



Alternative Energy Report

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Rendell's 2010-11 Budget Forecast

Governor Rendell delivered his final budget address Tuesday before a Joint Session of the General Assembly, outlining the details of his administration's 2010-2011 state spending plan. The Governor forecasted a \$525 million deficit, which is significantly smaller than last year's \$3.2 billion deficit, but likely a large enough number to make for a long budget season, particularly given his proposals to increase state spending in 2010-2011 by more than \$1 billion.

The nearly \$29 billion proposal maintains the program cuts adopted in last year's budget, and does not authorize new programs or services. Overall, the Governor explained that the budget is a 3.2% increase over the 2009-2010 budget. The Governor noted that his budget proposal spends \$2 billion less than what was approved by the General Assembly two years ago.

The proposal would be augmented by more than \$2.7 billion in one-time federal stimulus funds, some of which have not yet been formally approved. The Governor also set out his blueprint to close the budget gap expected when federal stimulus funds are no longer available and state pension contributions become a reality.

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Governor Talks Energy Initiatives

During his budget address, the Governor focused on alternative energy as one important area where Pennsylvania can achieve employment growth through the creation of green jobs. The state already ranks among the national leaders in that category.

Rendell said the state has achieved national accolades for its energy efforts, including doubling its wind power operating in the state in a single year, and that Pennsylvania will become one of the top five states generating solar power. In addition, the state now has more than 300 solar component companies in the state. To date, the Governor said that the Commonwealth has invested nearly a billion dollars in alternative energy and fuel projects, which leveraged more than \$3 billion in private investment.

Rendell made a plea for the passage of House Bill 80 or Senate Bill 92. Rendell sees legislation to increase the Alternative Energy Portfolio Standards as essential for the Commonwealth to remain competitive and attract future investments in the emerging alternative and renewable energy industry.

He told legislators that he is also eager to work with them to adopt the recommendations recently submitted by the Climate Change Advisory Group that they established. "Many of the Group's recommendations advance our efforts to stem global warming and create jobs. Let's focus on those that are "win-win" for the planet and our people," he said.

The Governor also revisited the expiration of electric rate caps. "I am determined to work with you to ensure that fair plans are put into place - backed by our laws - that guarantee that our citizens can choose to phase in these increases and not be charged more for doing so," he said.

The proposed budget does not impact the \$650 million energy initiative now being used to help state companies and consumers lower energy costs and develop renewable energy industries.

Legislative Reaction to Budget Proposal

Statements released by the four caucuses agreed that the numbers don't lie, and that serious decisions about the state's financial future need to be made, hopefully on or before June 30.

"The economic landscape has not really changed since we passed our last budget...Although the national economy is showing signs of recovery, the people of Pennsylvania have not yet seen much relief. We have limited resources and growing needs," said Pennsylvania House Majority Leader Todd Eachus (D-Luzerne).

Senate Republicans officially issued a statement that they will be carefully studying the Governor's budget proposal in the weeks to come and that they "remain committed to enacting a fiscally responsible spending plan in a timely manner while protecting the interests of Pennsylvania's taxpayers." Senate President Pro Tempore Joe Scarnati (R-Jefferson) said the proposal still represents a tax increase, noting the sales tax swap "is dead on arrival."

Overall, Senate Republicans goals have not changed over last year - the budget must be balanced without a broad-based tax increase and should be delivered on time. They seem most interested in studying the Governor's proposal to impose new taxes on Marcellus Shale gas extraction and on cigars and smokeless tobacco - which they mostly support. As well as the Governor's plan to eliminate sales tax exemption to create a Stimulus Transition Reserve Fund.

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Mellow, Three Others Announce Retirement

Senate Minority Leader Bob Mellow (D-Lackawanna) said this week he will not seek re-election at the end of his term this year. Also declaring their intentions to retire were Senate Democratic Transportation Chairman J. Barry Stout (D-Washington), House Labor Relations Chair Bob Belfanti (D-Northumberland), and House Veterans Affairs and Emergency Preparedness Chair Tony Melio (D-Bucks).

Mellow is the Senate's longest-serving member, having been elected in 1971. Stout has been a major force for decades in transportation issues and funding statewide.

U.S. Rep. John Murtha Dies

U.S. Rep. John Murtha (D-12) died this week at the Virginia Hospital Center in Arlington where he was being treated for complications of gallbladder surgery. His death comes two days after he became the longest-serving congressman in Pennsylvania history, surpassing the record of Joseph M. McDade, a Scranton Republican who served from 1963 to 1999.

Elected in 1974, Murtha became the first Vietnam combat veteran to serve in Congress. He was long instrumental in securing federal funds for the Commonwealth, unabashedly garnering earmark funding for state projects. Murtha, who chaired the Defense Appropriations Subcommittee, was also instrumental in helping elect Speaker Nancy Pelosi (D, California) in 2006.

Governor Rendell is expected to declare a special election to fill the 12th district Congressional seat this spring. Both parties are looking at the race as critical, as the district has trended Republican over the past eight years, and was won by Republican candidate John McCain in 2008.

PA's First Commercial Ethanol Plant Now Producing

Bionol Clearfield LLC, a 110 MMgy ethanol plant in Clearfield County, is up and running at nearly 100 percent, according to Roger Schmidt, general manager. Bionol was constructed by Fagen Inc. with ICM Inc. technology. Plant construction was mainly completed in November, and had produced its first ethanol by late December.

For its corn supply, the company has an agreement with Lansing Trade Group, headquartered in Overland Park, Kan. Currently, up to 75 percent of its corn is off trucks coming from Pennsylvania and eastern Ohio, Schmidt said. The remaining corn supply is coming in by rail.

Bionol is the first commercial-scale plant in Pennsylvania. The corn-based plant might not be in the Corn

Belt but it is located in what the company considers a gateway to blending terminals in New York. "We are just starting to break into that marketplace," he said.

Getty Petroleum Marketing will take over marketing the facility's ethanol in April. The companies have a five-year agreement, he said. The distillers' grains will be marketed by Land O'Lakes.

State Senate Passes Farmland Clean and Green Change for Energy Production

Last week the State Senate passed Senate Bill 298, sponsored by Senator Yaw (R-Bradford), which would require the roll-back of taxes only on the portion of farmland used by natural gas production or for Tier I alternative energy production when enrolled in the Clean and Green preferential assessment program.

The bill would require a roll-back tax to be levied only on the portion of land filed under the well restoration report and land which is incapable of being immediately used for agricultural use, agricultural reserve or forest reserve.

Land devoted to subsurface transmission or gathering lines would be exempt from roll-back taxes. Each property must be restored to its original use and would be allowed to have one lease for temporary pipe storage facilities for duration of two years.

The bill would allow for the development and use of Tier I alternative energy on any land use category of Clean and Green to be kept under preferential assessment as long as more than half of the energy annually generated is used for agriculture.

House Finance Hearing On Gas, Methane Values for Property Tax Assessments

The House Finance Committee last week held a hearing on House Bill 10, sponsored by Rep. Bill DeWeese (D-Greene) that would allow local governments and school districts to include the value of natural gas, oil or coal bed methane in the value of property for tax purposes.

DeWeese said the reason he introduced the bill was to reverse a 2002 court decision that held the value of natural gas, oil and coal bed methane cannot be legally included in the value of property in Fayette County. Prior to the decision this value was included and property owners paid tax based on that assessment.

Douglas E. Hill, Executive Director of the County Commissioners Association of Pennsylvania); Elam M. Herr, Assistant Executive Director, Pennsylvania State Association of Township Supervisors; and Edward C. Troxell, Director of Government Affairs, Pennsylvania Association of Boroughs all testified in favor of the legislation.

Each group supported including the value of minerals in property tax assessments because oil and gas extraction causes damage to roads, bridges, water well contamination, requires the treatment of millions of gallons of drilling wastewater and puts additional burdens on emergency services.

They also said there is no reason why oil and gas rights owners should not pay their fair share of local taxes like they did before and like other local businesses do. They noted coal resources are included in property tax assessments.

Biodiesel Conference - Questions and More Questions from the Road and Off-Road

ERG participated this week in the 2010 National Biodiesel Conference in Dallas, TX, along with more than 500 producers, suppliers and marketers of the biofuel. Three major issues took center stage with the delegates attending - EPA's administration of the RFS2 and Renewable Identification Number (RIN) reporting; Federal tax policies; and state policies to support the industry including mandates and incentives (See below).

Pennsylvania's HeroBX, formerly Lake Erie Biofuels, was a prominent player in the discussions, as a major producer and one of the few companies able to remain in production in recent weeks after the loss of the federal blenders' tax credit. Biofuels Digest reported on the company's flexibility and quality commitment in an [article](#) posted today.

As the conference concluded, producers and customers alike left with some answers, a better sense of the future of the industry, and hope that federal policies would yield positive support for the still immature biodiesel industry and markets.

Loss of the federal blenders' credit has crippled many biodiesel operations which were dependent on the \$1.00 per gallon incentive. The US Senate failed to extend the credit along with more than 70 other Internal Revenue Code provisions at the end of 2009, but language to reinstate the credit is included in the Jobs Bill that should be voted on when the Senate returns from President's Day break.

Hundreds of producers and customers packed the conference rooms to hear explanations of the new EPA renewable fuels guidelines and requirements for acquiring RINs for fuel sold. The EPA's administration and compliance programs are as complex as one might expect. The RFS2 announcement, which is designed to ensure that petroleum fuels sold in the US have a minimum quantity of renewable fuels, has specific carve outs for various fuel types, including biomass-based diesel, renewable diesel, alternative fuel and cellulosic biofuels, all of which may apply to certain biodiesel-like products. Federal policies vary by 50 cents per gallon for biodiesel depending on the feedstock source at present.

In response to complaints about lifecycle GHG emissions models, the EPA has grandfathered biofuels produced from certain feedstocks, but not others. This has led to confusion in the industry over how to qualify for the programs if not using soybean oil or waste oils. Producers using canola, camelina, sunflower, flax and other oilseeds for feedstock will have to petition the EPA and complete life cycle modeling to prove their emissions reductions before they can be accepted as biomass-based diesel and qualify for RINs.

A two hour discussion on Tuesday focused on state policies, and the efficacy of either mandates or incentives. Pennsylvania remains the leader in producer incentive payments and is one of a handful of states with a biodiesel volume mandate. Representatives from other states talked about the impacts and viability of various programs, with support for both mandates and tax credits to support industry growth.

Separate sessions dealt with BioHeat and UltraLow Sulfur Diesel, as alternatives to current diesel fuel for home heating. The National Oilheat Research Alliance has launched an education and outreach campaign to support mandated use of biodiesel in home heating oil as a means of encouraging conservation, reducing imports of foreign oil, and improving environmental quality.

Massachusetts is the only state with such a mandate, but Pennsylvania and five other Northeastern states are currently considering similar legislation with the support of the states' biodiesel producers and petroleum marketers. New York has a personal income tax credit for residents using biodiesel blends for home heating.

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See us at:

www.pa-erg.com

Energy Resources Group

200 North Third St. | Suite 1100 | Harrisburg, PA 17101

Phone: 717-233-8606 | Fax: 717-233-8665

E-Mail: info@pa-erg.com