Minnesota Senate Transportation Committee Chairman Scott Dibble 3107 Minnesota Senate Bldg. St. Paul, MN 55155

S.F. No. 2584

March 4, 2024

Chairman Dibble:

Flint Hills Resources appreciates the opportunity to shares its views and opinions on S.F. 2484, the proposed Minnesota Clean Transportation Standard, and the important economic and public policy implications the bill, if enacted, may have on the State of Minnesota.

Flint Hills Resources operates the Pine Bend refinery in Rosemount, which produces vital transportation fuels Minnesotans use every day. It also produces other essential products such as home heating fuels, fertilizer, and about 10 percent of the nation's asphalt used for paving roads and shingling roofs. The State of Minnesota is one of Flint Hills Resources' largest customers, and the products we produce at the Pine Bend refinery are manufactured in accordance with state and federal law and extensive permitting processes.

Flint Hills Resources is also one of the most active work sites in Minnesota, with more than 1,000 fulltime employees and thousands of contractors who help maintain the facility and implement millions of dollars of ongoing investment every year.

As a result of these investments and other innovations, Pine Bend is among the most energy-efficient refineries in the United States. The site has cut traditional emissions by about 70 percent since 2000 while increasing production to meet the state's energy demands. We have also reduced greenhouse gas emissions about 17 percent on an intensity-basis since 2010. We also recently completed the start-up of the largest solar installation of its kind in the United States to help power Pine Bend, which will further reduce emissions.

Under S.F. 2584, the proposed Minnesota Clean Transportation Standard (CTS), Flint Hills Resources would be the statute's largest obligated party. We would be required to purchase credits tied to the production and use of fuels the state deems to have less carbon intensity than the gasoline, diesel, and jet fuel we currently supply. Few if any of the operational improvements in which we have invested would be given any meaningful credit.

Over the years, Flint Hills Resources has served on numerous state task forces charged with facilitating Minnesota's use of biofuels to help the state achieve the highest ethanol and biodiesel blends in the nation. Despite this and our status as the state's leading fuel producer, Flint Hills Resources was not invited to participate in the CTS Working Group. In fact, neither of Minnesota's primary fuel producers was allowed to serve.

We therefore take this opportunity to advise the Committee of important market factors and critical differences between Minnesota and California, the state that created this policy, so it may take those factors into consideration.

When California adopted its Low Carbon Fuel Standard in 2009, it benefited from the availability of lower-cost corn ethanol and biodiesel, which initially helped shield consumers from experiencing sharply higher prices at the pump. Since then, however, credit prices have risen and so too have fuel prices. Today, California has among the highest fuel prices in the nation due in no small part to this policy. California also now forecasts its LCFS program will increase fuel prices nearly *another 50 cents per gallon* over the next couple years before increasing to more than a *dollar per gallon* thereafter (attached, figure 1).

Unlike California when it adopted this program, Minnesota already blends biofuels at near maximum levels. In fact, Minnesota is at almost the exact same point and trajectory as California is today after more than a decade under its LCFS program. Given this, California's projections of future credit costs and rising fuel prices are a fair indicator of what would likely happen in Minnesota under this program.

In fact, under this proposal, traditional Minnesota biofuels would almost certainly be at a credit deficit in just a couple years, meaning they too would have to buy credits subsidizing lower carbon-intensity fuels. The cost of purchasing these credits will ultimately be incurred by Minnesota consumers.

It is also important to recognize this policy is not happening in a vacuum. The Minnesota CTS mandate would compete directly with California's LCFS mandate and similar programs in Oregon and Washington. The low CI fuels required to accommodate Minnesota's mandate are the same fuels these West Coast states need to satisfy their mandate, and none of these fuels are produced in Minnesota.

The Minnesota mandate also competes with the federal government's Renewable Fuel Standard, which is a volumetric mandate. These competing policies influence the movement of fuels in the marketplace nationally and even internationally, which means they don't necessarily result in a net reduction in emissions. In some instances, they may merely relocate product from one state to another.

To our knowledge, the CTS Working Group did no analysis on how these policies interact and whether they would lead to an actual reduction in global emissions. The Working Group did find, however, that Minnesota's existing policies are already on track to achieve a 30 percent reduction in transportation sector emissions, which is a greater reduction than California is expected to achieve under its LCFS program.

The Working Group also did not evaluate how this policy will interact with other recent changes in law that affect fuel supplies and fuel prices.

Last session, the Legislature indexed the state's 25 cent per gallon motor fuel tax to inflation, which will eventually increase the cost of fuel for Minnesotans.

Beginning next year, Minnesota and a handful of other Midwest states will have their own unique gasoline specification to accommodate year-round E15. This will also increase fuel prices. This customized fuel specification will make Minnesota more dependent on a small number of Midwest refiners, making it more susceptible to supply disruptions. It also requires refineries to remove lighter (more evaporative) and less expensive hydrocarbons (like butane) from gasoline, which shrinks gasoline volumes (supplies) and makes base gasoline more expensive.

Historically, fuel prices in Minnesota have been well below the national average. These recent changes in policy – the indexing of the gas tax to inflation and the new Midwest gasoline specification -- are likely

to reverse that. These polices are in line with the California policies that have contributed to that state having some of the highest gas prices in the country year after year.

We caution the Legislature against adopting S.F. 2584, which is another California-originated policy that will further isolate Minnesota's market and force consumers in Minnesota to pay considerably more for the fuel they depend on, while doing little to advance the state's emission reduction goals.

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