

# MGA



Midwestern Governors Association

**Notes from the Midwest:  
A Biofuels Checklist  
2007**

**THE MIDWESTERN GOVERNORS ARE:**

Chair

**Tim Pawlenty**

Minnesota

Past Chair, 2005

**Rod Blagojevich**

Illinois

**Matt Blunt**

Missouri

**Chet Culver**

Iowa

**Mitch Daniels**

Indiana

**Jim Doyle**

Wisconsin

**Jennifer Granholm**

Michigan

**Dave Heineman**

Nebraska

Past Chair, 2004

**John Hoeven**

North Dakota

**M. Michael Rounds**

South Dakota

**Kathleen Sebelius**

Kansas

**Ted Strickland**

Ohio



As Chairman of the Midwestern Governors Association (MGA), I am pleased to share with you the enclosed Biofuels Checklist, which is a compilation of best practices from the Midwestern states. This menu of best practices highlights the main initiatives being undertaken by the governors in our region. As you will see, the Midwest continues to lead the nation in production and consumption of biofuels and continues to serve as an example to the rest of the country.

Also included is a summary of the barriers facing states as they work to increase the production and consumption of biofuels.

The checklist of best practices and barriers was compiled to share with members of Congress, governors and others interested in reducing our dependence on imported oil, while creating more jobs and a cleaner environment here in the United States. Midwestern governors hope that this checklist will serve as a resource when lawmakers, governors and other policymakers prepare to implement additional biofuels initiatives. Moreover, we hope that this resource will support the many biofuels initiatives that have been adopted in our region as policymakers address issues that may have an impact on such programs.

On behalf of the MGA, thank you for maintaining a commitment to the development and implementation of state and federal biofuels programs. I encourage you to call upon the association should you need additional input on this exciting and growing industry.

Sincerely,

Tim Pawlenty  
Governor of Minnesota, and  
Chair, Midwestern Governors Association

# Biofuels Best Practices Checklist

**Implement a statewide biofuels use requirement.**

Minnesota is the nation's leader in the use of renewable fuels with the highest renewable fuel use per capita in the nation. It was the first state to implement an ethanol standard. Since 1997, Minnesota law has required all gasoline sold within the state to include 10% ethanol (E10). In 2005, Gov. Pawlenty signed legislation that will move the state to a 20% ethanol standard by 2013.

**Establish a statewide petroleum replacement goal.**

In Iowa, legislation was signed that sets a goal for the state to use biofuels to replace 25 percent of all petroleum used in gasoline by 2020. Eligible retail motor fuel dealers will be able to claim credits against their state income taxes based on how well their ethanol gasoline and biofuels sales meet the petroleum replacement goal.

**Create a biodiesel standard and extend consumption requirements to local and regional transit systems.**

In September 2005, Minnesota implemented a law that requires a 2 percent replacement of its conventional diesel supply with biodiesel. This requirement has resulted in a dramatic increase in biodiesel production, as well as an increase in demand from 1.5 million gallons to 2.5 million gallons annually. This year, the Twin Cities bus system has begun using a 5 percent biodiesel mix in its fuel and is testing an 8 percent biodiesel blend.

**Establish a statewide E10 requirement.**

Under Gov. Matt Blunt, Missouri recently became the fourth state in the nation to establish an E10 requirement for motor fuels, and the first in the nation where the requirement is supported by a state association of fuel retailers. Missouri's law goes into effect on January 1, 2008, provided that the ethanol blend is no more expensive than conventional gas. This market-based requirement is uniquely designed to protect small-business owners who compete with fuel sources across state lines.

❑ **Encourage the production and purchase of energy-efficient flexible fuel vehicles through innovative tax policies.**

To help Illinois drivers save money, promote fuel efficiency and boost the use of alternative fuels, Gov. Rod Blagojevich has proposed a \$500 state sales tax credit on the purchase of qualifying fuel efficient vehicles. The sales tax credit would be given at the time of purchase. To qualify, the new vehicle purchased must obtain a 35 mpg city rating for gasoline or diesel vehicles, or a 25 mpg city rating for flexible-fuel vehicles. This proposal is a performance-based incentive, not a technology-based incentive, thereby encouraging automakers to be creative in identifying the most cost-effective methods of producing efficient vehicles.

❑ **Use the state's purchasing power to create additional demand for flexible-fuel vehicles.**

In November 2005, South Dakota Gov. Mike Rounds announced his new state policy to purchase, when available, flexible-fuel vehicles for the state fleet. In 2006, the state purchased 251 flex-fuel vehicles (82% of the state's total order of new vehicles). As the state retires old vehicles each fiscal year, the number of E85 compatible vehicles will continue to grow.

❑ **Adjust tax rates to encourage additional biofuels consumption.**

In 2006, Kansas Gov. Kathleen Sebelius signed into law a bill that will reduce the motor vehicle fuel tax rate on E85 fuels by \$.07 to \$.17 per gallon. The law is designed to stop the inequity of over-taxing individuals who have chosen to purchase E-85 fuel rather than gasoline by removing a disincentive to purchase E85. The law taxes drivers at a rate more commensurate with the miles traveled on a gallon of E85 fuel.

❑ **Establish production tax credits for the production of biofuels.**

The 2005 Kentucky Tax Modernization Plan authorized a \$1.5 million biodiesel production tax credit. This tax credit is available to biodiesel blenders and producers and is designed to help grow the biodiesel market in Kentucky. Credits may be granted against income taxes for producing or blending biodiesel fuels. Amounts of credits are up to \$1 per gallon produced or blended and limited to a maximum statewide credit of \$1.5 million.

❑ **Create a bio-powered city to highlight the benefits and uses of biofuels.**

In Indiana, Gov. Mitch Daniels designated the city of Reynolds as the first BioTown, USA, in an effort to promote different ways communities can use and produce bioenergy. The goal of BioTown is to meet all of the energy needs of the community through the consumption of bio-renewable resources. Some key strategies that BioTown will employ to reach this goal include increasing the use of flex-fuel vehicles and transforming animal waste from area livestock farms into electricity and natural gas.

❑ **Consolidate and streamline permitting and siting information for biofuel production facilities.**

Nebraska created <http://EthanolSites.com> as a one-stop shop for companies looking for suitable sites to build ethanol or other biofuel plants. On this Web site, companies can find pre-approved sites that are suitable for biofuel plants. Nebraska has also established the One-Stop Permit Assistance Program to help applicants navigate through the state's siting regulations and approval process.

❑ **Develop a comprehensive state energy strategy that includes the use of biofuels.**

In February 2005, Kentucky unveiled a comprehensive energy strategy for the commonwealth, Kentucky's Energy: Opportunities for Our Future. The strategy is a balanced approach between energy supply and demand that allows Kentucky to optimize its inherent strengths in relationship to local, national, and world trends.

❑ **Create public-private partnerships to increase the number of E85 pumps available in your state.**

Thanks largely to a unique and far-reaching public-private partnership, Minnesota has North America's largest network of E85 gas stations, with about 300 stations in operation. The Minnesota E85 Team includes three agricultural associations, one environmental association, three state agencies and one federal agency. The E85 Team works with station owners interested in adding E85 pumps and with car dealerships and auto manufacturers interested in promoting flexible-fuel vehicles, as well as with legislators, the media, and the general public.

**❑ Create a research and development fund to encourage and fund emerging technologies in the renewable fuel industry.**

Passed in 2005, the Energy Research, Development and Demonstration Program provides funding to support energy-related research and development at Kentucky’s public universities. These grants help facilitate Kentucky’s ability to leverage research funding from federal and private sources. The grants also encourage knowledge and technology exchanges between the universities, national energy laboratories and private industry.

**❑ Work with the U.S. Department of Transportation to improve signage for E85 stations.**

Many states are working with U.S. Department of Transportation to develop and promote standardized sign requirements and logos that depict the availability of E85 filling stations on the national highway system. Additionally, states can develop uniform signs on state roads that notify travelers of the availability of E85 stations.

**FOR MORE INFORMATION ABOUT ANY OF THESE BEST PRACTICES, PLEASE CONTACT:**

STATE	CONTACT	PHONE	E-MAIL
Illinois	Hans Detweiler	312-814-2266	HDetweiler@ildceo.net
Indiana	Brandon Seitz	317-232-7578	bseitz@lg.in.gov
Iowa	Sharon Tahtinen	515-281-7066	Sharon.tahtinen@dnr.state.ia.us
Kansas	Carole Jordan	785-296-4172	cjordan@kda.state.ks.us
Kansas	Ray Hammarlund	785-296-3084	rhammarlund@kansascommerce.com
Kentucky	John Davies	502-564-8110 x431	john.davies@ky.gov
Michigan	Bridget Beckman	517-241-4281	beckmanb@michigan.gov
Minnesota	Quinn Cheney	651-201-6180	Quinn.Cheney@state.mn.us
Missouri	Floyd Gilzow	573-751-3195	floyd.gilzow@dnr.mo.gov
Nebraska	John Erickson	402-471-2512	erickson@pro.state.ne.us
North Dakota	Lance Gaebe	701-328-2200	lgaebe@state.nd.us
Ohio	Fred Shimp	614-466-2732	FShimp@mail.agri.state.oh.us
Ohio	David Hanselmann	614-265-6618	david.hanselmann@dnr.state.oh.us
South Dakota	Bill Even	605-773-3301	Bill.Even@state.sd.us
Wisconsin	Will Hughes	608-224-5142	will.hughes@datcp.state.wi.us
Wisconsin	Paul DeLong	608-264-9224	paul.delong@dnr.state.wi.us

# Barriers to Increasing the Consumption and Production of Biofuels

The nation's investment in renewable energy is delivering results, with nearly 6 billion gallons of renewable fuels produced in 2006. However, several challenges and barriers exist that limit the potential of the biofuels industry. The Midwestern Governors Association has identified the following potential barriers to expanding the production and distribution of bio-renewable fuels.

## **Funding & Federal Commitment**

The Energy Policy Act of 2005 authorizes extensive funding of biofuels in the form of grant programs. However, many of these programs lack full funding, potentially stifling important developments in biofuel technology and production. The Act also provides for grants for construction of cellulosic ethanol plants - \$250 million in 2006 and \$400 million in 2007 and 2008. The Act authorizes the EPA to fund conversions of cellulosic biomass feed stocks into ethanol - up to \$110 million between the years 2005 and 2009, and also authorizes over \$200 million in research and development grants.

However, the FY2006 appropriations bill only set aside \$92 million for biomass and bio-refinery research and development and did not appropriate funds for facility construction grants. The House and Senate FY2007 levels for biomass R&D are only \$14 million. If adequate funds are not appropriated to the authorized levels, the development of the biofuels market could be slowed, with harmful consequences to the U.S. economy and energy security.

Under the 2002 Farm Bill, all federal agencies must purchase bio-based products that meet cost, availability and performance standards. Extending this requirement to include federal contractors would push up the demand for biofuels among private contractors.

## **Lack of E85 Infrastructure**

The E85 industry sold approximately 70 million gallons in 2006 at more than 1,000 stations nationwide. More than 6 million vehicles are E85 compatible. However, the foundation of the ethanol market still faces challenges.



For example, when Underwriters Laboratories (UL) announced it was suspending authorization to use UL labels on E85 pumps, installation of more E85 pumps in some parts of the country was put on hold. Results of UL's safety testing on E85 will not be released until 2008. Additionally, some petroleum companies continue to hold operators to strict contractual agreements prohibiting the installation of E85 pumps. Auto manufacturers stress that demand for more flexible-fuel vehicles will increase only after there is significant growth in the number of E85 stations. Retailers and consumers complain that E85 is not promoted adequately on U.S. highways.

Finally, in the Washington, D.C., metropolitan area where the number of flexible-fuel government vehicles is high, there are only seven E85 pumps available for use.

These continuing challenges are slowing the growth of the renewable energy industry. State and federal governments, auto manufacturers, petroleum companies and retailers must work together if the promise of biofuels is to be realized.

### **Transportation and Distribution Limitations**

Like many agricultural producers, ethanol manufacturers are highly dependent on trucks, rail and river/ocean barges for their transportation needs. However, the increasing costs to use these forms of transportation significantly impacts the final cost of biofuels. More cost-effective methods of biofuel transportation are required in order to promote the potential expansion of the biofuel industry.

Each of these three main transportation methods has limitations. Policy makers must work together to determine the most efficient distribution method for the raw materials needed to produce biofuels as well as the final products and co-products.

Specific issues include:

- Ensuring access to water transportation infrastructure, such as locks and dams;
- Standardizing state and federal regulations pertaining to lock and dam systems to ensure safe transportation;
- Exploring the long-term feasibility of a dedicated biofuels pipeline and developing best practices for current pipeline management to support biofuels transport; and

- Ensuring suppliers and producers have adequate access to rail systems and increasing state and federal support for technological improvements in the rail industry.

### **Regulatory Inconsistencies**

Policies, regulations and guidelines need to be standardized within the biofuels industry and between regulatory agencies. For example, Environmental Protection Agency regulations pertaining to total emissions and the siting and permitting requirements for new biofuels plants may vary from region to region. In addition, American Society for Testing and Materials, (ASTM) standards need to be developed and/or updated as the biofuels industry becomes more diverse and use becomes more widespread. This is especially critical as these standards are not easily agreed upon by the ASTM, and some standards may take over 10 years to achieve.

The establishment of regional and national biofuels standards through cooperative agreements and policy coordination will greatly enhance the industry's ability to meet this increasing demand. The consolidation of regulatory controls will increase industry competition and provide further incentives for the automobile industry to increase their supply of flexible-fuel vehicles.

To learn more about the Midwestern Governors Association please contact:

Jesse Heier  
Hall of States  
444 N. Capitol Street, NW  
Washington, D.C. 20001  
P: 202.624.5460  
F: 202.624.5452  
Email: [jheier@midwesterngovernors.org](mailto:jheier@midwesterngovernors.org)  
[www.midwesterngovernors.org](http://www.midwesterngovernors.org)



The Midwestern Governors Association receives secretariat services from the Midwestern Office of The Council of State Governments. For more information, contact Ilene Grossman at the CSG Midwest office:

Ilene K. Grossman  
CSG Midwest  
701 East 22nd Street, Suite 110  
Lombard, Illinois 60148  
P: 630.925.1922  
F: 630.925.1930  
Email: [igrossman@csg.org](mailto:igrossman@csg.org)  
[www.csgmidwest.org](http://www.csgmidwest.org)





Midwestern Governors Association

Midwestern Governors Association  
Hall of States  
444 N. Capitol Street, NW – Suite 401  
Washington, DC 20001  
P: 202.624.5460 • F: 202.624.5452  
[www.midwesterngovernors.org](http://www.midwesterngovernors.org)

