

<b>DOCKET</b> <b>06-BAP-1</b>
DATE <b>MAR 17 2006</b>
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March 17, 2006

Honorable Arnold Schwarzenegger  
Governor of California  
State Capitol  
Sacramento, CA 95814

***RE: Docket # 06-BAP-1; California's Bioenergy Plan Proceeding at the California Energy Commission***

Dear Governor Schwarzenegger:

It's time for California to embrace ethanol as a critical component in its gasoline supply, and move to implement regulations that provide full flexibility for the increased use of this renewable fuel by refiners and marketers. Our fossil fuels addiction has sparked an extraordinary global warming period and made us dependent on unreliable foreign fuel sources. California, the United States and the world clearly need to embrace a new energy policy direction.

The use of ethanol and other biofuels offers the only viable short-term path to reduce fossil fuel dependence and CO2 emissions. Measuring emissions is important, but we should set the first priority as an integrated strategy to reduce greenhouse gases.

In California, there is another reality that we must contend with: There has been no significant increase in the state's refinery capacity in the past twenty years – and fuel demand is expected to increase substantially in the next decade. As a result, we must engage in a two-track strategy to accomplish the following goals:

- 1) Increase our emphasis on conservation strategies in reducing fuel consumption,
- 2) "Stretch" our existing fuel supplies with ethanol to provide an important "hedge" against price volatility, and
- 3) Develop an integrated strategy to reduce fossil fuel dependence and encourage greater use of renewable fuels.

By way of context, as Secretary of the California Environmental Protection Agency several years ago, one of the first issues we had to address was cleaning up the MTBE mess. California had increasing amounts of its precious water supply being put at risk because of leaking underground storage tanks dripping contaminating MTBE into our water supply. In 1999, Governor Davis banned the use of MTBE as an oxygenate in California's gasoline, and asked for a waiver from the federal government's mandatory use of oxygenates.

We knew we had to get rid of MTBE, but we feared that we might not be able to get enough ethanol to California from the Midwest, where most of the US production currently resides. In addition, we wanted to make sure we didn't go from the frying pan to the fire by switching from one additive MTBE to another like ethanol without an environmental review. After a full environmental assessment and transport study, involving many State agencies, ethanol was approved by the California Environmental Policy Council as the only additive acceptable for use in California gasoline.

Now six years later the picture is even clearer. It has been demonstrated that ethanol can be effectively and efficiently shipped to California via rail and ships, and at a price that is increasingly more favorable than gasoline. Today, the need to stretch California's chronically short supply of gasoline is even more acute. A new report approved this November by the California Energy Commission calls for a renewable fuels standard for gasoline, to be set at a minimum of 10% ethanol content. This report is a response to the critical need for California to plan for the increased use of alternative fuels in our transportation sector. Increased use of ethanol is the quickest and most cost effective way to respond to the need to increase our fuel supply, and diversify our energy supply.

A major benefit of a statewide policy to promote more ethanol blending is that we can make it here in California, bringing jobs and investment to our State, along with a further reduction in the cost of ethanol to California's refiners. A new bio-refinery recently started operations in the Central Valley, another one is under construction and there are at least six more in advanced stages of development. With the right state policies, many believe California could ignite a renewable fuels industry here in our State that could rival the Silicon Valley high tech boom in terms of economic activity, jobs and investment.

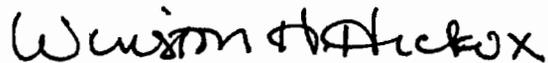
Key to making this happen is a fuel regulation that gives refiners and gasoline marketers full flexibility to blend increasing amounts of ethanol, up to 10%, on a daily basis year round. The Air Resources Board has the tools to make this happen. Thanks to their good work, emissions from vehicles are going down at a steady rate. Today with ethanol in our gasoline we have fewer emissions from our vehicle fleet than we did when MTBE was banned. Over the last two years with ethanol in gasoline, California has seen its best air quality on record. This improving emissions trend now allows the Air Resource Board to design a fuel regulation that gives refiners the flexibility to blend 10% ethanol into our fuel supply, while ensuring that emissions from the vehicle fleet continues to decline at a steady rate. The other critical component of the policy is to begin to

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aggressively increase the number of "flex fuel" vehicles in California. These are vehicles that can run on any combination of ethanol and gasoline up to 95% ethanol. With such a dual strategy in place Brazil now uses ethanol for 40% of its total transportation fuel. We should strive to do the same in California.

It's not every day that a policy option comes along that can immediately create jobs and new investment, reduce consumer energy costs for transportation and increase our fuel supply, while providing environmental benefits. Ethanol now offers one of those rare opportunities, and it's time for California policy makers to seize the opportunity and make it happen.

Sincerely,

A handwritten signature in black ink that reads "Winston Hickox". The signature is written in a cursive, slightly slanted style.

Winston Hickox  
Former Secretary of the California Environmental Protection Agency

Cc: Joe Desmond, Chair, California Energy Commission  
Dr. Robert Sawyer, Chair, California Air Resources Board