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Committee on Energy and Commerce

“A Review of the Administration’s Energy Proposals for the Transportation Sector”

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Good morning Mr. Chairman and members of the committee. Thank you for giving me the opportunity to be here to discuss the President’s plan to enhance energy security.

The President’s plan has four pillars. The first two pillars focus directly on the President’s goal of reducing the use of gasoline in the United States by 20 percent in ten years. First, the President has called for an increase in the supply of renewable and other alternative fuels by setting a mandatory alternative fuel standard to require 35 billion gallons of renewable and other alternative fuels in 2017, which is nearly five times the current requirement for 2012. Approximately three-quarters of the targeted reduction in gasoline would come through the alternative fuel standard. Second, the President believes that we should reduce our demand for fuel by reforming and modernizing the Corporate Average Fuel Economy (CAFE) standards for cars. Changes to CAFE standards account for the remaining quarter of saving necessary to meet the President’s goal, potentially saving another 8.5 billion gallons per year by 2017. Third, the President has proposed additional funding for energy innovation and technology, including bio-

energy research, and loan guarantees for cellulosic ethanol plants. Fourth, the President proposed doubling the capacity of the Strategic Petroleum Reserve to enhance our ability to deal with severe supply disruptions caused by natural disasters or a terrorist attack to the supply chain.

The President believes that bold steps are warranted. Improving our energy security is a goal on which we can all agree. To do this, he has outlined a variety of measures that will diversify our energy supply and increase energy efficiency. The 20-in-10 plan was designed with these goals in mind. Additionally, the plan undertakes to accomplish these goals in an environmentally sensitive way.

Most important, the President has made clear that we must accomplish these goals without damaging the American economy. This is foremost in his mind, especially because the market, unfettered by government, is the most effective driver of innovations that strengthen energy security. Changes in prices create the incentives necessary for scientists, farmers, industry leaders and entrepreneurs to find the means to diversify our fuel supply and increase efficiency. As such, the policies the President has proposed – while bold – are not Draconian. The proposals build on existing programs and the reforms allow for American companies to comply with the targets in ways that will not compromise their ability to compete internationally.

Two principles are important when evaluating these proposals: technology neutrality and flexibility. The President's alternative fuel proposal builds on the existing renewable fuel standard to include virtually all alternatives to gasoline rather than just renewable fuels. This design feature helps to ensure the government is not picking winners and losers in the marketplace, a task for which it is ill-suited. Additionally, there

is flexibility embedded in both the alternative fuel standard and the CAFE proposals so that significant distortions to the economy can be avoided. The proposed alternative fuel standard includes two “safety valves”—one through administrative discretion, one automatic—that would limit the economic costs. Furthermore, discretion is given to the Secretary of Transportation who can alter CAFE targets in ways that are compatible with preserving safety, technological developments, and cost-benefit analysis. These provisions prevent a system on automatic-pilot from taking us down unanticipated paths that are inconsistent with the goals we set. It means that we can be responsive to uncertain technology developments and adjust our standards as the market determines. The CAFE provision also extends the existing credit framework by allowing credits to be traded, granting manufacturers additional flexibility and lowering their costs. Finally, as my colleague Nicole Nason explains in her testimony, the President’s call for an attribute-based CAFE system for cars would help address both safety and distributional concerns.

By remaining open to new technologies and ensuring flexibility, the policies proposed by the President have the virtue that they cause minimal economic disruption, yet yield the promise of moving us toward a worthy goal.

I welcome your questions.