



**Before the
House Committee on Energy and Commerce
Subcommittee on Energy and Environment**

**Statement of G. Tommy Hodges, Chairman
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on behalf of the
American Trucking Associations, Inc. (ATA)**

***Allowance Allocation Policies in Climate Legislation: Assisting Consumers, Investing
in a Clean Energy Future, and Adapting to Climate Change”***

June 9, 2009

Mr. Chairman and Members of the Committee:

Thank you for the opportunity to present testimony on the *American Clean Energy and Security Act of 2009* (H.R. 2454). My name is Tommy Hodges. I serve as the Chairman of Titan Transfer, Inc., based in Shelbyville, Tennessee, a full-service truckload carrier operating throughout the Midwest, southeast, northeast, and southern California. In addition, I also serve as Chairman of Goggin Warehousing, LLC; Chairman of HEC Leasing, Inc.; and Chairman of IWLAIC Insurance Company, a group captive insurance company. Today, I appear before you representing not just my company, but also the American Trucking Associations (ATA) headquartered in Arlington, Virginia. I currently serve as First Vice Chairman of ATA and Chairman of its Sustainability Task Force.

ATA is the national trade association of the trucking industry. Through its affiliated state trucking associations, affiliated conferences, and other organizations, ATA represents more than 37,000 trucking companies throughout the U.S.

Overview of the Trucking Industry

With more than 600,000 interstate motor carriers in the U.S., the trucking industry is the driving force behind the nation's economy. Trucks haul nearly every consumer good at some point in the supply chain. Few Americans realize that trucks deliver nearly 70 percent of all freight tonnage or that 80 percent of the nation's communities receive their goods exclusively by truck. Even fewer are aware of the significant employment, personal income, and tax revenue generated by the motor carrier industry.

Nearly 9 million people employed in the trucking industry move approximately 11 billion tons of freight annually across the nation. Trucking annually generates \$660 billion in revenues and represents roughly 5 percent of our nation's Gross Domestic Product. One out of every 13 people working in the private sector in the U.S. is employed in a trucking-related job ranging across the manufacturing, retail, public utility, construction, service, transportation, mining, and agricultural sectors. Of those employed in private-sector trucking-related jobs, 3.5 million are truck drivers.

The trucking industry is composed of both large national enterprises as well as a host of small businesses, all of whom operate in extremely competitive business environments with narrow profit margins. Roughly 96 percent of motor carriers have 20 or fewer trucks and are considered small businesses.

ATA supports efforts to make this country more energy independent while at the same time reducing greenhouse gas (GHG) emissions. My testimony today is limited to allocation provisions in H.R. 2454 that will impact diesel fuel, along with ATA's recommendations as to how the trucking industry can reduce its carbon footprint and achieve greater energy efficiencies.

Trucking Industry Concerns Over H.R. 2454

A. Increased Fuel Costs

The trucking industry is concerned that H.R. 2454 will significantly increase the price of fuel we consume. Fleets are extremely sensitive to rapidly shifting operating costs given thin operating margins of between 2-4 percent. These margins continue to be chipped away given the numerous and unprecedented costs being imposed upon the industry to reduce emissions from trucks. For instance, new diesel engine emission standards imposed by the U.S. Environmental Protection Agency (EPA) in 2002 drove up engine costs on average between \$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 between \$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 could again increase new engine costs up to \$10,000. However, we hope to experience a reversal of fuel economy loss with the introduction of these new engine technologies.

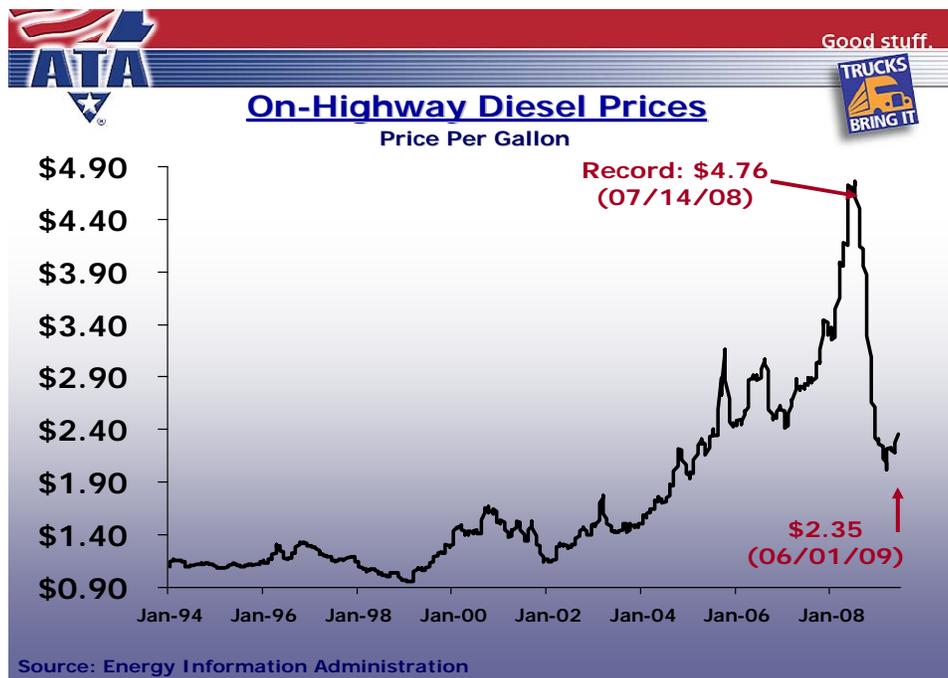
To illustrate the significance of these reductions and the progress being made to produce today's near-zero diesel engine emissions, every 60 new trucks purchased this year will equal the PM emissions of 6 trucks purchased just three years ago and of a single new truck purchased 20 years ago. These new trucks also began the first half of what ultimately will be an additional 90 percent reduction in nitrogen oxide (NOx) emissions. Put another way, clean diesel engines are as clean or cleaner than comparable natural gas vehicles.

Not only have equipment costs increased due to federal requirements, state regulatory mandates have substantially increased the financial burdens being placed upon our industry. Beyond the actual increases in equipment costs, the impact of reduced fuel

economy further increased the operating costs of the industry and had the unfortunate effect of increasing the trucking industry's carbon footprint.

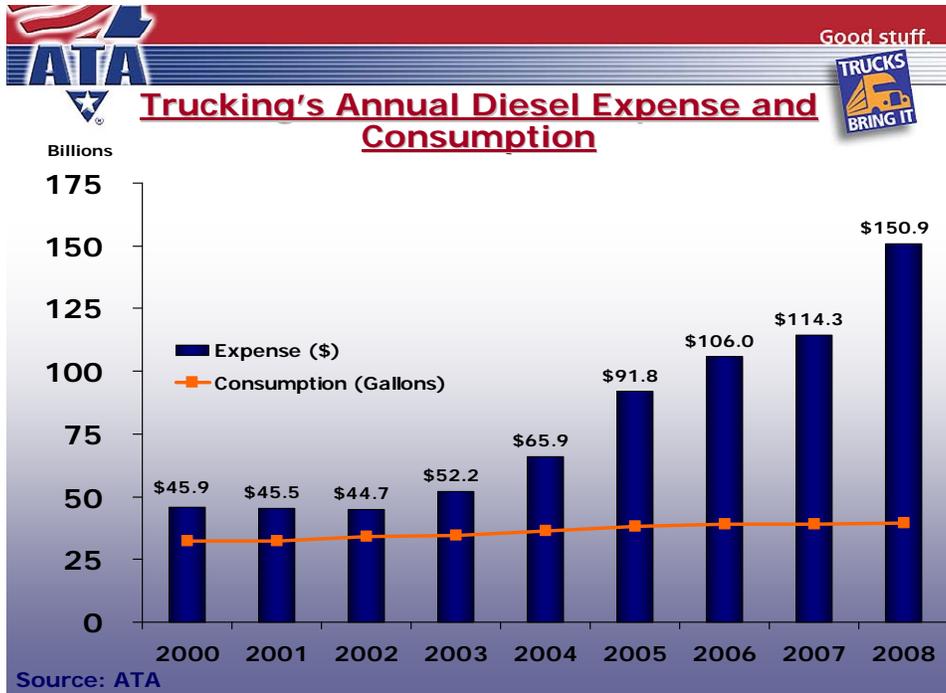
I would like to take a few minutes to further expand upon the critical role diesel fuel plays in the trucking industry. The nation's long-haul truck industry depends on diesel fuel. Diesel fuel provides greater fuel economy and the higher energy content necessary to transport widely --diversified loads under extreme operating conditions. Diesel fuel is the main source of carbon emissions from our industry equating to 22.2 pounds of CO_{2e} per gallon of fuel at the point of combustion and 27.1 pounds of CO₂ when accounting for lifecycle emissions. While the transportation sector emits 28 percent of all U.S. GHG's, trucking contributes *less* than 6 percent of total U.S. carbon emissions.¹

While today's price for diesel fuel is a far cry from the nearly \$5/gallon we experienced in July 2008, these depressed diesel fuel prices are only temporary and once the economy rebounds, so will the escalation of fuel prices even in the absence of a cap-and-trade program.



In 2008 trucking consumed over 39 billion gallons of diesel fuel. This means that a one-cent increase in the average price of diesel costs the trucking industry an additional \$390 million in fuel expenses. Fleets spent an astonishing \$151 billion on fuel in 2008, a \$36 *billion* increase from 2007 and more than double the amount spent in 2004.

¹ U.S. EPA's *Inventory of U.S. Greenhouse Gas Emissions and Sinks: 1990-2007* (April 15, 2009).



To provide a better illustration as to the impact that increased fuel prices has on an individual trucking fleet, let me use my company as an example. I run 450 tractors, operate 1,250 trailers, and employ 470 hard-working professional men and women. My company consumes 30 million gallons of diesel fuel annually. At this volume, \$2/gallon diesel fuel equates to a fuel bill of \$60 million/year; at \$3/gallon, \$90 million/year; and at \$4/gallon, \$120 million/year. While it is difficult to predict how much fuel prices will increase under a cap-and-trade approach, let us assume four scenarios of diesel fuel increases: \$.10/gallon, \$.25/gallon, \$.50/gallon, and \$1.00/gallon. For my company, that would mean an additional cost burden of \$3 million, \$7.5 million, \$15 million, and \$30 million per year respectively, costs that will be difficult to absorb. Diesel fuel price increases exceeding these scenarios will further devastate the movement of this nation's freight. In addition to the direct costs associated with the proposed carbon reductions in H.R. 2454, speculation in the emerging carbon markets may further increase fuel costs leading to uncertain and unstable energy market futures and throw our best business planning out the window.

Sudden fluctuations in operating expenses, especially fuel, raise havoc in the trucking industry. With the downturn in the economy and soft demand for freight transportation services, trucking companies are struggling to survive. In 2007 and 2008, over 5,000 trucking companies with at least 5 trucks failed and thousands of independent operators, drivers, and employees have lost their jobs. A large number of companies that operate fewer than 5 trucks have also turned in their keys. These hardships surprise few in the industry, but may surprise those less familiar with the nature of freight movement.



Good stuff.



Trucking Failures



As I noted earlier, trucking is a highly competitive industry with very low profit margins. This explains why many trucking companies are reporting that as fuel prices increase, profits are greatly suppressed, if they are making a profit at all. Fleets can not absorb rapid increases in fuel costs. That is why the trucking industry is extremely sensitive to how H.R. 2454 may further escalate fuel prices.

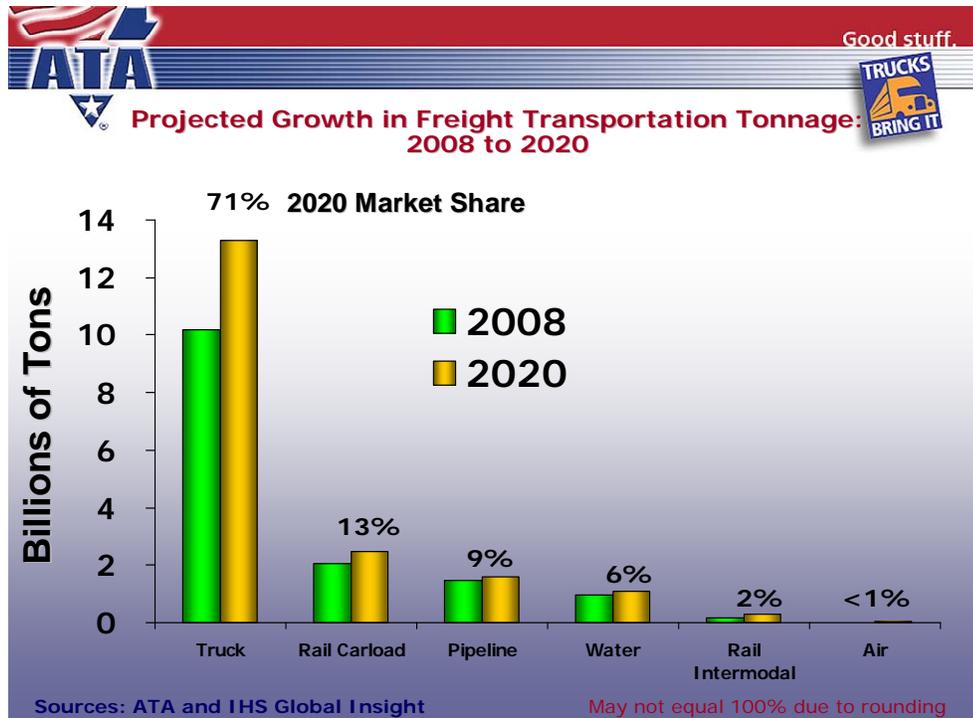
B. Free Allowances for Refinery Operations and Fuels are Inadequate

Provisions under H.R. 2454 granting oil refiners 2 percent of the carbon allowances between 2014 and 2016 to help mitigate refinery GHG emissions are inadequate and will result in significant price increases for refined products. GHG contributions from the refining sector (including the refining facilities as well as the combustion of the fuels they produce) make up about 45 percent of total U.S. energy emissions. Free allowances proposed to be allotted to energy GHG emissions from electricity, natural gas, and energy-intensive/trade-exposed industries are 32 percent, 9 percent, and 15 percent respectively, yet refining operations and the products they produce are allocated only 2 percent of the allowances to cover facility emissions, but also emissions while failing to address any petroleum products they produce. This allocation shortfall will have a dramatic impact upon the price of petroleum-derived fuel and will negatively impact the trucking industry and the U.S. economy.

The 2 percent allotment to refineries over a 2-year period covers the refineries' facility emissions, but totally ignores carbon emissions from the combustion of petroleum products and leaves downstream users, such as trucking companies, exposed to dramatic and sudden fuel price spikes. A misconception exists that any increase in energy costs can simply be passed through to the next downstream entity. In reality, 100 percent of fuel cost increases can not be passed along from the refinery to the ultimate consumer.

Not every entity throughout the supply chain will recoup all cost increases passed onto it due to market uncertainties and the cost-competitive nature businesses.

Trucking’s fuel cost increases should be taken into account under H.R. 2454 to ensure economic stability and growth in this country. We have a saying in our industry -- *Without Trucks America Stops*. Trucking is, and will remain, the predominant means of moving the nation’s freight. In fact, by the year 2020, 71 percent of freight transportation tonnage.



Keep in mind that as the U.S. population continues to grow, so does the corresponding demand for more consumer goods. The demand for more products equates to a need for more trucks which results in more vehicle miles traveled and more diesel fuel consumed. The following table shows the relationship between Class 8 trucks, diesel fuel demands, vehicle miles traveled, and population projections for the U.S.



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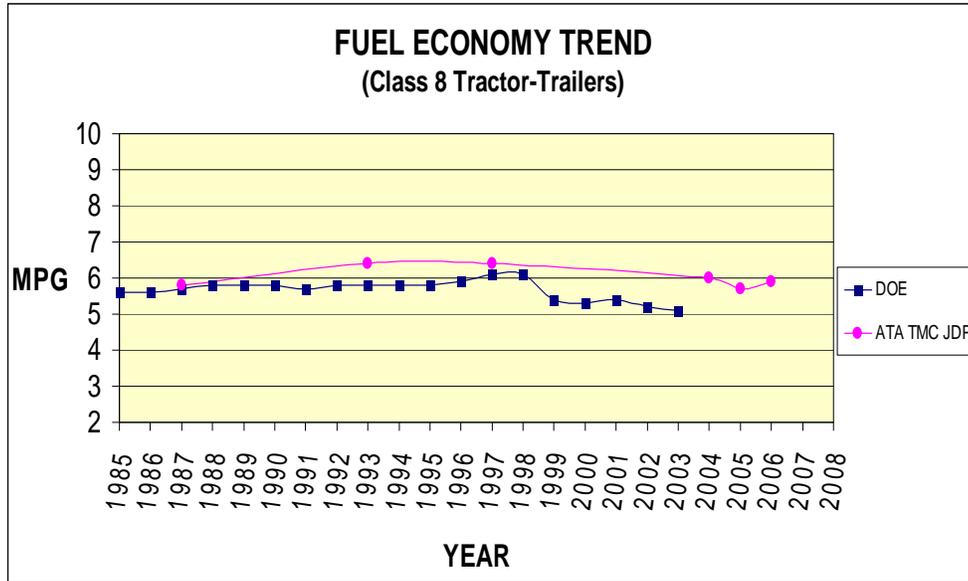
Trucks, Fuel Use, VMT's & Population

Year	Class 8 Trucks (Millions)	Diesel Fuel Consumed (Billion Gallons)	VMT (Billions)	U.S. Population (Millions)
2000	2.60	32.5	119.7	282.3
2001	2.61	32.5	115.7	285.0
2002	2.63	33.9	114.5	287.7
2003	2.64	34.6	113.9	290.3
2004	2.72	36.4	117.8	293.0
2005	2.86	38.1	130.5	295.7
2006	3.01	39.1	139.3	298.4
% Increase Over 2000	+16%	+20%	+16%	+6%
2018	3.64	--	178.8	330.7
% Increase Over 2000	+40%	--	+49%	+17%

Since trucking consumes over 90 percent of the nation's on-road diesel, H.R. 2454 must not inhibit the ability of the nation's trucking fleets to afford fuel purchases in order to keep up with business and consumer demands for products. If diesel prices are not kept in check, the movement of the nation's freight will be impeded and the very core of the nation's economy will be impacted. While it is important to increase the amount of free allocations for refinery operation emissions, it is more critical to set aside free allowances specific to diesel fuel to mitigate dramatic fuel pricing increases. Mechanisms should be put in place to ensure any diesel fuel emission allowances are in fact used to keep fuel prices in check.

There are Reasonable Measures to Further Reduce Carbon Emissions from Trucks

Any substantial cost increases imposed directly or indirectly on trucks by H.R. 2454 will curtail the delivery of vital consumer goods across the nation such as food, medicine, and clothing. Constraining the country's freight delivery system would change our way of life for the worse by significantly increasing the cost of everything we buy. Fuel economy of trucks has not improved appreciably over the last quarter century and average between 6.0 and 6.5 miles per gallon. Heavy-duty trucks are far different from passenger cars. There are currently no mass-produced hybrid trucks, truck fuel economy continues to remain stagnant, and truck movement is not discretionary – it is undertaken to conduct business operations, not pleasure. In short, trucking is unlike any other industry, mobile source or otherwise. We are dependent upon the use of diesel as our fuel of choice for both its efficiency and cleanliness.



Sources: American Trucking Associations (ATA)
 ATA Technology & Maintenance Council (TMC)
 JD Powers & Associates (JDP)
 U.S. Department of Energy (DOE)

The trucking industry believes that mobile sources, such as commercial trucks, should be addressed differently than traditional stationary sources under any proposed carbon reduction regulatory program. Since there are better, cost-effective measures to use to reduce carbon emissions from the trucking industry, ATA developed its *Strategies for Reducing the Trucking Industry's Carbon Footprint*. (To view ATA's plan, go to: http://www.trucksdeliver.org/pdfs/Campaign_Executive_Summary.pdf).

ATA's sustainability agenda includes: (1) enacting a national 65 mph speed limit and governing truck speeds at 65 mph for trucks manufactured after 1992; (2) increasing fuel efficiency through EPA's SmartWaySM Program; (3) supporting national fuel economy standards for medium- and heavy-duty trucks; (4) decreasing idling; (5) reducing highway congestion through highway infrastructure improvements; and (6) promoting the use of more productive truck combinations.

ATA's sustainability agenda could reduce trucking's annual carbon emissions by more than 20 percent. These reasonable measures will bring real results for reducing trucking's carbon footprint while at the same time reducing other regulated emissions, enhancing safety, helping to achieve energy independence, and keeping the nations economic engine churning.

ATA and Titan Transfer appreciate the opportunity to offer the trucking industry's testimony before this Committee and I look forward to answering any of your questions. Thank you.

