

Robert L. Leidich
Manager, Regulatory and Advocacy Group
BP Products North America Inc.
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Good Morning Chairman White, Chairman Musto and members of the committee. Thank you for this opportunity to bring to your attention information on several potential hurdles confronting this fuels initiative.

My name is Bob Leidich. I am the Manager of BP's Regulatory and Advocacy Group. Today, BP is one of the largest, if not the largest blender of ethanol in the U.S with a long history of providing gasoline blended with ethanol. While we believe that biofuels can help meet the increasing demand for renewable transportation fuels and lower overall greenhouse gas emissions, we have major concerns surrounding biofuel mandates. Before I address those concerns, I would like to share with you several biofuel activities that BP has underway.

Last fall BP announced the formation of a dedicated, global BP Biofuels business group with staff located in Europe and the U.S. Soon thereafter, we announced our joint venture with DuPont to develop, produce and market the next generation of biofuels. BP and DuPont have been working together since 2003 to develop advanced biofuels with properties that can help overcome the limitations of existing biofuels. DuPont has world-class biotechnology and bio-manufacturing capabilities. By pooling the expertise at DuPont and BP, we aim to be the world leaders in the development and production of advanced biofuels.

In February, 2007 BP announced the selection of the University of California Berkeley and its partners the University of Illinois, Urbana-Champaign and the Lawrence Berkeley National Laboratory to join in a \$500 million research program that will explore how bioscience can be used to increase energy production and reduce the impact of energy consumption on the environment.

This past June, we announced an investment in the construction of a \$400 million ethanol plant plus a high technology demonstration plant in the UK. The demonstration plant will help advance development work on the next generation of biofuels. This investment is being made as part of a joint venture in which BP and British Sugar will each hold 45 per cent and DuPont the remaining 10 per cent.

In July, we announced yet another joint venture. This one with D1 Oils plc, the UK-based producer of biodiesel, will look at jatropha as a new sustainable non-food feedstock. Jatropha does not compete with vital food crops for good agricultural land. It is a tree that can grow on a wide range of land types, including non-arable, marginal, and waste land and is resilient to drought conditions. BP will invest close to \$90 million of a total joint venture investment of \$160 million over the next five years with production of jatropha oil to begin in 2008.

These investments are one measure of BP's commitment to the widespread use of renewable fuels in a manner that will help to improve supply, reliability and customer satisfaction, while lowering greenhouse gas emissions.

As you consider the merits of The Penn Security Fuels Initiative and its impact upon the citizens of Pennsylvania, I suggest you take into account the impact of the potential hurdles that I will discuss today.

I would like to begin with the situation confronting ethanol blending in the seven county Pittsburgh area that requires 7.8 psi RVP gasoline from May 1 to September 15th each year. If 10% ethanol blending were to be required across Pennsylvania, the 7.8 RVP gasoline for Pittsburgh would have to undergo a major reformulation, in order to meet the fuel regulations for Pittsburgh. We would not be able to simply add 10% ethanol to the 7.8 RVP gasoline. When 10 % ethanol is added to gasoline the RVP level increases from 0.6 to 1.3 psi. In order to offset this increase in RVP, we would have to produce and distribute a base gasoline with an RVP level of 6.8 or less. While the Clean Air Act and U.S. EPA allow conventional gasoline containing 9 to 10% ethanol a 1 psi RVP waiver, this waiver was eliminated as part of Pennsylvania's ozone State Implementation Plan for Pittsburgh. One or more refiners may require 1 to 4 years to make the necessary

capital investments, in order to produce a base gasoline for Pittsburgh with a lower RVP level necessary to blend ethanol and still meet the 7.8 RVP requirement. Even if Pittsburgh were inclined to reinstate the 1 psi RVP waiver for 10% ethanol blends, a revised State Implementation Plan would have to be developed and submitted to EPA for approval, which would likely take 1 to 3 years.

With U.S. EPA evaluating the need to tighten the ozone standard from 0.08 to 0.075 ppm or even further to 0.060 and issue a final rule by March 12, 2008, reinstatement of the 1 psi RVP waiver becomes even more questionable. A statewide mandate for ethanol and biodiesel blending would also make it much more difficult for Pennsylvania ozone nonattainment areas to achieve attainment. A tighter ozone standard coupled with a statewide ethanol and biodiesel mandate would exacerbate the situation even further. The increase in ozone precursor emissions from the statewide ethanol and biodiesel mandate would have to be off set by some other control strategies which typically means increased costs for consumers.

The market has shown that when ethanol is readily available and competitive, industry will make the necessary investments to enable the blending of ethanol. This outcome is most favorable to the consumer. Mandating a renewable fuel prematurely, may impose a cost structure that would be disadvantageous to the consumer.

In addition to creating new gasoline production hurdles, a new base gasoline requirement for Pittsburgh may create additional distribution hurdles. This base gasoline would clearly be a boutique fuel for Pittsburgh. During times of supply disruptions, alternate supplies of such a base fuel would be limited. Such a base fuel for 87 octane regular unleaded gasoline, may even be a sub octane fuel that when blended with ethanol would meet the octane level posted on the pump. If there would happen to be a shortage of ethanol at any point in time, the base gasoline would not be marketable, since it would be an unfinished product with insufficient octane. The Penn Security Fuels Initiative would also be dependent upon nearly two thirds of the statewide ethanol requirement being met by out-of-state ethanol production. A reliable distribution system for such ethanol would be essential to keeping retail outlets supplied with fuel, day in and day

out. Any supply disruptions would obviously be disadvantageous to the consumer.

As production, distribution, and blending hurdles are eliminated more and more renewable fuels are entering the market. Mandating such renewable fuels before production, distribution and blending issues are resolved, only leads to additional costs and supply risks that we should all try to avoid.

Thank you for your time and consideration of these issues. I would be happy to answer any questions you may have.