

TESTIMONY OF KATHLEEN SEBELIUS,
GOVERNOR, STATE OF KANSAS AND
CHAIR, THE GOVERNORS' ETHANOL COALITION
BEFORE THE HOUSE ENERGY AND WATER DEVELOPMENT
APPROPRIATIONS SUBCOMMITTEE IN SUPPORT OF
FY'07 DEPARTMENT OF ENERGY FUNDING FOR BIOFUELS

March 28, 2006

Mr. Chairman and members of the Subcommittee, I am Kathleen Sebelius, Governor of Kansas and Chair of the Governors' Ethanol Coalition (<http://www.ethanol-gec.org>) which represents thirty-two of the nation's governors.

The Coalition submits this testimony in support of funding for the U.S. Department of Energy's (DOE) biofuels development efforts. Specifically, we request \$200 million be provided for the DOE Biomass and Biorefinery Systems Research and Development Program in order to overcome key technical and demonstration barriers to the delivery of substantially greater quantities of biofuels from a range of feedstocks, in particular, cellulosic materials such as corn stover, grasses, and wood waste.

Current ethanol production meets about 2 percent of our nation's transportation fuel needs, and the recently enacted Renewable Fuels Standard calls for production to increase to the equivalent of about 4 percent of our transportation fuels needs by 2012. Agricultural and industry experts indicate that traditional production methods can result in meeting approximately 8-10 percent of our transportation fuel needs. However, amounts significantly beyond

this level requires the use of cellulosic feedstocks such as the fiber associated with the kernel of corn, corn stover, grasses, and other biomass. Overcoming the technical barriers to using these feedstocks is the focus of the Governors' Ethanol Coalition request of \$200 million from the Subcommittee for this essential DOE program.

We believe delivering this amount of funding for research and development for each of the next several years will result in the private sector being able to build cost-effective production capacity that would displace 20-30 percent of our imported oil over next decade. This action would have a tremendously positive environmental, national security, and economic impact. For example, the production of 4 billion gallons of ethanol in 2005 resulted in the United States importing 170 million fewer barrels of oil - this means that \$8.7 billion that was not transferred to oil-producing nations from our states last year. Imagine the impact of a ten-fold increase in domestic ethanol production.

Since the passage of the Energy Policy Act of 2005, events continue to add to the governors' concerns that the nation must diversify its energy sources away from imported oil. Among these concerns are indications from oil companies that peak oil production may occur decades sooner than anticipated only a few years ago; evidence of a structural shift upward in oil prices which will continue the massive transfer of wealth to unstable oil producing nations; and a demonstration that concentrating fuel production and distribution in a single region leaves the entire nation vulnerable. These concerns reinforce our belief that as a nation we must:

- Reverse our over-dependence on volatile foreign oil supplies - ensuring stable supplies at stable prices to meet consumer and business needs;

- Curb the unprecedented transfer of our States' wealth to unstable oil-producing nations – taking a basic step to improve our security in a post 9/11 environment;
- Expand economic opportunities through the production of cost-effective, domestic renewable fuels to all regions of the nation – putting dollars to work in our communities rather than those of other nations delivers economic growth to main street;
- Encourage distribution of refining facilities throughout the nation –decreasing concentration of refineries in a single region or single feedstock by providing incentives for industry to build a distributed system of biorefineries;
- Diversify our reliance on petroleum and natural gas as feedstocks for petrochemicals by developing biomass-derived compounds – reinvigorating this critical industry and stemming its move to oil and gas producing regions abroad; and
- Reduce emissions and improve the environment by increasing the use of biofuels and co-products – protecting our environment and ensuring no backsliding on air quality.

We find ourselves bound to protect the nation from terror originating in unstable parts of the world, and yet seemingly determined to enrich those areas through our oil purchases — purchases that must now be financed by other nations. The time has come to reverse this trend.

In fact, the governors' elevated concern about this issue in 2004 moved the Coalition to act by consulting a team of scientific, environmental, and industry experts about the potential to deliver much of the nation's transportation fuel from ethanol. The Coalition agreed with the findings of a range of experts and organizations that affirmed a sustained level of cellulosic biofuels research, development, and demonstration over the next six years would put the nation on a course of displacing substantial

quantities of imported oil with domestically produced ethanol from a wider range of feedstocks.

Consistent with the experts consulted by the Coalition, we recommend providing a total of \$200 million in FY 2007 for DOE's Biomass and Biorefinery Systems Research and Development program. Of this amount, we request \$100 million be used to implement the program's ongoing research efforts, \$50 million to initiate a three-year Integrated Biorefinery Demonstration authorized under Section 932 of the Energy Policy Act of 2005, and \$50 million to initiate equally important, smaller scale-up cellulosic demonstrations that are about 10 percent of the size of a commercial scale operation.

The Coalition's recommendation of the additional \$50 million beyond the Administration's request for this program is based on our belief that the combination of large demonstrations, such as those called for in DOE's announced biorefinery solicitation, with smaller scale technology focused pilots, seems the most prudent path forward. This approach will allow researchers and industry to capture a range of potentially promising technologies utilizing a wider variety of feedstocks. We believe the result would be most beneficial to the application of these technologies in a commercial setting in the years to come. In short, it increases the probability of success.

In addition to the overall level of funding, the makeup of funding for these programs is an increasing challenge. For example, in FY'2006, the Department of Energy's Biomass Program budget included congressionally directed spending totaling 57 percent of available program funds. Although such directed funding is often valuable and necessary, the high proportion of "earmarks" to the total program budget makes a serious national program extraordinarily difficult to implement. We respectfully request your consideration of this issue with regard to this program.

There are few issues facing the nation that are more serious than our reliance on imported oil and the ramifications of global competition for this resource. The Governors' Ethanol Coalition believes that the safest and cheapest way to address this crisis is to mount a serious national effort to significantly expand ethanol and other biofuel production and use. This can only be achieved through a consistently well-funded program of research, demonstration, and infrastructure development. The Subcommittee's leadership on this issue is greatly needed, and we look forward to working with you and the Administration on this important effort. #