

Thank you, Mr. Chairman. My name is Jay D. Debertin, Executive Vice President and Chief Operating Officer of processing, for CHS Inc. Among my major responsibilities is the company's renewable fuels direction. We appreciate very much the opportunity to appear before you and to share our views on the renewable fuels industry.

We also want to take the opportunity to express our appreciation to the members of this Committee who have been strongly supportive of efforts to promote a viable and competitive U.S. renewable fuels industry. This includes passage of the 2002 Farm Bill with the first ever Energy Title; Congressional passage of comprehensive energy legislation with its 7.5 billion gallon Renewable Fuels Program and related tax incentives; and enactment of the American Jobs Creation Act, which also included provisions to help encourage and promote the development of renewable fuels. These provisions continue to be important to help meet the current and future energy needs of agriculture and our nation.

CHS is an energy, agricultural supply and grain-based food company owned by more than 1,100 cooperatives and 350,000 farmers in over 30 states. Our origins reach back nearly eight decades to farmers who needed both a source of supplies - like petroleum products and fertilizer - for raising their crops, as well as markets in which to sell them. This year, we are marking 75 years of service to the nation's producers and are the largest cooperative of any kind in the United States.

Among the several major components of our supply business, energy is our most critical.

Today, CHS is one of a few farmer cooperatives that own petroleum refineries and fills key agricultural and rural market niches. CHS is the sole owner of a refinery in Montana and holds 75 percent of another in Kansas with two other co-ops. We are one of the few refiners, if not the only, that has as strong a commitment towards renewable fuels. In addition, we have an extensive fuel distribution system that includes crude oil and product pipelines, trucking fleets and terminals through which we sold three billion gallons of fuel last year. We are also the largest fuel supplier when it comes to on farm use.

While our focus has been on traditional petroleum-based fuels, CHS has also been extremely active in the renewable fuels business for a quarter of a century. In 2005, we marketed more than 500 million gallons of ethanol-blended fuels; the vast majority of it unleaded gasoline  
Testimony of Jay D. Debertin, Executive Vice President and Chief Operating Officer, Processing, CHS on Renewable Fuels, April 26, 2006 with 10 percent ethanol. In addition we blended both E85 (85 percent ethanol) and RFG, which is a 7.8 percent blend.

We have also entered the soy-based diesel fuels business. Last year, we sold - largely through our member co-ops - the equivalent of two million gallons of soy ester. Typically, this is blended at 2 percent, so that quantity would result in 100 million gallons of B2 biodiesel. While our focus has long been in the marketing of renewable fuels, last fall we took the major step of investing in a manufacturing firm. CHS purchased ownership in US BioEnergy, a South Dakota company that manufactures and markets ethanol. This company currently has half-dozen plants under construction or planned in the Midwest, as well as ownership in an

established Nebraska plant.

Recently we extended our relationship with US BioEnergy to form a joint venture in the marketing and distribution sector now called US BioEnergy Fuels, LLC.

These steps represent a major commitment by our farmer-owned cooperative system to both our nation's energy future and the ability of our producers to add value to the crops they raise. It allows us to combine our broad petroleum fuel distribution and marketing systems, capability and experience with our equally strong skills in grain procurement and oilseed processing. This synergy provides important benefits for our farmers and consumers alike in terms of meeting their energy needs and other demands.

For our farmer owners, it also helps them better capitalize on new value-added opportunities associated with a growing renewable fuels industry, and improve their income from the marketplace. This is because as a farmer cooperative, our earnings go back to our farmer members.

The renewable fuels industry is still a very young and growing industry. While public policy, along with current market conditions, is helping promote its growth, there are still some potential challenges ahead. I would like to focus on what we see as two major challenges in terms of future growth: (1) Making sure the Renewable Fuels Program is a true national program and (2) Continued development and enhancement of the distribution system for renewable fuels.

The recently passed 7.5 billion gallons Renewable Fuels Standard was an important achievement and is helping drive industry growth. As EPA moves forward with its proposed rulemaking on implementation, it is vital that such regulations ensure that it is a national program. This applies to both blending requirements and the use of tradable credits to help promote production and availability of renewable fuels on a nationwide basis. It is also important to ensure that state laws and regulations are consistent with this goal.

In looking at the current infrastructure and distribution system, there is a geographic imbalance between where ethanol is produced and where the majority of U.S. motor fuel is consumed. Ethanol production largely takes place in the Midwest. The bulk of our population is in coastal states. Because ethanol and soy esters have different distribution requirements than petroleum, not to mention that the U.S. renewable fuels infrastructure is in its infancy, supplying Midwest ethanol and soy esters to these coastal states to meet long term future growth will require extra attention.

Currently, trucks are the first means of distribution, but as the production base continues to expand, trucking may become less efficient over longer delivery distances.

Petroleum pipelines cannot be expected to be a means of distribution because of the properties of renewable fuels.

Movement by barges could be an important part of the solution. However, this underscores the need for further improvements to our nation's waterway transportation system, including locks and dams.

Railroads would appear to become the most likely means of shipping bulk renewable fuels. However the terminals needed to handle long trains as well as the system of supplying the necessary types and numbers of rail cars needed are not yet in place.

Again, we are talking about long term future growth of what is still today a young and growing industry.

That brings me to a final question: What can Congress do to further encourage and promote the production and availability of renewable fuels to meet our nation's energy needs, while also helping farmers and rural America?

? First, to pursue the allowance to increase the blending of ethanol with gasoline from 10% to perhaps 15% and ultimately 25% or more in addition to the current option of E-85. Other countries have successfully done this with the same cars we drive. This could go a long way to increasing the usage of renewable fuels and decreasing the consumption of fossil fuels and increase the use of ethanol as a blend component to gasoline. It is also consistent with the goal of the 25x25 coalition, which CHS strongly endorses, which is to have 25 percent of U.S. energy needs come from renewable sources by 2025.

? Second, ensure that the current Renewable Fuels Program is a national program.

? Third, continue to encourage the development and use of renewable fuels. Current programs and tax incentives should be maintained to continue to encourage long term investment, particularly in the new technologies to produce renewable fuels. In addition, Congress could also help set an example for increasing use by requiring federal fleets to utilize renewable fuels.

? Fourth, help meet current and future distribution requirements through continued infrastructure improvements, including support for enhancing our waterway transportation system.

? Fifth, work to ensure that future farm legislation builds on the success of the current Farm Bill, including the Energy and Rural Development Titles, to help promote the development and growth of renewable fuels; and

? Sixth, maintain and strengthen the ability of farmers to join together in cooperative efforts to capitalize on new value-added opportunities and improve their income from the marketplace.

Thank you, Mr. Chairman. We look forward to working with you and the members of this Committee on these and other important issues.

