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GOVERNOR
January 30, 2020

OFFICE OF THE GOVERNOR

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U.S. Department of Agriculture
Commodity Credit Corporation, Rural Business- Cooperative Service

RE: Doc. ID RBS-20-Business-0002

Dear Executive Vice President Stephenson and Administrator Brand:

On behalf of Iowa farmers, renewable fuels producers, retailers and the communities across our state, thank you for the opportunity to comment on the proposed United States Department of Agriculture (USDA) Higher Blends Infrastructure Incentive Program (HBIIIP).

Iowa is proud of its status as a national biofuels leader. In 2018, Iowa led U.S. biofuels production with 4.1 billion gallons of ethanol and 350 million gallons of biodiesel. Nearly 40 percent of Iowa's 13.2 million acres of corn is directly used in ethanol, while more than 70 percent of Iowa's biodiesel comes from the 10 million acres of soybeans in the state.

This massive production supports the economic vitality of rural communities across the state. Over \$5 billion — roughly 3 percent — of Iowa's economic output is linked to renewable fuels. Over 48,000 Iowans bring home paychecks tied to renewable fuels, totaling \$2.5 billion in household income each year. In many of Iowa's rural communities, the success of renewable fuels and the people who live there are inextricably linked.

Iowa consumers and retailers appreciate the economic and environmental importance of biofuels. Many of the 33.5 billion vehicle miles traveled on Iowa roads last year were powered by ethanol and biodiesel purchased at retailers committed to promoting choice at the pump. This expanded choice has often been possible thanks to public-private cooperation on a series of infrastructure investment and incentive programs.

At the federal level, the Biofuels Infrastructure Program (BIP) administered by USDA from 2016 to 2019 was key to promoting consumer choice by expanding retail access to biofuels in Iowa. During the program, Iowa companies leveraged \$4.77 million in BIP grant funding to complete 68 blender pump projects in 58 cities across the state. With an average USDA-BIP grant award of \$70,212, retailers installed 209 new blender pumps and 20 underground biofuels tanks.

However, the story of BIP in Iowa goes beyond local retailers making the most of federal funding opportunities. BIP was one link in a strong, on-going partnership that includes substantial state-level and private sector commitments, too. Iowa is one of a handful of states with a standing appropriation for a Renewable Fuels Infrastructure Program (RFIP), which is budgeted for \$5 million — a 67 percent increase — in the next fiscal year. Since its inception, RFIP has awarded \$35.3 million in state dollars for biofuels infrastructure projects. The private sector has responded to RFIP by investing over \$200 million in these renewable fuels infrastructure projects. Taken together with BIP, this all sums to a serious, long-term commitment to the future of biofuels in Iowa.

Despite Iowa's success with biofuels so far, our state is just getting started. USDA's willingness to recognize the potential to build on BIP's successes with HBIIP is highly encouraging. We are confident that if the State of Iowa's proposed expansion of RFIP is met with a federal commitment to HBIIP for both biodiesel and ethanol, we can accelerate the adoption of biofuels, supporting the environment and rural communities while we do it.

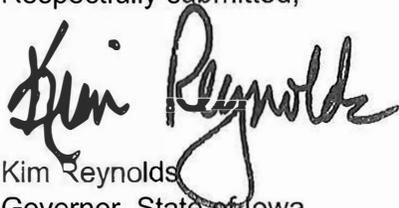
A future HBIIP will be most successful if it is designed with flexibility, administrative efficiency, and scalability in mind. Based on BIP feedback, HBIIP impact could be improved by allowing retailers and wholesalers to use funds for a wider array of infrastructure projects – and by minimizing unnecessary or redundant administrative burdens.

In addition to infrastructure, USDA may also consider a per-gallon sales incentive for retailers offering E15/B20 or higher blends. In Iowa, industry stakeholders report that by offering a performance incentive plus small bonus payments for installation target areas, rural and urban, they have seen the greatest success.

Please see the following pages for a full elaboration of technical feedback and program design ideas in response to the questions posed in Docket ID RBS-20-Business-0002.

Thank you for the opportunity to comment on this important matter.

Respectfully submitted,



Kim Reynolds
Governor, State of Iowa



Mike Naig
Iowa Secretary of Agriculture

1. What type of assistance/incentive would encourage the increased sales/use of fuel ethanol and/or biodiesel in a way that is most cost-effective to the government?

Based on Iowa's experience with both the USDA Biofuels Infrastructure Program (BIP) and the state's Renewable Fuels Infrastructure Program (RFIP), program funding structures that pair public funding with private investment — thereby ensuring recipients are personally invested in the success of the project — are most effective. As noted in the attached letter, Iowa's RFIP program saw a \$5.67 private investment for every one State of Iowa dollar spent; working towards encouraging similar private sector commitment in tandem with HBIIP would maximize reach and impact of the program.

Any assistance should be focused on promoting the volume of E15/B20 or higher blends throughout the entire supply chain.

For biodiesel, the greatest barriers to distribution today are at the terminal and pipeline terminal level. An incentive focused on biodiesel infrastructure and hardware at terminals would be perhaps the most effective way to achieve higher volumes and availability of B20 or higher blends. Additionally, investments in strategic terminals and pipelines will create a broader downstream capability to sell more gallons over a sustained period.

A. Should a potential biofuels infrastructure program incentivize the lowest cost per incremental gallon of ethanol or biodiesel use/sales at the retail/fueling station level or terminal/ depot/wholesale level or both retail and terminal/depot/ wholesale levels?

USDA's HBIIP program would be most effective if it were based on allocating funding to retailers that could dispense the most gallons of biofuels per marginal dollar invested in the program. However, incentivizing the lowest cost per gallon of ethanol and biodiesel is not the same for both fuels.

For E15 and higher blends, funds would be best allocated if directed to retailers to offset equipment installation, updates, and replacement. Industry stakeholders report that ethanol terminals have minimal or no upgrade requirements, as they are already dispensing both ethanol and gasoline at terminal racks.

Biodiesel-related funds should be targeted at terminal locations, especially where heated/wrapped blending infrastructure is necessary but not currently an option.

B. What types of equipment and infrastructure should be eligible under the program?

Iowa stakeholders cite the complex systemic arrangements necessary to safely and legally offer biofuels. Traditionally, BIP focused on funding the construction of the most basic infrastructure, including blender pumps and tanks. For HBIIP projects to achieve maximum results, added flexibility in the definition of "infrastructure" could be beneficial to retailers of all sizes, including those in rural areas.

The following are all examples of what should be included in the HBIIP definition of “infrastructure” to more accurately reflect the true scope of improvements necessary to expand E15/B20 or higher blend volume and accessibility throughout the supply chain: large tanks, pipes, concrete removal, retrofitting projects, sump pumps, delivery pumps to truck loading, secondary confinement, drop tubes, receiving pump metering slide, metering and control valves for blending, heating equipment, electrical parts, automation control, or other vital components necessary to store and dispense E15/B20 or higher blend fuel. Additionally, including marketing infrastructure, such as price signage and related materials, would promote higher volume sales through consumer awareness.

Ethanol and biodiesel — although especially the latter — will require increased rail capabilities in the future to help facilitate full supply chain penetration and higher volume usage. A HBIIP infrastructure definition that also includes transload facilities, rail yards and spurs, heating oil tanks, and storage terminals would further increase high-volume distribution opportunities.

For dispenser-related infrastructure funding, HBIIP should carefully consider how it calculates the appropriate project cap. During the BIP program in Iowa, the average grant recipient retailer installed 2.67 blender pumps per project site; none installed more than four pumps at one site with one award. This likely illustrates a binding “project cap” that hampered the capacity for large retailers to apply for awards sufficient to cover the installation of E15 pumps at every fueling station. Volume-based project grants that make sure high-volume retailers can also install sufficient dispensers to ensure consumer convenience would be most effective.

2. Should program funding provided to participants include:

- (a) Direct cost-share toward purchase of equipment, retrofitting, and enhancements;**
- (b) higher blend biofuel sales or marketing incentives;**
- (c) both;**
- (d) other**

Iowa’s experience using cost-share at the state level with RFIP and in collaboration with the federal BIP indicates its potential for additional future successes. However, HBIIP success would be maximized by better accounting for the disparities in costs per site depending on factors such as retailer or terminal size, climate, and location. For example, a high volume retailer with 8 to 12 dispensers could spend \$250,000 to install necessary biofuels infrastructure, while a smaller retailer with four dispensers could need about \$150,000 to similarly upgrade its site. Estimates suggest that a \$100 million grant program with site-specific, flexible project caps could generate approximately 850 million gallons of E15 sales.

A sales incentive for retailers offering E15/B20 or higher blends would be most effective if accompanied by substantial infrastructure investment, for as noted above, supply chain accessibility remains a chief limiting factor in boosting biofuels sales volumes. However, if supply chain accessibility were increased, offering retailers a \$0.05 per gallon sales incentive could generate 2 billion gallons of E15 sales with a \$100 million program. This conclusion is based on [research](#) from the National Association of Convenience Stores that shows consumers will drive 5 miles out of their way to save \$0.05 per gallon.

3. Should the program include minimum standards for equipment, such as equipment certified to dispense biofuel blends containing 25 percent ethanol (certified for use with E15) and/ or B20-compatible or higher biofuel blend dispensers?

The minimum standards should be designed with the future in mind, meaning all equipment should be listed for blends containing at least 25 percent ethanol and 20 percent biodiesel. However, biodiesel terminal investments should have capabilities up to B100. To support the HBIIP mission as it pertains to ethanol, USDA would also do well to work with other pertinent agencies to clarify that all existing E10 infrastructure is technologically and legally compatible for use with E15.

4. What are the most appropriate higher biofuel blend levels (for both ethanol and biodiesel) that the program should be incentivizing?

Given that 90 percent of cars on the road today are E15-compatible, a focus on expanding consumer access to this fuel will maximize both consumer savings and environmental benefits associated with its use. Higher blends, such as E85, are also worth consideration, given that there are more than 16 million Flex Fuel Vehicles (FFVs) on the road in the U.S. today. Even though FFV production has slowed, many of the compacts, sedans, minivans, trucks and SUVs on Iowa's roads are FFVs capable of using E85 sold at one of 200 stations in Iowa. Rating HBIIP applicants on an "E100" equivalent scale would give due credit to retailers that offer E85.

For biodiesel, B100 is the most appropriate blend level. B20 biodiesel is currently the highest blend approved for use by Original Equipment Manufacturers; however, incentivizing terminals at the B100 level would help ensure long term growth opportunities for biodiesel.

A. Should there be a minimum requirement on the number or percentage of dispensers converted to higher biofuel blends at a retail site or fueling station?

As noted above, retailers who used BIP funds in Iowa installed an average of 2.67 dispensers per project site, while none installed more than four at a single site. Industry consumer research concludes that accessibility and convenience are key to encouraging motorists to choose renewable fuels at the pump. If a large retailer only has E15/B20 in one or two of its dozen dispensers, chances are high that the consumer will either not see the biofuels are available, or will be unwilling to wait if the pump is blocked.

One work-around would be to calculate retailer biofuels volume prospects based on the number of E15/B20 capable dispensers at a site. Under this system, a retailer with E15/B20 at 50 percent of its dispensers that sells 1 million gross gallons of fuel would be credited with 500,000 gallons for HBIIP calculation purposes. Consideration should also be made to ensure project caps are not too low to deter large scale site projects.

B. Should there be a requirement for certain dispenser configurations such as shared hoses (as practicable and allowed by law, for higher biofuel blends to share a pump hose with existing fuels)?

Avoiding dispenser configurations that present E15 as a non-equivalent fuel option — such as separate hoses for E0 and E10 versus E15 — would accelerate consumer adoption of higher blends of renewable fuels. HBIIIP funds should be prioritized for projects that offer E0, E10, and E15 through the same hose on the same side of the dispenser, as this has been shown to be most effective at reducing consumer confusion about qualitative differences and non-differences among fuels.

C. Should there be a requirement for signage (as allowed by law) and marketing?

Current federal (EPA and FTC) requirements for biodiesel signage and marketing are sufficient. However, increasing the prevalence of E15 signage — through requirements or program incentive preferences — would support HBIIIP's goal of increasing awareness and usage of E15 or higher blend fuels.

D. Should USDA insist on consistent terminology and branding and naming of E15 and/or B20 or other higher biofuel blends?

Consistent terminology and branding — especially of B20, B50, and B100 — would likely elicit a positive consumer response. However, to avoid unnecessary manipulations of such brand standards, perhaps USDA should consider offering HBIIIP priority to applicants that commit to using historically successful naming and branding over those presentations that have a weaker record of sales success.

5. From your perspective, if cost-sharing is required, what minimum level of cost-share (owner contribution) should be required of recipients of funding? What would you consider to be the most cost-effective level of cost-share?

In Iowa's experience with RFIP, cost-sharing contingent upon a three-year or five-year contract basis has been highly effective. To avoid circumstances where recipients aim to use funds for infrastructure upgrades without following through on actually dispensing renewable fuels, funds should be contingent upon the recipient's agreement to offer the fuels to customers. Contracts between three and five years are sufficient to achieve this purpose.

A cost-share program of at least 50 percent up to a site cap would be most effective, so long as caps are flexible contingent upon unique site specifications.

The opportunity also exists to create a competitive bid grant system through which potential recipients would bid for grants within a general framework of minimum and maximum cost-share options, per site caps, and other factors. This structure would afford USDA an opportunity to give priority to the most efficient (on a marginal per gallon basis) renewable fuels infrastructure projects.

6. What steps should a potential biofuels program take to ensure equitable program participation by small- to mid-sized station owners? (That is, owners of less than 10 to less than 20 sites/stations. We are especially interested to hear from small- to mid-sized station owners on this question.)

The above-mentioned competitive bid system would enable participation among all sizes of stations, while still encouraging efficient use of HBIIP funds.

Including biodiesel terminals would also boost equitable program participation. By including terminals as eligible HBIIP participants, distribution costs would decrease and biodiesel access for dispensers would increase, including small- and mid-sized stations.

7. From your perspective, how much post-award reporting is reasonable for recipients of funding? e.g. quarterly or annual reporting of higher blend fuel sales by the participant?

Recognizing the need to keep HBIIP administratively simple and efficient, post-award reporting should be limited to data necessary to determine program success in terms of its stated goals of increasing volumes and accessibility.

Quarterly reporting within 30 days of the end of the reporting period would be suitable. The data should be made public in an accessible format that includes relevant category and grant types when appropriate.

8. What other barriers exist that limit expansion of availability of biofuels to consumers? What specific actions could USDA take to guide a transformation and/or expansion of a nationwide biofuels-infrastructure program, in both the short- and long-term?

EPA should consider removing other barriers to sale of E15. This would potentially include revising outdated provisions of the misfueling mitigation rule, given that E15 is now sold in 30 states and is approved for more than 90 percent of cars today. As E15 market penetration increases, rural locations will face an outsized burden, considering that most have two dispensers, and these retailers would potentially have to replace their dispensers to meet new demand.

Regarding biodiesel, USDA should focus efforts where there is a lack of supply of biofuels in a place where there is also a clear path ahead for a biofuels market. Thus, to grow nationwide biofuels most efficiently, programs should be focused in those states and locales that have biofuels incentives or mandates and that also need tanks, racks, injectors, and other critical infrastructure.

For both ethanol and biodiesel, consumer awareness and education on several fronts is necessary for long run public support of biofuels. Some of the merits and themes to be highlighted include: the wide compatibility of biofuels with today's vehicles and equipment; environmental benefits; local economic impact; and biofuels' role in maintaining national energy independence.

9. To what extent should infrastructure investments made today be required to accommodate fuels anticipated to be in the marketplace of tomorrow?

Public-private partnership on innovation, research, and distribution of biofuels has led to tremendous market growth since 2000. USDA would do well to set expectations high for the future of renewable fuels, continuing to unlock opportunities for consumers, retailers, and wholesalers to access higher blends of biofuels for the next two decades and beyond. This

means investing in B100 infrastructure for biodiesel and helping consumers see widely-available E15 (or higher blends) as “the new normal” at the pump.

10. Please provide feedback on the effectiveness of the 2015–2019 Biofuels Infrastructure Partnership (BIP)

In Iowa, BIP was a strong complement to Iowa’s on-going RFIP, which further promoted consumer choice by expanding retail access to biofuels in Iowa. Thanks to BIP, Iowa companies leveraged \$4.77 million in grant funding to complete 68 blender pump projects in 58 cities across the state. With an average USDA-BIP grant award of \$70,212, retailers installed 209 new blender pumps and 20 underground biofuels tanks.

However, HBIIP could be more successful with some key improvements. First, expanding the time horizon of the program with an emphasis on long-term commitments. A longer timeframe would also lend to added flexibility to account for installation timing. In states like Iowa with cold winters, weather can delay construction by several months. Additionally, large projects of two dozen sites or more can last over two years as retailers work to contract construction, acquire equipment, and negotiate with fuel suppliers.

This flexibility in timing and financing is equally imperative for biodiesel projects. In northern climates, biodiesel projects will be more expensive due to the imperative for tank and pipe wrapping. It would be counter to HBIIP goals to penalize projects in these regions with funding guidelines that do not account for such inalterable differences.

Historically, an administrative barrier that surfaced with BIP — and likely limited its nationwide scalability — was the variability in USDA terms and conditions at the state and retailer level. Such variability was a challenge for retailers with locations in several states, limiting some retailers’ willingness to participate due to the fact they would have had to manage too many states and contracts. If HBIIP will be administered through the states as was BIP, substantive changes need to be made to ease interstate administrative burdens and variability.

In sum, USDA’s willingness to consider building on BIP through HBIIP is extremely promising. The HBIIP, by building on the lessons of Iowa’s state-level RFIP and USDA’s BIP, presents an opportunity to grow the biofuels market, which is a positive for the environment, farmers, and consumers.