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"The Next Frontier in Bio-fuel Production"
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Energy, Science, and Technology

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Senator Thune, I appreciate the opportunity to testify on behalf of VeraSun Energy today.

Ethanol Industry is a Success Story

Clearly, the expansion of the ethanol industry is a success story in terms of helping to decrease our dependence on foreign oil, reducing greenhouse gases, and creating economic development in rural America. But we are just beginning.

We believe the ethanol industry can and will respond to the President's call for 35 billion gallons of renewable fuel to be produced by 2017. Even though cellulose ethanol holds great promise, we believe corn-based ethanol will contribute substantially to satisfying this goal.

In order to ensure the industry continues to expand. The Federal Government should focus efforts on growing the demand for renewable fuels. Near-term efforts should be focused on increasing ethanol's use as a blend component to support the rapid growth of the industry. Long-term efforts should focus on policy to help us transition to E85.

Near- Term - Increasing Blends beyond 10%

The Federal Government has succeeded in spurring ethanol production in the United States through the combination of the Renewable Fuels Standard and the Volumetric Ethanol Excise Tax Credit (VEETC). We believe maintaining the blender's tax credit and keeping the secondary import tariff as an offset to VEETC are important short-term drivers of demand.

VeraSun also believes that a 20% blend of ethanol or "E20" provides a catalyst for transition from ethanol as an additive to gasoline to ethanol as an alternative to gasoline. E20 provides the near-term demand driver that will be critical to achieving the longer-term objectives of E85 and robust cellulosic ethanol production.

Today, less than three percent of the vehicles on the road are E85 compatible. In order for E85 to develop at a sufficient pace under today's law, significant near-term mandates would need to be imposed on automotive companies and fuel retailers. We believe this can be more successfully accomplished over a longer period of time with incentives rather than mandates, if there is support for the development of a nationwide E20 market.

Specifically, E20 would double potential ethanol demand in the current blend market. This change will not only foster our energy independence by displacing gasoline, but also will provide incentives for the ethanol industry to continue to grow while we work to develop a

nationwide E85 market. By transitioning from E10 to E85 through E20, we also will ensure the creation of a vibrant cellulosic ethanol industry. This new near-term demand in the market would help ensure continued investment in research and early-stage development of cellulosic ethanol. Interestingly, Brazil currently sells gasoline blended with 24% ethanol, as well as 100% ethanol to fuel its automobiles--quite similar to the suggestion I am making today.

In order to spur the use of E20 in existing automobile fleets, the Federal Government must do two things.

1. It must fast track EPA authorization of ethanol blends up to E20 as a transportation fuel under the Clean Air Act.
2. It should provide assistance to automakers in making the transition.

I would like to thank Senator Thune for his letter to the EPA requesting a prompt review of the E20 blend.

Long-Term - Provide Incentives for the Development of an E85 Market

By helping create new demand for ethanol through the use of E20, the Federal Government will provide additional time for the E85 market to develop.

As one of the largest ethanol producers, we have worked to insure that a robust E85 market occurs. In the past 24 months, VeraSun has pursued an aggressive strategy in cooperation with Ford and General Motors to increase the availability of E85.

VeraSun's E85 is available today at more than 80 retail locations across eight states. We plan to continue to work to expand the number of fueling stations offering VE85 from coast to coast in 2007.

From this experience, we have gained significant insight on what is necessary to develop E85 in the United States. In order to see a robust E85 market by 2017, the Federal Government must address the following items.

1. Improve E85 economics through the creation of an E85 Blenders Credit;
2. Create an auto incentive for the production of ethanol optimized FFVs; and
3. Increase pump incentives to expand the number of retail stations offering E85.

Currently, the market values ethanol more highly for E10 blending than it does for the E85 market. Allow me to explain; FFV's are currently not designed to take advantage of E85's high octane. Since refiners are able to take advantage of ethanol's high octane to increase refinery output and improve the economics of gasoline production, the product is valued more highly as a blend component in E10.

To improve E85 economics, Congress should create an additional blenders credit for E85 within the VEETC system. In addition, VEETC, including the new E85 incentive, should be extended. By providing an additional credit for blending E85, we will level the playing field and increase the supply of E85.

In addition the Federal Government should also provide incentives for automakers to improve

FFV technology. To spur the production of more ethanol-efficient FFVs, Congress should provide tax incentives for automakers that produce FFVs with ethanol economy comparable to gasoline.

Our experience with VE85 over the last two years also indicates that more must be done to help retailers offer E85. To increase the number of retail stations offering E85, the current incentives for retailers to install E85 pumps - more specifically blender pumps - should be increased.

I would again like to thank Senator Thune for his leadership on the E85 pump legislation co-sponsored with Senator Salazar. Hopefully we will see this legislation move forward in congress in the very near future.

Fostering Cellulose Technologies

We believe the market must see a path toward E85 in order for cellulose ethanol to evolve. The E10 and perhaps the E20 market could largely be served by corn-based ethanol. In large part, the Federal Government's focus on increasing demand for the use of renewable fuels in the near and long term will give investors' confidence in aggressively pursuing the commercialization of cellulosic ethanol.

The Federal Government can, and should, do more to jumpstart the commercialization of cellulosic technologies. Specifically, the Federal Government should do three things to help spur the development of cellulose technologies.

1. Increase biomass to ethanol research and development funding.
2. Streamline and increase the availability of Federal grants and loan guarantees for investments in cellulose production facilities.
3. Offer additional blenders tax credit for ethanol produced from cellulose.

Conclusion

We have all worked hard to make ethanol and renewable fuels a huge success story here in South Dakota and in the United States, but no one.... Not VeraSun, or any other producer deserves more credit than our nation's farmers. It is because of our American farmers that we have this opportunity today. There is such optimism and hope for what this industry can do for our communities and our country. We look forward to working with you to chart the course for years to come. Thank you.