Coalition for Ethanol

March 2, 2001

Chairman Welsz and Members of the Committee:

Thank you for this opportunity to submit testimony on Senate Bill 2282. I urge your DO PASS vote on this bill which would provide for a legislative council study of methods to encourage the production and consumption of ethanol in North Dakota. My testimony focuses on the current market share of ethanol in North Dakota today plus the value added aspect of ethanol production.

Currently, North Dakota produces 35 million gallons of ethanol per year. However, the Motor Fuels Gallonage Report indicates that North Dakota consumers only use 6 million gallons of ethanol per year. Out of 431 million total gallons of gasoline sold in this state per year, only 61 million of those gallons are 10% ethanol blend. That means that the market share for ethanol in our state is only 14% in contrast to Minnesota's market share of 97% and South Dakota's 60%.

The two ethanol plants in North Dakota use 12 million bushels of corn/year. In comparison, our state's corn crop this year was 100 million bushels, a 40% increase. Our producers need more opportunities for utilizing corn.

The ethanol industry leverages the value of corn. The energy value of a bushel of corn is significantly higher than what the producer is paid on the open market. A bushel of corn can produce 2.7 gallons of ethanol which is worth about \$4.50. In addition, that bushel of corn will also produce, as a by product of ethanol production, about 80 cents worth of dried distillers grain which can be used as cattle feed. Therefore, that bushel of corn can produce \$5.30 of value added product which is about three times what the producer gets at the elevator. Technology has reduced the cost of producing ethanol by about 50%. When we deduct the cost of processing that bushel of corn into ethanol and feed, we still have about \$1.50/bushel added income for the producer.

Producer own ethanol facilities in Minnesota and South Dakota are returning 80 cents to \$1.00/bushel returns above the value of corn to their owners for the year 2000. These dividends also address another benefit of the ethanol industry to producers: these producer owned plants give greater

income from investment dividends when corn prices are low and greater income from the sale when corn prices are high.

Nationwide, the ethanol industry is poised for growth. A combination of economic, environmental and political factors are coming together to encourage the use of ethanol. It is projected that the demand for ethanol will triple in the near future. The surrounding midwest states are preparing to capitalize on this opportunity to become the Texas of the ethanol industry. North Dakota needs to figure out how to be a part of that industry.

TESTIMONY
To the
HOUSE TRANSPORTATION COMMITTEE
Of the
NORTH DAKOTA LEGISLATURE

RE: SENATE BILL 2282

By Wallie Hardie
Director: North Dakota Corn Growers Association

March 2, 2001

Chairman Weisz and Members of the Committee:

Thank you for this opportunity to submit testimony on Senate Bill 2282. I urge your DO PASS vote on this bill which would provide for a legislative council study of methods to encourage the production and consumption of ethanol in North Dakota. We need this study to prove what corn growers know is true based on the successes of surrounding states.

The latest edition of Minnesota's Ethanol Economic Impact Study released by the Minnesota Department of Agriculture concludes that:

"The projected level of output in 2000 of 178 million gallons per year will generate an estimated \$341 to \$549 million in annual statewide economic benefit"

During that time period, Minnesota invested \$27 million in producer incentives. Therefore, using the conservative numbers, the ratio of output return to the impact of the incentive payment would be \$341 million to \$27 million or 12.6/1. Ethanol incentives are not costing the state of Minnesota money. Those incentives are generating income. In addition, the 7000 Minnesota corn growers who participate in one of their producer owned ethanol cooperatives are enjoying the following benefits:

- reliable markets for their corn that pay a premium
- dividends on their investments
- the addition of good paying jobs to their communities
- increased capital investment in their communities,
- and most importantly, the sense that they taking measures to control of their economic destinies.

The Minnesota program started with an ethanol tax credit which raised the ethanol blend market share to 40% by 1985. Today, that tax credit has been replaced with a state wide gasoline oxygenate requirement, which resulted in an ethanol market share of 97%.

To the south of us South Dakota currently enjoys a market share of 60%. South Dakota currently has 3 operating plants, 2 are under construction and 2 more are raising money. At the end of 2001 their ethanol plants will contribute \$488 million to their state's economy. South Dakota offers a 2 cent per gallon

exemption from state gasoline taxes for ethanol blends, and a payment of 20 cents per gallon to ethanol producers. South Dakota producers receive a 20 cent/bushel premium on corn sold near an ethanol facility.

To the west of us Montana is working on legislation to give tax incentives for ethanol production which is projected to increase the state's payroll by \$4.5 million annually.

We are surrounded by progressive activity in regards to ethanol. We urge North Dakota to study ways to increase both the production and utilization of ethanol.

TESTIMONY
To the
HOUSE TRANSPORTATION COMMITTEE
Of the
NORTH DAKOTA LEGISLATURE

RE: SENATE BILL 2282

By Kevin Carlson
Director: North Dakota Corn Growers Association

March 2, 2001

Chairman Weisz and Members of the Committee:

Thank you for this opportunity to submit testimony on Senate Bill 2282. I urge your DO PASS vote on this bill which would provide for a legislative council study of methods to encourage the production and consumption of ethanol in North Dakota. My testimony focuses on the benefits of increased ethanol consumption for all consumers.

Our nation is again facing an energy crisis with sky rocketing crude oil prices and US energy demand outpacing supplies. At that same time our producers are looking at commodity prices at 20 year lows, a bumper crop driving carry over stocks, farm income dropping, and petroleum based input costs rising. There has never been a more pressing need to promote value added production such as ethanol and the use of domestic renewable ethanol.

Remember the gasoline lines in the 1970's when everyone fussed about how dependent we were on foreign oil? Back then we imported 35% of our oil. Today, we import almost 60% of our oil. Increasing ethanol production and utilization improves our balance of trade by \$2 billion a year. Every 24 gallons of ethanol we produce saves us from having to import another barrel of foreign oil. We have choices: either we encourage the production and utilization of domestically produced, renewable fuels such as ethanol or we remain hostage to OPEC.

Ethanol is good for engines. Every domestic auto manufacturer recommends oxygenated fuels - including unleaded ethanol blend. The use of ethanol blend is acceptable under warranty guidelines of every major automaker in the world. In addition, ethanol blend helps keep fuel injectors clean, act as anti-freeze in the winter, and increases octane by about 3 points.

Ethanol is good for the environment. North Dakota may not have the pollution concerns common in other parts of the country. But nobody has clean air to waste. Ethanol blend is a cleaner-burning fuel. It reduces emissions of carbon monoxide and other toxins that pollute the air. The use of ethanol blend helps offset greenhouse gas emissions caused by burning fossil fuels. As a fuel oxygenate, ethanol blend is biodegradable and does not contaminate ground water supplies.

North Dakota needs to increase the production and utilization of ethanol. It's good for the producer, good for the environment and good for the nation as a whole.



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Ethanol Producer Incentives

As of 1/1/2000

Many states offer ethanol producer incentives in order to help establish the ethanol industry and to encourage value-added ag processing. The following is a list of some of the states that offer ethanol incentives and summaries of what they are.

Iowa

Ethanol Producer Incentive:

Gas Tax Incentive / Oxyfuel Legislation: Iowa has a \$.01 cent exemption from its gasoline tax for ethanol blends. Iowa is considering an oxygenated fuel law.

Kansas

Ethanol Producer Incentive: None yet, but some possible in 2001 Legislature.

Gas Tax Incentive / Oxyfuel Legislation: None

Minnesota

Ethanol Producer Incentive: \$.20 per gallon of production, up to \$3 million per year, for 10 years (Total: \$30 million). Funding from the State's general fund. L

Gas Tax Incentive / Oxyfuel Legislation: Minnesota has an oxygenated fuel law requiring all gas sold in the state to contain at least 2.7% oxygen, which creates a demand for ethanol in virtually all gasoline.

Missouri

Ethanol Producer Incentive: \$.20 per gallon on the first 12.5 million gallons produced and \$.05 cents per gallon on the next 12.5 million gallons for up to 5 years per plant (Total \$15.625 million).

Gas Tax Incentive / Oxyfuel Legislation: None, though St. Louis is an RFC area.

Montana

Ethanol Producer Incentive: \$.30 per gallon up to \$3 million per year through June 30, 2005.

Gas Tax Incentive / Oxyfuel Legislation: None

Nebraska

Ethanol Producer Incentive: \$.20 per gallon up to \$5 million per year for up to 5 years per plant (Total \$25 million). Expires at the end of 2000, then smaller amount for new and expansion gallons available. The program has been extended with an incentive targeted towards new and expanded productions (details yet to come)

Gas Tax Incentive / Oxyfuel Legislation: State considering renewable fuels / oxygenated fuel legislation as a way to encourage ethanol use.

North Dakota

Ethanol Producer Incentive: Total of \$750,000 committed, targeted towards the ethanol plant in Grafton. \$300,000 available for new production until next legislative session in 2001.

Based on \$.40 per gallon of production that is sold in North Dakota.

Gas Tax Incentive / Oxyfuel Legislation: None

South Dakota

Ethanol Producer Incentive: \$.20 per gallon of production, up to \$1 million per year, up to \$10 million per plant (Total: \$10 million). Funding dependent on revenue from tank inspection fee and scratch-and-match lottery revenue.

Gas Tax Incentive / Oxyfuel Legislation: South Dakota taxes 10% ethanol blends at \$.20 per gallon and straight gasoline at \$.22 per gallon. E85 taxed at \$.10 per gallon.

Wisconsin

The Wisconsin Legislature in 2000 passed an incentive for ethanol production in that state aimed at giving an old brewery an incentive to stay in business and produce ethanol. The incentive would provide up to \$3 million per year for 5 years (Total \$15 million).

Wyoming

Ethanol Producer Incentive: \$.40 per gallon of production.

Gas Tax Incentive / Oxyfuel Legislation: None

These are examples of what some states currently offer. Some states have acknowledged a willingness to consider increased support should there be a legitimate project to consider. Other states take a more progressive approach and offer the incentives as a way to encourage the development of in-state, farmer-led projects.

Ethanol production and market share in selected states (2000):

	<u>Ethanol Production</u>	<u>Ethanol Blend Market Share (approximate)</u>
Illinois:	680 million gallons	50%
Iowa:	425 million gallons	50%
Nebraska:	350 million gallons	40%
Minnesota:	220 million gallons	97%
South Dakota:	25 million gallons	60%
North Dakota:	35 million gallons	15%

Senate Bill 2282 - Ethanol Mandate

Consumer choice must drive demand! Government should not mandate what products a private business can sell or what type of fuel consumers choose to put in their gas tank.

We have an energy crisis - all forms of energy must be considered and developed - however, the marketplace and economics must still determine fuel choice.

Many retailers across the state offer ethanol blends for sale.

- The availability is there.
- People who want ethanol just have to patronize retailers that offer the product
- Mandating all to offer ethanol is an attempt to solve a problem that doesn't exist.

This is another unfunded Government mandate!

- Small retail businesses cannot afford another mandate.
- Many retailers will have to invest up to \$60,000 to install new tanks and blenders.
- Even at today's crude prices - mandating ethanol at the lowest octane will increase the cost of gas approximately 2.8 cents per gallon.

Mandating ethanol be sold in the lowest octane level at each retail location will make North Dakota a specialty fuel state.

- States who mandate specialty fuels often have problems with fuel supply.
- North Dakota is at the end of the fuels distribution system and has access to limited suppliers and refineries.
- Supply problems like what we saw in Chicago and Milwaukee last summer could occur. Consumers will pay more!

The U.S. has a system designed for two types of gasoline - government mandates now require more than 30 types of gasoline.

- These mandates do not allow suppliers to move products from state to state when shortages occur.
- Ethanol cannot be transported by pipeline - what happens if supply runs short?
- Ethanol is normally more expensive than gasoline - what happens if government subsidies for ethanol end?

Once Government mandates what fuel we buy - what is next?

- What brand of tractors farmers own?
- The type of meat a grocery store sells?
- The brand of pasta a restaurant can serve?

Iowa and South Dakota do not mandate ethanol - consumers there choose to use ethanol.

Ultimately, the costs are borne by the independent North Dakota business owners and North Dakota consumers, your constituents!

Vote No SB 2282 - the marketplace must determine choice!

(The map on the backside shows the many fuel mandates in place making fuel distribution a growing problem in the United States.)

