



KOCH COMPANIES PUBLIC SECTOR, LLC
Legal, Government, Public Affairs

April 15, 2015

Dear Senator:

On behalf of Koch companies, I am writing to urge you to oppose S. 577, a bill introduced by Senators Feinstein and Toomey that seeks to reform, not repeal, the federal Renewable Fuel Standard (RFS). The RFS is an unqualified failure that should be repealed in full. Unfortunately, there are some who are using the well-publicized problems with the RFS to advance “reform” that actually makes matters worse. The Feinstein-Toomey legislation is one of those efforts.

First, a little background. When the RFS was enacted in its current form in 2007, it created different classes of renewable fuels and a schedule of increasing volume mandates each year that top out at 36 billion gallons in 2022. Of the 36 billion gallons required under the federal mandate, at least 21 billion gallons were to come from so-called “advanced” sources, including at least 16 billion gallons of cellulosic ethanol. A small portion of the advanced biofuel was to be biodiesel. The balance of the 36 billion gallons (15 billion gallons) could be ethanol made from corn starch.

We are now at the half-way mark in our march to the full glory of the RFS in 2022, so it is fair to make a realistic assessment of the program. To put it charitably, things aren’t working out as expected. The first departure from the plan in the RFS is that refiners and blenders began blending more corn ethanol into gasoline than the RFS mandated well ahead of schedule. Why is that? It turns out that ethanol made from corn starch is by and large the most cost effective way to achieve higher octane in gasoline. Despite the best efforts of central planning, the free market beat the RFS to the punch in getting more ethanol into gasoline.

If blending ethanol made from corn starch is profitable, then why isn’t there more ethanol in gasoline? The answer is that there is variability in the amount of ethanol that different engines can use without voiding manufacturer warranties. At the time the RFS was created in 2007, most vehicles were warranted to use ethanol in blends no greater than 10%, or E10. Today, newer vehicles are being built and warranted for higher blends. The EPA’s solution to this was to order gas stations to put warning labels on E15 pumps. Most fuel retailers aren’t impressed with the warning label approach to prevent misfueling, so there is very little E15 being sold today. The RFS has hit the “blendwall,” a limit on the amount of ethanol that can go into gasoline, and that blendwall won’t be broken until the free market devises a responsible way to prevent misfueling.

The plan under the RFS was that by 2015 we were to have substantial volumes of cellulosic and other “advanced” biofuels in the nation’s fuel mix. The reality is that there is virtually no cellulosic ethanol being made today, and very little other advanced biofuels. Why is this? Simply, they are more expensive than ethanol made from corn starch. With the blendwall as a barrier, the ethanol that is blended into gasoline is going to be made from the most cost efficient source. Once again, the free market seems to have intervened. Feinstein-Toomey says that ethanol made from corn starch will no longer qualify as a renewable fuel. The argument is that with the blendwall and an unworkable mandate of 36 billion gallons looming, repealing half of the RFS is better than nothing.

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This argument is wrong. The current RFS is a mandate in name only. With the blendwall and attractive margins to be made by blending corn starch-based ethanol into gasoline, the market is working largely without the interference of a mandate. Feinstein-Toomey would change that in an instant and turn the RFS into a real mandate with real economic consequences for consumers by banning the only economic form of ethanol today. Repeal the entire RFS instead.

Who would win if Feinstein-Toomey becomes law? Extreme environmental interests and companies who want to profit, not through the economic means but through mandates – transferring wealth from American consumers to themselves via higher prices borne disproportionately by the disadvantaged. Do we really want our national fuel transportation system to look like California – which has enacted expensive low carbon fuel standards and other mandates that drive up gasoline costs for consumers? California gasoline prices are usually the highest in the lower 48 states, and that is not likely to improve anytime soon. The Boston Consulting Group estimated the cost of compliance with the California low carbon fuel standard would be between 33 cents per gallon and \$1.06 per gallon by 2020. The actual cost could be much higher if the rest of the nation goes on a low carbon fuel diet via the Feinstein-Toomey legislation.

One of Koch's subsidiaries, Flint Hills Resources just closed on the purchase of its seventh ethanol plant. We bought these ethanol plants despite the RFS, not because of it. Let us compete in the free market. Repeal the RFS – all of it. Consumers and producers will be better for it.

Koch Industries will continue to oppose all energy subsidies and mandates. We will work to transform the current, mixed-market economy into a true free-market economy, because we believe history has proven that this is the best course to job creation, freedom and prosperity.

Sincerely,

A handwritten signature in black ink, appearing to read 'Philip Ellender'.

Philip Ellender
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