Keystone BioFuels
GROWING ENERGY INDEPENDENCE

PABPG
Pennsylvania Biodiesel Producers Group

Transcript of Remarks by Race Miner, Chairman of Keystone BioFuels to the Pennsylvania Senate Special Session Committee on Energy Policies

Wednesday, November 14, 2007 at 9:00 AM
Hearing Room 1, North Office Building

Good morning. My name is Race Miner and I am the CEO of Keystone BioFuels in Cumberland County. Our firm is a founding member of the Pennsylvania Biodiesel Producers Group, and I join you this morning in both capacities as a business owner and as a representative of our state association.

Keystone BioFuels produces one-hundred percent pure ASTM-specified biodiesel fuel from soybeans, and other fully renewable and organic sources. In a region beset by air quality concerns driven largely by the high volume of diesel trucks, our company is providing an instant and workable solution with a product that addresses three critical issues – environmental and health protection, energy independence, and economic value, all at once.

In fact, biodiesel fuel provides a 3-to-1 energy balance, which means that each gallon of biodiesel eliminates the need for three-plus gallons of petroleum diesel fuel in order to produce the same amount of energy – while it also reduces cancer-causing compounds by up to ninety percent.

I'm here today because the Pennsylvania biodiesel industry needs your help. Senate Bill One addresses a wide range of energy independence considerations, with a primary focus on supporting the development and capital investment needs of emerging energy technologies. If a new alternative energy company needs venture investment in order to launch, or capital funding to build facilities, development assistance to commercialize their research – then Senate Bill One offers the solution.

Biodiesel however is not an unproven technology and Keystone BioFuels is not a pre-startup company. Our firm and others like it have already built facilities, established proven technologies, and today ship quality-certified, commercially usable product. So if we don't need that kind of help, what kind of help do we need?

To answer this question, consider that while our technology is established and our Pennsylvania biodiesel companies are producing product right now, our industry overall is still very much emerging. Biodiesel is very new, like many other alternative energy technologies. And yet it also harkens back to the very beginnings of the diesel industry, since it was Rudolf Diesel himself who predicted a century ago that diesel engines would be best served by using organic biodiesel fuels.

Our industry is faced with three unique challenges today.

The first is extreme fluctuations in the price of our feedstocks due to speculators investing in future expectations of market growth, as well as Midwest grain conglomerates seeking to 'buy out' the market and control vertical integration of production.

The second is distribution. We need our product distributed – on fuel racks and at retail and commercial fueling stations in order to remain viable. Customers want biodiesel fuel, that is a fact. However, with distribution largely controlled by the petroleum industry and up-front costs to independent distributors high, customers want our product but struggle to obtain it.

The third is support from other states. More than twenty other states have enacted some form of incentive for their biodiesel companies in order to spur in-state production and price-competitive exporting from their states to other locations, which further impacts our competitive position. Today it's cheaper for a distributor to buy biodiesel fuel in the Midwest, ship it in on a truck, and then sell it here – rather than buying within Pennsylvania and using not only Pennsylvania fuel but also Pennsylvania feedstocks from Pennsylvania farmers.

In short, we need market development funding – not research and facilities funding – and we need it for three years while biodiesel stabilizes in the marketplace. Our ask is defined in Senate Bill Ten, which calls for a one-dollar-per-gallon production incentive to support the commercial viability of biodiesel fuel in the marketplace. This incentive will cap at ten million gallons per year for three years. This formula directly meshes with the proposed usage mandate over the coming years. Which raises the question of why an incentive is necessary along with a mandate.

The answer is that a mandate tells people what to buy, but not how, when, or from whom. A mandate, that works without the incentive, will increase consumption without supporting in-state production or distribution. We will rapidly destroy our Commonwealth's biodiesel industry even as more people would be using biodiesel fuel.

That is exactly what the Pennsylvania biodiesel industry faces today. Two of our members have already idled plants and our total membership's production – including that of our own firm – has been reduced by ninety percent as reported by the Susquehanna Valley Center for Public Policy in their analysis published in October.

We need to make Pennsylvania biodiesel market-competitive while the market itself settles and overcomes short-term speculation, aggressive incentives by other states, and meddling from Midwest grain conglomerates. Otherwise, our industry will quickly collapse.

The request sought in Senate Bill Ten is already one-third of what our members originally requested, which was $30 million per year for three years. We agreed to this reduction to a $10 million per year level in order to meet requests to keep our incentive program within a set budget cap. The need for the dollar-per-gallon match is critical and we are willing to accept a lower cap on the program in order to protect the integrity of that dollar-per-gallon match. From a fiscal perspective, the financial results are the same – but from a policy perspective, protecting the dollar-per-gallon match is essential in order to keep Pennsylvania competitive with the federal program and those of other states.

The funding for this program comes from Senate Bill Ten. It addresses this by amending the Alternative Fuels Incentive Grant – or AFIG – program to provide this biodiesel production incentive. As of August of this year, there was $20 million of funds unused in the AFIG program. Based upon DEP's report on AFIG the program's fund balance exceeded $25 million in June 2006 and exceeded $21 million in June 2005. We are able to both fund the Senate Bill Ten provision and still keep a healthy fund balance for AFIG at the same time. In fact, the funds are meant to be deployed so in reality our provision improves the effectiveness of AFIG by using a revenue-based incentive model. This complements the many grant and investment programs called for in Senate Bill One.

Senate Bill Ten is an extremely cost-effective tool that makes the intentions of Pennsylvania's planned mandates, and the vision of this Committee in terms of enhancing the Commonwealth's energy policies for the future, possible.

Two other questions are often asked of us regarding this plan. The first is about the logistical impact of the incentive and mandate. Some have expressed the fear that rapid increases in alternative fuels consumption would clog distribution points with trucks as product reaches the field in high quantities.

The Pennsylvania mandate plan calls for 20% consumption, which in short would require one-hundred and twenty-six truck loads per day of biodiesel product being shipped to roughly one-hundred terminals across the Commonwealth. That's one-point-two-six trucks per terminal, nothing that would dramatically burden the distribution system.

The second common question is about Pennsylvania's government consumption of biodiesel today. It is significant to note that many private businesses and local governments across the Commonwealth have made stronger commitments to biodiesel purchasing than has Pennsylvania state government in comparison. The Department of General Services orders approximately thirteen million gallons of diesel fuel for over-the-road and heating applications per year. Last year, DGS used one-hundred-and-eighty-four thousand gallons of biodiesel fuel – less than one-tenth of one-percent of total diesel consumption by the state.

We have a long, long way to go in order to get our state using biodiesel across the board – and unlike other technologies, biodiesel is here, today, now. We don't need to worry about risky technologies, unproven concepts, or speculative risks with state investment as with some other energy technologies. All we need to do is get the product deployed to the field widely and cost-effectively.

For that, we need both a mandate and a production incentive. But nothing else. Everything else is taking care of itself, yet <u>without</u> the support of this incentive, Pennsylvania biodiesel will have been developed, established, launched, deployed, and then promptly lost – all before other sectors have even gotten past R&D.

Don't let the best immediate option for alternative fuels deployment disappear from Pennsylvania's economic landscape because of a state energy policy that only addressed pre-launch technologies. Help us take Pennsylvania biodiesel from emerging to stabilized as an industry over the remainder of this decade. It will work for the environment, for our energy independence, and for our economy. Together, we can make Pennsylvania a leader not only in alternative energy consumption, but also in alternative energy production and leadership as well. Thank you.