Regional Ethanol Potential

Cracking the southeastern U.S. market for ethanol is critical. If it hadn't been clear before, it certainly became so when earlier this month the Environmental Protection Agency determined that petroleum refiners and importers need to fill 7.76% of their 2008 fuel sales with renewable fuels to meet their obligations under the new energy law.

Large refiners are confident that the ethanol industry can supply the 9 billion gallons of renewable fuels that the Renewable Fuel Standard (RFS) mandates be blended this year. They are less sure that the U.S. market is big enough to absorb it, particularly if the southeastern states remain laggards.

Relatively little ethanol has been used in these states up to now. According to **Aventine Renewable Energy Holdings Inc.** [AVR], with the exception of Texas, no state south of Virginia and east of New Mexico has more than 10% of its gasoline pool blended with any ethanol today. In the largest of these states—Florida—only 2% of the gasoline sold contains any ethanol at all. Overall gasoline consumption in Florida ranks third in the U.S., behind only California and Texas.

In comparison, ethanol penetration rates in the Midwest range from 60% in Missouri to 100% in Minnesota. In most other regions of the U.S., at least 50% of the gasoline supplies contain ethanol. The only region other than the Southeast that lags is the Pacific Northwest, where rates range from 7% in Montana to 40% in Washington.

In Florida, the 2% of the gasoline that is mixed with ethanol is largely being blended and sold by independent oil companies; the majors balk at the small, but real, risk of being found out of compliance with the state's gasoline specifications. It is this restrictive regulation and similar ones in other states that continue to keep ethanol out of many southeastern markets, despite efforts by oil companies and ethanol interests to enact changes.

Tennessee, where only 3% of the gasoline pool contains ethanol, and Alabama, where 7% does, have both recently eased their fuel specs. Maximizing use of E10 in those states would soak up another 500 million gallons of the fuel alcohol a year.

Lack of infrastructure is, of course, also problematic. But the potential size of the market in the Southeast makes the financial commitment to infrastructure development plausible. In Florida alone, maximizing sales of E10 would account for more than 800 million gallons a year. In other states where market penetration is low—in Montana, Idaho and Wyoming, for example—the potential market is small and probably won't warrant the investment in the new terminals, blending facilities and other infrastructure needed for ethanol blends to claim a significant share of the gasoline pool. ■

Biodiesel Taxes Stalled

Biodiesel producers can't count on resolution to some thorny tax issues anytime soon. Although lawmakers in both the House and Senate agree on them, House lawmakers will continue to insist on stripping oil companies of major tax breaks they now get. And that's likely to be the kiss of death in the Senate, where Republicans fear the loss of the breaks would stifle the development of new petroleum supplies.

The House-Senate stand off means no extension, for now, of the $1 and 50¢ per gallon federal tax credits for biodiesel, which is slated to expire at the end of this year. And it will squelch a provision aimed at ending the $1 a gallon tax credit for renewable diesel—produced at existing petroleum refineries using fats and offal from animal and poultry. Refiners like renewable diesel produced this way because it can be shipped through existing petroleum pipelines, allowing it to be blended at the refinery rather than at terminals. That gives renewable diesel a competitive advantage over conventional biodiesel.

Biodiesel producers won't be unhappy, though, that another provision is stalled. House lawmakers want to end the practice of "splash and dash"—blending a small amount of petroleum diesel to biodiesel, collecting the $1 a gallon tax credit and exporting the blended fuel to Europe, where it is eligible for additional financial incentives. ■

New Global Initiative

Look for President Bush to announce a major U.S. initiative for expanding the use of renewable energy worldwide at the upcoming Washington International Renewable Energy Conference (WIREC). The conference, scheduled for March 4-6 in Washington, D.C., includes a ministerial level meeting, officially hosted by U.S. Secretary of State Condoleezza Rice and attended by government leaders of 80 countries. But the meeting will also include participation from decisionmakers in business, providing an opportunity to bring together officials with the policy tools and businesses with the mechanisms to quickly catalyze the scale-up and adoption of renewable energy.

Although conference organizers hope that Bush will unveil his initiative prior to the conference, pressuring leaders from other countries to respond with bold plans of their own, that is unlikely. Administration officials are still crafting the president's message. Odds are, though, that Bush will use the opportunity to tie efforts on renewable energy to climate change and will focus on ways to speed the transfer of technology to help expand the use of renewable energy worldwide. ■