



THE UNDER SECRETARY OF DEFENSE

3010 DEFENSE PENTAGON
WASHINGTON, DC 20301-3010

ACQUISITION,
TECHNOLOGY
AND LOGISTICS

The Honorable Carl Levin
Chairman
Committee on Armed Services
United States Senate
Washington, DC 20510

AUG 06 2012

Dear Mr. Chairman:

Pursuant to section 863 of the National Defense Authorization Act for Fiscal Year 2012, this letter reports on the authorities currently available to the Department of Defense (DoD) for multiyear contracts for the purchase of alternative fuels, including advanced biofuels.

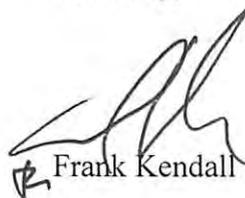
The DoD Operational Energy Strategy released in June 2011 recognizes that, in the long-term, investments in alternative fuels can be a prudent insurance policy for the Department against future oil supply disruptions and price volatility.

Under the general authority to enter into task and delivery order contracts provided in 10 U.S.C. 2304a, the Department has the authority to enter into contracts for the purchase of alternative fuels for up to 5 years. To date, no long-term contracts have been awarded for the purchase of alternative fuels. Rather, fuels contracts to date have been 1-year contracts. Industry experts have informed the Department that the long-term contract authority provided in 10 U.S.C. 2304a is not sufficient to stimulate the private capital market or potential alternative fuels suppliers to construct or expand production facilities.

Potential alternative fuels suppliers have indicated to the Department that purchase contracts of at least 10 years in duration could potentially stimulate additional capital investment in alternative fuels production beyond the small volumes currently planned in response to commercial demand. Renewable fuel projects are capital investment intensive, involving construction of production facilities, and long-term contracts enhance the ability of developers to secure critical financing and recoup capital investments. The Department has not submitted a legislative proposal to Congress for such authority at this time.

Thank you for this opportunity to provide you with information on this important subject. A similar letter has been sent to the other congressional defense committees.

Sincerely,



Frank Kendall

cc:

The Honorable John McCain
Ranking Member