

SB 372

RELATING TO BIODIESEL.

Requires the director of business, economic development, and tourism to adopt rules requiring diesel fuel sold in the State to contain increasing amounts of biodiesel.

Requires that all state owned and operated on-highway diesel motor vehicles use fuel containing no less than twenty per cent biodiesel by 7/1/2015. Requires distributors to file statements with the director, and makes the statements and their contents confidential information. Adds a definition of biodiesel. Provides penalties for violations.

Deletes the State's ethanol content requirement



**DEPARTMENT OF BUSINESS,
ECONOMIC DEVELOPMENT & TOURISM**

NEIL ABERCROMBIE
GOVERNOR

RICHARD C. LIM
DIRECTOR

MARY ALICE EVANS
DEPUTY DIRECTOR

No. 1 Capitol District Building, 250 South Hotel Street, 5th Floor, Honolulu, Hawaii 96813
Mailing Address: P.O. Box 2359, Honolulu, Hawaii 96804
Web site: www.hawaii.gov/dbedt

Telephone: (808) 586-2355
Fax: (808) 586-2377

Statement of
Richard C. Lim
Director
Department of Business, Economic Development, and Tourism
before the
**Senate Committees on Energy and Environment
and Commerce and Consumer Protection**
Thursday, February 7, 2013
2:45 PM
State Capitol, Conference Room 225

in consideration of

SB 372 RELATING TO BIODIESEL.

Chairs Gabbard and Baker, Vice Chairs Ruderman and Galuteria, and Members of the Committees.

The Department of Business, Economic Development, and Tourism (DBEDT) has concerns about SB 372, which would repeal the current ethanol content requirement and replace it with a requirement that diesel fuel for motor vehicles shall contain volumes of 5% biodiesel by 2015, 10% biodiesel by 2020, and 20% by 2025.

Our first concern is that the high levels of biodiesel proposed for 2020 and 2025 could void warranties. The ASTM¹ International specification for diesel fuel limits the amount of biodiesel to 5%. Levels higher than 5% are not approved for use in many diesel vehicles and may not be compatible with all diesel fuel storage, transport, or

¹ ASTM International (formerly the American Society for Testing and Materials) is the organization that sets industry standards referenced by governments, testing laboratories and certification programs for materials, products, systems and services used in construction, manufacturing and transportation.

dispensing equipment. Therefore, we are unable to support the requirements proposed for 2020 or 2025.

We are also concerned that we are not adequately equipped with the required human and financial resources to carry out the requested tasks for any of the mandate years in our budget plan.

Also, there are already several distributors and fleets using biodiesel successfully without a mandate. Hence, another concern is that a new mandate could interfere with the successful voluntary efforts and positioning of the current market participants.

Our final concern is if this bill were to be moved out of committee with the ethanol repeal section included, such an action could be interpreted by fuel distributors and investors with great skepticism.

Thank you for the opportunity to offer these comments.

**Testimony of
Gary M. Slovin / Mihoko E. Ito
on behalf of
The Alliance of Automobile Manufacturers**

DATE: February 6, 2013

TO: Senator Mike Gabbard
Chair, Committee on Energy and Environment
Senator Rosalyn H. Baker
Chair, Committee on Commerce and Consumer Protection
Submitted Via ENETestimony@capitol.hawaii.gov

RE: **S.B. 372 – Relating to Biodiesel**
Hearing Date: Thursday, February 7, 2013 at 2:45 pm
Conference Room 225

Dear Chair Gabbard, Chair Baker and Members of the Joint Committees on Energy and Environment and Commerce and Consumer Protection:

I am Gary Slovin speaking on behalf of the Alliance of Automobile Manufacturers (“Alliance”), regarding S.B. 372. The Alliance is concerned about and **opposed** to S.B. 372 for a number of reasons. Fundamentally, very few vehicles can run on fuel that consists of more than 5% biodiesel.

An OEM Perspective on Biodiesel Blends Greater Than B5

Consumers need access to multiple biodiesel blends for the foreseeable future. While automakers understand the need to support Hawaii biodiesel producers, state mandates requiring that all fuel be a certain blend are problematic both for vehicle manufacturers and for consumers, and they create patchworks around the country.

The Facts:

- The existing passenger car fleet and many future vehicles are designed to run on biodiesel no greater than B5.
 - o A number of truck brands are currently able to use biodiesel blends up to B20.

Gary M. Slovin
Mihoko E. Ito
Christine Ogawa Karamatsu
Tiffany N. Yajima

1099 Alakea Street, Suite 1400
Honolulu, HI 96813
(808) 539-0840

- Automakers support clear pump labels that identify the blend and that encourage customers to check owner manuals to ensure appropriate fuel selection.
- Misfueling creates risk of damage to the car and risk of liability for fuel suppliers, dealers, and the State in cases where mandates eliminate access to needed fuels.

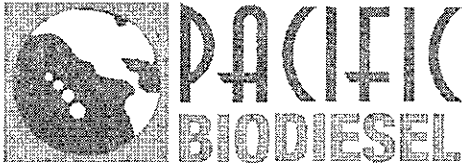
Concerns about Retail Biodiesel Quality Issues:

- o Contaminants
- o Biodiesel “spoils” rapidly in vehicle tanks under summer conditions
- o Water easily dissolved in biodiesel

Customer Issues: The severity or likelihood of these issues is magnified when high biodiesel blends are used in vehicles not designed for them. The potential for a lack of warranty-compliant biodiesel drives unpleasant customer experiences with dealers, manufacturers and fuel retailers.

- o Plugged fuel filters
- o Engine damage due to sludging, oil dilution even from good fuel
- o Damaged fuel injection and engine components due to poor quality and/or degraded fuel

Thank you for the opportunity to submit testimony.



40 Hobron Ave.
Kahului, Hawaii 96732
Phone (808) 877-3144
Fax (808) 877-5030
www.biodiesel.com

February 5, 2013

TESTIMONY ON SB372, RELATING TO BIODIESEL

Support

TO: Senator Mike Gabbard, Chair, Committee on Energy and Environment
Senator, Russell E. Ruderman, Vice Chair

Senator Rosalyn H. Baker, Chair, Committee on Commerce & Consumer Protection
Senator Brickwood Galuteria, Vice Chair

Hearing February 7, 2013 at 2:45 pm, Conference Room 225

From: Samuel Millington
Pacific Biodiesel Technologies, LLC

Aloha Chairs, Vice Chairs, and Distinguished Members:

My name is Sam Millington and I am the new CEO at Pacific Biodiesel Technologies (PBT), working closely with Bob King who is now Chairman of the Board. As some of you may know, PBT is a fast-growing, values-driven, Hawai'i-based biofuel technology and production company that has been supplying the State with biodiesel fuel since 1996.

I have come before you today to state that PBT supports the intent of SB372.

However, we have questions and/or reservations about the meaning of one specific piece of language embedded in *Section 1: Biodiesel Content Requirement*, item (b). We are concerned that the phrase "*competitively priced biodiesel*" is not clearly defined and that future decisions about price and cost calculation may not take into account many of the value-added economic benefits that a company such as PBT has integrated into its community-based business and production model.

For example, PBT's unique technology, in combination with our founding commitment to local, community-based production of renewable fuels, means that we strive to price our fuel against the cost of production. As we have learned through our biodiesel contract with the City and County of Honolulu, sometimes our price is cheaper than biodiesel imported from the Mainland, sometimes it is more expensive, but on the whole our pricing structure is significantly more stable allowing for more accurate budget forecasting.

In addition, our community-centric production model means that on Maui, for example, we have saved the County a significant amount of money due to the near 100% reduction of oil and grease spills or overflows in the landfill and at the wastewater treatment plant. Because we collect and process used cooking oil and grease trap waste at our facility, we have helped to extend the life of the landfill.

renewable • sustainable • community-based

Another significant economic benefit accruing from our unique business and production model is directly linked to our practice of collecting used cooking oil and grease trap waste free of charge, effectively saving local restaurants millions of dollars over the years.

It should also be noted that as the only in-State producer of biodiesel, we create diversified, quality employment opportunities for Hawai'i's residents. This, in fact, is occurring right now on Big Island as our cutting-edge new plant in Kea`au comes fully online. We are in the process of hiring more than a dozen new employees for this plant. These positions include managers, plant engineers and operators, support staff, and agricultural specialists.

And with the recent closure of the Tesoro refining facility, as well as Chevron's likely decision to follow suit in the future, PBT will eventually become the only in-state fuel refiner. This will afford us further opportunities to expand our operations and hire more Hawai'i-based staff. In addition, because most of our investors are local, this means that money generated through our business tends to stay in-State and not flow to the Mainland.

PBT is also committed to promoting agriculture and sustainable farming practices through our production model, which calls for the purchase of crops whose seed oils we will process in a crushing mill. We currently have a number of agricultural initiatives underway, including the Hawai'i Military Biofuel Crop Project, which are exploring the most effective economic and environmentally-sound planting and harvesting techniques. This model will also help us develop a range of crop by-products into commercially viable goods and service opportunities that will benefit Hawai'i's farmers, ranchers, and entrepreneurs.

Finally, we are pleased to announce that PBT is collaborating with Stanford University in a project where graduate students are conducting a cost-benefit analysis of our business model. The results of this study will quantify many of the economic benefits that accrue to Hawai'i based on PBT's production practices.

To summarize, Pacific Biodiesel Technologies supports the intent of SB372.

At the same time, however, we also believe that this Bill could be strengthened by clarifying the language and meaning of "*competitively priced biodiesel*" as written into Section 1. In this particular context, it is our position that a Hawai'i-based company such as PBT --with a community-based production model that focuses on local economic and environmental sustainability concerns-- offers significant direct and indirect economic benefits that should be factored into any decision-making processes arising out of SB372's provisions.

Mahalo for your hard work on this important issue and for your consideration of my testimony.

Sincerely,

Samuel W. Millington
CEO, Pacific Biodiesel Technologies, LLC