

WISCONSIN STATE  
LEGISLATURE  
COMMITTEE HEARING  
RECORDS

**2005-06**

(session year)

**Senate**

(Assembly, Senate or Joint)

**Committee on  
Agriculture and  
Insurance  
(SC-AI)**

File Naming Example:

Record of Comm. Proceedings ... RCP

- > 05hr\_AC-Ed\_RCP\_pt01a
- > 05hr\_AC-Ed\_RCP\_pt01b
- > 05hr\_AC-Ed\_RCP\_pt02

*Published Documents*

> Committee Hearings ... CH (Public Hearing Announcements)

> \*\*

> Committee Reports ... CR

> \*\*

> Executive Sessions ... ES

> \*\*

> Record of Comm. Proceedings ... RCP

> \*\*

*Information Collected For Or  
Against Proposal*

> Appointments ... Appt

> \*\*

> Clearinghouse Rules ... CRule

\*\*

> Hearing Records ... HR (bills and resolutions)

> **05hr\_sb0723\_SC-AI\_pt01**

> Miscellaneous ... Misc

> \*\*



## Legislative Fiscal Bureau

One East Main, Suite 301 • Madison, WI 53703 • (608) 266-3847 • Fax: (608) 267-6873

April 12, 2006

TO: Senator Mark Miller  
Room 106 South, State Capitol

FROM: Al Runde, Fiscal Analyst

SUBJECT: LRB 4696/2: Differential E85 Fuel Tax Rate Proposal

As you requested, this memorandum provides information on a proposal (LRB 4696/2) that would establish a lower fuel tax rate on E85 motor vehicle fuel sold in the state for the next several years.

### Background

The state currently levies an excise tax on each gallon of motor vehicle fuel (gasoline and diesel) and alternate fuel (such as compressed natural gas) supplied or consumed in the state. The state motor fuel tax is imposed when the fuel leaves terminal storage and is collected monthly from licensed suppliers (typically the terminal operator who sells the fuel to wholesalers). Motor vehicle fuel tax revenues are deposited to the transportation fund.

The state's motor vehicle fuel tax rate is currently 30.9 cents per gallon. Under 2005 Act 85, no further indexing adjustments will be made. In 2005-06, it is estimated that the state's motor vehicle fuel tax will generate \$986.3 million.

E85 fuel is a blend of 85% ethanol and 15% gasoline. E85 can be sold to consumers who operate "flexible fuel" vehicle models. The Wisconsin Department of Administration (DOA) Division of Energy report, Wisconsin Energy Statistics, 2005, indicates that 106,000 gallons of E85 fuel were sold in Wisconsin in 2004. In contrast, approximately 2.53 billion gallons of all types of fuel containing gasoline were sold statewide in 2004.

For various reasons, the consumption of E85 has been somewhat limited to date. Lack of production capacity, lack of gasoline stations offering pumps with E85 fuel, lack of motor vehicles with the ability to use E85 fuel, and lack of consumer education on E85 fuel and vehicle availability and quality are some of those reasons. However, E85 consumption could increase significantly in

coming years, as many of these limitations begin to be resolved. Production capacity of ethanol-based fuels has expanded in recent years, with Wisconsin now having five ethanol plants, and it is projected to continue to expand in Wisconsin and throughout the midwestern United States. DOA indicates that currently 21 fuel stations located throughout the state have made at least one E85 fuel pump available for fuel sales. According to the U.S. Department of Energy, 21 model year 2006 vehicles are considered "flexible fuel" vehicles, which have the ability to use either gasoline or E85 fuel.

### **Summary of the LRB 4696/2**

LRB 4696/2 would reduce the state's fuel tax on E85 fuel sold in Wisconsin to 10 cents per gallon beginning two months after enactment of the proposal (this delayed effective date is assumed to be July 1, 2006). On each April 1, thereafter, depending on the amount of E85 fuel consumed as a percentage of total motor vehicle fuel sold, the E85 fuel tax rate would be adjusted upward in five cent increments if the following occurs:

- (a) E85 market penetration reaches 1.5%;
- (b) E85 market penetration reaches 2.0%;
- (c) E85 market penetration reaches 2.5%;
- (d) E85 market penetration reaches 3.0%;
- (e) E85 market penetration reaches 3.5%.

Under LRB 4696/2, market penetration would mean that, for any seven months during a twelve-month period, the total monthly sales of E85 fuel as a percentage of all taxable motor vehicle fuel sales for that month. Once a tax rate on E85 fuel is established by meeting a market penetration level, the E85 fuel tax rate would not be allowed to decrease with any decrease in the E85 market penetration. The tax rate imposed on E85 could not exceed the tax rate on non-E85 motor vehicle fuels. The proposal would apply current law floor tax provisions on any E85 fuel held for sale or resale at the time any new E85 fuel tax rate becomes effective.

On the effective date of the proposal, the fuel tax rate on non-E85 motor vehicle fuels would be increased by two tenths of a cent per gallon in order to compensate for the reduction in revenue associated with the reduced rate on E85 fuel.

LRB 4696/2 would also prohibit any refiner or wholesaler of motor vehicle fuel, as defined under current law, from discriminating with respect to the terms and conditions of the sale or purchase of motor vehicle fuel against a retailer who offers E85 for retail sale. Any refiner or wholesaler found guilty of such discrimination could be fined up to \$100,000.

The proposal would also prohibit any person from selling E85 motor vehicle fuel at an excessive price, which would be specified as 150 percent of the cost to the retailer, as defined under current law. The proposal would provide the Department of Agriculture, Trade, and Consumer

Protection the authority to promulgate a rule to implement and administer the E85 pricing requirements.

LRB 4696/2 would first take effect on the first day on the second month beginning after publication.

**Fiscal Effect**

The following table indicates the E85 tax rates and the revenues that would be generated from each tax rate using the following assumptions you offered with regard to E85 consumption in the state: (a) E85 sales would equal 0.25% of taxable motor fuel consumption in 2006-07, 0.75% in 2007-08; 1.25% in 2008-09; and would reach 1.5% by 2009-10, and grow at 0.5% per year thereafter; and (b) E85 consumption is at the market penetration level for the prior year that is necessary to trigger the April 1 increase in the E85 rate in the following year. These estimates also assume the fuel tax rate for non-E85 motor vehicle fuels would increase to 31.1 cents per gallon on July 1, 2006. If actual consumption of E85 varies from these assumptions, the fiscal effect would also differ from the amounts shown for each year.

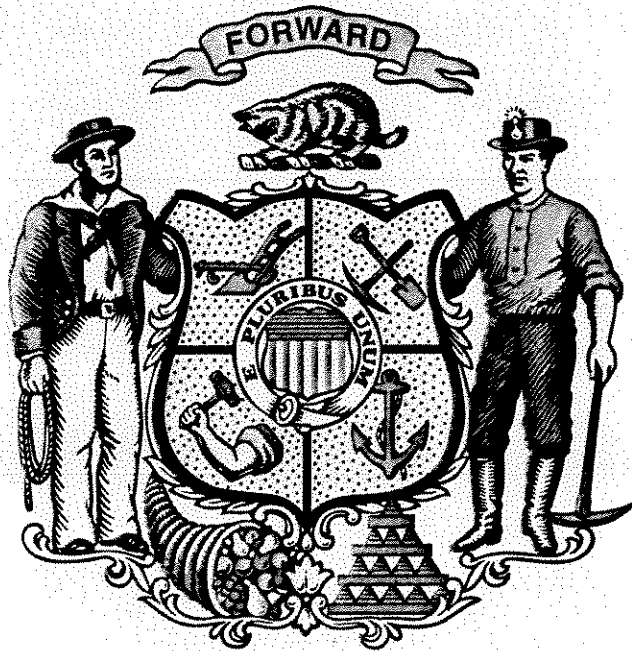
**Estimated E85 and Non-E85 Fuel Tax Revenues Under LRB 4696/2**

	Current Law Revenues (millions)	Proposal				Difference in Revenues (millions)
		E85 Rate* (per gallon)	E85 Revenues (millions)	Non-E85 Revenues (millions)	Total Revenues (millions)	
2006-07	\$1,034.7	10.0¢	\$0.8	\$1,038.8	\$1,039.6	\$4.9
2007-08	1,063.7	10.0	2.6	1,062.5	1,065.1	1.4
2008-09	1,098.3	10.0	4.4	1,091.6	1,096.0	-2.3
2009-10	1,134.2	15.0	6.2	1,124.4	1,130.6	-3.6
2010-11	1,168.7	20.0	12.3	1,152.7	1,165.0	-3.7
2011-12	1,202.6	25.0	20.7	1,180.1	1,200.8	-1.8
2012-13	1,235.5	30.0	31.5	1,206.2	1,237.7	2.2
2013-14	1,270.6	31.1	43.6	1,234.1	1,277.7	7.1
Total Change in Revenue						\$4.2

\* Rate increases on E85 fuel would occur on April 1 of the fiscal year.

I hope this information is helpful. Please contact me if you have any further questions.

AR/bh



**Perlich, John H.**

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**From:** Sen. Miller  
**Sent:** Tuesday, May 02, 2006 11:52 AM  
**To:** \*Legislative Assembly Democrats; \*Legislative Assembly Republicans; \*Legislative Senate Democrats; \*Legislative Senate Republicans  
**Subject:** Miller/Freeze Co-Sponsorship of LRB 4696/2 relating to E-85 (Flex Fuel) Incentive/ SHORT DEADLINE, Noon May 3rd  
**Attachments:** 05-46962.pdf; E-85 AIRunde Fiscal Memo.pdf

## **WISCONSIN LEGISLATURE**

**P. O. Box 7882 Madison, WI 53707-7882**

**DATE:** May 2, 2006  
**TO:** All Legislators  
**FROM:** Senator Mark Miller and Representative Steve Freeze  
**RE:** Co-Sponsorship of LRB 4696/2 relating to E-85 (Flex Fuel Incentive)

### **DEADLINE: Noon Tomorrow, Wednesday, May 3, 2006**

With the cost of gasoline continuing to rise, we are introducing legislation to encourage the use of flex fuels such as E-85 to lessen the state's dependence on foreign oil.

LRB 4696/2 provides an incentive for owners of flex fuel cars to choose E-85 by reducing the state highway tax collected to ten cents per gallon. The reduction in the tax should assure that E-85 will be cheaper than petroleum based fuels. Gasoline retailers would have an incentive to install E-85 pumps in order to capture a share of the E-85 market. The tax reduction phases out as E85 increases its market share, ending when E-85 attains 4% share of motor fuel consumption.

Other features of LRB 4696/2 are:

- Prohibits price gouging on E-85
- Prohibits distributors from discriminating against retailers who offer E-85
- Increases motor fuel tax by 0.2 cents per gallon to offset revenue from reduction on E-85

To cosponsor LRB 4696/2 please contact Senator Miller's office (266-9170) or Representative Freeze's office (266-7502) by **Noon tomorrow, Wednesday May 3<sup>rd</sup>**. A copy of the bill draft and a Legislative Fiscal Bureau memo are attached.



05-46962.pdf (23 KB)



E-85 AIRunde Fiscal Memo.pdf (...)

**2005 BILL**

1 AN ACT *to amend* 78.01 (1) (intro.), 78.015 (1), 78.12 (4) (a) (intro.) and 78.22 (1);  
2 and *to create* 78.005 (5m), 78.018, 78.019, 78.12 (4) (c), 100.515 and 100.55 of  
3 the statutes; **relating to:** the motor vehicle fuel tax imposed on gasoline that  
4 contains at least 85 percent ethanol, prohibiting charging an excessive price for  
5 gasoline that contains at least 85 percent ethanol, prohibiting discrimination  
6 against a retailer of gasoline that contains at least 85 percent ethanol, granting  
7 rule-making authority, and providing a penalty.

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***Analysis by the Legislative Reference Bureau***

Under current law, the state imposes a tax on the sale of motor vehicle fuel. The rate of that tax is, until April 1, 2006, 29.9 cents per gallon. On April 1, 2006, the rate will be increased to reflect the increase in the U.S. consumer price index.

Under this bill, ~~the rate of the motor vehicle fuel tax imposed on the sale of gasoline consisting of at least 85 percent ethanol is ten cents per gallon.~~ The rate of the tax imposed on gasoline consisting of at least 85 percent ethanol will increase by ~~five cents per gallon on~~ the first April 1 following the 12-month period in which for any seven months during that period the percentage of total monthly sales of gasoline consisting of at least 85 percent ethanol represents at least 1.5 percent of the monthly sales of all motor vehicle fuel subject to taxation. The rate of the tax imposed on gasoline consisting of at least 85 percent ethanol will increase by five

**BILL**

cents per gallon with every 0.5 percent increase in the percentage of such gasoline sold as compared to sales of all motor vehicle fuel. However, the rate of the tax imposed on gasoline consisting of at least 85 percent ethanol may not exceed the rate of the tax imposed on other motor vehicle fuel. Under this bill, the rate of the tax imposed on other motor vehicle fuel increases by two-tenths of one cent.

Under the bill, a retailer of gasoline consisting of at least 85 percent ethanol may not charge an excessive price. A price is excessive under the bill if it exceeds 150 percent of the minimum retail price required under the Unfair Sales Act or "minimum markup" law. The Department of Agriculture, Trade and Consumer Protection may bring an action against a person who charges an excessive price to recover a forfeiture (civil penalty) up to \$1,000. Also under the bill, no refiner or wholesaler of motor vehicle fuel may discriminate against a retailer of gasoline consisting of 85 percent ethanol. A violation may be fined up to \$100,000.

For further information see the *state* fiscal estimate, which will be printed as an appendix to this bill.

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***The people of the state of Wisconsin, represented in senate and assembly, do enact as follows:***

1           **SECTION 1.** 78.005 (5m) of the statutes is created to read:

2           78.005 (5m) "E85 market penetration" means, for any 7 months during a  
3           12-month period, the percentage of total monthly sales of gasoline consisting of at  
4           least 85 percent ethanol as compared to the total monthly sales of all motor vehicle  
5           fuel subject to the tax imposed under s. 78.01.

6           **SECTION 2.** 78.01 (1) (intro.) of the statutes is amended to read:

7           78.01 (1) IMPOSITION OF TAX AND BY WHOM PAID. (intro.) An excise tax at the rate  
8           determined under ss. 78.015 and, 78.017, 78.018, and 78.019 is imposed on all motor  
9           vehicle fuel received by a supplier for sale in this state, for sale for export to this state  
10          or for export to this state except as otherwise provided in this chapter. The motor  
11          vehicle fuel tax is to be computed and paid as provided in this chapter. Except as  
12          otherwise provided in this chapter, a person who receives motor vehicle fuel under  
13          s. 78.07 shall collect from the purchaser of the motor vehicle fuel that is received, and  
14          the purchaser shall pay to the person who receives the motor vehicle fuel under s.



**BILL**

1 78.07, the tax imposed by this section on each sale of motor vehicle fuel at the time  
2 of the sale, irrespective of whether the sale is for cash or on credit. In each  
3 subsequent sale or distribution of motor vehicle fuel on which the tax has been  
4 collected as provided in this subsection, the tax collected shall be added to the selling  
5 price so that the tax is paid ultimately by the user of the motor vehicle fuel.

6 **SECTION 3.** 78.015 (1) of the statutes, as affected by 2005 Wisconsin Act 85, is  
7 amended to read:

8 78.015 (1) ~~Before~~ Except as provided in s. 78.019, before April 1 the department  
9 shall recompute and publish the rate for the tax imposed under s. 78.01 (1). The new  
10 rate per gallon shall be calculated by multiplying the rate in effect at the time of the  
11 calculation by the amount obtained under sub. (2). After the calculation of the rate  
12 that takes effect on April 1, 2006, the department shall make no further calculation  
13 under this subsection and sub. (2).

14 **SECTION 4.** 78.018 of the statutes is created to read:

15 **78.018 Adjustment for tax imposed on gasoline-ethanol blend.** On the  
16 effective date of this section .... [revisor inserts date], the rate of the tax imposed  
17 under s. 78.01 is increased by two-tenths of one cent.

18 **SECTION 5.** 78.019 of the statutes is created to read:

19 **78.019 Tax imposed on gasoline-ethanol blend. (1)** On the effective date  
20 of this subsection .... [revisor inserts date], gasoline consisting of at least 85 percent  
21 ethanol is not subject to the rate calculated under ss. 78.015, 78.017, and 78.018, but,  
22 instead, the rate of the tax imposed under s. 78.01 on gasoline consisting of at least  
23 85 percent ethanol is 10 cents per gallon.

**BILL**

1           **(2)** (a) Except as provided in par. (b), the rate of the tax imposed under sub. (1)  
2 shall increase by 5 cents per gallon on April 1 following each 12-month period in  
3 which the following occurs:

4           1. E85 market penetration reaches 1.5 percent.

5           2. E85 market penetration reaches 2 percent.

6           3. E85 market penetration reaches 2.5 percent.

7           4. E85 market penetration reaches 3 percent.

8           5. E85 market penetration reaches 3.5 percent.

9           (b) The rate of the tax imposed under this section may not exceed the rate  
10 calculated under ss. 78.015, 78.017, and 78.018. The rate of the tax determined  
11 under this subsection shall not decrease with any decrease in E85 market  
12 penetration.

13           **SECTION 6.** 78.12 (4) (a) (intro.) of the statutes is amended to read:

14           78.12 **(4)** (a) (intro.) ~~For~~ Except as provided in par. (c), for gasoline:

15           **SECTION 7.** 78.12 (4) (c) of the statutes is created to read:

16           78.12 **(4)** (c) For gasoline that is subject to the rate imposed under s. 78.019:

17           1. Subtract the number of gallons under s. 78.01 (2r) for the taxable period from  
18 the number of gallons received during the taxable period.

19           2. Multiply the number of gallons under subd. 1. by the rate under s. 78.018 (1)  
20 as increased under s. 78.018 (2).

21           **SECTION 8.** 78.22 (1) of the statutes is amended to read:

22           78.22 **(1)** FLOOR TAX IMPOSED. On the date any motor vehicle fuel tax rate change  
23 becomes effective under s. 78.01 or 78.019, a floor tax is hereby imposed upon every  
24 person who is in possession of any motor vehicle fuel held for sale or resale and on  
25 which the motor vehicle fuel tax already has been imposed. The person shall

**BILL**

1 determine the volume of motor vehicle fuel and shall file by the 15th day of the month  
2 in which the new tax rate becomes effective a return, together with any tax due on  
3 it, determined in accordance with sub. (2).

4 **SECTION 9.** 100.515 of the statutes is created to read:

5 **100.515 Sale of gasoline and ethanol blends. (1)** No refiner, as defined in  
6 s. 100.30 (2) (cm), or wholesaler of motor vehicle fuel, as defined in s. 100.30 (2) (m),  
7 may discriminate, with respect to the terms and conditions of the sale or purchase  
8 of motor vehicle fuel, against a retailer because the retailer offers gasoline consisting  
9 of 85 percent ethanol for retail sale.

10 **(2)** A person who violates this section may be fined not more than \$100,000.

11 **SECTION 10.** 100.55 of the statutes is created to read:

12 **100.55 Gasoline and ethanol blend; retail price. (1)** No person may sell  
13 motor vehicle fuel containing 85 percent ethanol at an excessive price. For purposes  
14 of this subsection, a price is excessive if it exceeds 150 percent of the cost to retailer,  
15 as defined in s. 100.30 (2) (am) 1m.

16 **(2)** The department shall promulgate a rule to implement and administer this  
17 section.

18 **SECTION 11. Effective date.**

19 **(1)** This act takes effect on the first day of the 2nd month beginning after  
20 publication.

21 (END)



## Legislative Fiscal Bureau

One East Main, Suite 301 • Madison, WI 53703 • (608) 266-3847 • Fax: (608) 267-6873

April 12, 2006

TO: Senator Mark Miller  
Room 106 South, State Capitol

FROM: Al Runde, Fiscal Analyst

SUBJECT: LRB 4696/2: Differential E85 Fuel Tax Rate Proposal

As you requested, this memorandum provides information on a proposal (LRB 4696/2) that would establish a lower fuel tax rate on E85 motor vehicle fuel sold in the state for the next several years.

### Background

The state currently levies an excise tax on each gallon of motor vehicle fuel (gasoline and diesel) and alternate fuel (such as compressed natural gas) supplied or consumed in the state. The state motor fuel tax is imposed when the fuel leaves terminal storage and is collected monthly from licensed suppliers (typically the terminal operator who sells the fuel to wholesalers). Motor vehicle fuel tax revenues are deposited to the transportation fund.

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For various reasons, the consumption of E85 has been somewhat limited to date. Lack of production capacity, lack of gasoline stations offering pumps with E85 fuel, lack of motor vehicles with the ability to use E85 fuel, and lack of consumer education on E85 fuel and vehicle availability and quality are some of those reasons. However, E85 consumption could increase significantly in

coming years, as many of these limitations begin to be resolved. Production capacity of ethanol-based fuels has expanded in recent years, with Wisconsin now having five ethanol plants, and it is projected to continue to expand in Wisconsin and throughout the midwestern United States. DOA indicates that currently 21 fuel stations located throughout the state have made at least one E85 fuel pump available for fuel sales. According to the U.S. Department of Energy, 21 model year 2006 vehicles are considered "flexible fuel" vehicles, which have the ability to use either gasoline or E85 fuel.

### **Summary of the LRB 4696/2**

LRB 4696/2 would reduce the state's fuel tax on E85 fuel sold in Wisconsin to 10 cents per gallon beginning two months after enactment of the proposal (this delayed effective date is assumed to be July 1, 2006). On each April 1, thereafter, depending on the amount of E85 fuel consumed as a percentage of total motor vehicle fuel sold, the E85 fuel tax rate would be adjusted upward in five cent increments if the following occurs:

- (a) E85 market penetration reaches 1.5%;
- (b) E85 market penetration reaches 2.0%;
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- (d) E85 market penetration reaches 3.0%;
- (e) E85 market penetration reaches 3.5%.

Under LRB 4696/2, market penetration would mean that, for any seven months during a twelve-month period, the total monthly sales of E85 fuel as a percentage of all taxable motor vehicle fuel sales for that month. Once a tax rate on E85 fuel is established by meeting a market penetration level, the E85 fuel tax rate would not be allowed to decrease with any decrease in the E85 market penetration. The tax rate imposed on E85 could not exceed the tax rate on non-E85 motor vehicle fuels. The proposal would apply current law floor tax provisions on any E85 fuel held for sale or resale at the time any new E85 fuel tax rate becomes effective.

On the effective date of the proposal, the fuel tax rate on non-E85 motor vehicle fuels would be increased by two tenths of a cent per gallon in order to compensate for the reduction in revenue associated with the reduced rate on E85 fuel.

LRB 4696/2 would also prohibit any refiner or wholesaler of motor vehicle fuel, as defined under current law, from discriminating with respect to the terms and conditions of the sale or purchase of motor vehicle fuel against a retailer who offers E85 for retail sale. Any refiner or wholesaler found guilty of such discrimination could be fined up to \$100,000.

The proposal would also prohibit any person from selling E85 motor vehicle fuel at an excessive price, which would be specified as 150 percent of the cost to the retailer, as defined under current law. The proposal would provide the Department of Agriculture, Trade, and Consumer

Protection the authority to promulgate a rule to implement and administer the E85 pricing requirements.

LRB 4696/2 would first take effect on the first day on the second month beginning after publication.

### Fiscal Effect

The following table indicates the E85 tax rates and the revenues that would be generated from each tax rate using the following assumptions you offered with regard to E85 consumption in the state: (a) E85 sales would equal 0.25% of taxable motor fuel consumption in 2006-07, 0.75% in 2007-08; 1.25% in 2008-09; and would reach 1.5% by 2009-10, and grow at 0.5% per year thereafter; and (b) E85 consumption is at the market penetration level for the prior year that is necessary to trigger the April 1 increase in the E85 rate in the following year. These estimates also assume the fuel tax rate for non-E85 motor vehicle fuels would increase to 31.1 cents per gallon on July 1, 2006. If actual consumption of E85 varies from these assumptions, the fiscal effect would also differ from the amounts shown for each year.

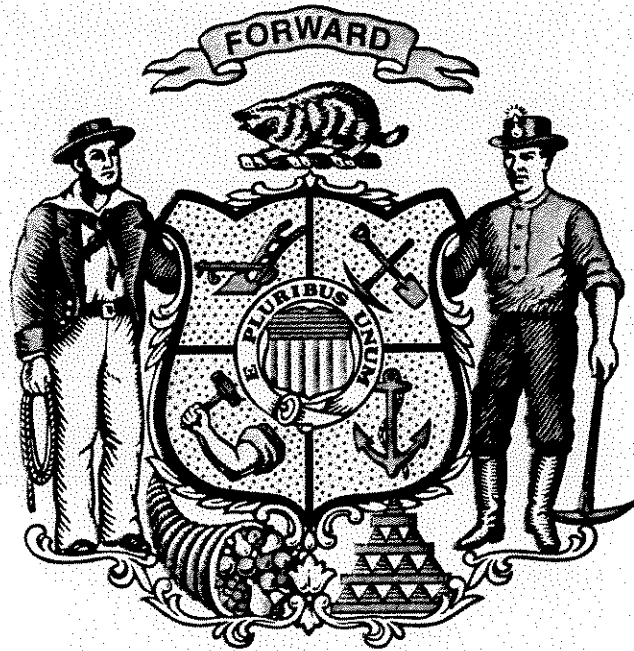
### Estimated E85 and Non-E85 Fuel Tax Revenues Under LRB 4696/2

	Current Law Revenues (millions)	Proposal				Difference in Revenues (millions)
		E85 Rate* (per gallon)	E85 Revenues (millions)	Non-E85 Revenues (millions)	Total Revenues (millions)	
2006-07	\$1,034.7	10.0¢	\$0.8	\$1,038.8	\$1,039.6	\$4.9
2007-08	1,063.7	10.0	2.6	1,062.5	1,065.1	1.4
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2013-14	1,270.6	31.1	43.6	1,234.1	1,277.7	7.1
Total Change in Revenue						\$4.2

\* Rate increases on E85 fuel would occur on April 1 of the fiscal year.

I hope this information is helpful. Please contact me if you have any further questions.

AR/bh



## A simple solution to pain at the pump?

**Greener and cheaper, ethanol could fuel rural America — and won't feed Mideast terrorism**

**By Stone Phillips**

Anchor

Dateline NBC

Updated: 7:40 p.m. ET May 7, 2006

*This report aired Dateline Sunday, May 7*

Pain at the pump is the price of this country's addiction to oil. Americans are feeling it intensely—outraged over oil company profits, fearful that another hurricane in the gulf, or a terror attack in the Middle East is all it would take to send prices even higher.

But what if there was one solution to all of this? Something that could solve America's energy crisis, strengthen our national security, and help save the planet at the same time?

**Vinod Khosla:** I looked, did my research and found this was brain dead simple to do. **Stone Phillips, Dateline anchor:** Is it going to mean spending less at the pump? **Khosla:** Absolutely. The consumer would be paying a dollar a gallon or less.

At age 51, Vinod Khosla is one of the world's most successful venture capitalists and a self-made multibillionaire.

He came to the U.S. from India in 1976, and over the next 25 years, is said to have created six new jobs for every day he'd been in the country. Though not a household name, Khosla was a co-founder of Sun Microsystems and renowned in business circles for his meticulous research and ability to spot the kind of innovative technology that can revolutionize an industry.

Three years ago, he turned his attention to alternative fuels.

**Khosla:** What could be better than a greener fuel that's cheaper for consumers, that doesn't feed Mideast terrorism, yet instead fuels rural America?

He's talking about a new generation of ethanol—the fuel made from plants. It's one fuel he says is just around the corner and will deliver 4 to 10 times the energy of today's corn ethanol. Khosla knows, because he's talked to top scientists, visited labs and he's a bio-medical engineer himself. He believes this new ethanol can replace gasoline and eliminate America's dependence on foreign oil.

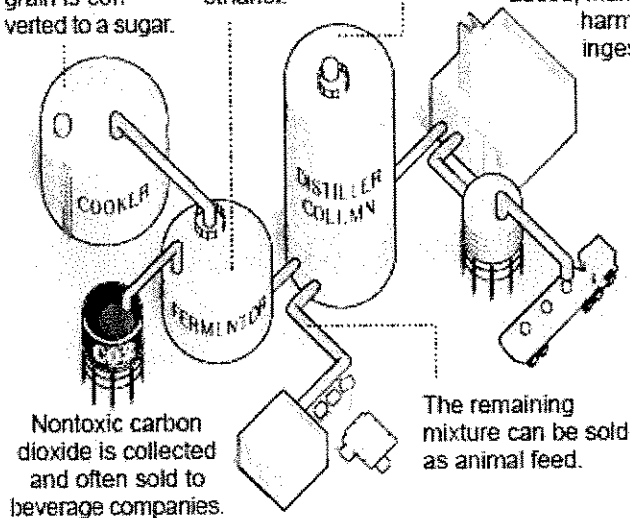


## Corn-based ethanol into gasoline

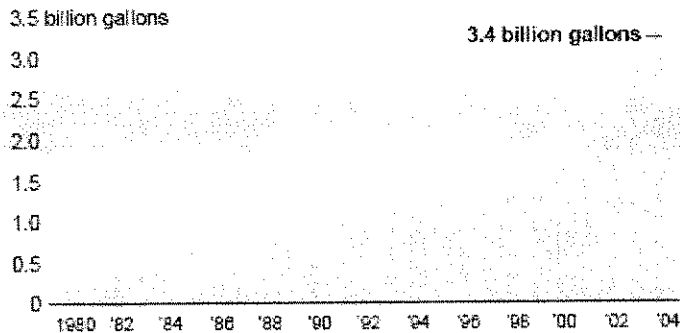
The U.S. produced about 3.4 billion gallons of fuel ethanol in 2004. Almost 86 percent of that came from the Midwest, which produces more than two-thirds of the nation's corn.

### Making of fuel ethanol

Ground corn, water and enzymes are cooked until the starch in the grain is converted to a sugar. After cooling, yeast is added, and the sugar is converted to ethanol. The ethanol is separated from the mixture in a distiller. After a drying process, the remaining water is removed. Gasoline is added, making it harmful if ingested.



### U.S. fuel ethanol production



SOURCE: Renewable Fuels Association

AP

**Phillips:** How long before you believe this country could be energy independent if it switched to homegrown bushels instead of imported barrels? **Khosla:** I think you'll be surprised by my answer. In less than five years, we can irreversibly start a path that can get us independent of petroleum. **Phillips:** What convinced you this was a must for America? **Khosla:** I heard about Brazil. I heard they were already doing it. Brazil's proven it already. How dumb can we be?

Sao Paulo, Brazil is a sprawling city of 18 million people. Late last month, we flew there with Khosla to see what a country transformed by ethanol looks like.

**Phillips:** This has you pretty charged up, doesn't it? **Khosla:** It is very exciting.

Here, ethanol is just part of life. It's sold at every gas station, including some with very familiar

names. Consumers can't get enough.

Brazil's been committed to ethanol for 30 years, but if you want to know how it became such a hot commodity lately, start by looking for this label: "flex". It means cars can run on gas or ethanol. The key to ethanol's popularity here in Brazil is choice. If you drive a flex-fuel car, you get to choose every time you pull up to the pump.

The choices are gasoline, ethanol—or alcohol as they call it there, or a mixture of the two. You check the prices and make your choice.

Most drivers here choose ethanol, because it's so much cheaper that even though they get fewer miles to the gallon, it still saves them money.

The flex-fuel cars that triggered the ethanol boom were introduced here three years ago. Already, three of every four new cars sold have the technology.

And who's helping to feed Brazil's flex-fuel fever? American car makers like GM and Ford.

**Barry Engle, president of Ford Brazil:** 70 percent of a particular model is sold with the flex engine. And 90 days from now it will be 100 percent.

Barry Engle is the president of Ford Brazil.

**Engle:** This isn't science fiction, this is real world technology that we're using in Brazil everyday on a broad scale basis.

At a time when Ford and other U.S. automakers are posting huge losses, sales in Brazil are up.

**Phillips:** Are you telling your fellow executives up in Detroit, "Get more flex-fuel, this is the future?" Has that been the message that you feel like you've been bringing?**Engle:** Yes. There is already, in Detroit, a lot of interest in this particular technology.

In fact, both Ford and GM already sell flex cars in the U.S. And how much more does this new technology add to the sticker price? Not a dime.

**Phillips:** This is not an expensive proposition for automobile makers.**Engle:** No. It doesn't have to be.  
**Phillips:** And there's no reason it can't be translated elsewhere?**Engle:** As long as the fuel is available.

In Brazil, that fuel is plentiful thanks to a crop as sweet as candy— sugar cane.



Brazil is turning sugar cane into the equivalent of 300,000 barrels of oil a day. To people in this country, what you're looking at is a field of dreams: Homegrown security that has helped this country to completely free itself from foreign oil.

Last month, Brazil announced it no longer has to import oil from the Middle East or anywhere else. And much of the credit goes to ethanol.

The world's largest sugar cane mill is located in Barra Bonita, Brazil, producing more than 100 million gallons of ethanol a year.

After the cane is harvested, by hand or machine, the stalks are fed into the mill. They're crushed. The juice separated and sent to tanks to ferment. Ethanol operations are really just industrial-sized moonshine stills. Khosla sampled the product straight from tank.

But what really intoxicates him isn't what he tasted, but the opportunity he sees in what's being thrown away. With new technology, Khosla says you can process these mountains of leftovers and triple the amount of ethanol you get, dramatically reducing costs.

**Khosla:** My bet is it'd be a lot cheaper than \$1 a gallon. It might even be less than 70 cents a gallon right there. Right today.

And that's exactly Khosla's vision for America— putting new generation ethanol plants next to paper mills, turning their leftovers into fuel. Or even next to orange juice factories, where he says ethanol from peels could replace petroleum.

But that's only part of it. To really make America an ethanol nation, Khosla says billions of gallons will come from something as common as prairie grass. He says it'll be much cheaper and deliver 10 times the energy it takes to make it.

**Khosla:** We could return the country back to the prairie grass that it used to have hundreds of years ago and make, and meet all our petroleum needs. **Phillips:** Back to the future? **Khosla:** Back to the future. There is nothing standing in the way.

He's so sure about it he's become an ethanol evangelist— preaching to governors, senators and even key advisors to the president who despite his roots in Texas oil is sounding like one of the converted.

In his April 25th speech, President Bush said, "Ethanol will replace gasoline consumption. Ethanol is

good for the whole country."

**Khosla:** The environmentalists love it because it's greener. The neo-conservatives like it because it ensures energy independence and security for America. The farmers love it because it takes oil dollars and moves it to rural America. **Phillips:** It sounds almost too good to be true. **Khosla:** I'm not this "imagine some kind of hypothetical future" kind of person. But it is a very pragmatic vision.

He may be man of vision but Khosla's under no illusions about the resistance ethanol faces back home from big oil.

Some oil companies have complained that putting ethanol at their stations would require costly and complicated changes to their trucks, tanks and pumps.

**Phillips:** How much of a burden will that put on oil companies to start distributing ethanol? To dedicate a pump to ethanol? I mean what about trucks? What about their holding tanks? **Khosla:** In most cases, the same holding tanks can be used. The same trucks can be used to transport the ethanol. There are logistics problems to be solved, to be sure, but it's not a difficult transition. I've looked at all the issues they raise. In fact, most of them are bogus.

As for the expense, Khosla estimates it would cost about \$15 to 20 million to offer ethanol pumps at a thousand gas stations in California.

**Khosla:** \$15 to 20 million dollars. Exxon alone made 36 billion dollars last year.

But Khosla, who's invested millions of his own money in companies working on ethanol technology, says government must play a role as well, by requiring that gas stations everywhere offer ethanol, that *all* new cars be flex-fuel, and that oil companies play fair.

**Khosla:** We need to make sure that the major oil companies don't manipulate the price of oil enough to drive ethanol out of business. **Phillips:** Do you believe oil companies would deliberately drop the price of oil? **Khosla:** Absolutely. A senior executive of a major oil company came up to me and said, "Be careful." In a very warning tone he said, "Be careful, we can drop the price of gasoline."

The battle to bring ethanol to your neighborhood pump is just beginning, but Vinod Khosla is confident that time and technology are on his side.

**Phillips:** What do you say to skeptics, who say, you're a money maker, you're an investor and what you're trying to do here is to drum up support and governmental help to make sure your investment pays off? **Khosla:** Well, I am in the business of investing. But in fact, this has become a mission for me: to get the message out of how simple it is to get independent of petroleum. In fact, my mission now is to put the fossil in fossil fuels.

*President Bush is expected to meet later this month with the heads of the Big Three American automakers and ethanol will top the agenda. Wal-Mart has also confirmed to Dateline that it's working out details to sell a fuel that's 85 percent ethanol at its retail locations that sell gas.*

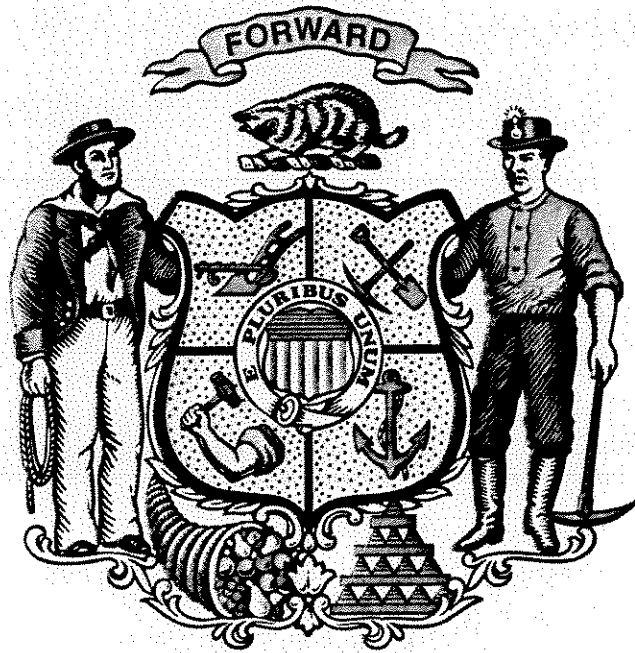
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5/10/2006



E85 Meeting

5-17-06 - ~~Gas~~ Meeting

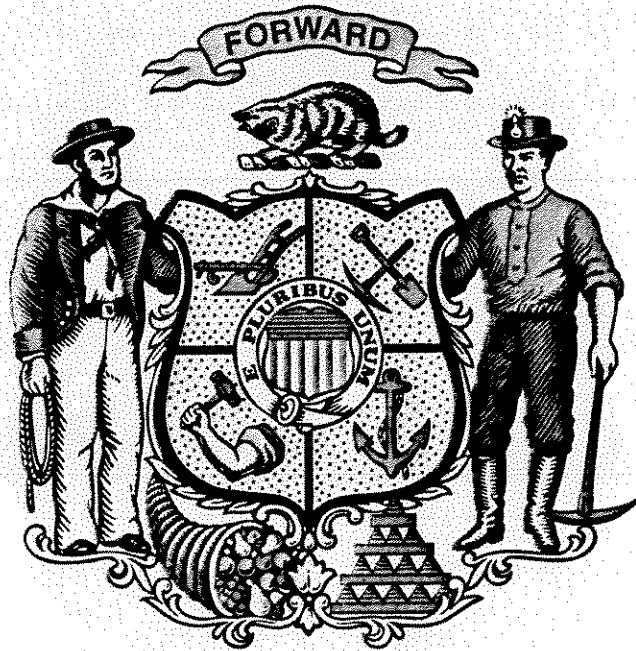
Road Pricing -  
Spot Market -

Terminal/Destination

Funding - Farm ~~Board~~ Bureau - problems

PEEFA?

URS Corp -



**Phillip Younger**

**From:** Tim Gerlach [tim.gerlach@alamn.org]  
**Sent:** Thursday, May 18, 2006 8:37 PM  
**Subject:** WI E85 Road Tax Proposal

FYI

Dona Wininsky of the American Lung Association of Wisconsin (1-800-LUNG-USA) informed us that a proposal to provide E85 an adjusted tax rate is being discussed. Unfortunately, it may also include a provision to raise the state gasoline tax to "pay the difference." We all realize, any attempt to raise gasoline taxes will be met with strong opposition (high gas prices, angry consumers, angry retailers, election year politics).

Please note if E85 and gasoline are taxed at the same rate, the E85 consumer is actually "over taxed" because more E85 is required to travel the same distance in today's FFV systems. If the E85 rate were reduced to account for the difference (adjusted to energy parity basis), the state would not be losing revenue and no offset would be required.

Dona is working to educate everyone on the attached factsheet that was prepared by the American Lung Association for the National Ethanol Vehicle Coalition last year. A MN example is used; however, several states have now their own adjusted E85 rates.

Hope it works!

Tim Gerlach 651-223-9577  
American Lung Association  
[www.CleanAirChoice.org](http://www.CleanAirChoice.org)





## Energy Content & State Motor Fuels Tax Rates NEVC – April 2006



**Concern:** Motorists and fleet operations electing to purchase cleaner, renewable-based, American-made E85 motor fuel are “over taxed” under many state motor fuel taxation statutes.

**Background:** Driven by environmental, economic and energy security concerns, the availability and use of E85 is growing nationally. E85 is composed of 85% ethyl alcohol (ethanol) and just 15% petroleum. E85 is designed for use in flexible fuel vehicles, referred to as “FFVs.” Between 4 million and 4.5 million light-duty FFVs are estimated to be traveling U.S. roadways in the fall of 2004. Private citizens as well as business and government fleets operate these FFVs. FFVs may fuel with either E85 and/or gasoline interchangeably. With approximately 350 to 400 E85 fueling stations in operation nationally in 2004, most FFVs are now fueled with gasoline.

More than half of all states have passed alternative fuel-related incentives. These vary from supportive executive orders and state agency requirements to more aggressive incentives that provide tax credits for installing fueling equipment and procuring vehicles. The incentives tend to reflect the level of local support for alternative energy sources. The use of a tax rate based on a fuel’s energy content is an incentive that has been adopted by several states (Table 1). This is of particular interest to advocates and owners of E85-powered flexible fuel vehicles.

**Table 1. States with Motor Fuels Taxes Based on Fuel Energy Content**

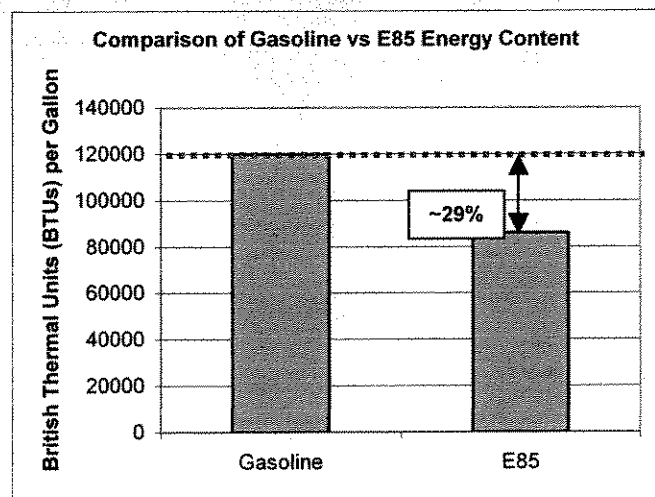
State	Gasoline Tax	Explanation	E85 Tax Rate
HI	\$0.16/gal	~29% of tax	\$0.0464/gal
PA	\$0.312/gal	~71% of tax	\$0.219/gal
ME	\$0.259/gal	~71% of tax	\$0.183/gal
MN	\$0.20/gal	~71% of tax	\$0.142/gal
KS **	\$0.24/gal	~71% of tax	\$0.17/gal

In addition to a per gallon motor fuels tax, many states assess clean-up fees, distributor taxes and/or sales taxes.  
 \*\* The KS E85 Tax Rate will be effective January 1, 2007 (SB 544)

**Argument:** At issue is the over-taxing of motorists who have elected to purchase E85 instead of gasoline. Rather than encouraging the use of a cleaner-burning, renewable-based, American-made gasoline alternative, many state rules result in the E85 user paying more per mile in road taxes than gasoline or diesel fuel users.

Fuels vary by their respective energy contents. This is true whether one is comparing diesel, gasoline, E85, propane, hydrogen, natural gas, methanol or others.

For instance, a gallon of gasoline may contain 120,000 British thermal units (BTUs) of energy, while a gallon of E85 will contain 86,000 BTUs. This is, albeit a worse case scenario, an approximate 29% reduction in energy content compared to gasoline. In operation,

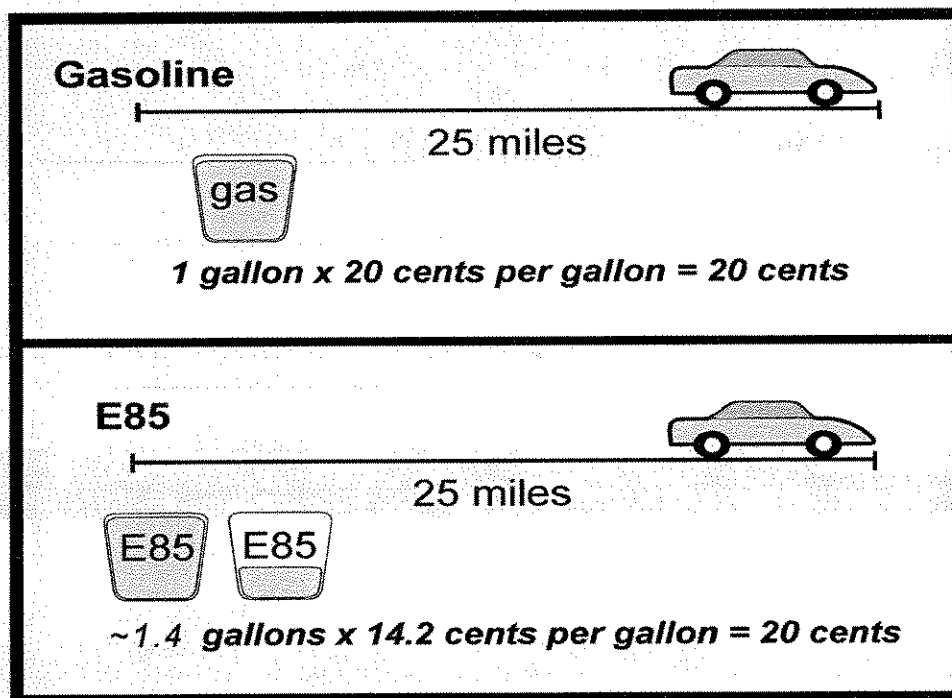


\* Several states including Idaho, Iowa, Illinois and Virginia provide reduced road tax (or sales tax) rates for ethanol-blended fuels. E85 qualifies for these incentives. In addition, Kansas, Colorado, Illinois and Oregon provide state income tax credits for installing E85 fueling equipment.

it translates to a lesser distance traveled by a vehicle fueling on E85 compared to that same vehicle fueled with gasoline. If a state motor fuel tax is the same for gasoline and E85 and based on a per gallon fee, the E85 user is being unfairly penalized.

### An Example That Works

In 1998, the state of Minnesota was selected as a national E85 pilot market by the U.S. Department of Energy Clean Cities program and other public and private partners. Early on, representatives to this coalition recognized the inequality of the state's motor fuel tax. Through legislative action, Minnesota's tax was corrected to represent "energy parity" for the fuels. Today, the use of gasoline, E85, natural gas, propane and M85 (no longer in use) are covered by the fairer policy.



The \$0.142 per gallon rate equalizes the *per mile tax* an E85 user pays as compared to the gasoline user paying a tax of \$0.20 per gallon.

The easy-to-use Minnesota Department of Revenue payment form and the text of the statute explaining the tax rates are included on the following pages.

\* Several states including Idaho, Iowa, Illinois and Virginia provide reduced road tax (or sales tax) rates for ethanol-blended fuels. E85 qualifies for these incentives. In addition, Kansas, Colorado, Illinois and Oregon provide state income tax credits for installing E85 fueling equipment.

# MINNESOTA - REVENUE

## Minnesota Gasoline Tax Return

PDA 46

For the month of \_\_\_\_\_ (month) \_\_\_\_\_ (year) (See instructions on back.)

This return must be received in our office on or before the 25<sup>th</sup> day of the following month.

Minnesota Tax ID: \_\_\_\_\_

Filer Info

Receipts

Deductions

Calculations

Adjustments

Sign Here

		Column 1 Gross (net) Adjusted (in gallons)	Column 2 Gross (net) gallons (in gallons)
<b>1</b>	Shipments received from Minnesota terminals or refineries (Schedule PDA 56)	<b>1</b>	
<b>2</b>	Shipments into Minnesota from other states (Schedules PMA 56)	<b>2</b>	
<b>3</b>	Total petroleum products received (add lines 1 and 2)	<b>3</b>	
<b>4</b>	Product expenses (Schedules PMA 56) (subtract in duplicate)	<b>4</b>	
<b>5</b>	Total Gallons (subtract line 4 from line 3)	<b>5</b>	
<b>6</b>	Sales to the US government by terminal/refinery operators (Schedule PMA 46A)	<b>6</b>	
<b>7</b>	Gallons subject to evaporator and loss allowance (Subtract line 6 from line 5)	<b>7</b>	
<b>8</b>	Evaporation and loss allowance (multiply line 7 by 2.5% (.025))	<b>8</b>	
<b>9</b>	Net Gallons before credits (subtract line 8 from line 7)	<b>9</b>	
<b>10</b>	Sales to the US government from tax-paid stock (Schedule PMA 46B)	<b>10</b>	
<b>11</b>	Bulk gasoline sales to farmers from tax-paid stock (Schedule PMA 46C)	<b>11</b>	
<b>12</b>	Gallons subject to gasoline tax (subtract line 10 and 11 from line 9)	<b>12</b>	
<b>13</b>	Tax payable to state (multiply line 12 by \$20)		<b>13 \$</b>
<b>14</b>	Inspection fee payable (line 5, total of columns 1 and 2) @ \$0.0025 per gallon		<b>14 \$</b>
<b>15</b>	Amount payable to state before adjustments (add lines 13 and line 14)		<b>15 \$</b>
<b>16</b>	<b>Authorized adjustments</b>		
<b>a</b>	Auction gasoline (Schedule PMA 46D) _____ gallons @ \$ 15	<b>16a</b>	
<b>b</b>	Qualifying service stations (Schedule PMA 46E)	<b>16b</b>	
<b>c</b>	E-85 rate reduction (Schedule PMA 46F) _____ gallons @ \$ 10.8	<b>16c</b>	
	<b>Total authorized adjustments</b> (add lines 16a through 16c)		<b>16 \$</b>
<b>17</b>	Subtract line 16 from line 15. This is the <b>AMOUNT DUE</b>		<b>17 \$</b>

All amounts may be paid by Electronic Funds Transfer (EFT).

Return PDA 46 must accompany all vehicles and trailers and comply with the provisions of the Motor Vehicle and Trailer Registration Act. The amount due for this return must be paid in full at the time of filing. For information on the E-85 rate reduction, contact the Minnesota Department of Revenue, PDA 46F. For information on the E-85 rate reduction, contact the Minnesota Department of Revenue, PDA 46F.

**State road tax for E85 is easily identified on line 16c of the retailer's monthly Minnesota Gasoline Return, PDA 46.**

\* Several states including Idaho, Iowa, Illinois and Virginia provide reduced road tax (or sales tax) rates for ethanol-blended fuels. E85 qualifies for these incentives. In addition, Kansas, Colorado, Illinois and Oregon provide state income tax credits for installing E85 fueling equipment.

## **MINNESOTA STATE MOTOR FUELS TAXATION**

**Chapter Title:** TAX ON PETROLEUM AND OTHER FUELS

**Section:** 296A.07    **Text:** 296A.07 Gasoline tax.

**Subdivision 1. Tax imposed.** There is imposed an excise tax on gasoline, gasoline blended with ethanol, and agricultural alcohol gasoline used in producing and generating power for propelling motor vehicles used on the public highways of this state. The tax is imposed on the first licensed distributor who received the product in Minnesota. For purposes of this section, gasoline is defined in section 296A.01, subdivisions 10, 18, 20, 23, 24, 25, 32, and 34. The tax is payable at the time and in the form and manner prescribed by the commissioner. The tax is payable at the rates specified in subdivision 3, subject to the exceptions and reductions specified in section 296A.17.

**Subdivision 2. Tax imposed for marine use.** Subject to the provisions of section 296A.16, subdivision 2, there is imposed an excise tax, at the same rate per gallon as the gasoline excise tax, on all marine gasoline received, sold, stored, or withdrawn from storage in this state. This tax is payable at the times, in the manner, and by persons specified in this chapter.

**Subdivision 3. Rate of tax.** The gasoline excise tax is imposed at the following rates:

- (1) E85 is taxed at the rate of 14.2 cents per gallon;
- (2) M85 is taxed at the rate of 11.4 cents per gallon; and
- (3) All other gasoline is taxed at the rate of 20 cents per gallon.

**Subdivision 4. Exemptions.** The provisions of subdivision 1 do not apply to gasoline purchased by:

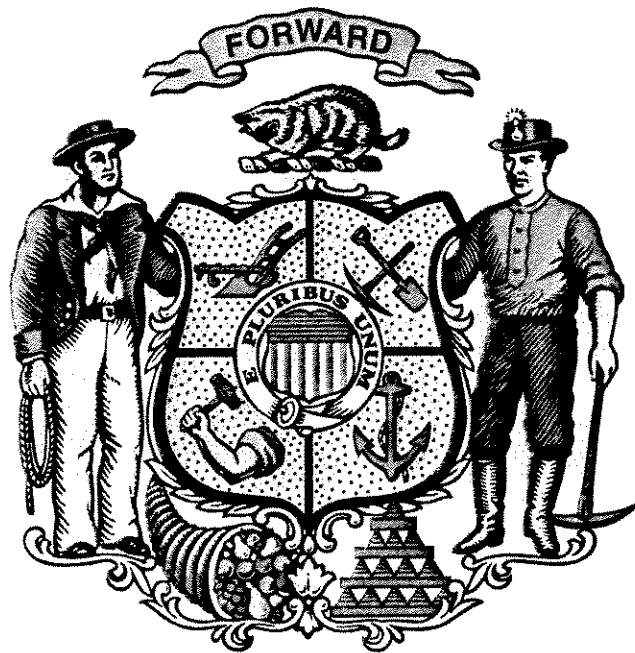
- (1) A transit system or transit provider receiving financial assistance or reimbursement under section 174.24, 256B.0625, subdivision 17, or 473.384; or
- (2) An ambulance service licensed under chapter 144E.

HIST: 1998 c 299 s 7; 1Sp2001 c 5 art 13 s 5

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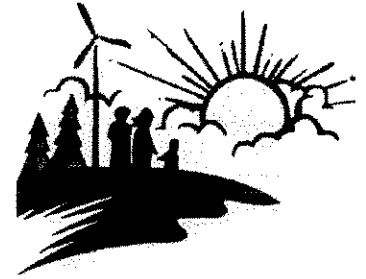
*For more information about E85 and flexible fuel vehicles, please contact the  
National Ethanol Vehicle Coalition (NEVC) at: 1(877)485-8595 or  
[www.E85Fuel.com](http://www.E85Fuel.com).*

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# Better Environmental Solutions

Practical Solutions Today For a Better Tomorrow



## Support more ethanol to help our air, farmers, drivers, and energy security

By Brett Hulse<sup>1</sup>

May 23<sup>th</sup>, 2006

Thank you Mr. Chairman and members of the committee for the opportunity to speak with you today on the topic of ethanol. My name is Brett Hulse and I am President of Better Environmental Solutions, an environmental health consulting firm. I am speaking on behalf of Better Environmental Solutions. We urge you to adopt measures to promote ethanol for cleaner air, more energy security, lower gas prices, and to help our farmers and workers.

There is a great need to expand the use of 85% ethanol (E85) in Wisconsin. More than 100,000 flexible fuel vehicles only burn an average of seven gallons of E85 each, although E85 sells for up on \$1 less than regular gasoline. There are also only 25 E85 stations in the state, though this number is growing.

We have a simple choice for our energy future: get more oil from the Mideast or grow more fuel in the Midwest. Homegrown fuels like ethanol are a better, safer environmental solution to our energy challenges than drilling for more oil.

To summarize, we should support producing and selling more ethanol blends to reduce air pollution and cancer risks, help create jobs in Wisconsin, support our family farmers, and could eventually make Wisconsin and America energy more independent. Measures in this bill move us toward cleaner, safer energy.

### **Ethanol Makes Wisconsin More Energy Secure**

Growing ethanol will make Wisconsin more energy secure because we don't have any oil, but burn a lot of energy, \$15.5 billion worth in 2004, according to the Division of Energy.<sup>2</sup> That's an annual energy bill of almost \$3000 per person and requires more than 300,000

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<sup>1</sup> Brett Hulse is President of Better Environmental Solutions, an environmental health consulting firm promoting practical solutions today for a better tomorrow to save lives, jobs and money. He is author of "Highway Health Hazards," "Cancer, Chemicals, and You," and more than 20 reports on health, clean air, energy, and the environment. He worked for the Sierra Club for more than 17 years, was environmental policy advisor to President Clinton and an Energy Conservation Advocate in the Carter Administration.

<sup>2</sup> 2005 Wisconsin Energy Statistics Highlights, WI Department of Administration, [www.doa.state.wi.us/docs\\_view2.asp?docid=4264](http://www.doa.state.wi.us/docs_view2.asp?docid=4264), page 23, downloaded 12-19-2005.

people working at a typical \$50,000 job to pay the bill.<sup>3</sup> This includes an annual \$6.6 billion gasoline and diesel bill with a job drain of more than 120,000 jobs.<sup>4</sup> Gasoline and oil prices went up over \$1 billion in 2004, a 65% increase, that means we need to produce more ourselves and cut waste to save money and jobs. This does not include the recent price increases.

### **Ethanol Makes Us More Energy Secure**

According to recent press reports, Brazil is largely energy independent because of an investment in E85 and flex fuel cars. A recently released study by the Energy Foundation, "The New Harvest: Wind Power and Biofuels for Rural Revitalization and National Energy Security," shows that a major commitment to ethanol, combine with efficiency and smart growth could replace all gasoline for cars, truck and light duty vehicles by 2050. This could account for eight million barrels of oil a day, three times what we now import from the Persian Gulf.<sup>5</sup> This shows we can be more energy independent like Brazil.

### **Ethanol is an Energy Winner**

The Argonne National Laboratory Ethanol Study shows that ethanol yields 20-60% more energy than it takes to produce it. The same study showed that gasoline is a net energy loser, wasting 20% of its energy in drilling, transportation and refining losses. By contrast, ethanol derived from prairie grass, wood waste and other natural cellulose sources can yield up to 18 times the energy put in because there is less planting and fertilizer costs.

### **Ethanol Reduces Greenhouse Air Pollution**

Because ethanol is made from renewable crops like corn, prairie grass or wood, it reduces greenhouse air pollution linked to radical weather shifts and global warming. An Argonne National Laboratory study shows that corn ethanol reduces greenhouse air pollution (GAP) by 18-29% while cellulosic ethanol reduces GAP by 85% due to reduced fertilizer and inputs.<sup>6</sup> In fact, Wisconsin's four ethanol producers make 200 million gallons per year reduce CO2 pollution by 800 million pounds each year, equivalent to burning 40 million gallons of gas.

### **Ethanol Increases Farm Income, Reduces Subsidies**

Ethanol reduces federal farm subsidies for corn each year by raising the crop price. One study showed ethanol raised the price of corn 7-11 cents near two Wisconsin ethanol plants, thus helping family farmers and reducing corn commodity payments.

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<sup>3</sup> Assumes \$50,000 per direct job with benefits, not including and does not include secondary jobs.

<sup>4</sup> 2005 Wisconsin Energy Statistics Highlights, page 24.

<sup>5</sup> See the report at [www.ef.org/home.cfm](http://www.ef.org/home.cfm).

<sup>6</sup> "Argonne National Laboratory Ethanol Study: Key Points," Office of Energy Efficiency and Renewable Energy, USDOE, page three.

Oil companies get huge subsidies. One study by Redefining Progress, a think tank, estimated that oil subsidies are least \$184 billion a year.<sup>7</sup> Those costs don't include current defense costs.

### **Ethanol Creates Needed Fuel Now**

Passing measures to promote ethanol can create new fuel now, rather than drilling in our Great Lakes, fragile coastal areas, and the Arctic National Wildlife Refuge to supply our future oil needs.

### **Ethanol Reduces Dangerous Air Pollution Risks**

Soot pollution levels reached unsafe levels in Wisconsin several times this year, according to the Wisconsin DNR.<sup>8</sup> The EPA recently proposed new stronger soot particulate standards<sup>9</sup> which could make much of Wisconsin out of compliance requiring extensive control measures from industry, according to the Wisconsin DNR.

Soot is particles or droplets a fraction of the size of a hair that come from the burning gasoline, diesel or other fuels. The American Lung Association has compiled more than 2,000 studies showing soot causes health problems like cancer, asthma, and heart attacks.<sup>10</sup>

One 2002 Journal of the American Medical Association study showed higher soot levels increase lung cancer, heart attack, and early deaths by 4-8%.<sup>11</sup> The DNR has cataloged many health problems related to soot pollution.<sup>12</sup> The Sierra Club 2005 report, "Highway Health Hazards," highlights more than 20 studies showing living near roadways and being exposed to pollution from cars and trucks leads to health problems like more cancer, asthma and heart attacks, low birth weights, and other health problems.<sup>13</sup>

### **Ethanol Reduces Soot Pollution**

A growing number of studies show that E10 can reduce soot particulate pollution. A 1999 study by the Colorado Division of Public Health and the Environment showed that E10 reduced soot pollution by 36% from newer vehicles and more in older, more polluting

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<sup>7</sup> Clifford Cobb, "The Roads Aren't Free," Defining Progress, [www.redefiningprogress.org/publications/wpts3/wpts3\\_execsum.html](http://www.redefiningprogress.org/publications/wpts3/wpts3_execsum.html)

<sup>8</sup> DNR Press Release, "Air quality health advisory issued for Milwaukee and Waukesha Counties," December 21, 2005, [www.dnr.state.wi.us/org/caer/ce/news/rbnews/2005/122105co1.htm](http://www.dnr.state.wi.us/org/caer/ce/news/rbnews/2005/122105co1.htm).

<sup>9</sup> EPA announcement, [www.epa.gov/air/particulates/actions.html](http://www.epa.gov/air/particulates/actions.html).

<sup>10</sup> American Lung Association response to EPA's soot particulate proposed rule, [www.lungusa.org/site/apps/nl/content3.asp?c=dyLUK9O0E&b=40404&cr=1740673](http://www.lungusa.org/site/apps/nl/content3.asp?c=dyLUK9O0E&b=40404&cr=1740673).

<sup>11</sup> Pope, et al, "Lung Cancer, Cardiopulmonary Mortality and Long-term Exposure to Fine Particulate Air Pollution," JAMA, March 6, 2002, Vol. 287, No. 92.

<sup>12</sup> WI DNR Particle Pollution (PM<sub>2.5</sub>), Frequently Asked Questions, [www.dnr.state.wi.us/org/aw/air/health/ppFAQ.htm](http://www.dnr.state.wi.us/org/aw/air/health/ppFAQ.htm).

<sup>13</sup> Hulsey, et al, "Highway Health Hazards," Sierra Club, 2005, [www.sierraclub.org/HHH](http://www.sierraclub.org/HHH).



vehicles. This study was in cold weather conditions similar to Wisconsin.<sup>14</sup> A 1997 study published in *Environmental Science and Technology* showed that vehicles burning 10% ethanol produced up to 22% less soot particulate pollution than those burning regular gas.<sup>15</sup>

### **Ethanol Reduces Cancer-Causing Air Pollutants**

Ethanol also reduces other dangerous pollutants such as cancer-causing benzene and formaldehyde. This is important because the air in Wisconsin is more than 500 times too polluted with cancer-causing chemicals according to Environmental Defense's analysis at the Scorecard.org. More than three-quarters, or 78%, of the risk comes from cars, trucks and other "mobile" sources with pollutants like benzene and formaldehyde.<sup>16</sup> Ethanol replaces benzene in gasoline, reducing the cancer risks of driving and living near roadways. The Colorado study showed E10 reduced hydrocarbon pollution like benzene by 16.5%.

### **Ethanol Reduces Dangerous Carbon Monoxide**

The recent tragic deaths of the West Virginia coal miners show carbon monoxide (CO) is a deadly pollutant. The Wisconsin DNR estimates that statewide E10 could reduce CO by 171,915,000 pounds per year in the 66 counties outside of southeastern Wisconsin.<sup>17</sup> The Colorado study showed E10 reduces carbon monoxide pollution by 11% from vehicles.

The EPA found, "Carbon monoxide is linked closely... to the cycle of tropospheric ozone and participates in the formation of 20 to 40% of the ozone found in non-urban areas. Carbon monoxide plays an important role in atmospheric photochemistry in regional and urban environments...In numerical simulations of at least one urban air shed, CO was found to participate in the formation of 10 to 20% of the ozone found there...On- and non-road mobile sources account for approximately 80% of the 1997 nationwide emissions inventory for CO."<sup>18</sup>

### **Mileage Reduction Minor**

Some say that ethanol slightly reduces mileage due to slightly less energy content. This is almost trivial compared to other mileage reducers like improperly airing up your tires which reduce mileage by 3 percent, according to Carcare.com.<sup>19</sup> More than a quarter of all cars and nearly one-third of all SUVs, vans and pickups are driven with tires at least 8 pounds below

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<sup>14</sup> Ragazzi, et al, "The Impact of 10% Ethanol Blended Fuel on Exhaust Emissions of Tier 0 and Tier 1 Light Duty Vehicles at 35 Degrees," CO DPHE 1999,

[www.cdphe.state.co.us/ap/down/oxyfuelstudy.PDF](http://www.cdphe.state.co.us/ap/down/oxyfuelstudy.PDF).

<sup>15</sup> Malawa, et al, "Effect of Ambient Temperature and E-10 Fuel on Primary Exhaust Particulate Matter Emission from Light Duty Vehicles," EST, 31(5) 1302-1307.

<sup>16</sup> Environmental Defense, *POLLUTION LOCATOR | Hazardous Air Pollutants | State Report, Wisconsin*, [http://www.scorecard.org/env-releases/hap/state.tcl?fips\\_state\\_code=55](http://www.scorecard.org/env-releases/hap/state.tcl?fips_state_code=55).

<sup>17</sup> WI DNR, *Ozone Air Quality Effects of a 10% Ethanol Blended Gasoline in Wisconsin*, September 6, 2005, page 3. CO reduction from E10 is 237.5 tons/day = 471,000 pounds/day = 171.917 million pounds/year.

<sup>18</sup> *Air Quality Criteria for Carbon Monoxide*, EPA 600/P-99/001F, June 2000, pp E-1 - E-6.

<sup>19</sup> [http://www.carcare.org/Tires\\_Wheels/inflation.shtml](http://www.carcare.org/Tires_Wheels/inflation.shtml).

their proper levels, according to the National Highway Traffic Safety Administration.<sup>20</sup> A clogged air filter can reduce mileage by 10 percent, according to the U.S. Department of Energy.<sup>21</sup> Driving the 10 miles over the 65 miles per hour speed limit can reduce mileage by 15 percent.<sup>22</sup> So the benefits of ethanol far outweigh the very slight mileage reductions.

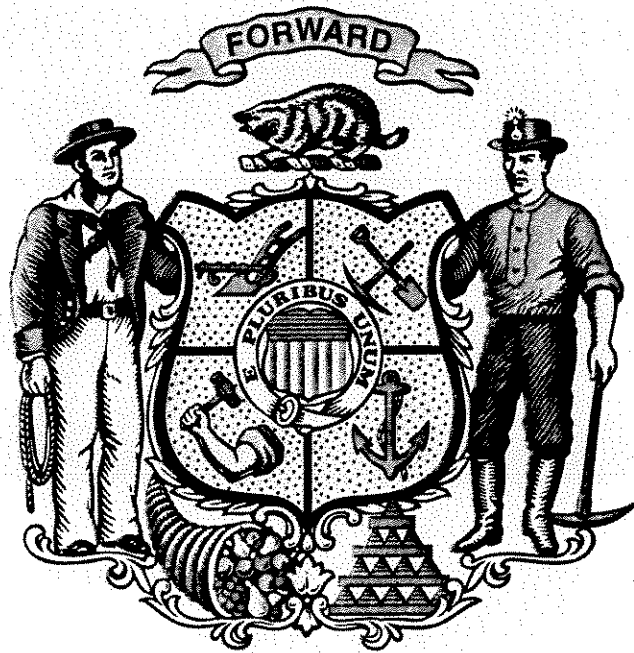
In conclusion, I urge you to promote ethanol to save lives, jobs and money.

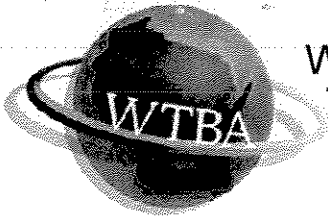
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<sup>20</sup> <http://www.nhtsa.dot.gov/cars/rules/rulings/TirePressure/LTPW3.html>.

<sup>21</sup> U.S. EPA website, "Keeping Your Car in Shape," [www.fueleconomy.gov/feg/maintain.shtml](http://www.fueleconomy.gov/feg/maintain.shtml).

<sup>22</sup> Calculations from Table 7.21, page 7-23, Stacy Davis, "Transportation Energy Data Book: Edition 20," Oak Ridge National Laboratory, October 2000, ORNL-6959.





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"Connecting Wisconsin to the World"

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**Hearing on SB-723**

**Senate Committee on Agriculture and Insurance**

**May 23, 2006**

**WTBA Testimony**

**Tom Walker**  
**Director of Government Affairs**

Good afternoon, Senator Kapanke, and members of the Committee. Thank you for the opportunity to testify today.

My name is Tom Walker. I am the Director of Government Affairs for the Wisconsin Transportation Builders Association (WTBA). WTBA is a statewide association of contractors, consultants, and vendors. Our members design, build, maintain, and improve every type of transportation infrastructure, including airports, roads, bridges, ports, railroads, and bicycle/pedestrian projects.

I am here today to testify on one portion of SB-723 only, namely its financing provisions.

The concept is to offer an incentive to E-85 users by incrementally reducing the state tax on E-85.

Our fundamental objection is to the precedent of allocating fuel tax user fees for a program that has nothing to do with financing state and local transportation projects and services in every mode.

Until now, Wisconsin has repeatedly and rightly rejected proposals to exempt 10% ethanol from a portion of the motor fuel tax.

Congress made that mistake many years ago, which resulted in a growing loss of Highway Trust Fund Revenues. Finally, in 2005, Congress addressed the problem with the active support and partnership of both the Renewable Fuels Association and transportation interests. Moving forward, Congress is providing ethanol support through general fund payments, which have the same impact at the pump as the previous federal fuel tax exemption.

That is precisely the kind of forward thinking Wisconsin needs. If the Legislature determines that support is needed to spur E-85 consumption, the cost should come from the general fund, not highway fees collected for solely transportation program purposes.

Addressing the specifics of the program, the bill proposes a 0.2 cent per gallon increase in the state fuel tax, to offset the loss of revenues from the E-85 tax reduction. It is inconceivable that this legislature will increase the fuel tax right after repealing indexing. The revenue offset is exceedingly unlikely to occur.

The use of any increase in the state fuel tax should be restricted to addressing the severe transportation fund revenue projections Wisconsin is now facing, which could cause major cutbacks in existing transportation programs.

Another concern is that it may well be true that even after E-85 market penetration reaches 3.5%, proposals to extend the reduced fuel tax on E-85 could easily be made to promote even greater market penetration.

This is exactly what happened with the petroleum Environmental Clean-Up Fund, or PECFA. The legislature began to tap PECFA funds for various new programs, beyond what was originally intended. And now, it's difficult to eliminate it, even though its original statutory purpose has been met.

In conclusion, I want to emphasize just how serious the transportation funding outlook is. I've been doing state transportation budgets since 1979, and I have never seen such a bleak, threatening outlook.

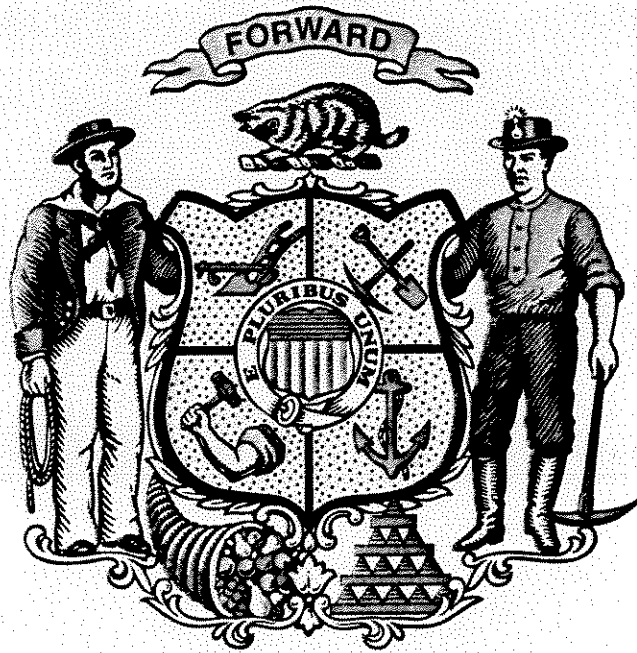
Without indexing and with accelerated government and individual efforts to improve fuel economy, state transportation revenues are projected to be flat. At the same time, debt service is climbing, CPI-inflation is running at 3-4%, and construction inflation is running at about 15% per year due to world commodity demand. Transit systems, local government trucks, and construction equipment must adjust to higher fuel costs, without new revenues. Current programs cannot be funded in the 2007 budget, and the funding gap will get larger in each subsequent biennium.

At the same time, numerous needs are emerging, from a \$6 billion cost to reconstruct the SE WI Freeway System to rail and transit projects like the commuter rail extension from Kenosha to Milwaukee, High-Speed Rail connecting Madison and Milwaukee with each other and with Chicago and the Twin Cities, and urban transit projects like commuter rail and trolleys here in Madison. The common thread that ties these projects together is that they are not funded!

And I haven't even touched on needed improvements to county and town roads to handle large farm equipment and large agricultural trucks leaving the farm.

The bottom line is quite simple: don't use the Transportation Fund to provide E-85 incentives.

Thank you and I will be happy to answer any questions.





# WISCONSIN CORN GROWERS ASSOCIATION

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May 23, 2006

## Testimony on Senate Bill 723

Mr. Chairman and members of the Senate Agriculture and Insurance Committee, thank you for the opportunity to testify today on Senate Bill 723.

I'm Bryan Brooks and I'm here today on behalf of the members of the Corn Growers Association across the State. These members believe strongly in the future of ethanol in Wisconsin, and these members certainly like E85.

We believe the advantages of moving to E85 are clear. It will move us toward energy independence—freeing us from the need for foreign oil. It will save consumers money at the pump (E85 is currently selling for \$1.99/gallon in Oshkosh). And there is little doubt that it will be a much better for the environment.

E85 has the highest oxygen content of any transportation fuel available today, making it burn much cleaner than straight gasoline. It contains fewer exhaust emissions which result in reduced production of smog and a decline in respiratory illness associated with poor air quality. E85 also reduces greenhouse gas emissions such as carbon dioxide, the main contributor to global warming, as much as 39 to 46 percent compared to gasoline.

As a result of the clear advantages of moving to E85, automakers have begun mass-production of flex-fuel vehicles (vehicles that can use either gas or E85). The three leading U.S. auto makers, Daimler-Chrysler, GM and Ford are all pushing hard for more flex fuel vehicles in production. Between the three, there were fourteen flex-fuel vehicle choices in model year 2006, with more on the way in 2007. Earlier this year, the GM plant in Janesville celebrated the production of its 500,000<sup>th</sup> flex-fuel vehicle.

Even with the enormous strides that both our state and country have recently made in the area of ethanol usage and promotion, other countries are light-years ahead. Brazil moved to ethanol several years ago and is now completely energy independent. In Wisconsin, ethanol could reduce the need to import 128,000 barrels of oil per day. Wisconsin can have cleaner air while reducing our dependence on foreign oil.

Wisconsin's ethanol industry is the newest and fastest growing, value-added venture in the state. With four state plants currently operating (Stanley, Monroe, Utica, Friesland), an estimated 20 percent of the state's most recent corn harvest will produce some 160 million gallons of ethanol this year. In addition to fuel, each of the four Wisconsin ethanol plants produces distillers' grain, a high-value livestock feed, while also creating high-paying jobs and increasing local tax revenue. Economic studies show each ethanol plant adds an estimated \$56 million a year into the economies of their surrounding communities. There are three more plants (Milton, Wheeler, Jefferson) set to come on-line within a year. Those additional plants will allow us to more than double our production from last year to over 400 million gallons a year.

(over)



Even with demand for ethanol on the rise, we need strong policy initiatives at both the state and national level to allow consumers a real choice of E85 at the pump.

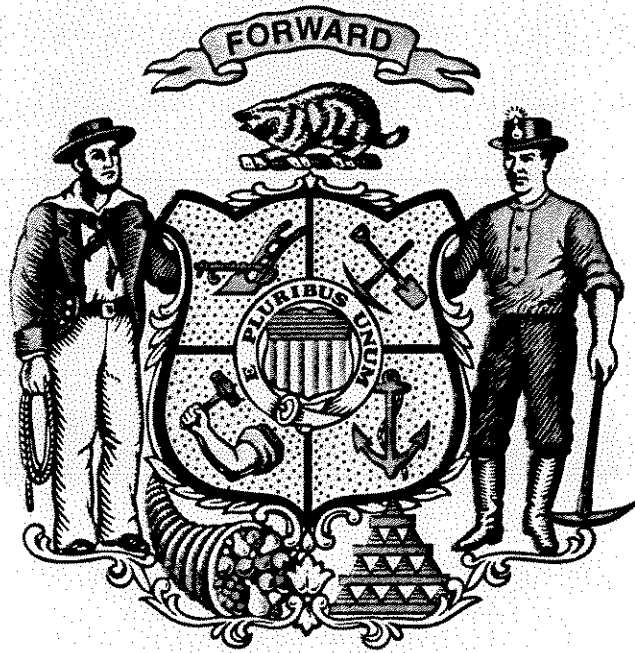
With that, I would like to thank our good friends, Representative Steve Freese and Senator Mark Miller, for their leadership on E85 and their efforts to continue to lead in the area of ethanol policy.

Our members certainly agree with any attempts to promote E85. But we are very concerned with the approach that this legislation uses to fund that promotion—proposed increases in the gas tax. We have never asked, and never will, that consumers pay more for their fuel to support efforts to promote ethanol. In fact, ethanol will save consumers millions of dollars if we can just get the big oil interests to open up the retail outlets to let ethanol be sold on a level playing field.

We certainly agree with the goal of promoting E85 and we will continue to work with Senator Miller, Representative Freese, and Chairman Kapanke to develop a proposal which we can enthusiastically support.

***Bryan Brooks***

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# SENATOR MARK MILLER

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## Sen. Miller's Testimony on SB 723 Senate Ag & Insurance Committee May 23, 2006

The recently completed session of the legislature considered and rejected a proposal to mandate that all regular-grade gasoline contain 10% ethanol.

The debate and vote on the E10 mandate divided many normally cohesive interest groups. Republicans were split on the issue, as were Democrats. Some business organizations supported the measure, while others opposed it. Labor was divided, as was the environmental community.

Perhaps the primary reason for this division was that there was no clear direction provided by the available science.

Although the impact of an E10 mandate was not clear, it is clear that increased use of E85 as a substitute for gasoline would improve environmental quality and provide significant economic advantages for Wisconsin.

The primary barrier to increased use of E85 is the small number of retail pumps. Currently Wisconsin has only 25 E85 pumps statewide with a few more expected to be opened later this year. Governor Doyle has taken an important step with his "Promoting our Wisconsin Energy Resources" or (Power) Initiative. This program provides \$335,000 to help increase the number of E-85 stations and promote the use of E-85 in Wisconsin.

Another barrier is oil companies prohibiting their retailers from dispensing E85 under the oil company's canopy.

SB723 proposes to provide incentives to retailers to install E85 pumps by reducing the motor fuel tax on E85 to ten cents per gallon, gradually phasing the fuel tax back in until E85 market penetration reaches 4% of the motor fuel market for gasoline and diesel, at which time E85 pays the same tax as gasoline.

The bill prohibits oil companies from discriminating against retailers who install E85 pumps.

The bill prohibits price gouging on E85.

The fiscal impact of the tax reduction is approximately \$8 million annually. The bill proposes to replace this revenue loss by increasing the motor fuel tax on gasoline and diesel by 0.2 cents per gallon. The impact of this increase is insignificant compared to the weekly fluctuation of motor fuel pricing.

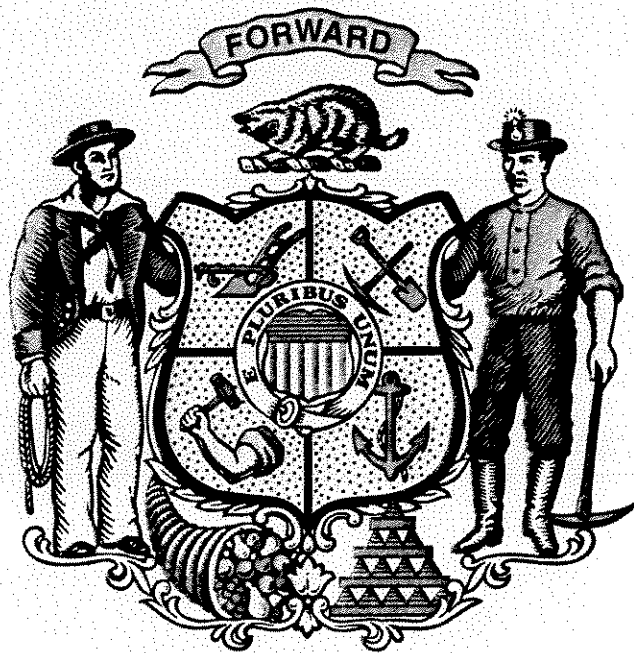
I recognize that proposing a gas tax increase, even a small one, is politically uncomfortable in this period of high gas prices. However, keep in mind that this is a tax shift rather than a tax increase. The proposal reduces taxes on consumers whose behavior we want to encourage for economic and environmental reasons and shifts them, in an almost imperceptible amount, to other consumers.

I am not interested in reducing the revenue available for transportation enhancements. I am willing to consider alternatives to replacing the lost transportation revenue.

The attractiveness of this approach is that it uses the market system to expand retail E85 capacity. Regardless of how it is funded, the tax reduction will almost surely guarantee that E85 will enjoy a significant price advantage compared to gasoline or diesel. Motorists with flex fuel cars will want to take advantage of this price advantage and seek out retailers who are dispensing E85. Retailers will want to capture this market and install E85 pumps. As E85 penetrates the market, the tax incentive phases out.

This bill was introduced too late for action in this session deliberately. It is introduced to explore ways to enhance ethanol production in Wisconsin that avoids the problems associated with the E10 mandate that we rejected this session.

I look forward to hearing the testimony today. We can learn whether this approach should continue to be explored in the next legislative session.





# Ace Ethanol

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Testimony In Favor Of Legislation That Would Decrease The  
State Excise Tax For E 85 Flex Fuel Vehicles  
By Bob Sather, Ace Ethanol

Thank you Mr. Chairman for the opportunity to share some thoughts with you and the committee today regarding your incentive to promote flex fuel vehicles. I come before the committee speaking in favor of the bill.

Beth Lowery, GM's Vice President for Energy said that, "Ethanol could account for 10% of auto fuel in the next five years." This is Huge! Is it the total answer to the energy needs? No but it is one significant part to the problem.

According to <[ethanolrfa.org](http://ethanolrfa.org)> flex fuel vehicles are not optimized to E 85, so they experience a 5% to 15% drop in fuel economy depending on the make and model of the vehicle. Varying factor is the whether, status of the tune of the auto, the season, road grade, tire pressure and use of air conditioner.

The technology already exists to manufacture E 85 vehicles that can get mileage equal to or event better than vehicles using regular 87 octane gasoline. GM manufactures that car in Sweden and it is sold there and Brazil, it is a Saab Auto with twin turbos and higher compression. Yes this is a flex fuel vehicle that can run on any grade of gasoline or E 85.

Some incentive is needed to build the infrastructure to provide the fuel for the many flex fuel vehicles that will dominate the market in the coming years and this bill is part of the answer to a very vexing problem.

I thank the committee for this opportunity.