

## Is "Twenty in Ten" Plan Realistic?

*Supply and transportation of Ethanol Voiced as Big Obstacles*  
**For Madison Capital Investments LLC**

Even though U.S. automobile makers and oil refiners support President Bush's goal to dramatically reduce dependence of foreign energy sources by reducing the country's overall consumption of oil and natural gas, they are also highly concerned about the challenging obstacles in their path to reach the charged 10-year deadline.

President Bush's plan, the "Twenty in Ten" plan calls for reducing gasoline usage by 20% in 10 years with a six time increase in the country's usage of nonpetroleum fuels in order to enhance the U.S.'s energy security.

Alternative fuel vehicles, such as Ethanol and flex-fuel vehicles, already being used by many, are the main topic of discussion on ways to meet Mr. Bush's target consumption rate of 35 billion gallons of alternative fuel a year by 2017.

What remains in strong questioning is whether alternative fuel producers can actually produce and transport enough of their products, or even if the increased expenses of new fuel formulations and engine changes are necessary to handle the new fuel as costs are expected to range in the billions.

"It's a huge ramp-up," and one beyond the capacity of corn-based ethanol, said John Flemy, chief economist at the American Petroleum Institute.

To be able to bring the ethanol conversion methods from pilot program to commercial production would take fantastic technological breakthroughs in bringing cellulosic ethanol (made from the cellulose of a plant instead of the currently used starch). And ethanol supporter even admit there isn't enough corn-growing capacity or surplus to get to the envisioned plan's production levels.

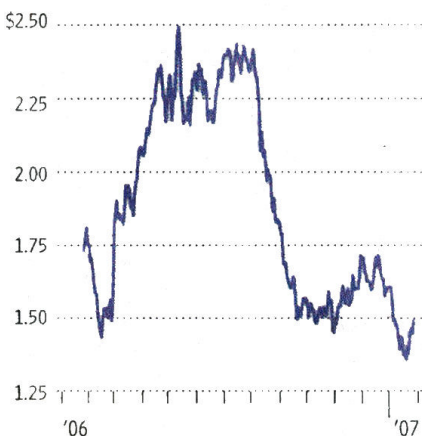
Transportation costs will surely rise as ethanol has a corrosive effect of fuel lines that carry other refined products, such as gasoline). This forces producers to transport it on more expensive land transportation (railroads, semi's etc) which naturally results in increased costs at the pump.

The 2006 summer fuel price skyrocket was, in part, the result of scanty rail-car and barge availability and fuel makers changing their summer fuel blend to incorporate ethanol instead of the traditionally-used petroleum-based additive.

### Gasoline Futures

Daily settlement price on the continuous front-month contract

Friday: **\$1.4834** per gallon  
52-week change: **down 16%**



Source: Nymex via Thomson Datastream

The need to change the gasoline transportation infrastructure to enable the ability to accommodate more alternative fuels is a huge obstacle to overcome. Mr. Flemy estimates the cost to range anywhere from \$30,000 to \$200,000 a station which equates to about \$5 billion to \$34 billion for the approximately 170,000 stations across the nation; all that in addition to potential revenue losses.

In addition, refiners will likely need large new capital investments to be able to produce the gasoline blends that will still meet clean-air regulations currently in place by the Environmental Protection Agency.

Modification of engine design to enable vehicles to handle increasing (up to 20%) the amount of ethanol blended into the cleaner-burning gasoline that is required in smoggy cities. To put it simply, the majority of the 245 million cars and trucks in use are not designed to handle too much ethanol and its usage will cause those vehicles serious performance and longevity problems.

Most of the vehicles currently produced to run on ethanol/gasoline blended fuel (E-85) are available for commercial fleets or by special order. Most of

those are centralized within the Midwest where the E-85 supply is currently focused; even still, E-85 filling stations are few and far between.

"Manufacturers are committed to offering more [alternative fuel] vehicles, but unless the fuel is available their potential won't be released," said Charles Territo, on behalf of the Alliance of Automobile Manufacturers.

Douglass Durante, director of the Clean Fuel Development Coalition says it is time for the oil industry to step up as the auto makers have done their part. Durante adds that between oil companies' ability to modify fuel formulas,

government tax incentives and "other measures" to pay for the change in the fuel infrastructure, fuel merchants should do their part as well to reduce the usage of traditional gasoline.

Another suggestion, made by API's Mr. Flemy, is for the auto industry to support the E-85 fuel and compatible vehicles by installing pumps at their own dealerships.

"There are over 26,000 new car dealerships alone," he said. "They all have tanks that can be converted to E-85."

*Source: The Wall Street Journal*

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