



Governors' Ethanol Coalition

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• **International alliances with Brazil, Canada, Mexico and Sweden** •

October 23, 2003

The Honorable Pete Domenici
Chairman
Energy and Natural Resources Committee
364 Dirksen Senate Office Building
Washington, D.C. 20510

The Honorable Billy Tauzin
Chairman
Energy and Commerce Committee
2125 Rayburn House Office Building
Washington, D.C. 20515

The Honorable Charles Grassley
Chairman
Finance Committee
135 Hart Senate Office Building
Washington, D.C. 20510

The Honorable Bill Thomas
Chairman
House Ways and Means Committee
2208 Rayburn House Office Building
Washington, D.C. 20515

Dear Chairmen:

On behalf of the Coalition, please accept our thanks for the work that you and other members of the conference committee have done on the energy bill. Many of the bill's attributes have been under development for years, and we are encouraged that you are so close to completing a truly remarkable legislative achievement.

However, there are provisions whose inclusion or omission may jeopardize all the work that has been done to make this extraordinary legislation possible. These include:

Opt-Out. There is a provision under consideration that would give the U.S. Environmental Protection Agency and the U.S. Department of Energy authority to waive the renewable fuels standard under certain conditions for a period of years. This is an unacceptable stipulation and one that is adverse to the Coalition-initiated renewable fuels standard: if the burgeoning ethanol industry is to grow, there must be market certainty, and the possibility of waiving the renewable fuel requirement in any number of states removes that market assurance. In fact, we have already heard from several of the financial institutions that underwrite the nation's ethanol plants, warning that this provision will make it very difficult to provide financing at competitive rates. Please reject the House-proposed opt-out language.

Volumetric Ethanol Tax Credit Act of 2003 (S. 1548, H.R. 3119). The final energy bill must include the Senate's volumetric ethanol excise tax credit. This provision simplifies excise tax collection, provides essential new flexibility to gasoline refiners, marketers and ethanol producers, and eliminates the negative impact of the ethanol tax incentive on the Highway Trust Fund. With the passage of the renewable fuels standard and the expected increase in ethanol sales, adoption of the volumetric tax credit is essential. Many of the nation's governors have worked hard to resolve the longstanding issues associated with the Highway Trust Fund, and the solution contained in S. 1548 and H.R. 3119 has nearly universal support. Please include this critically important provision.

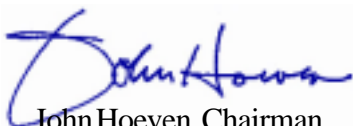
The suggestion to postpone revisions to the taxation of ethanol until Congress enacts the surface transportation authorization legislation rather than make the revisions in the current energy bill will have important effects on the federal-aid highway program and the Highway Trust Fund. Enacting the ethanol tax revisions in February, 2004 rather than now would:

- reduce Highway Account revenues by a minimum of \$500 million in FY 2004;
- accelerate the rate at which the balance in the Highway Account will be exhausted; and
- reduce the baseline for federal highway investment in the President's budget for FY 2005 by almost \$15 billion.

The Coalition states use ethanol and will be severely affected by the new transportation bill if the volumetric ethanol excise tax credit is not enacted as part of this energy bill.

The Senate version of the renewable fuels standard, including the opt-out language, has been the subject of countless Senate hearings and hours of floor debate for the past three years. You should not now substitute provisions that have not received vigorous public debate and analysis. We are hopeful that you will resolve these issues appropriately, and that Congress will soon adopt the nation's first major energy legislation in the last ten years.

Sincerely,



John Hoeven, Chairman
Governor of North Dakota



Kathleen Sebelius
Governor of Kansas

- c. Honorable Bill Frist
Honorable Tom Daschle
Honorable Dennis Hastert