

September 14, 1999

The Honorable Thomas A. Daschle
United States Senate
509 Hart Senate Office Building
Washington, DC 20510

Dear Senator Daschle:

Thank you for your recent letter asking for the views of the Governor's Ethanol Coalition concerning proposed legislation that would address the issue of MTBE water contamination and promote the expanded use of renewable ethanol in cleaner burning gasoline.

The coalition shares your view that the establishment of the minimum oxygen standard in the reformulated gasoline provisions of the 1990 Clean Air Act Amendments has contributed substantially to national environmental, agricultural and energy security goals. The outstanding success of the reformulated gasoline program in areas such as Chicago and Milwaukee, where ethanol has been the oxygenate of choice, is proof that the original premise of the Daschle-Dole reformulated gasoline provision was sound and has, in fact, surpassed expectations.

Unfortunately, leaking gasoline tanks, gasoline spills, and two-stroke engines have caused the unforeseen presence of MTBE in water supplies in California and elsewhere. This poses a serious threat to the reformulated gasoline program in general, and along with it, the future of ethanol. We commend you and your colleagues for seeking a proactive solution to this problem, and appreciate your seeking the coalition's comments on this important matter.

We have reviewed the draft legislation you provided. Although we view this proposal as important, it is paramount that Congress require that the U.S. Environmental Protection Agency use all of its existing regulatory authority to ensure ethanol plays a vital role in the Phase II RFG program. The coalition looks forward to taking an active role in discussions related to the legislation. Specifically, we would like to make the following recommendations and observations:

Reid Vapor Pressure Requirements. The coalition supports a comprehensive review of scientific studies concerning the reactivity of ozone-forming components of gasoline. We have asked EPA Administrator Browner to immediately address this issue because it has a direct impact on the viability of ethanol in the Phase II RFG program. The predictive air quality models currently used by the U.S. Environmental Protection Agency to reflect the reactivity of ozone-forming components of gasoline do not accurately capture the carbon monoxide reduction benefits of ethanol. Contemporary scientific studies indicate that ethanol reduces carbon monoxide emissions which in turn may reduce the ozone-forming potential of gasoline containing ethanol. Recognition of this benefit and incorporation of this value in the predictive air quality models will more accurately recognize the contribution of ethanol to air quality improvements.

Empowering States to Regulate MTBE. The coalition supports the concept to empower states to regulate MTBE as a result of demonstrated water contamination problems. As long as states meet reasonable criteria to protect against arbitrary and capricious actions, governors should be given the authority to protect water supplies and public health.

Minimum Oxygen Standard. As drafted, the bill appears to impose a blanket repeal of the minimum oxygen standard effective January 1, 2001. We would strongly urge that the bill be changed so that instead governors could selectively petition to waive the minimum oxygen standard upon certification that the state, or area has an identifiable problem with MTBE. The coalition believes there is no reason for reformulated gasoline areas such as Chicago and Milwaukee -- where ethanol-blended reformulated gasoline is widely accepted -- be forced out of a proven and effective program.

Renewable Fuels Standard. In return for granting refiners greater flexibility, by allowing governors the opportunity to waive the minimum oxygen standard, the coalition supports the concept of a renewable fuels standard. The renewable fuels standard would establish a minimum requirement for ethanol use averaged on a national basis, steadily increasing to 2.1 percent by January 2009. The coalition believes this is an excellent way to ensure sustainable and orderly growth in ethanol production. As confirmed by the U.S. Department of Agriculture analysis you provided, the national

benefits due to improved farm income, economic development, and improved environment and energy security will be substantial. The credit trading mechanisms will encourage the most efficient use of ethanol blends, and allow refiners maximum flexibility in logistics and transportation.

Protecting Against Air Quality Deterioration. The coalition also supports the concept to ensure that no air quality "backsliding" occurs in states seeking authority to waive the Minimum Oxygen Standard. These provisions, as written, currently require refiners to ensure that their gasolines burn at least as clean as "in-use" performance of reformulated gasoline in 1997 and 1998. We believe that this is the least that should be done. If possible, this provision should be strengthened, so that we do not forfeit the important environmental gains of the Phase II RFG requirements.

ETBE Testing. Finally, the coalition endorses your proposal's call for federal funding of comprehensive testing of health effects and water behavior characteristics of ETBE. As you know, EPA's Blue-Ribbon Panel recommended that further work was needed to determine ETBE's potential advantages. Coalition member states like Nebraska have led the ETBE research effort in recent years and preliminary indications are that ETBE is much less soluble in water, and far more biodegradable. If it can be conclusively shown that ETBE is far less likely than MTBE to appear in water supplies, the stage could be set for Midwestern ethanol and Gulf Coast ether producers to combine forces to the benefit of their respective businesses, farmers, and the environment.

Once again, Senator Daschle, thank you for your leadership in promoting expanded ethanol use. We appreciate your consideration of these comments, and look forward to working with you to secure a sustainable future for the nation's ethanol industry.

Sincerely,

Bill Graves, Chair
Governor of Kansas

Thomas J. Vilsack, Vice-Chair
Governor of Iowa

c. Member Congressional Delegations