

**Small Business Committee
United States House of Representatives**

**Hearing on
The State of the Renewable Fuels Industry in the Current Economy**

Testimony of

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Good morning Chairwoman Velazquez, Ranking Member Graves and Members of the Committee. My name is Nathan Kimpel and I am president and chief operating officer of New Energy Corp. New Energy is located in South Bend, Indiana and became operational in 1984. We were the first large-scale, greenfield ethanol plant built in the United States. We have been in continuous operation and are in line to produce our 2 billionth gallon of ethanol this year. In 2008, New Energy purchased over \$180 million of corn from local farmers, farmer owned cooperative elevators and commercial grain companies.

This is an important and timely hearing, and I am pleased to be here to discuss the unique challenges and economic difficulty currently facing New Energy Corp. and the U.S. renewable fuels industry.

Background

Today's renewable fuels industry consists of 170 biorefineries located in 26 different states with the capacity to produce 13 billion gallons of high octane, clean burning motor fuel that can be used right now. An additional 20 biorefineries are under construction. In 2008, the U.S. renewable fuels industry's operating capacity increased by 2.7 billion gallons, a 34 percent increase over 2007. This growth in production capacity was fueled by the completion, start-up, and operation of 31 new ethanol plants that will ensure that the industry is capable of filling the Federal requirements for ethanol use outlined in the Renewable Fuels Standard (RFS). The U.S. renewable fuels industry is a dynamic and growing industry that is revitalizing rural America, reducing emissions in our nation's cities, and lowering our dependence on imported petroleum.

Ethanol has become an essential component of the U.S. motor fuel market. Today, ethanol is blended in more than 70 percent of the nation's fuel, and is sold virtually from coast to coast and border to border. Last year, the U.S. renewable fuels industry produced and sold a record 9 billion gallons, contributing significantly to the nation's economic, environmental and energy security.

The U.S. ethanol industry continues to have a positive impact on our nation's economy. U.S. ethanol producers have long been on the cutting edge of the green economy. According to a report completed just last week for the Renewable Fuels Association¹, spending by the U.S. ethanol industry in 2008:

- Contributed \$65.6 billion to the nation's Gross Domestic Product (GDP);
- Supported more than 494,000 jobs in all sectors of the economy; and,
- Generated an estimated \$11.9 billion in tax revenue for the federal government and nearly \$9 billion of additional tax revenue for state and local governments.

Further, the report notes that the net benefit to the Federal government, after ethanol related tax credits, was more than \$7 billion in 2008, providing a return on every dollar invested of 2.5 to 1.

Under the RFS in 2022, 35 of the 36 billion gallons of renewable fuels will be ethanol. Producing 35 billion gallons of ethanol will, according to the report:

- Add nearly \$1.23 trillion (2000\$) to real GDP by 2022;
- Support as many as 1.18 million jobs in all sectors of the economy;
- Displace the equivalent of nearly 11 billion barrels of crude oil between 2009 and 2022; and,
- Increase federal tax revenues by nearly \$223 billion (2000\$) between 2009 and 2022 while state and local tax revenues will increase \$167.2 billion (2000\$).

Current Economic Climate

The renewable fuels industry has taken significant steps forward in reaching the vision of 36 billion gallons of renewable fuel usage by 2022. From 6.5 billion gallons produced in 2007, the U.S. renewable fuels industry has invested more than \$10 billion to expand to 12.5 billion gallons of production capacity to reach the RFS of 12 billion gallons by 2010. The economic crisis is significantly impacting sustained, continued growth and development of the industry. Recently, the U.S. renewable fuels industry has been devastated by the scarcity of both short-term credit to finance ongoing operations and long-term capital to finance expansion and new construction.

The renewable fuels industry along with all of our small business supplier partners, the American corn farmer, has fallen victim to many of the same problems that have affected other industries, including high raw material costs, and collapsing oil and gasoline prices. Ethanol prices are partly driven by gasoline prices which are in turn driven by crude oil. Many input costs for producing corn are as well driven by crude oil prices. Both gasoline and crude oil reached record

¹ *Contribution of the Ethanol Industry to the Economy of the United States*, Dr. John Urbanchuk, Director, LECG, LLC, February 23, 2009.

levels in 2008. Crude oil prices skyrocketed to \$147 per barrel before sinking to below \$40. According to the Energy Information Administration, gasoline use fell an estimated 3.3 percent in 2008 – the sharpest decline since 1992 -- as prices hit record levels. Oil led the 2008 commodity boom, and corn prices followed. Oil prices have fallen due in large part to weak demand from a slowing world economy. Falling gasoline prices have pulled ethanol down as well, putting pressure on revenue.

However, gasoline and ethanol prices have fallen much more than corn prices over the last year. We look at a concept called the Commodity Price Spread. This is essentially the difference between the Daily Market Replacement Prices of ethanol and corn expressed on a \$ per gallon basis. In January 2008, the Commodity Price Spread was enough to cover all production and debt service costs plus make a reasonable contribution on investment. By July, the Commodity Price Spread had narrowed to the point where an average or model plant was covering perhaps all Variable Costs and making a contribution to Semi-Variable, but likely not covering the Fixed Costs of Operations much less any Debt Service. Since July, the Commodity Price Spread has vacillated between not even covering Variable Costs to making a contribution to Fixed Costs but rarely if ever making any contribution to Debt Service. Our projections for the balance of the year based solely on the Futures Markets for corn and ethanol show little to no improvement.

Corn input costs are established as much as a year before cash sales take place. Our suppliers tell us that at today's market prices they are well below their production costs. Unless agriculture production costs drop substantially this year, the price squeeze between corn and ethanol may well continue into next crop year. The RFS for 2009, which effectively is 9.5 billion gallons after imports and prior year carry over credits, is now not only the floor but also the ceiling for demand.

Today, more than 25 ethanol plants have closed nationwide, idling nearly 2 billion gallons of capacity.

The outlook for New Energy Corp. and the U.S. ethanol industry will depend on several factors, including economic growth (consumer spending and gasoline demand), credit availability, and oil and gasoline (and ethanol) prices. We need to assure the continued viability of the industry as it stands today, as well as provide for future evolution and innovation while stimulating thousands of green jobs. To do this, access to immediate necessary operating capital is critically important to help weather the current economic conditions facing the industry.

U.S. ethanol producers have answered the challenge put forth in the RFS and are producing enough ethanol to fill the requirements. In doing so, the industry has recognized new opportunities to expand the use of ethanol and ensure the continued success of the RFS. The market for ethanol and other biofuels must expand to ensure that America's ethanol industry continues to grow and evolve. It is critical that the Federal government revisit the arbitrary limit on ethanol blending – today capped at 10 percent of each gallon of gasoline – and allow gasoline blenders and refiners to take full advantage of the benefits of ethanol blending. Increasing ethanol content in gasoline will ensure a market will exist for the next generation of ethanol produced from cellulose and other biomass materials like municipal solid waste. We look forward to continuing to work with Congress as well as with the U.S. Environmental Protection Agency, the U.S. Department of Energy and U.S. Department of Agriculture on this issue.

Conclusion

The Energy Independence and Security Act of 2007, the 2008 Farm Bill and several other policies enacted by the 110th Congress clearly put our nation on a new path toward greater energy diversity and national security. By continuing the strong foundation the U.S. renewable fuels industry has built for new, green American jobs, we can begin the hard work necessary to mitigate the impact of global climate change, reduce our dependence on foreign oil, and provide a tremendous economic stimulus to small business across rural America. The challenges faced by our industry today will make it stronger and more successful in the future.

Thank you.