HOUSE COMMITTEE ON ENVIRONMENT

February 01, 2005 Hearing Room D

1:00 P.M. Tapes 8 - 9

MEMBERS PRESENT: **Rep. Gordon Anderson, Chair**

Rep. Bob Jenson, Vice-Chair

Rep. Mary Nolan, Vice-Chair

Rep. Phil Barnhart

Rep. Bill Garrard

Rep. John Lim

Rep. Diane Rosenbaum

STAFF PRESENT: **John Houser, Committee Administrator**

Mike Reiley, Committee Assistant

MEASURES/ISSUES HEARD:

State Agency Involvement in Biofuel Development – Informational Meeting

Kleen Fossil Fuel, Inc. Presentation – Informational Meeting

These minutes are in compliance with Senate and House Rules. Only text enclosed in quotation marks reports a speaker's exact words. For complete contents, please refer to the tapes.

TAPE/#	Speaker	Comments

TAPE 8, A

002	Chair Anderson	Calls the meeting to order at 1:04 p.m. Opens an informational meeting on state agency involvement in biofuel development.

STATE AGENCY INVOLVEMENT IN BIOFUEL DEVELOPMENT – INFORMATIONAL MEETING

005	Michael Grainey	Director, Oregon Department of Energy (ODOE). Submits and summarizes prepared overview of biofuels and energy production in Oregon **(EXHIBIT A)**.
058	Chair Anderson	Asks why it has been difficult for the state to use biofuels for transportation.
060	Grainey	Explains that creating a liquid fuel is a chemically added process and notes that the Midwest is better suited to produce corn, a major component of biofuels. Defines biodiesel as an organic compound from waste grease products, mustard seed, canola or other seeds. Defines ethanol as being produced from corn, starches and other cellulose including wood and wood waste. Discusses renewable energy sources.
220	Rep. Lim	Asks how many hybrid vehicles are in Oregon.
224	Grainey	Answers that there are approximately 4000 hybrid vehicles in Oregon that take advantage of state incentives.
225	Rep. Lim	Asks why there are not more hybrid vehicles in Oregon.
230	Grainey	Explains that the up-front cost of hybrid vehicles versus standard vehicles is higher. Notes the difficulty in getting vehicles, as initial production was exceeded by the demand. Explains the $1500 state incentive to defray the $3000-$5000 incremental costs over a comparable gasoline vehicle.
250	Rep. Garrard	Asks where the Energy Facility Siting Council gets its authority.
253	Grainey	Explains that the authority comes from state law.
259	Rep. Garrard	

		Cites the controversy in Klamath Falls with a power plant being sited on exclusive farmland.
270	Chair Anderson	Asks for an explanation of ethanol production sites in development.
273	Grainey	Answers that possible sites for ethanol production facilities are in Clatskanie, Boardman and Ontario.
286	Chair Anderson	Clarifies that the state would be involved in setting up the facilities. Asks if federal funds are involved.
290	Grainey	Answers that ODOE is not aware of any direct grants.
293	Anderson	Asks how large the state trust fund is.
295	Grainey	Explains tax credits and notes that the projects would exceed the $10 million per project limit and that the energy loan program is funded by bonds.
311	Chair Anderson	Asks where the authority for regulating emission controls lies.
315	Grainey	Answers that the Department of Environmental Quality (DEQ) would have the authority for addressing emission control issues.
325	Glenn Montgomery	Sustainable Business Liaison, Oregon Economic and Community Development. Submits and summarizes information regarding biofuel development **(EXHIBIT B)**.

TAPE 9, A

029	Rep. Jenson	Asks what economic advantages petrodiesel has over biodiesel.
035	Montgomery	Notes that the 25 cent per gallon premium on biodiesel is being paid to cover the added cost of processing it. Explains the federal tax incentive that will provide a one cent, per percent biodiesel tax credit. Points out that producing a 20% biodiesel mix would result in a 20 cent per gallon tax credit.
052	Rep. Jenson	Asks if the use of biodiesel leads to a dramatic improvement in environmental quality.

058	Montgomery	Explains that a B-20 blend will reduce various greenhouse gas emissions by approximately 25 percent and a B-100 will reduce emissions by 78 percent.
068	Rep. Jenson	Asks what effect the use of biodiesel would have on engines.
070	Montgomery	Answers that biodiesel is a cleaner burning fuel and has a positive impact on engine wear and tear. Cites a law effective in 2006 that requires ultra low sulfur diesel. Explains that there would be necessary modifications for vehicles moving to biodiesel.
091	Rep. Jenson	Asks if biodiesel use would lead to longer engine life.
093	Montgomery	Answers yes. Explains maintenance savings for the trucking industry in changing to biodiesel.
104	Rep. Jenson	Asks about the use of biofuels in trains.
106	Montgomery	Answers that he does not know.
108	Chair Anderson	Asks for an explanation of tax credits.
110	Montgomery	Explains the federal tax credit specific to biodiesel. Notes that ethanol has a 51 cent per gallon tax credit.
116	Rep. Lim	Asks how alternative fuel use in Oregon compares to other states.
120	Montgomery	Answers that he does not know, but notes that Oregon is at the forefront of alternative fuel use.
137	Rep. Lim	Asks about research and development of alternative fuels in Oregon.
140	Montgomery	Answers that there needs to be more, but there is some work being done at institutions such as Oregon State University. Notes that the Midwestern states have been more involved in biodiesel development.
160	Chair Anderson	Wonders about manufacturers' interest in biofuel development.
165	Brent Searle	Oregon Department of Agriculture. Submits and summarizes prepared information about agriculture and biofuels **(EXHIBIT C)**.

260	Chair Anderson	Asks how much of Oregon's agricultural lands would be necessary to adequately produce biofuel crops.
263	Searle	Answers that it could be 400,000 acres.
280	Rep. Jenson	Asks about increases in the number of acres and yield.
297	Searle	Explains the benefits of crop rotation on yield and pest control.
300	Rep. Jenson	Cites the example of an experiment in Pendleton of increasing wheat yields. Argues that Oregon has the potential to increase agriculture production. Discusses the Conservation Reserve Program (CRP).
332	Searle	Explains CRP renewal permits and the potential to bring agricultural land in Oregon back into production.
337	Rep. Nolan	Asks about water demand for growing crops.
344	Searle	Explains that most of the production in eastern Oregon would be on land that is not irrigated. Notes that there are drought-tolerant crops and that most would not involve irrigation.
362	Rep. Barnhart	Asks about the effect of low sulfur diesel requirement on using biodiesel for lubricity.
370	Searle	Answers that 2% biodiesel blend replaces lubricity in low-sulfur diesel.
386	Rep. Barnhart	Notes that it represents a substantial increase on the current production of biodiesel nationwide.
390	Searle	Answers that it would be a nationwide increase. Speculates that in Oregon, it would amount to 15 million gallons for a 2% blend.
395	Rep. Barnhart	Asks how Oregon's biodiesel production would be affected.
400	Searle	Answers that Oregon does not produce any biodiesel and imports approximately 1.5 million gallons so it would represent a 10-fold increase.

410	Rep. Barnhart	Clarifies that demand for biodiesel will increase 10-fold, but at the current production level, Oregon would be entirely dependent on imported biodiesel.
415	Searle	Answers that it is true in the short-term and notes that within 3 years there could be several million gallon facilities online in Oregon.
420	Rep. Barnhart	Asks about investment for an industrial infrastructure for biodiesel production.
424	Searle	Explains the costs involved with getting the land, building, and storage for a processing facility. Notes that it is capital intensive, but there is interest and the dilemma will soon "be broken" as capital comes in to build the facilities.

TAPE 8, B

016	Chair Anderson	Asks how much investment would be necessary to construct a production facility.
018	Searle	Answers that the 75-million gallon facility would require over $100 million in investments and a 15-million gallon facility would require $25-30 million.
023	Chair Anderson	Asks if the facility would serve only Oregon or Washington and Idaho as well.
025	Searle	Answers that if the larger facilities are built, agricultural production demand would be over 500,000 acres, which would require a regional effort.
030	Rep. Jenson	Notes that biodiesel production is capital intensive, and points out that as oil prices rise to over $50 per barrel, biodiesel becomes more economical, but if oil prices drop to $30 per barrel, "there won't be anybody talking about biodiesel."
038	Searle	Points out that the vice-president of Exxon stated that world oil production has peaked and is declining 4-6% per year and emerging economies of China and India will impact the supply. Cites Environmental Protection Agency (EPA) study that biodiesel production ratio of "energy out for energy put in" is 3.2 to 1 and petrodiesel ratio is less than 1.

057	Rep. Barnhart	Asks at what the point of cost of oil makes biodiesel economical.
065	Searle	Answers that he is unsure, but the current price is close. Notes interest and investments in biodiesel.
074	Rep. Barnhart	Speaks to potential for Oregon biodiesel investment and production.
105	Chair Anderson	Closes the informational meeting on state agency involvement in biofuel development. Recesses the meeting at 2:10 p.m. Reconvenes the meeting at 2:19 p.m. Opens the informational meeting on the Kleen Fossil Fuel, Inc. presentation.

KLEEN FOSSIL FUEL, INC. PRESENTATION – INFORMATIONAL MEETING

110	Ric Holt	Executive Vice-President of Government Relations, Fuel Max LLC. Introduces himself.
124	Michael Marks	Fuel Max LLC. Submits and summarizes prepared informational materials on biofuel additives including and overview of Fuel Max LLC and explanation of Ultra Clean Fuel Treatment (UCFT) **(EXHIBIT D)**. Offers PowerPoint presentation **(EXHIBIT D, Disc)**.

TAPE 9, B

004	Holt	Describes the tests done on UCFT in the South Carolina National Guard and cites the letter **(EXHIBIT D)** from Maj. James Boozell.
021	Chair Anderson	Asks if UCFT has received certification from EPA or Department of Environmental Quality (DEQ).
025	Dr. William Kurko	Clarifies the UCFT test results and explains the benefits of UCFT.
049	Rep. Garrard	Asks about the difference between UCFT and ethanol.
054	Holt	Explains how he became involved in with Fuel Max LLC and UCFT.
065	Marks	Explains the UCFT testing done at Northrop Aircraft in Pico Riviera, California **(EXHIBIT D)**.
095	Chair Anderson	Asks if the tests were EPA certified.

100	Stanley Shaw	Fuel Max LLC. Explains that the tests were performed in Monmouth County, New Jersey and were EPA certified.
110	Dr. Kurko	Explains test data and standards.
125	Marks	Says that he will forward the results of the tests to the committee. Explains the tests done by Central Oregon & Pacific Railroad.
140	Dr. Kurko	Explains test data and standards.
150	Marks	Continues explaining the test data and standards.
174	Dan Lovelady	General Manager, Central Oregon & Pacific Railroad. Gives company overview. Describes the experience with UCFT and the test results.
200	Marks	Explains UCFT benefits.
320	Holt	Points out that UCFT improves the performance of other fuel additives.
327	Chair Anderson	Closes the informational meeting on the overview of Kleen Fossil Fuel, Inc. Adjourns the meeting at 3:03 p.m.

EXHIBIT SUMMARY

A. **Biofuel Development, Department of Energy, Prepared Overview, Michael Grainey, 49 pp**
B. **Biofuel Development, Department of Economic and Community Development, Prepared Overview, Glenn Montgomery, 1 p**
C. **Biofuel Development, Oregon Department of Agriculture, Prepared Overview, Brent Searle, 2 pp**
D. **Kleen Fossil Fuel, Informational Packet and PowerPoint Presentation, Michael Marks, 35 pp**