

Western Governors' Association
Policy Resolution 06-20

June 13, 2006
Sedona, AZ

Transportation Fuels for the Future

A. BACKGROUND

1. The Western Governors have placed a high priority on energy policies leading to rational development of the region's full range of energy resources in support of the Nation's need for domestic energy. Transportation fuels are a critical component of our energy portfolio. Of the 20 million barrels (840 million gallons) of oil consumed each day in the United States, 68% is used in the transportation sector.
2. Transportation fuels and oil imports are of grave concern to western and American consumers and businesses because of shortages and price spikes as well as national security and global economic impacts. Imported oil contributes to a growing and substantial trade imbalance that threatens the United States' economy and transfers significant resources to unstable parts of the world. The dependence of the United States on imported oil leaves the nation vulnerable to oil supply shocks and reliant on the willingness of other countries to provide sufficient supplies of oil.
3. It is critical for the United States to insure a long-term uninterrupted flow of transportation fuel by developing alternative/replacement fuels, including ethanol, clean diesel and bio-diesel, electricity used in electric vehicles and plug-in hybrids, a spectrum of advanced fuels from coal, hydrogen, and natural gas. Use of alternative fuels will require development of adequate infrastructure including vehicle systems, vehicle refueling facilities, distribution, storage facilities, refineries, and conversion facilities.
4. Significantly increasing the use of domestically produced biofuels, including ethanol and biodiesel, offers both immediate and potential long-term solutions to national security, economic competitiveness of the United States, and price and supply vulnerabilities for families and businesses. Domestically produced biofuels also benefit the United States by creating jobs, keeping dollars in the United States, and lowering the environmental impacts associated with fossil fuel production and use.
5. The large coal reserves of the United States are a resource that can be converted to transportation fuels given technology advances in coal gasification/liquefaction. Recent DOE studies show that coal liquids can be produced economically in relation to the current market value of crude oil. Coal-to-liquids processes that can capture carbon dioxide lead to the opportunity to sequester the carbon and mitigate the relatively higher carbon content of the resource. The processes that create hydrogen could significantly lower carbon output.
6. In his 2006 State of the Union address, the President discussed America's addiction to

oil, which is often imported from unstable parts of the world, and called for replacing more than 75% of our oil imports from the Middle East by 2025.

7. Current biofuels production meets about 2-3 percent of the nation's transportation fuel needs. As part of the *Energy Policy Act of 2005*, Congress enacted a federal Renewable Fuels Standard calling for production of biofuels to increase to 7.5 billion gallons by 2012 (the equivalent of about 4 percent of our transportation fuels needs.)
8. Leading agricultural and industry experts assert that existing production methods can result in meeting approximately 8-10 percent of the nation's transportation fuel needs. However, amounts significantly beyond this level will require new technologies and production methods including the use of cellulosic feedstocks such as corn stover, grasses, woody crops, forestry residues, components of municipal solid waste, and other biomass.
9. The western states in particular are in position to become the key producers in the emerging alternative fuels economy. The substitution of home-grown and coal-to-liquid fuels for foreign oil can have a huge positive potential economic impact to the United States in the hundreds of billions of dollars per annum range. The economic benefit of this quantity of money flowing through our regional and local economies rather than to foreign countries is worthy of considerable attention of both public and private leaders and citizens alike.
10. Successful adaptation of alternative transportation fuels will be greatly enhanced if the western states cooperate regionally to produce and consume regionally produced fuels instead of imported oil products.

B. GOVERNORS' POLICY STATEMENT

1. The Western Governors believe that there are few issues facing the nation that are more serious than our reliance on imported oil, the ramifications of global competition for this resource, and the associated risks to our energy, economic, and environmental security.
2. Since the passage of the *Energy Policy Act of 2005*, events continue to add to the Governors' concerns that the nation must aggressively diversify its energy sources away from its addiction to oil, increase the fuel efficiency of the nation's transportation system, and increase domestic production of transportation fuels. Among these concerns are: indications from oil companies that peak oil production may occur decades sooner than anticipated only a few years ago; evidence of a structural shift upward in oil prices which will continue the massive transfer of wealth to unstable oil producing nations; a demonstration that concentrating fuel production and distribution in a single region leaves the entire nation vulnerable; and increasing reports of the threats and impacts of climate change. These concerns reinforce our belief that as a nation we must:
 - reverse our over-dependence on volatile foreign oil supplies;

- expand economic opportunities through the production and distribution of domestic renewable fuels to all regions of the West;
 - diversify our reliance on petroleum and natural gas as feedstocks for petrochemicals by developing biofuels and coal-derived compounds;
 - evaluate alternative transportation fuels' impacts, seeking to reduce greenhouse gas and other emissions and improve air quality and the environment;
 - consider carbon capture and sequestration in evaluating the production costs of coal-to-liquids as well as other transportation fuel alternatives;
 - encourage distribution of alternative fuel refining and refueling facilities throughout the nation;
 - promote the inclusion of higher renewable content blends in existing transportation fuels;
 - promote policies that result in more fuel-efficient vehicles and incentivize consumers to purchase hybrids or other fuel efficient vehicles to reduce our per vehicle consumption of transportation fuel;
 - pursue longer term technology development and demonstrations including liquid fuels from coal, natural gas, and hydrogen fuel as potential sources of domestic transportation fuel options that do not exist today; and
 - encourage continued research, development, and demonstration of fuel cell technology, a critical component for using alternative fuels.
3. The West will benefit from efforts to use natural resources and agricultural techniques and processes in the western United States to produce, distribute, and sell alternative fuels. The initial goal will be to produce and consume these fuels regionally within the West. The immediate follow-on goal will be to distribute these fuels for sale throughout the entire United States.
4. It is the policy of the Western Governors to promote the use of regionally produced clean fuel substitutes to enhance the local, regional, national, and global environment.
5. The Western Governors' promote the uses of regionally-produced, diversified clean fuel substitutes through evolution and transformation in fuel production and use. This can be achieved through a consistently well-funded federal program or other programs of research, demonstration, infrastructure development, and outreach. This change will

create and grow industries and infrastructure within the West to provide local and regional jobs, workforce development, and improved economic security.

6. It is our goal to evaluate and propose policies that will help to solve issues relating to the newly emerging alternative fuels economy. Some of these problems include:
 - simultaneous production and consumption of hydrogen and ethanol fuels;
 - rapid market growth of hydrogen and agriculturally fueled vehicles;
 - creation of Western highway networks capable of supporting public and private alternative fuel vehicle travel, rapidly leading to a national alternative fuels highway network; and
 - high capital costs associated with the construction of a commercial-sized coal-to-liquids plant, and the fact that no such plants have yet been built in the United States.
7. The Western Governors support full funding for the DOE Biomass and Biorefinery Systems Research and Development Program in order to overcome key technical and demonstration barriers to the delivery of substantially greater quantities of biofuels from a range of feedstocks, in particular, cellulosic materials such as corn stover, grasses, woody crops, and forestry waste. In addition to funding Integrated Biorefinery Demonstrations authorized under Section 932 of the *Energy Policy Act of 2005*, the Western Governors recommend funding to initiate equally important, smaller scale-up cellulosic demonstrations that are much smaller than the size of a commercial scale operation. This includes demonstrations of mobile technologies that can enable the use of wood waste. These demonstrations will allow researchers and industry to capture a range of potentially promising technologies utilizing a wider variety of feedstocks.
8. The Western Governors endorse the findings of the Governors' Ethanol Coalition which recommended to Congress that a sustained level of cellulosic biofuels research, development, and demonstration over the next six years would put the nation on a course of displacing substantial quantities of imported oil with domestically produced fuel from a wider range of feedstocks (*Ethanol from Biomass: America's 21st Century Transportation Fuel*, Recommendations, April 2005.)
9. The Western Governors, appreciating the valuable role of the National Biomass Partnership (previously the Regional Biomass Energy Program) to provide a vital link among the federal agencies, states, and industry in fostering bioenergy production, urge Congress to restore its funding.
10. The Western Governors urge the Department of Defense, Department of Energy, and the Congress to develop financial, production and off-take incentives leading to the deployment of one or more demonstration commercial scale coal-to-liquids facility using low-cost western coal as a feedstock.

C. GOVERNORS' MANAGEMENT DIRECTIVE

1. The WGA shall post this resolution to its Web site to be referred to and transmitted as necessary.
2. The WGA is directed to transmit this resolution to the Chairmen and Ranking Members of the Senate Energy and Water, and Related Agencies Appropriations Subcommittee and the House Energy and Water Development, and Related Agencies Appropriations Subcommittee. This resolution should also be transmitted to the Secretary of Energy, Secretary of Agriculture, and Secretary of Defense.
3. Working with the Governors' Ethanol Coalition and in cooperation with interested states and federal agencies, the WGA will develop a charter, budget, and secure funding for implementing this resolution. A western regional task force will be appointed to develop a policy roadmap for alternative fuels in the West. This roadmap will:
 - describe the potential resources, technologies, and capabilities of the western states to develop alternative fuels and the policy measures needed to achieve this potential;
 - consider issues of sustainable feedstock development, optimal conversion technologies, and tradeoffs between the market value and the social value of potentially competing uses for the feedstocks;
 - develop for potential federal funding a Regional Demonstration Project and a proposal for staged implementation of infrastructure necessary for the success of the full range of alternative fuels in the West; and
 - consider cost and environmental impacts.
4. The WGA is directed to continue participating in the National Biomass Partnership, representing the states in the West. The WGA will facilitate the increased use of bioenergy through outreach and technical assistance and by coordinating federal, regional, and state policy issues and programs. Coordinating with the other National Biomass Partners, WGA will seek stable funding to continue this work.