



October 17, 2016

The Honorable Orrin Hatch, Chairman
Committee on Finance
United States Senate
219 Dirksen Senate Office Building
Washington, DC 20510

The Honorable Ron Wyden, Ranking Member
Committee on Finance
United States Senate
219 Dirksen Senate Office Building
Washington, DC 20510

Dear Chairman Hatch and Ranking Member Wyden:

On behalf of New England's wholesale and retail distributors of home heating oil and Bioheat® Fuel, we write in support of a clean two-year extension of the federal biodiesel blenders' tax credit.

We also urge Congress to refrain from moving eligibility for the tax credit from blenders to producers until a thorough examination is given to how this change would affect biodiesel supplies and consumer prices in New England and the broader Northeast.

The New England Fuel Institute (NEFI) represents home comfort providers that each year deliver an average of two billion gallons of heating oil to 2.3 million homes and thousands of businesses in the six-state region. This is more than 40 percent of the space heating market in New England. Most of these companies now offer a biodiesel-blended product, known as Bioheat® Fuel. Bioheat is clean, efficient and renewable and can be used safely in existing heating systems with few modifications or adjustments. Rigorous studies have shown Bioheat to improve system performance and that it has a lower greenhouse gas profile than competing fuels, including natural gas.

Our industry aims to offer a five percent blend region-wide in New England, requiring 100 million gallons of biodiesel annually. New England's biodiesel producers play an important role in helping to meet these goals. They currently produce around 15 to 20 million gallons each year and their capacity continues to grow. However, this is insufficient in meeting the region's current and future needs. We estimate twice this amount is currently being used each year in the state of Connecticut alone.

The \$1 per gallon biodiesel tax credit, which is currently set to expire at the end of this year, has been essential in closing this gap. Under its current structure as a blenders' credit, heating oil suppliers are rewarded for bringing sustainable biodiesel into the region and blending it into the fuel supply. Given logistical challenges associated with transporting domestic biodiesel into the region from elsewhere in the country, more than 75 percent of the biodiesel brought into New England is imported from Canada and other U.S. allies and trade partners.

The "Biodiesel Tax Incentive Reform and Extension Act" (S.3188), offered by Senators Chuck Grassley and Maria Cantwell, seeks to make every one of these Bioheat gallons ineligible for the tax credit. If enacted S.3188 would move the biodiesel tax credit from blenders upstream to producers effective January 1, 2017. In other words, this legislation would prohibit Bioheat gallons produced from imported biodiesel from being eligible for the federal tax credit.

New England heating oil distributors would therefore be forced to buy domestic biodiesel in order to benefit from the tax credit. As mentioned, the region's production of biodiesel is very limited. Last year

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it produced only one percent of all U.S. gallons. The majority of U.S. biodiesel is produced in the Midwest and must be transported into the region by rail or by sea. Rail infrastructure is heavily fragmented and unreliable in the Northeast. This is especially true during the five months of the heating season (November through March). Similar challenges exist in transporting biodiesel by sea due to the lack of domestic biodiesel barges and the requirement for higher cost Jones Act compliant vessels. As you are aware, under the Jones Act (Section 27 of the Merchant Marine Act of 1920) any vessel transporting goods between U.S. ports must be American owned, built, flagged and manned.

New England heating oil distributors are unlikely to impose higher costs on their consumers. As a result, S.3188 would discourage the sale, distribution and use of Bioheat Fuel in New England. This is not in keeping with our goal of bringing an affordable, efficient and renewable heating fuel to the millions of homes and businesses in New England and throughout the Northeast.

It would also undermine state efforts to improve air quality and reduce greenhouse gas emissions. In Rhode Island for example, state law currently requires a four percent Bioheat blend statewide, increasing to a five percent blend on July 1, 2017. A portion of the nine million gallons required to meet the mandate will continue to come from imports, even if S.3188 becomes law. As a result, the state will have to choose between higher home heating costs or a suspension of its Bioheat law.

NEFI only supports moving the biodiesel tax credit from blenders to producers following a thorough examination of these issues by Congress. This includes hearings by relevant committees and an independent study into the effect the change would have on biodiesel supplies and consumer prices in New England and other regions with limited biodiesel production.

In the meantime, Congress should prevent expiration of the biodiesel blenders' tax credit by enacting a *clean* two-year extension through 2018. This will allow additional time for more thorough consideration of proposed changes that in fact may be better served as part of a broader tax reform discussion.

If you or your staff have questions or require additional information, please contact Jim Collura, NEFI Vice President & Director of Legislative Affairs at (617) 923-5023 or jim.collura@nefi.com.

Thank you in advance for your consideration.

Sincerely,



Mike Estes
Estes Oil & Propane of York, Maine
NEFI Chairman of the Board



Scott E. Macfarlane
MacFarlane Energy of Dedham, Massachusetts
NEFI Government Affairs Committee Chair

cc: The New England Senate Delegation