

Advanced Biofuel Officials Seek Fix For DOE Loan Guarantee Program

In a letter last week to President Obama and to the House and Senate leadership, three advanced biofuel trade groups warned they are being cut off from vital federal loan guarantees because the criteria used to administer the program do not apply to advanced biofuels, biochemicals and bioproducts projects.

Loan guarantees are essential to unlock funding for advanced biofuels, biochemicals and bioproducts, wrote the Advanced Biofuels Association, the Algal Biomass Organization and the Biotechnology Industry Organization. “Unfortunately, no loan guarantees have been issued by DOE (Department of Energy) to date for this sector and few, if any, will be issued until significant statutory and regulatory changes are made.”

The groups asked the administration to give additional guidance to DOE Loan Program officials, warning that without new direction, “congressional intent to ensure near-term commercialization—and associated petroleum displacement—of advanced biofuels and other bio-based chemicals and products would be thwarted.”

“Entrepreneurial companies are ready to scale up advanced biotechnology solutions for biofuels, biochemicals and biobased products, but institutional lenders are reluctant to fund new technologies,” said Brent Erickson, executive vice president of BIO’s Industrial & Environmental Section, in a September 22 release announcing the letter to the White House and Congress.

“Congress established this loan guarantee program and extended it through the American Recovery and Reinvestment Act to help companies with cutting-edge energy and manufacturing technologies secure necessary private financing. While the program has worked for some energy generators, it has not worked for advanced biofuel and biorefineries.”

Advanced Biofuels Association President Michael McAdams added: “We must have a government that not only has good intentions but can also successfully execute and deliver on the original objectives of programs developed by Congress. The companies we represent are at a critical juncture in their ability to deploy commercial gallons and the loan guarantee programs, both at the Department of Energy and the Department of Agriculture, can play a significant role in making a vision become a reality.”

“While we appreciate the significant financial support given by the federal government to advance research in the field of algae, the reality is that there are a number of algae companies who are past the initial research phase and ready to begin commercialization efforts,” said Mary Rosenthal, executive director of Algal Biomass Organization. “These commercialization efforts are expected to create hundreds of thousands of jobs in the next decade, including in parts of the country hardest hit by the recession. The sooner we can get these projects funded, the quicker we can put people to work.”

Among other issues, the association chiefs said the White House needed to issue formal guidance to DOE clarifying the criteria for “reasonable prospect of repayment” for advanced biofuels is needed. They said DOE is misinterpreting that requirement under the 2005 Energy Policy Act (EPAAct), Section 1702(d)(1), to mean “certain prospect of repayment” and is demanding long-term, fixed-price offtake agreements to fulfill it.

That may be reasonable for wind, solar and geothermal power generators, given the structure of electricity markets, but the biofuels market is different, the groups stressed. Most transportation fuels, including biofuels, are sold in spot markets or under short-term supply agreements. Long-term supply agreements are rare.

The associations said DOE, in its risk assessment, should recognize the long-term market certainty for advanced biofuels created by the Renewable Fuel Standard (RFS) of the 2007 Energy Independence and Security Act (EISA). “The RFS establishes a continuously expanding, legally mandated market for advanced biofuels, specifically designed to provide confidence to advanced biofuels investors of a reasonable prospect of repayment.

“We ask that you provide DOE guidance that mandated RFS volumes for advanced biofuels be considered to satisfy the administratively determined requirement for long-term offtake agreements for advanced biofuels projects, and that individual long-term supply agreements are not a prerequisite to issuing loan guarantees to the advanced biofuels industry,” the officials said.

The biofuel associations are also asking Congress to extend the construction deadline under the EPA Act Section 1705 program, which authorizes guarantees for projects begun by Sept. 30, 2011.

“Given the rapid development of new technologies and high level of preparedness required by the program, a longer timeline will provide a greater number of promising technologies with the opportunity to participate, and ultimately deliver, commercial quantities of fuels, chemicals and products to market,” the trade groups said.

“A program extension, coupled with explicit White House guidance to DOE on advanced biofuels projects, is likely to result in new loan guarantees being issued to this and other energy and manufacturing sectors.”

At the same time, Congress should restore the \$3.5 billion diverted from the \$8.5 billion loan guarantee program to other budget priorities, the groups maintained, and establish a dedicated pool of money for advanced biofuel, biochemical and bioproduct projects.

“Next generation biorefineries face a particular challenge in securing financing because, unlike in most other renewable energy categories, these are first-of-kind facilities with little commercial precedent,” they added.

“Dedicated funding for biorefinery projects would provide DOE clear direction to move forward on issuing loan guarantees for these critical technologies. Similar consideration should be applied in any future program that may be enacted, such as the proposed Clean Energy Deployment Act. Alternatively, Congress should consider giving USDA (Department of Agriculture) a formal role in program implementation for biorefinery project submissions, given the agency's expertise and position leading the administration's biofuel deployment efforts and existing biorefinery loan guarantee authority under Farm Bill section 9003.”

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