

November 10, 2009

Senator James Inhofe  
United States Senate  
c/o Heather Majors  
Committee on Environment and Public Works  
410 Dirksen Senate Office Building  
Washington, DC 20510

via e-mail: [Heather\\_Majors@epw.senate.gov](mailto:Heather_Majors@epw.senate.gov)

RE: Response to Follow-Up Questions from October 29, 2009 Testimony of Barbara Windsor, President, Hahn Transportation, and American Trucking Associations First Vice Chairman.

Dear Senator Inhofe:

Thank you for the opportunity to testify before the Committee on Environment and Public Works' recent hearing entitled *Legislative Hearing on S. 1733, Clean Energy Jobs and American Power Act*. This letter responds to your specific request below for additional information and represents the positions supported by the American Trucking Associations (ATA).

- 1. In addition to the price increases in diesel and gasoline that will occur by design under a cap-and-trade scheme, the Kerry-Boxer bill also requires States and major metropolitan areas to use the transportation planning process to reduce emissions. The bill, as well as some testimony we've heard today, seems to be based on the idea that one way we should reduce transportation-related emissions is by reducing vehicle miles traveled. I have serious concerns with that philosophy, not least because total travel is highly correlated with GDP. Could you tell me what impact a move to reduce vehicle miles traveled would have on your company or the trucking industry generally?**

Senator Inhofe, I concur with your concerns about attempts to reduce vehicle miles traveled by trucks. Trucking is not a discretionary user of fuel. Trucking freight volumes, which primarily influence our miles driven, are closely correlated to the gross domestic product and the Nation's economic activity. Any attempts to curtail truck VMT through punitive measures, or by reducing the efficiency of the highway system, are likely to succeed only if the increase in freight transportation costs that are the inevitable result cause economic stagnation and job losses. Senator, the trucking industry is highly competitive, and the free market is driving a relentless push by carriers to reduce their costs, including through efficiency improvements that, among other things, cut down on the number of empty miles traveled by trucks. This is happening without government involvement.

There is, however, one way to address trucking's fuel consumption and carbon footprint: productivity improvements. During the upcoming authorization of surface transportation legislation, Congress will have an opportunity to assist the industry's efforts to reduce our VMT while lowering transportation costs and improving highway safety. By authorizing states to expand the use of larger and/or heavier trucks, the industry can move the nation's freight more safely and more efficiently while putting fewer miles and fewer trucks on the road. This is the only practical way to achieve significant reductions in truck VMT without putting the health of our industry or the economy at risk.

**2. In your testimony you mentioned the costs to your business of mandates. Could you quantify in cents per gallon how much government mandates cost you? Will S. 1733 increase or decrease these costs?**

The trucking industry is concerned over what further government mandates under S. 1733 will do to fleets. While it is difficult to quantify cost increases in "cents per gallon" attributed to all government mandates, I will discuss recent cost increases to the trucking industry that resulted from government diesel engine and fuel mandates.

Federal Engine Standards – EPA's diesel engine emission standards have significantly increased the cost of new diesel engines. Due to the variability in miles traveled each year by trucks in different segments of this very diverse industry, it is not possible to provide accurate data on a per gallon basis. For instance, new diesel engine emission standards imposed by the U.S. Environmental Protection Agency (EPA) in 2002 drove up engine costs by \$3,000 to \$5,000, while decreasing fuel economy between 6-8 percent. Additional EPA diesel engine emission standards in 2007 drove up the cost of engines by \$8,000 to \$10,000 and, by many accounts, decreased fuel economy between 2-4 percent. Diesel engine emission standards set to take effect in 2010 will again increase new engine costs by \$8,000 to \$9,600. In short, in over a mere 8-year period, truck engine prices will have increased an incredible \$19,000 to \$24,400 as a direct result of federal environmental mandates. While this is not typically translated into a per gallon fuel cost increase, if you assume that the useful life of a diesel truck is about 1.5 million miles and trucks are getting about 6.5 miles per gallon, then these new engine standards have added about 11 cents per gallon.

We note that S.1733 will further increase the cost of new trucks as steel, aluminum, rubber and other energy intensive materials, as these energy intensive industries are forced to purchase carbon allowances and this additional cost is passed on to the truck manufacturers.

Federal Fuel Standards – In 2006, EPA mandated the transition to ultra low sulfur diesel (ULSD), reducing on road diesel sulfur content from 500 parts per million (ppm) to no more than 15 ppm. While the volatility of fuel prices and the gradual transition to ULSD makes it difficult to know with certainty how much this environmental mandate increased the cost of diesel fuel, EPA estimated that this transition added about 5 cents a gallon.

S. 1733 will most certainly increase the costs of transportation fuels. There are numerous estimates of the costs associated with an economy-wide cap and trade program. Using EPA's own estimates of the price of carbon allowances, we believe that S. 1733 will increase the price of diesel fuel by 16 to 30 cents per gallon in 2015 and 20 to 37 cents per gallon in 2020. The methodology for these estimates is explained in more detail below.

EPA's analysis forecasts a carbon price of \$13 - \$24 per ton of CO<sub>2</sub> equivalent in 2015. EPA's estimate of the lifecycle carbon emissions associated with one gallon of diesel fuel is 27.1 pounds. Since one carbon allowance is equivalent to a metric ton, refineries will need to purchase one carbon allowance for every 81 gallons of diesel they sell (2205 pounds in a metric ton, divided by 27.1 pounds of carbon per gallon of diesel). If an allowance sells for \$13 - \$24 per ton, then the cap and trade program will increase the price of a gallon of diesel by 16 to 30 cents per gallon. If EPA is correct and the price of carbon in 2020 ranges from \$16 to \$30 per ton, the cost of diesel will increase by 20 to 37 cents per gallon.<sup>1</sup>

In an industry that consumes 39 billion gallons of diesel fuel where each penny increase in the price of diesel translates to an extra \$391 million in cost for the industry, even EPA's lowest estimate of a 16 cent increase in the price of diesel translates into a \$6.24 billion tax on our industry. A 30 cent increase in diesel prices amounts to an \$11.7 billion tax on our industry and a 37 cent increase in diesel prices amounts to a \$14.4 billion tax on trucking

My company consumes 2,500 gallons of diesel per day or approximately 900,000 gallons per year. A 16 cent increase in the price of diesel will cost my company an extra \$144,000 per year and a 30 cent increase equates to \$270,000 per year. This added expense affects my bottom line and may prevent me from retiring older trucks and replacing them with newer trucks that emit less diesel pollutants

Before leaving the topic of federal fuel mandates, I note that Congress' decision to mandate the use of biodiesel as part of the Renewable Fuel Standard, also adds significant costs to the average price of diesel fuel consumed in this country, as biodiesel is significantly more expensive than diesel fuel. I refer you back to our written testimony for a more complete discussion on the costs associated with the biodiesel mandate. I also note that Congress' decision to avoid preempting California's boutique diesel fuel

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<sup>1</sup> There is a genuine concern that refineries will increase the price of diesel by more than the actual carbon allowance costs, so that they can avoid increasing the price of gasoline. Since there are numerous alternatives for passenger cars that run on gasoline (*i.e.*, purchase smaller vehicles, purchase hybrid vehicles, avoid discretionary trips, increase carpooling, and increase the use of buses and subways), refineries will try to limit the gasoline price increase to avoid losing customers. Since trucking consumes diesel on a non-discretionary basis and does not currently have viable alternatives to diesel, refineries may allocate more of the carbon allowance expense to diesel fuel and effectively subsidize the price of gasoline.

mandate and various state renewable fuels mandates further increases the price of diesel fuel consumed in those geographic regions where these boutique fuels are mandated.

Trucking is a highly competitive industry with very low profit margins. This explains why many trucking companies are reporting that as diesel fuel prices increase, profits are greatly suppressed, if they are making a profit at all. Our industry can not absorb rapid increases in diesel fuel costs. That is why the trucking industry is extremely sensitive to how S. 1733 will further escalate diesel fuel prices.

On behalf of ATA and Hahn Transportation, thank you for the opportunity to provide information to the Committee on this issue of significant importance to the nation's trucking industry. If you have any questions concerning these responses, please contact Rich Moskowitz, ATA's Vice President and Energy Counsel at 703-838-1910 or [RMoskowitz@trucking.org](mailto:RMoskowitz@trucking.org).

Respectfully submitted,

Barbara Windsor, President, Hahn Transportation,  
and American Trucking Associations' First Vice  
President