

**Statement of Don Endres
CEO, VeraSun Energy**

For

**The United States House of Representatives Select Committee on Energy Independence
and Global Warming
Hearing Entitled The Gas is Greener: the Future of Biofuels**

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Good morning, Mr. Chairman and Members of the Committee. I appreciate the opportunity to testify on behalf of VeraSun Energy today.

Having grown up on a farm in eastern South Dakota, I am pleased to be representing one of the nation's largest producers of renewable fuels. The company has four operating ethanol production facilities located in Aurora, SD, Fort Dodge, IA, Charles City, IA, and Linden, IN. Four facilities are currently under construction in Albion, NE, Linden, IN, Hartley, IA, Welcome, MN, and Bloomingburg, OH. An additional plant is under development in Reynolds, IN. Upon completion of the new facilities, VeraSun will have an annual production capacity of approximately one billion gallons. The Company also has perfected a process to extract oil from dried distillers grains, a co-product of the ethanol process, for use in biodiesel production.

We believe ethanol from cellulosic feedstocks will complement corn-based ethanol in meeting the growing global demand for renewable fuels. VeraSun has invested in SunEthanol, a Massachusetts-based company working to commercialize cellulosic ethanol production technology. If successful, their technology holds the promise to convert a variety of feedstocks, such as wood chips, corn stover, or switchgrass, into ethanol.

Additionally, VeraSun markets E85, a blend of 85 percent ethanol and 15 percent gasoline for use in Flexible Fuel Vehicles (FFVs), directly to fuel retailers under the brand VE85(TM). VeraSun's branded E85 is now available at more than 110 retail locations in 11 states and the first E85 fueling location in the District of Columbia.

Ethanol Industry a Success Story

I choose to invest in the ethanol industry because I believe ethanol is a clean high octane component that has value to refiners and ultimately is a promising business opportunity for our investors. But I also invested in this business because of the promise it holds for our nation – energy security, economic opportunities for rural communities, and improving our environment.

The ethanol industry has grown significantly in recent years due to demand from the market and in part because of policies put in place by the Federal government. The industry has grown from a 900 million gallon industry in 1990 to an industry with 131 ethanol bio-refineries with nearly 7 billion gallons of production capacity today. Enactment of the Renewable Fuels Standard in 2005 supported unprecedented growth of the domestic ethanol industry. Today there are 73 new

plants under construction and ten others are being expanded. When complete, these efforts will add over six billion gallons of ethanol production capacity, more than doubling current production within the next two to three years. Today, approximately 50 percent of the nation's gasoline is blended with ethanol. Because of the growth of the ethanol industry, it appears there will be enough ethanol to blend 10 percent ethanol in 100 percent of the nation's gasoline.

Clearly, the expansion of the ethanol industry is a success story. It is the most significant step this nation has taken to diversify our liquid transportation fuel since the advent of the automobile over a century ago. Each of these bio-refineries creates over \$100 million in local economic activity, generates \$20 million in additional household income, and supports the creation of as many as 650 permanent new jobs throughout a rural community. And, with current commercial ethanol production technologies, we are reducing greenhouse gas emissions over fossil fuels by nearly 30 percent. But we are just beginning.

Today, this industry is still too small. Our 7 billion gallons of current capacity makes up only 5% of the 140 billion gallon domestic gasoline market. We see great promise in the future of renewable fuels in the transportation sector. Now is the time to springboard from the solid foundation of the ethanol industry to diversify both the feedstock used to produce renewable fuels and how they are used in our transportation fleet.

If we are to make game changing steps towards energy independence, addressing global warming, and creating new economic opportunities, three very important items have to come together.

One ... private enterprise must be empowered to work.

Two ... the Federal government must lay the framework to enable the industry to succeed.

Three ... consumers must have both the access and the incentive to join our mission.

Private Enterprise must be Empowered to Work

Oil is now regularly breaking new record highs. This has caused a lot of players to jump into the race to find alternatives. In the past, their enthusiasm and investment rose and fell with the cost of a barrel of oil. While that could happen again, I believe that world events have created a fundamental change.

Walter Wristen, the former chairman of Citibank, once famously said that capital goes where it is well treated. And the very worst way to treat capital is to throw it into uncertain situations. It is critical, now more than ever, that we have Federal support to help us achieve ethanol's potential.

Our first objective should be to look for every opportunity in Congress to achieve the certainty that vital investment capital is looking for – product demand.

I experienced first hand the importance of government policy when we took VeraSun public in 2006. It became very clear, very quickly that people participating in the financial markets understood the technology and believed in the demand. They understood the importance of renewable fuels, and they were excited about investing in something that could do so much for our national security and for our economy.

Their big questions were about policy. What role would the government play in promoting renewable fuels? Would the Renewable Fuels Standard work as promised in mandating the percentage of motor fuel in the US that will be obtained from renewable sources? Could foreign-sourced ethanol be allowed to undercut US production?

The same questions that faced VeraSun in 2006 are facing those seeking investment in cellulosic technologies from the financial markets today. How much demand will there be for ethanol beyond the 14 billion gallons of demand created through the E10 market? Will the Federal government expand the Renewable Fuels Standard? What ways will they help expand E85?

It is critical that the Federal government act this year to pass an energy bill that begins to address these questions if we want to see continued development of the ethanol industry.

Federal Framework to Spur Demand and Use of Renewable Fuels is Necessary

The ethanol industry is outpacing the current RFS schedule. Under current law, the RFS mandates the use of 4.7 billion gallons of ethanol in 2007 and 5.4 billion in 2008. According to the Renewable Fuels Association, the ethanol industry produced 4.9 billion gallons in 2006 and is on pace to produce approximately 6.5 billion gallons this year. Because of this the RFS is not acting as a market driver at the present time.

That being said, with ethanol selling at \$1.55 per gallon and conventional gasoline selling at over \$2 per gallon, the market should still be steering use of ethanol to lower the prices that consumers pay at the pump. By blending ethanol in gasoline today, refiners could save consumers up to 10 cents per gallon and mitigate the increase in gas prices as a result of record oil prices. Unfortunately, not all refiners are capitalizing on the economic advantages of ethanol blending.

One of the most effective things Congress and the President can do in the short-term is enact an energy bill this year that expands and increases the Renewable Fuels Standard (RFS). The Senate-passed RFS calls for 8.5 billion gallons in 2008, 10.5 billion in 2009, and 12 billion gallons in 2010. These early year increases are critical to fostering the continued development of the ethanol industry.

Building the Future of Biofuels – Increasing Demand and Availability to Consumers

Beyond addressing these near-term issues, the Federal government must continue to focus on creating new demand into the future. We support the Senate's call to expand the RFS to 36 billion gallons by 2022 including a significant call for ethanol production from cellulosic sources.

We believe that this is a very achievable goal, but one that will require widespread adoption of E85 usage. Because of the successful growth of the ethanol industry, reports indicate that we will meet the demand of the current 10 percent blend market with corn-based ethanol within the next few years. We believe the market must see a path toward E85 in order for cellulosic ethanol to evolve. Without E85 demand, the market may not support the early stage development that is necessary to unlock the potential that cellulosic ethanol holds.

Simply put, the Federal government must focus efforts on growing demand. A strong commitment to E85 will ensure the success of cellulosic ethanol production in the United States.

As one of the largest biofuels producers, we assume a large responsibility to insure that a robust E85 market occurs. VeraSun has pursued an aggressive strategy in cooperation with GM and Ford to increase the availability of E85. Today only 1,350 of the nearly 180,000 (or 6/10th of 1%) retail gasoline stations in the United States offer E85. We must do better.

In early 2005, VeraSun launched the nation's first branded E85, VeraSun E85 or VE85 for short. We began the program in May 2005 with the conversion of 35 pumps at seven stations in Sioux Falls, South Dakota. At the same time, we launched a marketing program to raise awareness to the benefits of flexible fuel vehicle (FFV) ownership and E85 use, and enlisted the support of General Motors to assist with the rollout of the program. As a result of the program, local E85 awareness increased, E85 fuel sales rose, and the demand for flexible fuel vehicles increased in the local market.

In early 2006, we replicated this effort in conjunction with GM to bring VE85 to Chicago and Minneapolis. In June 2006, we worked with Ford to create an E85 corridor from Chicago to St. Louis. In July 2006, we announced with GM at the Major League Baseball All-star Game the first retail availability of VE85TM in Pittsburgh. In June of this year, we announced with GM the first E85 refueling station in the District of Columbia. More recently we announced a partnership with Kroger to offer VE85 at more than 20 locations across the country.

All told, VeraSun's branded E85 is available at more than 110 retail locations across 11 states and the District of Columbia. We plan to continue to work to expand the number of fueling stations offering VE85 from coast to coast.

From this experience, we have gained significant insight about what is necessary to develop E85 in the United States. In order to see a robust E85 market in the United States, VeraSun believes 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 advanced FFVs; and
3. Address terminal infrastructure issues.

As VeraSun works to expand the number of fueling stations offering VE85, the most significant issue we face is blender economics. Traditionally, 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. These economics significantly reduce the availability of E85 because today's FFVs achieve lower miles per gallon when run on E85 than on conventional gasoline. This has direct impact on consumers and, therefore, requires that E85 be sold at a discount to gasoline.

For fuel retail owners to install E85 infrastructure, they must have confidence that E85 will be priced appropriately and that there will be sufficient consumer demand.

To improve E85 economics, Congress should create a blenders credit for ethanol blended into E85 within the existing VEETC system. This credit would compensate for the discount resulting from the loss in miles per gallon efficiency. Establishing this incentive serves two purposes. First, it will level the playing field for ethanol blended into E10 versus E85, and will lead to additional E85 pump infrastructure. Second, it will ensure that E85 is priced properly at the pump for consumers. By providing a credit to blenders who select to market E85, we will level the playing field and increase the availability of E85. This will help make a fuel retailers decision to offer E85 more straightforward.

In addition to increasing the supply of E85, we must also increase the number of FFVs on the road. Today, less than three percent of the vehicles on the road are E85 compatible. Without a significant ramp up in the production of FFVs, E85 use will remain relatively small. To this point, we very much appreciate GM, Ford, and DaimlerChrysler's commitment to increasing production of E85 and biodiesel capable vehicles to 50% by 2012. This is a significant step forward.

But we believe the automakers must work to improve FFV technologies to better take advantage of E85's high octane. To spur the production of more fuel-efficient FFVs, Congress should provide incentives for automakers that produce FFVs with E85 fuel economy comparable to conventional vehicles. Additionally, Congress should provide a consumer tax credit for the purchase of these more fuel efficient FFVs.

Conclusion

Isaac Newton said that things continue in a straight line unless they are compelled to change by outside forces.

When you look at the direction of energy consumption in the United States, outside forces have grown and aligned to create an historic upheaval. Global demand. Dwindling supply. Political instability. Environmental damage.

All of these forces come together to form a single, essential truth. The straight line we have traveled for more than a century must change. It is not a choice. It's a fact. And the sooner we

accept that fact, the sooner we can get serious about dealing with a situation that is on an inevitable path from a national problem to a national crisis.

It's fitting that one of the solutions to America's energy crunch comes out of our first industry – agriculture.

But the solution isn't going to arrive fully formed, any more than the first airplanes were powered by jet engines, or the first cars traveled a system of interstate highways. Achieving each possibility starts us thinking about new ones... and achieving those opens our minds and our abilities to new advances.

The steps we are taking now – complete with the inevitable false starts and lessons learned – are the pieces of a future that is just now coming into focus.

Those pieces include:

- A stable supply of renewable fuels grown and produced here at home from corn, soybeans, switchgrass, woodchips, and other materials.
- The new generation of FFV vehicles provided by the auto industry.
- The active and visionary participation of government to help knock down barriers and provide a framework for success.

That is a lot to bring together. I have no illusions about that. But the need is great and the time is short. Renewable fuels are a real solution, and a workable one. We all share the responsibility to get it right – and to do it now.

Thank you.