



March 16, 2016

USDA Initiative Is Funding New Ethanol Infrastructure

In June 2015, the U.S. Department of Agriculture (USDA) announced the availability of \$100 million in matching grants under a Biofuel Infrastructure Partnership (BIP). A Notice of Funds Available (NOFA) explained that the grants were aimed at overcoming infrastructure constraints that limit the market for biofuels, specifically higher-level ethanol blends such as E15 (gasoline blends with up to 15% ethanol content) and E85 (blends with between 51% and 83% ethanol content). USDA cited economic uncertainty facing biofuel feedstock producers (in practice corn, the primary feedstock for ethanol production) as a result of record supplies and lower commodity prices.

Goal Is to Expand Ethanol Usage

The goal of BIP is to increase biofuel (ethanol) consumption by enabling public-private partnerships that will share the costs of installing infrastructure for higher-level ethanol blends—that is, gasoline blends in excess of 10% ethanol by volume. USDA contends that fueling infrastructure constraints (storage tanks and dispensing equipment that is certified for higher-level ethanol blends) is limiting the distribution of these fuels. These constraints, in turn, effectively limit demand for feedstocks for ethanol production, mainly corn, contributing to lower corn prices.

Prior to the BIP initiative, USDA had supported the installation of blender pumps through the Rural Energy for America Program (REAP). The 2014 farm bill (P.L. 113-79) curtailed this practice by altering the definition of “renewable energy system” to exclude mechanisms for dispensing energy at retail, which effectively prohibited the use of REAP funds for the installation of blender pumps.

In practice, the limited availability of E15 and E85 blends has imposed a ceiling (the “blend wall”) on domestic use of ethanol at about 10% of total gasoline consumption. The Environmental Protection Agency (EPA), which administers the Renewable Fuel Standard—which mandates annual increases in the use of renewable fuels, including ethanol—has cited constraints in the fuel distribution infrastructure as among the reasons for setting the Renewable Volume Obligation (RVO) for 2014, 2015, and 2016 at levels below those called for in statute. The RVO determines the annual volume of renewable fuel that gasoline blenders and other obligated parties must use.

BIP seeks to ameliorate the infrastructure bottleneck in distributing higher-level ethanol blends by making available \$100 million in federal grants to states that agree to at least match the USDA funds. Participating states, in turn, may enter into arrangements with private entities, such as gasoline vendors, farm commodity promotional organizations, tribes and other entities interested in the promotion of renewable fuels to secure non-federal matching funds or in-kind contributions. The ultimate

recipients of BIP funds are expected to be retail fueling stations, although the infrastructure installed through BIP could also be provided to state, local, or private entities for providing higher-level ethanol blends to fleet vehicles.

\$210 Million for New Fuel Infrastructure

On October 28, 2015, USDA announced that it had accepted applications from 21 states, leading to a total investment under BIP of \$210 million (including the state match). As a result, the agency estimates that nearly 5,000 fuel pumps will be installed at almost 1,500 fueling stations out of some 150,000 fueling stations nationwide. The funding total also includes new fuel storage tanks and promotional efforts (see **Table 1**). Approved uses for BIP funds include:

- Blender pumps (new or retrofit) to dispense ethanol blends up to E85, with USDA share capped at 75%;
- Dedicated E15 or E85 pumps (new or retrofit), with the USDA share capped at 75%;
- New storage tanks and related equipment associated with new facilities or additional capacity (excludes replacement tanks), with USDA’s share capped at 25%.

State matching funds may be used to pay for any of the infrastructure approved under the grant portion of BIP as well as any related costs, including additional infrastructure to support pumps, marketing, education, data collection, program evaluation and application costs. In addition, state programs that provide equipment grants or tax incentives may be counted toward the match, but they must demonstrate how BIP incentives will add to the growth of biofuel infrastructure beyond the existing state program.

USDA asserted that the U.S. vehicle fleet in 2014 had the capacity to consume up to 26 billion gallons of ethanol in the form of E15 and E85 that year, far exceeding the actual sales of these blends of between 100 million to 200 million gallons that year. For perspective, U.S. gasoline consumption amounted to 140 billion gallons in 2015, with U.S. ethanol usage totaling 13.9 billion gallons. Between 80% and 85% of the roughly 250 million vehicles registered in the United States are able to run on E15 blends, according to the EPA, while approximately 14 million flex-fuel vehicles can use E85.

Congressional Appropriation Not Needed

The BIP initiative is administered by USDA’s Farm Service Agency with funding from the Commodity Credit Corporation (CCC). A distinguishing characteristic of BIP compared with most other biofuels programs administered by USDA is that BIP did not receive a specific appropriation from Congress. Given that funds for BIP are

not contingent on annual appropriations acts but, rather, are derived from CCC at the discretion of the Secretary of Agriculture, it is possible that more BIP grants could be made available at a future date.

USDA points out that Section 5 of the CCC Charter Act (62 Stat. 1070; 15 U.S.C. 714) authorizes CCC to undertake actions consistent with BIP, including (1) “make available materials and facilities required in connection with the production and marketing of agricultural commodities (other than tobacco),” and (2) “increase the domestic consumption of agricultural commodities (other than tobacco) by expanding or aiding the expansion of domestic markets or by developing or aiding in the development of new and additional markets, marketing facilities, and uses for such commodities.”

The CCC is a government-owned corporation within USDA under the supervision of the Secretary. CCC operates a revolving fund, which draws on its permanent borrowing authority of up to \$30 billion at any one time from the U.S. Treasury to finance a range of U.S. agricultural programs.

Possible Issues for Congress

The 2014 farm bill effectively prohibited the use of REAP funds for promoting the installation of blender pumps. As such, Congress could consider whether the BIP initiative is consistent with congressional intent in the farm bill.

Conversely, the congressional mandate of CCC, in part, is to increase the domestic consumption of farm commodities by facilitating the expansion of domestic markets for these commodities and by helping to develop new markets. Thus, Congress could consider whether BIP, with its emphasis on facilitating long-term demand for ethanol, is an effective way to achieve this objective for producers of feedstock for renewable fuels (mainly corn).

Congress could also consider whether the degree of uncertainty facing feedstock producers, compared with the uncertainty facing other commodity producers, is commensurate with the level of assistance in BIP.

Table I. BIP Grants by State and Proposed Use

Participating State	Federal Grant (in 1,000 US dollars)	Proposed Stations	Proposed Pumps	Proposed Tanks
Total	99,919.1	1,486	4,880	515
Colorado	600	7	28	7
Florida	15,997.8	130	892	70
Illinois	11,979.8	65	428	54
Indiana	895	110	110	0
Iowa	5,000	100	187	25
Kansas	1,300	170	174	0
Louisiana	1,700	11	110	11
Michigan	3,000	16	89	20
Minnesota	8,000	165	620	92
Missouri	2,875.3	166	171	41
Nebraska	2,285	32	80	20
North Carolina	5,000	37	190	0
North Dakota	1,200	12	90	12
Ohio	3,388	41	148	4
Pennsylvania	7,000	79	308	0
South Dakota	1,500	34	74	0
Texas	17,000	148	763	39
Virginia-Maryland	4,998.1	41	191	20
West Virginia	2,500	22	107	0
Wisconsin	3,700	100	120	100

Source: USDA Farm Service Agency News Release of October 28, 2015, <http://origin2.www.fsa.usda.gov/programs-and-services/energy-programs/bip/index>.

IF10377

Mark A. McMinimy, mmcminimy@crs.loc.gov, 7-2172