November 27, 2017

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:

**The undersigned organizations write in support of a retroactive extension of the biodiesel tax credit at the *blender-level*.** Proposals to restrict the biodiesel tax credit to domestic production rather than blending will have an immediate and adverse effect on biodiesel supplies in the Northeast. As a result, it may increase consumer prices for biodiesel-blended heating oil in New England and New York.

Together, the New England Fuel Institute (NEFI) and the New York State Energy Coalition (NYSEC) represent mostly small, family-owned and operated businesses that each year deliver heating oil to over three million homes and thousands of businesses in the seven-state region. This is more than half of the entire U.S. market for home heating oil. Thanks in part to the biodiesel tax credit (BTC), most of this product is now blended with clean and renewable biodiesel.

Biodiesel-blended heating oil is safe and efficient and can be used in existing systems with few, if any modifications or adjustments. Rigorous studies[i] have shown biodiesel-blended heating oil to improve system performance and that blends as low as two-percent have a competitive emissions profile when compared to natural gas. We estimate the average gallon of home heating oil consumed in New England or New York contains between five and seven percent sustainable biodiesel.

Some states and locales even *require* its use. Rhode Island currently requires a five-percent blend state-wide. New York City began requiring a five-percent blend on October 1st and will steadily increase its requirement up to 20 percent in 2034. In September, New York Governor Andrew Cuomo signed a law requiring five-percent blends effective July 1, 2018 in the down-state counties (Nassau, Suffolk and Westchester). New York state also offers an income tax credit to consumers using a six-percent or higher biodiesel blend in their heating oil. Several other states are considering policies to encourage the sale and use of this environmentally compatible fuel.

More than 60 million gallons of biodiesel will be needed to meet these requirements, mostly during winter months (November through March). This does not include the millions of gallons required to meet growing consumer demand in states where discretionary blending occurs. By renewing the BTC at the *blender level*, Congress will help meet this growing demand by allowing heating oil distributors to blend sustainable biodiesel into their fuel, irrespective of where it is sourced - whether from Vermont, Iowa, Ontario or Norway. Its renewal will also encourage continued investments in the region's capacity to produce, store and transport biodiesel.

NEFI and NYSEC have previously expressed concerns to Congress that the immediate move to a *producers-only* tax credit will result in acute localized supply disruptions and increased consumer prices in the Northeast, at least in the short-term. Preliminary results from a forthcoming study into the regional biodiesel market validate these concerns.[ii] It suggests the producers' tax credit would effectively function as a "tariff" on all imports of sustainable biodiesel.

To access the economic benefit of a producers' tax credit, Northeast heating oil distributors will have to purchase and blend domestic gallons of biodiesel. While growing, production capacity in the region remains limited and there are near-term logistical barriers to the transportation and storage of product from the Mid-west. Northeast distributors may continue to blend imported biodiesel made less economic by this change; or they may simply blend less biodiesel into their heating oil supply, except in states and locales where such blending is required by law.

Again, preserving the BTC at the blender-level will minimize market disruptions as our region transitions to a renewable heating fuel and, as a result, greater energy security and sustainability. Blends of biodiesel from Canada and other trade partners can act as a "bridge" as regional biodiesel producers and suppliers make further investments in feedstock diversification, production capacity and distribution infrastructure.

Considering the fiscal constraints faced by Congress, NEFI and NYSEC also support phasing-out the BTC over five-years. This would make it consistent with the phase-out of other renewable energy credits in current law, including wind and solar tax credits. Phasing-out the BTC will provide greater market certainty and allow biodiesel prices and relative RIN credits under the Renewable Fuels Standard adequate time to adjust prior to its termination in 2022.

In closing, we hope you will consider our region's energy needs as you debate the extension of the BTC as part of either the pending tax reform bill or a forthcoming tax extenders package.

Thank you in advance for your consideration.

Sincerely,

New England Fuel Institute (NEFI)

New York State Energy Coalition (NYSEC)

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[i] *Developing a Renewable Biofuel Option for the Home Heating Sector: A Report to Congress, State Governments, and Administrator of the EPA,* the National Oilheat Research Alliance, May 2015.

[ii] The NEFI-sponsored study will cover the heating oil and biodiesel markets in the Northeast and Mid-Atlantic states. A final study will be published in December 2017.