



The Patriot-News

State incentives can put biodiesel on track

PA Energy Resources Group, Lake Erie and other companies in the industry have been working with the General Assembly and the Rendell administration to provide incentives for the needed infrastructure. A portion of the funding in the state energy package should help start the process.

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BY JOHN NIKOLOFF

Gov. Ed Rendell recently signed three pieces of legislation hailed as a first step in helping Pennsylvania declare independence from foreign, high-cost energy supplies. Ultimately, consumers stand to benefit from an improved environment and reduction of dependence on foreign oil.

These bills included a mandate for use of biodiesel and cellulosic ethanol in fuels sold in Pennsylvania, and a subsidy for biodiesel producers.

The potential biodiesel market in Pennsylvania is huge -- 400 million gallons a year in transportation fuels and another 550 million gallons in home heating and industrial oils. But there's a major roadblock on the farm-to-fuel expressway: lack of necessary infrastructure to deliver biofuels to consumers.

Under Act 78 of 2008, all diesel fuels will have to contain at least 2 percent biodiesel (B2) one year after state production of biodiesel reaches 40 million gallons. Increased production will require higher percentage blends up to a B20 blend at 400 million gallons.

Lake Erie Biofuels, based in Erie, is the largest biodiesel producer in the East, already producing 45 million gallons of quality product this year. This is enough to trigger a statewide B2 mandate by itself -- but we are far from the goal of getting product to the transportation retail markets.

Pennsylvania farmers are rightly excited about the prospects of increased income from producing soybeans, canola, camelina and other oilseeds for this industry. Last year, state farmers produced enough soybeans to yield 22 million gallons of biodiesel, but the state's total ability to crush and extract the oil was just 5 million gallons. Development of additional crushing capacity in the state to give our farmers markets is essential to reducing costs of feedstock and biodiesel for consumers.

On the distribution side, existing storage tanks must be retrofitted to store biofuels. And the vast majority of the state's terminals are not served by rail. As a result, while Pennsylvania producers will make 45 million to 50 million gallons of biodiesel this year, only a small percentage will be available to the state's industry and consumers.

Lake Erie Biofuels, manufacturing 125,000 gallons a day, has been unable to easily distribute biodiesel across the state due to the lack of storage and blending facilities. Product from Lake Erie is being sold in more than 20 Pennsylvania counties -- much locally in southcentral Pennsylvania -- but oil trucks for local companies wanting to sell biodiesel blends are now driving as far as 350 miles from southeastern Pennsylvania to load up with 6,500 gallons and return home for local distribution.

Last month, only three of 10 existing state biodiesel plants were in operation. In an effort to help the struggling biodiesel industry, the General Assembly passed a 75 cents-per-gallon subsidy for three years for some biodiesel producers. But a cap on payments means some producers will receive 75 cents, while Lake Erie will get just 4 cents per gallon.

If you make and sell more than 2 million gallons of biodiesel per year, your per-gallon payment declines. This is not an incentive for expanded production, nor for investment in new Pennsylvania operations.

Even assuming that the 75-cent incentive allows some biodiesel producers to "flip a switch" and reach full capacity, does that solve the problem? Certainly not in getting homegrown feedstock or reaching statewide markets.

PA Energy Resources Group, Lake Erie and other companies in the industry have been working with the General Assembly and the Rendell administration to provide incentives for the needed infrastructure. A portion of the funding in the state energy package should help start the process.

But a program of tax credits for the agribusinesses, railroads, terminals, blending facilities and retailers will move that process forward much more quickly. The state House came within a few votes of doing that in early July, and we hope this concept will be revisited in the fall or early in 2009.

State government needs to help provide the industry the tools it needs to deliver on these promises. Without this support we are actually undercutting biodiesel producers, prospective biofuels companies considering starting operations here in the commonwealth, and ultimately the consumers of the state.

To achieve the ultimate results of weaning Pennsylvania off of foreign oil, while providing efficient, environmentally improved fuels for vehicles and home heating, we must begin investing now. That can happen if the industry and the state work together to provide incentives for the key investments necessary to remove this roadblock to consumer access.

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