February 10, 2021

To: House Committee on Agriculture

From: Randy Stookey, Senior Vice President of Government Affairs and General Counsel
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Re: **Kansas Biofuels Industry Presentation**

Chairman Rahjes and members of the committee, thank you for the opportunity to present today on the Kansas biofuels industry on behalf of Renew Kansas Biofuels Association (Renew Kansas).

Renew Kansas is the voluntary state trade association with membership encompassing the ethanol and biodiesel processing, storage, and transportation industries in Kansas. Renew Kansas' mission is to protect and promote the biofuels industry, and demonstrate the positive impacts of biofuels on the Kansas and national economy. Renew Kansas supports the public policy and economic benefits that flow to every American from biofuels.

Across Kansas, our member biofuel processing plants contribute to the Kansas economy and provide gainful employment for thousands of Kansans. These industries also function as good corporate citizens, paying millions of dollars annually in property taxes that help support schools and local government.

The following are some policy and legislative initiatives of the Kansas Biofuels industry:

Biofuels' Role in GHG Reduction

Biofuels will play a key and necessary role in new federal environmental and climate policy. A recent study* finds that using corn ethanol in place of gasoline reduces greenhouse gas emissions by almost 50%. **Harvard University, Tufts University, and Environmental Health & Engineering Inc.*

While electric vehicles (EV) will eventually enter the mass market, this will not come over night. Today, higher blends of biofuels (such as E15, E30, and B20) are an immediate way to achieve reductions in greenhouse gas. While Kansas waits for EV usage to grow, we can take actions now to reduce carbon and air toxins by simply incentivizing and clearing the path for higher-blend biofuels.

Increased use of higher blend biofuels can be implemented quickly and easily, and higher biofuel blend policies would help bridge the transition from petroleum-based vehicle engines to future modes of transportation.

Low Carbon Fuel Standard (LCFS)

A *Midwest low carbon fuel standard* (a hybrid version of California law) has been discussed for many years as a way to attain cleaner fuels through use of higher blends of ethanol. As this kind of a fuel standard would likely require federal policy changes, state initiatives such as tax credits for higher ethanol blends are a more immediate and less expensive way to achieve greenhouse gas reductions.

E15 Fuel

Often branded as *Unleaded 88,* E15 (15% ethanol fuel) is a clean, safe, and low-cost vehicle fuel with slightly lower evaporative emissions than E10 (10% ethanol fuel). EPA first approved the use of E15 in vehicles in 2011, and it is now approved for use in more than 90 percent of the cars on the road (all vehicles made in model year 2001 and after).

E15 typically costs 3 to 10 cents per gallon less than E10. This cost difference has prompted fuel retailers to invest in infrastructure to make E15 available to their customers. Because of this investment, E15 is now available at more than 1,500 retail locations in 30 states.

Higher blends of ethanol fuel are also safer for consumers as they displace petroleum-based aromatics in gasoline, reducing the level of harmful toxic emissions. According to the Renewable Fuels Association, in 2018, ethanol-blended gasoline helped reduce greenhouse gas emissions from mobile sources by 55 million metric tons - the equivalent of removing 12 million cars from the road for an entire year.

Increasing the amount of E15 purchased at the pump is a real-time green-house gas reduction plan for the state that is also a win for the environment, Kansas consumers, the agricultural economy, and the ethanol industry.

States have taken various actions to encourage the use of E15. For instance, Iowa recently adopted an income tax credit for retailers who sell higher blends of biofuels (E-15 and above). Similar legislation was introduced in Nebraska and Minnesota. (3 cents/gal credit for E15, and 5 cents/gal credit for E25 or higher).

E-15 Sales in the Kansas City Metropolitan Area

Legacy provisions in Kansas' State Implementation Plan (SIP) for the Kansas City area have prohibited fuel retailers in that area from selling E15 during the summer months. Revocation of this regulation would open up the Kansas City area for E15 to fuel retailers and consumers.

Allowing the sale of E15 in Kansas City year-round would provide consumers more options to purchase a high-quality fuel at a lower price. In fact, the Kansas Dept. of Health and Environment estimates that allowing Kansas City consumers the opportunity to purchase E15 could save them more than $13 million annually.

For this reason, Renew Kansas, Kansas Corn, and other stakeholders have been working on a multi-year project to amend the Kansas SIP. We are making terrific progress on this project, and last month EPA published notice of the proposed change in the federal register.

It seemed as though this non-controversial change would happen very easily. However, following the election, the new administration, as is customary, directed federal agencies to slow down the regulatory process in order to allow for time to review pending rules. Proposed rule changes, such as ours, are now required to undergo an additional (up to 60 days) review.

The Kansas SIP change is scheduled to become final around February 18, but this delay could push it out as far out as mid-April. Hopefully, however, the new EPA Administrator will be confirmed soon and will bless our regulation in time for the 2021 summer driving season.

Kansas Biodiesel

In 2020, 2.9 billion gallons of biodiesel were produced in the United States. Much like ethanol has amplified the demand for Kansas corn, biodiesel strengthens the demand and price of Kansas grown soybeans.

In Wichita, Cargill operates a 60-million gallon biodiesel plant, while East Kansas Agri-Energy annually produces four million gallons of renewable diesel at its facility in Garnett. In addition, Seaboard Energy is currently constructing an 85-million gallon renewable diesel plant in Hugoton, Kansas, which is scheduled to begin operating in 2022.

There are multiple other biodiesel plants just across our border in both Missouri and Oklahoma, and three large refineries in Kansas are now blending biodiesel into their fuel. (Coffeyville Resources, CHS Refinery, and Holly Frontier).

In the past, the Kansas legislature has acted to incentivize biodiesel production through adoption of a 30-cent-per-gallon production tax incentive – although this program is not currently funded. In addition, a requirement exists for the Kansas Dept. of Transportation to use B10 if the price is no more than 10-cents-per-gallon higher than regular diesel fuel.

Last year, Renew Kansas advocated for House Bill 2543 which would have defined E15 and B10 as an “alternative fuel.” This would have allowed investments in fueling station infrastructure for those fuels to qualify for an existing income tax credit.

Under KSA 79-32,201, fuel retailers can qualify for an income tax credit of up to 40% of their investment (up to $100,000) to install equipment for selling alternative fuel. The fiscal note on that bill, which did not advance from the House Tax Committee, was around $5 million a year.

Current Biofuel Industry Hurdles

Kansas biofuel plants have been hurt over this past year due to a drastic reduction in product demand brought on by the pandemic. Exports of U.S. ethanol were also down last year by 9% (to 1.33 b/gal), due in large part to effects of the worldwide pandemic. As a result, many Kansas

plants slowed production. Now, due also to strengthening grain markets, some plants are considering idling their operations for the remainder of the crop year.

While some neighboring states have been able to offset this financial stress to the industry with federal CARES funding, Kansas biofuel plants have been left at competitive disadvantage. For this reason, we would encourage use of Kansas federal CARES money to help stabilize our industry.

Effects of High Energy Costs and High Property Taxes

The ability of our members to operate a competitive business is often dependent upon the cost of inputs and overhead such as electric utilities and property taxes.

Biofuel processing facilities are high industrial users of energy. It is understood that Kansas has the highest electric rates in our region. Paying higher energy rates than similarly-situated energy users in the Midwest causes Kansas plants to be less competitive. In addition, biofuel processors operate continuously, and are assessed surcharges at industrial peak use rates. Unfortunately, these high energy costs have become unsustainable, and many in the industry are considering investments in on-site cogeneration in order to remain viable.

For this reason, and to ensure Kansas remains a competitive state to do business in the future, our industry supports sound, forward-looking electric policy to lead Kansas to regionally competitive electric rates and reliable electric service. Bills are now being heard on this important issue in both the House and Senate.

In recent years, the property tax burden on our members has grown exponentially through increases in property valuations. Biofuel processing plants are complex industrial properties that are often difficult for county appraisers to appropriately classify and value.

This has created inconsistency in property valuations across the state, and resulted in many costly property tax valuation appeals. Our industry strives for greater certainty, transparency, and fairness in the property tax valuation and assessment process.

For this reason, we are continually supportive of common-sense and practical legislation to improve the property tax valuation system in Kansas, to hopefully allow our industry to continue to operate.

Thank you for allowing us the opportunity to testify.