

Biofuels Baby with the Bathwater

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By JIM LANE, Editor & Publisher, [Biofuels Digest](#) [1]



In Washington, there was chaos last week, as members of the House of Representatives offer dozens, if not hundreds, of amendments to the continuing budget resolution designed to keep the government funded while the country hammers out a federal budget.

Some amendments call for the virtual elimination of funding for EPA to supervise, or keep in place, the Renewable Fuel Standard. The elimination of loan guarantee funding for the Department of Energy, and the virtual elimination of funds for USDA loan guarantees. And lots more, as the nation struggles to reduce its deficit by slashing discretionary programs.

Now, as Tea Party leader Rand Paul observes, you could zero out every dollar of federal discretionary spending and still not balance the budget. The problems lie in the financing crisis for Medicare, Medicaid and Social Security.

But for now, Congress is aiming at less popular and broad-based benefits. We're not sure if any of this will make it through a Democratic-controlled Senate, since much of it undoes Democratic Party changes wrought in the 2008-10 session. Much less survive an Obama veto.

But counteth not on a veto. Support for biofuels is in peril on the Hill. As a DOE staffer put it:

"This current House CR that would take away the current credit subsidy for DOE's 1705 program. Or course that means that any deals we have in the pipeline that haven't already closed would not get closed or funded, and we have many deals in the biofuels sector that we are working on in the 1705 program that should be able to close by 30 September 2011 when the 1705 program would end anyway (if we

still have the funds to do so). Therefore, high time for the biofuels industry to start calling their congressmen and senators, as I'm not aware of any availability outside the DOE and USDA for long-term, low interest project finance loans for these types of technically innovative projects that could be brought to commercial scale. In other words, I'm not sure how the cellulosic biofuels industry could survive without the DOE's 1705 program."

Steps to Take Before Dialing your Member of Congress

A couple of things the biofuels industry would do well to get right, first - and this applies to every country, not just the United States:

1. Unify the message. The biodiesel, ethanol, cellulosic biofuels, drop-in fuels groups have to speak with one voice. That's already starting to happen, with coordination between the RFA, BIO, ABO and the Advanced Biofuels Association. Growth Energy and the National Biodiesel Board have to get into that groove, too. A house divided against itself must fall, as Lincoln said. The one thing that all six group agree on are investment tax credits (or production tax credits) for biofuels. These work wonders for stimulating the market to build biofuels capacity - on top of the R&D and commercialization work already done by USDA and DOE.
2. Talk in terms of fair and balanced energy support, not biofuels support. Reframe the conversation with questions like this: is it fair and balanced that the established oil industry enjoys so much more federal support than the emerging alternative energy industries - is that the signal we want to send. Is it fair and balanced should electric cars (that will run on, essentially, let's face it, dread coal) receive a \$7500 tax credit, and flex-fuel cars nothing. If flex-fuel cars would receive even \$1000, they would be flying out the door so fast that the car manufacturers wouldn't know how to make them quickly enough. Isn't that a fair and balanced way to get massive deployment of a fleet that can utilize alternative fuels.
3. Talk in terms of local economic impact, instead of energy security or climate change. All are popular themes, but is a confusing message to hit on so many ideas in one go, and clean coal is using energy security too, and natural gas and electric cars are outflanking biofuels on climate, to the extent that this Congress cares. Biofuels has a great story as a near-term, shovel-ready, deployable set of alternative fuels that keep local dollars at home, building a local economy. That goes for many countries, not just the United States. It's not just a biofuel, its American fuel - or Brazilian fuel, or African fuel.
4. Focus industry support on commercialization of new winners. Congressional mandates to DOE talk in terms of research, development and deployment. The R is humming along nicely, the Dev is not in good shape, and the Dep is completely forgotten. The world needs is 10 commercial-scale advanced biofuels facilities by 2015 more than it needs 100 contenders for 2020.

Government could usefully make two changes:

1. Future grants could be based on fuel performance specs, gallonage, emissions criteria, and milestone payments, and from there a simple reverse auction will do.
2. Establish loan guarantees with rules that encourage the broadest participation from the debt and equity markets.

To that end, we highlighted a bond mechanism yesterday in the Digest's Top Story. Today, we'd like to highlight the rule changes from USDA. They are important: Readers, read the interim final rule and provide written comments to it. There is a 60 day comment period right now before the adoption of the final rule.

New Bioenergy Program Rules at USDA

In Washington, Agriculture Secretary Tom Vilsack announced interim rule changes to three renewable energy programs that are intended to create jobs in rural areas and increase the production and use of renewable energy. The programs affected include the Biorefinery Assistance Program, the Repowering Assistance Program and the Bioenergy Program for Advanced Biofuels. The rule changes allow non-rural locations to be eligible for funding and remove prior citizenship requirements for borrowers.

[Complete details of the new rules](#) [2] for the Repowering Assistance Program and the Bioenergy Program for Advanced Biofuels are published on page 7916 of the February 11, 2011 Federal Register,

Reaction & Analysis

Wilson Sonsini published this [succinct summary and analysis of the changes](#) [3].

And this came in from Cindy Thyfault at Westar Trade Resources: What the USDA did right in their interim final rule:

1. Removed the requirement for the 51 percent U.S. ownership – we have several companies with excellent technologies that will be competing in the next round. Now more than ever, we need foreign direct investment and superior technologies to assist our nation to rapidly expand the biofuels capacity for our domestic consumption.
2. Removed the “rural” stipulation – projects should be able to utilize the economic advantages of sites with current infrastructure that make sense for the project. Projects in rural areas will still score higher than projects in

urban areas.

3. There are still issues surrounding the financing of these projects, and we are all making comments about the interim final rule. I would encourage your readers to read the document and make comments, especially in regard to the portion that the lender needs to retain – it should be 5 percent of the unguaranteed portion like the B & I program, not 7.5 percent of the total loan amount.

What Companies Must Consider When Applying for this Round

I have been meeting with companies since November, and encouraging everyone who is interested to start the application early. Most companies are hesitant to begin until the NOFA is released, but we anticipate a short time frame for the next round of applications – probably 60 days or less. Companies that wait will not have enough time to obtain a credit rating (which takes 60 to 90 days) for larger loans over \$125 million if they wait. They also will not have time to complete a quality application that will score high enough to complete.

1. Finding a lender will still be difficult, and the company needs to have the project information organized properly and develop a strategy early to work with our team and develop the lender of record for the project.
2. Those that wait too long will not be able to apply. There will be as much competition for a lender as for the money from USDA in this round. The finalist list for the USDA applications for this round will be at the lender level.
3. Having the project at the right stage of development is also critical. I am talking to developers that have technology but no site – have feedstock but no offtake contract – offtake contract but no feedstock. The companies that have been awarded had a team that had been working hard and was ready for financing.
4. Being able to verify the technology through an independent engineer and GREET analysis is also important. Many companies have previously applied for DOE grants and other types of funding, and have these types of analyses in hand. That becomes critically important to meet the quick turn-around deadlines that I anticipate seeing for this next round.
5. The USDA has approved a large project over \$125 million (Coskata), but they are able to be more nimble and more quickly approve projects in the \$100 million and under range. I am anticipating seeing more awards for lesser amounts in this next funding round. Companies should look hard at their financial models and work to apply for lesser amounts with higher equity percentages (30 to 50 percent) when possible.
6. Regional distribution is a high priority for Secretary Vilsack, and I anticipate

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that projects that will score higher will be in the Northeast and the Northwest U.S. Projects that have the widest diversity of feedstocks will also score higher due to the ability of the technology to be rapidly and easily replicated.

The Bottom Line

Study the new rules, coordinate with the rest of your buddies in biofuels to synchronize the message, and get a call into your Congressional representative today. Don't delay. Talk in terms of fair and balanced energy support. Investment tax credits that give a hand-up, not a hand-out, to the industry. Those are important tasks for the next few weeks and for action this day

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