



Meeting the Renewable Fuel Standard (RFS) Mandate for Cellulosic Biofuels: Questions and Answers

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Summary

The Renewable Fuel Standard (RFS) was expanded under the Energy Independence and Security Act of 2007 (EISA; P.L. 110-140) in an effort to reduce dependence on foreign oil, promote biofuel use, and stabilize transportation fuel prices, among other goals. Over a 15-year period, the RFS seeks to establish a market for biofuels in the transportation sector by requiring that increasing amounts of biofuels—36 billion gallons by 2022—be blended into transportation fuel. The mandate is to be accomplished with an assortment of advanced biofuels, including cellulosic biofuels—fuels produced from cellulosic materials including grasses, trees, and agricultural and municipal wastes. However, analysis suggested the United States did not have sufficient cellulosic biofuel production capacity to meet the 2010 and 2011 RFS mandate instituted by Congress in EISA, and this is likely to continue for the 2012 mandate.

The U.S. Environmental Protection Agency (EPA) is required to lower the cellulosic biofuel standard if the projected volume of cellulosic biofuel production is less than the applicable volume specified in the statute. The cellulosic biofuel allotment in the mandate, as established by Congress in EISA, was 100 million gallons due in 2010, 250 million gallons in 2011, and 500 million gallons in 2012, increasing to 16 billion gallons by 2022. EPA lowered the RFS cellulosic biofuel mandate to 6.5 million gallons in 2010 and 6.6 million gallons in 2011. For the 2012 cellulosic biofuels mandate, EPA proposed a range of volumes from 3.55 to 15.7 million ethanol-equivalent gallons from which to consider a value. EPA is accepting comments on what the final value should be. The cellulosic biofuel community may fare better at achieving the lower mandates set and proposed by EPA if certain obstacles are overcome. Roadblocks include unknown levels of feedstock supply, expensive conversion technology that has not yet been applied commercially, and insufficient financial support from private investors and the federal government.

EPA reports that there are very few, if any, facilities consistently producing cellulosic biofuel for commercial sale. Some financial support from the Departments of Energy and Agriculture is available to expedite cellulosic biofuel production. For example, the Biomass Crop Assistance Program (BCAP), created under the Food, Conservation, and Energy Act of 2008 (2008 farm bill; P.L. 110-246), is to support establishment and production of crops for conversion to bioenergy in selected areas, and to assist agricultural and forest land owners and operators with collection, harvest, storage, and transportation of eligible material for use in a biomass conversion facility. Also, the Department of Energy's Loan Guarantee Program, created under the Energy Policy Act of 2005 (EPA05, P.L. 109-58), distributes loan guarantees to eligible commercial-scale renewable energy systems, including cellulosic biofuel plants, although criticisms have been raised that the program has been slow to get started.

Many questions regarding cellulosic biofuels and the RFS may arise as the 112th Congress engages in energy legislation debates. EPA compliance data indicate that there was no commercial production of cellulosic biofuel (RINS or volume) under the RFS for 2010. Can and will the 2011, 2012, and future RFS mandates for cellulosic biofuels be met? What impact will the continued lowering of the cellulosic ethanol mandate have on investment in cellulosic ethanol production? What are the next steps the 112th Congress could take to influence cellulosic biofuel production? This report, in a question and answer format, discusses some of the concerns facing the cellulosic biofuel community, including feedstock supply estimates, and potential legislative options to address cellulosic biofuel production uncertainty for the RFS.

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Introduction

The Renewable Fuel Standard (RFS) was intended to ensure that domestic transportation fuel contains a specified volume of biofuels, including advanced biofuel, cellulosic biofuel, and biomass-based diesel.¹ The RFS requires that increasing amounts of biofuels be included in transportation fuel over a 15-year period, with the goal of using 36 billion gallons of biofuels annually by 2022. The mandate is to be accomplished in large part with cellulosic biofuels. Congress in the Energy Independence and Security Act of 2007 (EISA; P.L. 110-140) mandated cellulosic biofuel standards that began with 100 million gallons in 2010, 250 million gallons in 2011, and 500 million gallons in 2012, and increased to 16 billion gallons by 2022. The U.S. Environmental Protection Agency (EPA) issued a final rule under its waiver authority established in EISA for the RFS lowering the 2010 cellulosic biofuel mandate to 6.5 million gallons² and the 2011 mandate to 6.6 million gallons.³ For the 2012 cellulosic biofuels mandate, EPA proposed a range of volumes from 3.55 million to 15.7 million ethanol-equivalent gallons from which the agency will consider a value.⁴

A concern for the 112th Congress may be whether enough cellulosic biofuel can be produced to satisfy the RFS mandate in future years. A lack of cellulosic feedstock supply, financial assistance, and technology advancement are considered among the most pressing issues that could thwart cellulosic biofuel production. More than three years after EISA was enacted, progress toward meeting the cellulosic biofuels mandate has been delayed on multiple fronts (e.g., financial, administrative, and technical), despite government financial incentives, estimates of adequate feedstock availability, and technological developments. With the reduction in the RFS cellulosic biofuel mandate level in 2010 and 2011 and a proposed reduction in the 2012 mandate, Congress may reconsider the configuration of the RFS, determine whether additional resources are necessary for cellulosic biofuel production, and assess the success rate of this effort compared to other renewable energy efforts.

What Are Cellulosic Biofuels?

Cellulosic biofuels are liquid, solid, or gaseous fuels made from cellulose material. Cellulose—a complex carbohydrate—is the organic matter found in plant walls that, along with hemicellulose and lignin, helps to give a plant its rigid structure. Cellulose feedstock includes agricultural residues (e.g., corn stover), forestry residues (e.g., wood chips), energy crops (e.g., switchgrass), tree crops (e.g., hybrid poplar), and urban sources of waste (e.g., municipal solid waste).

¹ The RFS was expanded under the Energy Independence and Security Act of 2007 (EISA; P.L. 110-140). For more information on the expanded RFS, see CRS Report R40155, *Renewable Fuel Standard (RFS): Overview and Issues*, by Randy Schnepf and Brent D. Yacobucci

² U.S. Environmental Protection Agency, “Regulation of Fuels and Fuel Additives: Changes to Renewable Fuel Standard Program; Final Rule,” *75 Federal Register*, March 26, 2010.

³ U.S. Environmental Protection Agency, “Regulation of Fuels and Fuel Additives: 2011 Renewable Fuel Standards; Final Rule,” *Federal Register*, December 9, 2010.

⁴ U.S. Environmental Protection Agency, “Regulation of Fuels and Fuel Additives: 2012 Renewable Fuel Standards, Proposed Rule,” *76 Federal Register* 38844-38890, July 1, 2011.

The most widely discussed cellulosic biofuel is cellulosic ethanol for transportation.⁵ Cellulosic ethanol differs from the corn ethanol currently blended into transportation fuel; it is made from feedstock with no food value, potentially results in fewer greenhouse gas emissions, and has a higher energy balance.⁶ Converting cellulosic feedstock to ethanol, however, is more expensive and difficult than converting corn to ethanol. The conversion of cellulose to ethanol generally happens in three phases—pretreatment, hydrolysis, and fermentation to ethanol. Pretreatment weakens the plant wall structure so that the cellulose is easier to obtain during hydrolysis. Hydrolysis—acid or enzymatic—separates the cellulose into sugars. Fermentation converts the sugars into ethanol. Cellulose can also be converted to liquid fuels through processes other than fermentation (e.g., thermochemical processes).⁷

Analysis suggests that increased use of cellulosic biofuels for transportation could potentially help to reduce U.S. dependence on foreign oil, stabilize energy prices, strengthen rural infrastructure, and improve the environment. In addition, cellulosic feedstocks may fare better in the food-energy debate, since crop residue, and not the crop itself, is used for cellulosic biofuel production. Some contend, however, that cellulosic biofuels require a substantial feedstock supply that has yet to be verified, may be in competition for use as a biopower feedstock, may cause environmental degradation (e.g., by removing residues that furnish nutrients and stability to the soil),⁸ and may hinder efforts to promote energy efficiency.

What Is the Relationship Between Cellulosic Biofuels and the Renewable Fuel Standard?

The RFS established in Section 202 of EISA called for 100 million gallons of cellulosic biofuels to be included in the national transportation fuel supply in 2010, and the mandate increases to 16 billion gallons by 2022.⁹ Data and analysis presented during the RFS debate and ultimate passage of EISA in 2007 supported the idea that these levels of cellulosic biofuel production capacity would be achievable. Some reasoned that plentiful feedstock was available¹⁰ and that the conversion technology was on the brink of being certified as commercially viable. Moreover, some presumed that the federal government would provide substantial financial support and enhance the infrastructure needed to spur a commercial cellulosic biofuels market.¹¹ Others were

⁵ For more information on cellulosic biofuels, see CRS Report RL34738, *Cellulosic Biofuels: Analysis of Policy Issues for Congress*, by Kelsi Bracmort et al.

⁶ For more information on ethanol, see CRS Report RL33290, *Fuel Ethanol: Background and Public Policy Issues*, by Brent D. Yacobucci.

⁷ Cellulose feedstocks can also be used to provide heat or generate electricity via gasification, combustion, anaerobic digestion, and other conversion processes. For more information on anaerobic digestion, see CRS Report R40667, *Anaerobic Digestion: Greenhouse Gas Emission Reduction and Energy Generation*, by Kelsi Bracmort.

⁸ R. M. Cruse and C. G. Herndl, “Balancing Corn Stover Harvest for Biofuels with Soil and Water Conservation,” *Journal of Soil and Water Conservation*, vol. 64, no. 4 (July/August 2009), pp. 286-291.

⁹ For more information on the RFS, see CRS Report R40155, *Renewable Fuel Standard (RFS): Overview and Issues*, by Randy Schnepf and Brent D. Yacobucci.

¹⁰ U.S. Dept. of Energy, U.S. Dept. of Agriculture, *Biomass as Feedstock for a Bioenergy and Bioproducts Industry: The Technical Feasibility of a Billion-Ton Annual Supply*, April 2005, http://www1.eere.energy.gov/biomass/pdfs/final_billionton_vision_report2.pdf.

¹¹ Diane Greer, “Creating Cellulosic Ethanol: Spinning Straw into Fuel,” *BioCycle*, April 2005; Biotechnology Industry Organization, *Achieving Sustainable Production of Agricultural Biomass for Biorefinery Feedstock*, Washington, DC, (continued...)

leery about the time frame provided to meet the RFS cellulosic biofuel mandate given capacity restrictions, weather impacts, and uncertainty about technology advancements.¹²

EPA has the authority to waive completely or in part the cellulosic biofuel consumption mandates established in EISA, given certain circumstances.¹³ For instance, the Administrator may waive the cellulosic biofuel requirement if the Administrator determines, after public notice and opportunity for comment, that there is an inadequate domestic supply.¹⁴ In March 2010, EPA lowered the 2010 cellulosic biofuel mandate set forth in EISA by roughly 93% with the issuance of a waiver that expires after one year:

EISA requires the Administrator to evaluate and make an appropriate market determination for setting the cellulosic standard each year. Based on an updated market analysis considering detailed information from pilot and demonstration scale plants, an Energy Information Administration analysis, and other publically and privately available market information, we are setting the 2010 cellulosic biofuel standard at 6.5 million ethanol-equivalent gallons. While this volume is significantly less than that set forth in EISA for 2010, a number of companies and projects appear to be poised to expand production over the next several years.¹⁵

The 2011 renewable fuel standard for cellulosic biofuels was 250 millions gallons. However, EPA announced in November 2010 that it would lower this mandate to 6.6 million gallons (actual volume).¹⁶ EPA based its assessment of the 2011 production capabilities of planned and existing production facilities, on projections provided by the Energy Information Administration (EIA), as well as data provided by other government agencies and its own contact with many of the companies. EPA computed the 2011 cellulosic biofuel production volume, in part, by tracking the progress of more than 100 cellulosic biofuel production facilities.¹⁷

The 2012 renewable fuel standard for cellulosic biofuels is 500 million gallons, and EPA proposed to significantly lower the mandate to a value in the range of 3.55 to 15.7 million ethanol-equivalent gallons. The lower portion of the range is a set of values that EPA has more confidence could be produced using established or demonstration facilities. EPA has relatively more uncertainty that the higher values within the range could be achieved because these estimates are based on production plans, not actual capacity. EPA estimates that nine facilities have the potential to make volumes of cellulosic biofuels available for transportation use in 2012. EPA will make a final determination on a 2012 cellulosic biofuel mandate by November 30, 2011, based on comments received in response to its proposal, an estimate of projected biofuel capacity, and other information that becomes available.

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2006, <http://www.bio.org/ind/biofuel/SustainableBiomassReport.pdf>; and Biotechnology Industry Organization, "Energy Bill Biofuels Mandates Will Be Achievable with Biotechnology Advances," press release, November 18, 2007, http://bio.org/news/pressreleases/newsitem.asp?id=2007_1218_01&p=yes.

¹² Ian Talley, "Renewed Energy: US Biofuel Mandate Calls for Big Production Boost," *Dow Jones International News*, December 18, 2007, at <http://www.factiva.com/>.

¹³ For more information on EPA's waiver authority, see CRS Report RS22870, *Waiver Authority Under the Renewable Fuel Standard (RFS)*, by Brent D. Yacobucci.

¹⁴ 42 U.S.C. 7545(o)(7).

¹⁵ EPA, "Changes to Renewable Fuel Standard; Final Rule," p. 14.

¹⁶ U.S. Environmental Protection Agency, "Regulation of Fuels and Fuel Additives: 2011 Renewable Fuel Standards; Final Rule," *Federal Register*, December 9, 2010.

¹⁷ *Ibid.*

What Challenges Are Associated with Cellulosic Biofuels Production?

Since the RFS was expanded under EISA to include 250 million gallons of cellulosic biofuel starting in 2011,¹⁸ U.S. cellulosic biofuel production capacity has not increased. Impediments to increasing capacity to meet the cellulosic biofuel mandate include technology setbacks, escalating prices for certain feedstocks, lack of feedstock availability, and delayed financial support. Limited access to capital has been indicated as one of the primary reasons that timely completion of many cellulosic biofuel plants has stalled. Commercial cellulosic biofuel facilities are estimated to cost hundreds of millions of dollars (see **Table 1**), roughly three times as much as a corn ethanol plant. Some lenders find it extremely risky, perhaps even cost-prohibitive, to provide financial backing to cellulosic biofuel plants, mainly because the conversion technology has not been applied or proven on a large scale.¹⁹

Table 1. Selected Examples of Cellulosic Ethanol Plant Cost Estimates, 2010

Company	Production Capacity (mgy)	Feedstock Required	Capital (millions)
BlueFire (California Plant) ^a	3.9	190 wet tons/day of post-sorted municipal solid waste	\$120
BlueFire (Mississippi Plant) ^a	19	550 tons/day of wood waste (mostly forest residues)	\$250
Enerkem (Mississippi Plant) ^b	10	300 dry tons/day of post-sorted municipal solid waste	\$118
POET (Iowa Plant) ^c	25	770 dry tons/day (mostly corncobs with some corn residue)	\$200
ZeaChem Inc. (Oregon Plant) ^d	0.25	10 dry tons/day of hybrid polar trees	\$73

Source: Compiled by CRS.

Notes: In comparison, a 40 mgy corn ethanol plant costs approximately \$80 million to construct.²⁰

- a. Conversation with Arnold Klann from BlueFire Ethanol Inc., February 2, 2010.
- b. E-mail from Marie-Helene Labrie of Enerkem, February 3, 2010.
- c. Conversation with Jim Sturdevant from POET, February 2, 2010.
- d. Conversation with Carrie Atiyeh from ZeaChem Inc., February 2, 2010.

The government provides financial assistance primarily through two programs to encourage investment in cellulosic biofuel production technologies and feedstock supply. To increase investment, the government established the Department of Energy (DOE) Loan Guarantee

¹⁸ The original RFS established by § 1501 of EPAct05 required 4.0 billion gallons of renewable fuel for 2006, ascending to 7.5 billion gallons by 2012. The original RFS would have required that 250 million gallons of the renewable fuel be derived from cellulosic biomass starting in 2013.

¹⁹ For more information on federal spending for cellulosic biofuels, see CRS Report RL34738, *Cellulosic Biofuels: Analysis of Policy Issues for Congress*, by Kelsi Bracmort et al.

²⁰ Clean Fuels Development Corporation, Nebraska Ethanol Board, and U.S. Dept. of Agriculture, *A Guide for Evaluating the Requirements of Ethanol Plants*, 2006, http://www.ethanol.org/pdf/contentmgmt/guide_for_evaluating_the_requirements_of_ethanol_plants.pdf.

Program (LGP).²¹ Loans may not exceed 80% of total project costs. Over 90% of the projects that have received funding to date are pilot- or demonstration-scale projects that are seen as likely to become a commercial technology.²² Some are concerned that the LGP is not being carried out at a pace responsive to market momentum for cellulosic biofuels.²³ The Government Accountability Office (GAO) reviewed DOE's execution of the Loan Guarantee Program and recommended that DOE develop performance goals reflecting the LGP's policy goals and activities; revise the loan guarantee process to treat applicants consistently unless there are clear, compelling grounds not to do so; and develop mechanisms for administrative appeals and for systematically obtaining and addressing applicant feedback.²⁴

The second government program is the U.S. Department of Agriculture's (USDA's) Biomass Crop Assistance Program (BCAP).²⁵ The two main program components of BCAP are to support the establishment and production of eligible crops for conversion to bioenergy in selected areas, and to assist agricultural and forest land owners and operators with collection, harvest, storage, and transportation of eligible material for use in a biomass conversion facility. USDA issued the BCAP final rule on October 27, 2010, implementing both program components. Some have concerns regarding the program's eligibility requirements, sustainability, and funding.

Additionally, the government provides a tax credit to support cellulosic ethanol production. The 2008 farm bill offers a production credit of \$1.01 per gallon of ethanol produced from qualifying cellulosic feedstocks.²⁶ The credit is set to expire at the end of 2012. The value of the credit is reduced by the amount of the volumetric ethanol excise tax credit (VEETC) and the small ethanol producer credit. As the VEETC and/or the small ethanol producer credits decrease, the per-gallon credit for cellulosic ethanol production increases by the same amount.²⁷ Some Members of Congress support immediately discontinuing the VEETC, set to expire at the end of 2011.

²¹ A loan guarantee is defined as a "pledge with respect to the payment of all or a part of the principal or interest on any debt obligation of a non-federal borrower to a non-federal lender." The LGP was first authorized under Title XVII of EPAct05 and then amended under the American Recovery and Reinvestment Act of 2009 (P.L. 111-5). DOE may issue loan guarantees to eligible projects that "avoid, reduce, or sequester air pollutants or anthropogenic emissions of greenhouse gases" and "employ new or significantly improved technologies as compared to technologies in service in the United States at the time the guarantee is issued." Eligible projects include commercial-scale renewable energy systems. EISA authorized the DOE to issue loan guarantees in part to support renewable energy projects. Funding information for the loan guarantee program is provided in CRS Report R41150, *Energy and Water Development: FY2011 Appropriations*, coordinated by Carl E. Behrens.

²² DOE considers a bioenergy project commercial-scale if it converts, at a minimum, 700 tons of biomass per day to energy. Dan Tobin, "Biomass Summit," *The DOE Loan Guarantee Program: A Status Report*, Washington, DC, October 20, 2009.

²³ Renewable Fuels Association, "2010 State of the Industry Address," 2010 National Ethanol Conference, Orlando, FL, February 16, 2010, http://www.ethanolrfa.org/objects/documents/2772/2010_state_of_the_industry.pdf?utm_medium=email&utm_source=Emailmarketingsoftware&utm_content=313532555&utm_campaign=2010SOTI+_osdik&utm_term=StateoftheIndustryaddress.

²⁴ U.S. Government Accountability Office, *Further Actions Are Needed to Improve DOE's Ability to Evaluate and Implement the Loan Guarantee Program*, GAO-10-627, July 2010, <http://www.gao.gov/new.items/d10627.pdf>.

²⁵ BCAP receives its authorization from Title IX of the Farm Security and Rural Investment Act of 2002 (P.L. 107-171) and was amended by Title IX of the Food, Conservation, and Energy Act of 2008 (P.L. 110-246). For more information on BCAP, see CRS Report R41296, *Biomass Crop Assistance Program (BCAP): Status and Issues*, by Megan Stubbs, or visit <http://www.fsa.usda.gov/FSA/webapp?area=home&subject=ener&topic=bcap>.

²⁶ For more information on the blender tax credit, see CRS Report RL34130, *Renewable Energy Programs in the 2008 Farm Bill*, by Megan Stubbs.

²⁷ For more information, see CRS Report R40110, *Biofuels Incentives: A Summary of Federal Programs*, by Brent D. Yacobucci

In addition to financing issues, other challenges to cellulosic biofuel production include the definitions of biomass in various laws. The renewable biomass definition for the RFS under EISA does not allow biomass removal from federal lands, and the law excludes crops from forested lands.²⁸ Some argue that opening up federal lands for biomass removal could provide an inexpensive supply of cellulosic feedstock that would be immediately available to biorefineries for cellulosic biofuel production. Others contend that biomass removal from federal lands is a short-term response to the cellulosic feedstock source problem and might not be carried out in a sustainable manner, leading to deterioration of the nation's parks and recreation areas. The definition of biomass under EISA also excludes most municipal solid waste (MSW), which some view as a potential source for conversion to biofuels.

Also challenging for cellulosic biofuel production are the time periods of feedstock contracts. Agricultural and forestry producers may not agree to a contract that requires a lengthy time commitment. For example, it generally takes three years for switchgrass crops to reach maturity.²⁹ A producer may have to commit his land to one particular cellulosic feedstock crop for a number of years, thus limiting the producer's choice to grow certain crops on an annual basis depending upon market demand.

Was the Revised 2010 RFS Mandate for Cellulosic Biofuels Met? Will the 2011 Cellulosic Biofuel Mandate Be Met?

Even before enactment of EISA, reported production data indicated that overcoming any or all of the hurdles to increase cellulosic biofuel production to meet the original 2010 RFS mandate of 100 million gallons set by Congress was unlikely. Compliance for the 2010 cellulosic biofuels mandate is difficult to ascertain as the year 2010 was a transition year for the RFS, going from the RFS first established under EPAct05, RFS1, to the RFS established under EISA, RFS2.³⁰ RFS1 had different cellulosic biofuels production requirements³¹ than RFS2 and had a 2.5-to-1 ratio where each gallon of cellulosic ethanol counted as 2.5 gallons toward the EPAct05 mandate. Based on EPA Moderated Transaction System (EMTS) data (reported only July 1 to December 31) on RFS2 renewable identification numbers (RINs), zero RINs or production volume were registered for the 2010 RFS2 cellulosic biofuel mandate of 6.5 million gallons.³² However, the

²⁸ For more information on biomass definitions, see CRS Report R40529, *Biomass: Comparison of Definitions in Legislation Through the 111th Congress*, by Kelsi Bracmort and Ross W. Gorte.

²⁹ University of Tennessee, *Growing and Harvesting Switchgrass for Ethanol Production in Tennessee*, SP701-A, <http://www.utextension.utk.edu/publications/spfiles/SP701-A.pdf>.

³⁰ Congress first established an RFS with the enactment of the Energy Policy Act of 2005 (EPAct, P.L. 109-58). This initial RFS is referred to as RFS1. Two years later, the Energy Independence and Security Act of 2007 (EISA, P.L. 110-140) expanded the biofuels mandate. This expanded RFS is referred to as RFS2.

³¹ The original RFS (RFS1) did not require a cellulosic biofuel production volume until 2013, when 250 million gallons were mandated.

³² EMTS is a system that manages renewable identification number (RIN) transactions under the RFS. As of July 1, 2010, the RFS2 regulations require renewable fuel producers and importers, gasoline and diesel refiners, renewable fuel exporters, RIN owners, and any other RFS2 regulated party to submit all RIN generation information and other RIN transactions to EMTS. Using data generated from EMTS, EPA provides aggregated monthly data on RIN generation and renewable fuel volume production for specific fuel categories, such as cellulosic biofuel. A RIN is a unique 38-character number that is issued (in accordance with EPA guidelines) by the biofuel producer or importer at the point of (continued...)

design of the RFS2 transition program allowed for RFS1 cellulosic RINs to be used towards compliance under the RFS2 program. Therefore, it is possible that compliance with the 2010 standards could have been satisfied in whole or in part with the RFS1 cellulosic RINs. Currently, EMTS is not depicting any cellulosic biofuel registered thus far toward the 2011 mandate of 6.6 million gallons. However, the statute allows companies to purchase cellulosic biofuel waiver credits in lieu of submitting RINs in years when EPA lowers the mandate, and compliance for 2011 may come through use of these waiver credits instead of through the use of cellulosic biofuel RINs.

In its 2011 RFS final rule, EPA projected that the 2011 RFS cellulosic biofuel production mandate would be met primarily by four companies: DuPont Danisco, Fiberright, KL Energy, and Range Fuels.³³ However, in the 2012 RFS proposed rule, EPA reports that the Range Fuels plant—expected to provide more than one-third of the 2011 mandate³⁴—produced a small volume of ethanol in early 2011, but shut down, and EPA does not know when the facility will restart.³⁵ Thus, EPA does not expect any production from this facility in 2012. KL Energy is expected to produce cellulosic ethanol soon after the completed modification of its facility in 2011. Fiberright anticipates ethanol production will begin in 2012. DuPont Danisco predicts they will meet their 2011 target of 150,000 gallons.

EPA acknowledges that the “task of projecting the volume of cellulosic biofuel production for 2012 remains a difficult one.”³⁶ Cellulosic biofuel producers “face not only the challenge of the scale up of innovative, first-of-a-kind technology, but also the challenge of securing funding in a difficult economy.”³⁷ Thus, some argue, it is difficult to state with certainty how much cellulosic biofuel will be produced and over what time frame. Anticipated fuel production to meet the 2012 mandate is provided in **Table 2**. According to EPA, roughly 15.7 million gallons of cellulosic biofuel could be produced in 2012 assuming there are no further construction or financing delays, and if pathways for certain cellulosic fuels to register under the RFS2 are approved by EPA.

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biofuel production or the port of importation. See <http://www.epa.gov/oms/fuels/renewablefuels/compliancehelp/rfsdata.htm#2010>.

³³ U.S. Environmental Protection Agency, “Regulation of Fuels and Fuel Additives: 2011 Renewable Fuel Standards; Final Rule,” *Federal Register*, December 9, 2010.

³⁴ U.S. Environmental Protection Agency, *Renewable Fuel Standard Program (RFS2) Regulatory Impact Analysis*, EPA-420-R-10-006, Washington, DC, February 2010, p. 175, <http://www.epa.gov/oms/renewablefuels/420r10006.pdf>.

³⁵ U.S. Environmental Protection Agency, “Regulation of Fuels and Fuel Additives: 2012 Renewable Fuel Standards; Proposed Rule,” 76 *Federal Register* 38844-38890, July 1, 2011.

³⁶ U.S. Environmental Protection Agency, “Regulation of Fuels and Fuel Additives: 2012 Renewable Fuel Standards; Proposed Rule,” 76 *Federal Register* 38844-38890, July 1, 2011.

³⁷ *Ibid.*

Table 2. Projected 2012 RFS Cellulosic Biofuel Selected Production Estimates

Company Name	Fuel	Capacity (million gallons/year)	Earliest Production	2012 Potentially Available Volume (million gallons)	Ethanol Equivalent (million gallons)
DuPont Danisco	Ethanol	0.25	Online	0.25	0.25
Fiberight	Ethanol	6.0	Online	3.0	3.0
KiOR (demonstration facility) ^a	Gasoline, Diesel	0.20	Online	0.2	0.3
KiOR (commercial facility) ^a	Gasoline, Diesel	10.0	Mid 2012	4.0	6.4
KL Energy	Ethanol	1.5	Online	1.0	1.0
Fulcrum Bioenergy	Ethanol	10.5	Late 2012	0.5	0.5
INEOS Bio	Ethanol	8.0	May 2012	3.0	3.0
Terrabon ^b	Gasoline	1.3	2012	0.7	1.0
ZeaChem	Ethanol	0.25	2011	0.25	0.25

Source: U.S. Environmental Protection Agency, "Regulation of Fuels and Fuel Additives: 2012 Renewable Fuel Standards; Proposed Rule," 76 *Federal Register* 38844-38890, July 1, 2011.

- a. KiOR has not yet registered under the RFS2 program. However, if their facility enhancement plans occur, they may be able to produce cellulosic fuel for the 2012 mandate.
- b. Terrabon is expected to produce cellulosic gasoline for which there currently is no EPA pathway to generate renewable identification numbers (RINs) to register the biofuel for the RFS. However, EPA plans to initiate a rulemaking to create a pathway for cellulosic gasoline.

What Impact Will Significantly Lowering the 2010, 2011, and 2012 RFS Mandates Have on Investment in Cellulosic Biofuel Production?

As noted above, EPA has the authority to waive the cellulosic biofuel mandate on a yearly basis. Indeed, EPA issued a waiver to substantially lower the 2010 and 2011 cellulosic biofuel mandates, and proposes to do the same for 2012. EPA's waiver authority creates uncertainty for investors in cellulosic biofuel ventures. Investors may fear that the full cellulosic biofuel mandate will never be required by EPA. Some lenders may deny financing due to lack of confidence in federal support for cellulosic biofuels.³⁸ If the cellulosic biofuel community was unable to produce 7% of the cellulosic biofuel mandate, as established in EISA, for its first year of inclusion in the RFS (in 2010), some may wonder about the viability of this advanced biofuel type over the long term.³⁹ Others contend that the cellulosic biofuel community hit a stumbling

³⁸ Dan Chapman, "Bio Energy Backers Stay Upbeat Despite Setbacks," *Atlanta Journal-Constitution*, January 13, 2010.

³⁹ Russel Gold and Siobhan Hughes, "Biofuel Production Fall Far Short of Targets," *Wall Street Journal*, February 4, (continued...)

block mainly due to a bad economy, and that production will drastically increase over the coming years.⁴⁰ The advanced biofuels community asserts that the enactment of “meaningful and long-term tax incentives to spur construction of the first-commercial advanced biofuel plants ...” would allow the industry to meet the RFS targets. Furthermore, the waivers and subsequent cellulosic biofuel waiver credits may also be undercutting the market.

How Much Cellulosic Feedstock Exists for Conversion to Biofuels?

A significant criterion in evaluating whether a commercial cellulosic biofuel production plant will be a favorable investment is whether a steady feedstock supply exists at a location suitable to the biorefinery.⁴¹ However, determining actual availability of feedstock is difficult. Quantifying feedstock available for conversion to biofuels requires information about feedstock sources, production rates, accessibility, and location restrictions (e.g., public versus private lands if the feedstock is to be used for certain energy purposes). Investors must make feedstock predictions based on data from weather patterns and land use change, as well as handling, storage, and transportation costs, among other things. This is a particularly important problem where a growth season of four to five months must provide biomass feedstock for 12 months of plant operation. To make the supply available throughout the year, special equipment may be required for feedstock harvest, handling, collection, storage, or transport, as cellulosic feedstock is often too bulky for average farming equipment to handle.

The amount of cellulosic feedstock necessary for conversion to a biofuel depends on the feedstock type, the conversion process, and the desired biofuel (see **Table 3**). Biofuel conversion yield is measured in gallons per ton. Feedstock, or crop, yield is measured in tons per acre. Total yield, measured in gallons per acre, depends on both the feedstock yield and the conversion yield. Some argue that current estimated cellulosic feedstock yields will need to increase markedly over the next decade to meet the RFS mandate of 16 billion gallons of cellulosic biofuel production per year by 2022. Others contend that a significant growth of cellulosic feedstock is not essential, as advances in conversion technologies will afford the opportunity to produce more cellulosic biofuel with less feedstock. If cellulosic feedstock yields do increase, the traditional geographic areas for feedstock cultivation may be subject to additional energy, environmental, and agricultural policy scrutiny (see **Figure 1**).

(...continued)

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⁴⁰ Renewable Fuels Association, “Obama Administration on Right Track with Biofuels,” press release, February 3, 2010, <http://renewablefuelsassociation.cmail1.com/T/ViewEmail/y/9C2814171DC11FF6/F83B91963160BD91C5EC08CADFFC107B>.

⁴¹ A biorefinery is a facility that processes biomass into biofuels.

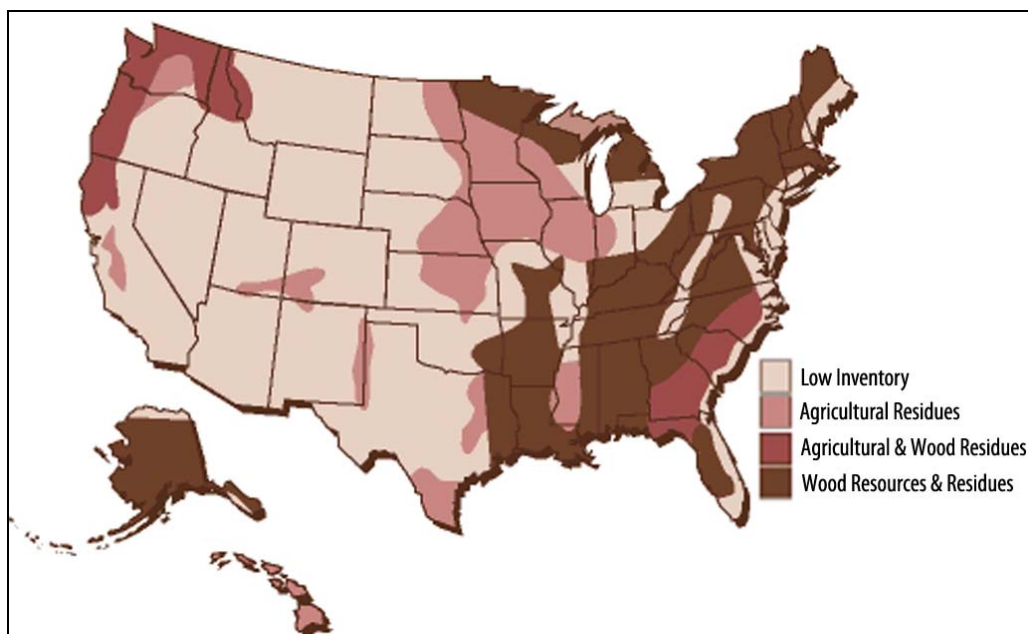
Table 3. Theoretical Ethanol Production Yields for Selected Feedstocks

Feedstock	Ethanol (gallons per dry ton of feedstock)
Corn Grain	124.4
Corn Stover	113.0
Rice Straw	109.9
Cotton Gin Trash	56.8
Forest Thinnings	81.5
Hardwood Sawdust	100.8
Bagasse	111.5
Mixed Paper	116.2
Switchgrass	96.7

Source: U.S. Dept. of Energy, Biomass Program, http://www1.eere.energy.gov/biomass/ethanol_yield_calculator.html and U.S. Dept. of Energy, National Ethanol Feedstock Resources, http://www.afdc.energy.gov/afdc/ethanol/feedstocks_resources_national.html.

Note: Actual yield commonly ranges from 60% to 90% of theoretical yields.

Figure 1. Geographical Areas with Biomass Resources

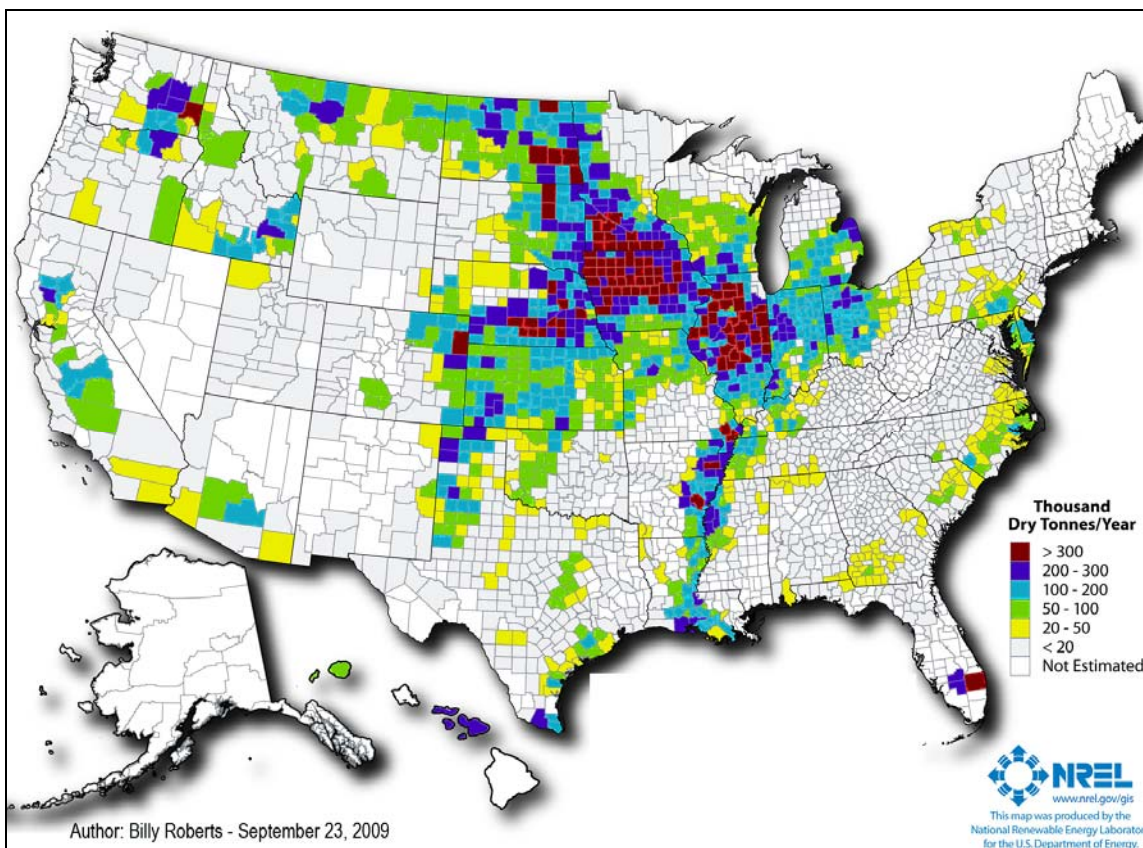


Source: U.S. Department of Energy, http://www.energysavers.gov/images/biomass_map.gif.

Few studies have estimated the current or long-term cellulosic feedstock supply available for conversion to biofuels on a national basis. Estimates of the amount of cellulosic feedstock available in recent years (2003-2007) range from 5,000 to 300,000 tons per year (**Figure 2** and **Figure 3**). Assuming a yield of 100 gallons per ton, this would equate to between 0.5 and 30 mgy of potential fuel production from that feedstock. This is well below the 100 million gallons needed to meet the 2010 mandate originally set by Congress, but is within range of the 6.6 million gallons production volume set by EPA for 2011.

Long-term cellulosic feedstock supply projections—for varying time periods beginning in 2020 and continuing to 2050—range from roughly 500 million to more than 1 billion tons per year, capable of producing biofuels well beyond the 16 billion gallons needed to meet the 2022 mandate (**Table 4**).⁴²

Figure 2. Cellulosic Feedstock Available from Crop Residues in the United States

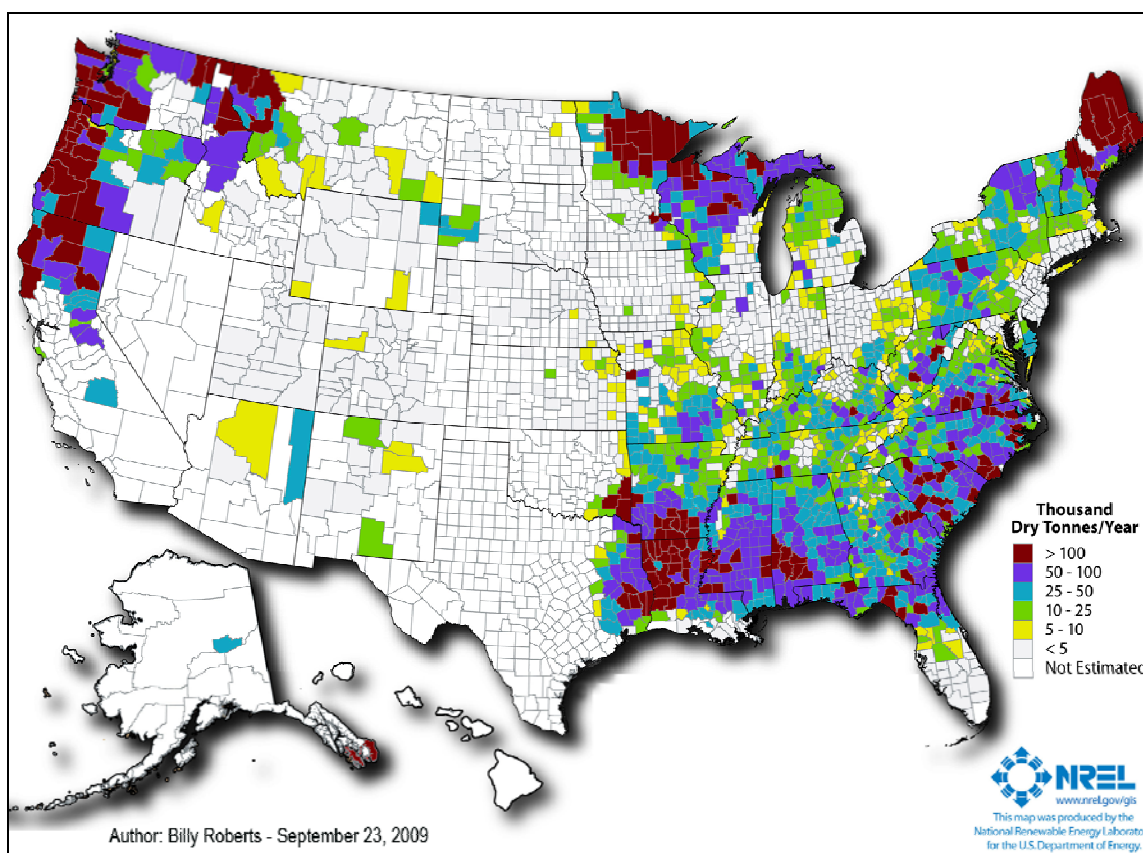


Source: U.S. Department of Energy, National Renewable Energy Laboratory, http://www.nrel.gov/gis/images/map_biomass_crop_residues.jpg. Feedstock estimate based on five-year average for 2003 to 2007 from the U.S. Department of Agriculture, National Agricultural Statistics Service.

Notes: The following crops were included in this analysis: corn, wheat, soybeans, cotton, sorghum, barley, oats, rice, rye, canola, dry edible beans, dry edible peas, peanuts, potatoes, safflower, sunflower, sugarcane, and flaxseed. The quantities of crop residues that can be available in each county are estimated using total grain production, crop to residue ratio, and moisture content, taking into consideration the amount of residue left on the field for soil protection, grazing, and other agricultural activities. USDA, National Agricultural Statistics Service, five-year average, 2003-2007 data.

⁴² The estimates provided in **Table 4** are based on numerous assumptions and modeling techniques unique to each study. While general categories may appear similar in name (e.g., agricultural lands), one should refer to the table footnotes for clarification on the category makeup.

Figure 3. Cellulosic Feedstock Available from Forest Residues in the United States



Source: U.S. Department of Energy, National Renewable Energy Laboratory, http://www.nrel.gov/gis/images/map_biomass_forest_residues.jpg. Feedstock estimate based on U.S. Forest Service Timber Product Output database for 2007.

Note: Forest residues include logging residues and other removable material left after carrying out silvicultural operations and site conversions. Logging residue comprises unused portions of trees cut or killed by logging and left in the woods. Other removable materials are the unutilized volumes of trees cut or killed during logging operations. USDA, Forest Service's Timber Product Output database, 2007.

Table 4. Cellulosic Feedstock Supply Estimates of Availability and Need

Source	Feedstock Quantity (Tons)	Comments
<i>Estimates of Availability</i>		
USDA / DOE Billion-Ton Study (2005) ^a	<p>1.366 billion available on a yearly basis roughly around the mid-21st century</p> <ul style="list-style-type: none"> • 368 million from forest lands (27% of estimated total) • 621 million from agricultural lands^b (45% of estimated total) • 377 million for dedicated energy crops^c (28% of estimated total) 	<p>The agricultural land component of the estimated total includes grains (corn and soybean) used for ethanol and biodiesel which are not cellulosic feedstock.</p> <p>The study included biomass available for bioenergy in general (e.g., wood for electricity).</p> <p>The Billion-Ton Study may have overestimated the amount of feedstock that can be economically harvested because it did not calculate costs associated with harvesting potential feedstocks using existing technology. The study also included woody biomass from federal forest lands, but EISA subsequently excluded such biomass from qualifying under the RFS. An updated study is expected to be published later this year.^d</p>
National Academy of Sciences (2009) ^e	<p>548 million available in 2020</p> <ul style="list-style-type: none"> • 124 million from forest lands (23% of estimated total) • 160 million from agricultural lands^f (29% of estimated total) • 164 million from dedicated energy crops (30% of estimated total) 	<p>The study estimates that the cellulosic feedstock can be available sustainably for conversion to liquid fuel in 2020.</p>
<i>Estimates of Need</i>		
Sandia National Laboratories / General Motors' R&D Center (2009) ^g	<p>775 million</p> <ul style="list-style-type: none"> • 126 million tons from forest lands (16% of estimated total) • 182 million from agricultural lands (23% of estimated total) • 467 million from dedicated energy crops (60% of estimated total) 	<p>The study estimates that 775 million tons of biomass are required to produce 70 billion gallons/year (BGY) of cellulosic ethanol by 2030</p>
Biomass Research and Development Initiative (2008) ^h	<p>240 million</p> <ul style="list-style-type: none"> • 153 million from agricultural landsⁱ (64% of estimated total) • 85 million from dedicated energy crops (35% of estimated total) 	<p>The study estimates, for one scenario out of the three provided, that 240 million tons of biomass are required to produce 36 BGY of cellulosic ethanol by 2022. Assumptions for the scenario include meeting the 36 BGY of cellulosic ethanol with corn-based ethanol of 15 BGY, soybean diesel of 1 BGY, 20 BGY from cropland biomass, 0 BGY from forestland biomass, and 0 BGY from imports.</p>

Source: Compiled by CRS.

- a. DOE, USDA, *Biomass as Feedstock for a Bioenergy and Bioproducts Industry: The Technical Feasibility of a Billion-Ton Annual Supply*, April 2005, http://www1.eere.energy.gov/biomass/pdfs/final_billionton_vision_report2.pdf.
- b. Agricultural lands include crop residues, grains, and animal manure.
- c. Perennial crops (e.g., grasses) are generally considered dedicated energy crops.
- d. U.S. Government Accountability Office, *Biofuels: Potential Effects and Challenges of Required Increases in Production and Use*, GAO-09-446, August 2009, <http://www.gao.gov/new.items/d09446.pdf>.
- e. National Academy of Sciences, National Academy of Engineering, National Research Council, *Liquid Transportation Fuels from Coal and Biomass: Technological Status, Costs, and Environmental Impacts*, Washington, DC, 2009, http://www.nap.edu/catalog.php?record_id=12620.
- f. Agricultural lands include corn stover, wheat and grass straw, hay, and animal manure.
- g. Sandia National Laboratories, *90-Billion Gallon Biofuel Deployment Study*, February 2009, http://hitecstransportation.org/news/2009/Exec_Summary02-2009.pdf. E-mail from Todd West of Sandia National Laboratory, February 10, 2010. Estimates vary based on the assumptions made for conversion yields, feedstock availability and relative cost, and more.
- h. Biomass Research and Development Initiative, *Increasing Feedstock Production for Biofuels Economic Drivers, Environmental Implications, and the Role of Research*, December 2008, <http://www.brdisolutions.com>.
- i. Agricultural lands include corn stover and straw.

How Many Commercial Cellulosic Biofuel Plants Exist?

EPA reports that there are very few, if any, facilities consistently producing cellulosic biofuel for commercial sale.⁴³ There are a few operational plants.⁴⁴ Proposed cellulosic ethanol plants span an array of production capacities—ranging from 20,000 gallons per year to 100 mg.⁴⁵ Industry sources anticipate that many of the plants will be fully operational by 2012. Approximately two dozen demonstration- or pilot-scale cellulosic ethanol plants are reported to exist currently in the United States.⁴⁶

⁴³ U.S. Environmental Protection Agency, “Regulation of Fuels and Fuel Additives: 2012 Renewable Fuel Standards; Proposed Rule,” 76 *Federal Register* 38844-38890, July 1, 2011.

⁴⁴ See **Table 2**.

⁴⁵ Renewable Fuels Association, *U.S. Advanced and Cellulosic Ethanol Projects Under Development and Construction*, February 25, 2010, <http://www.ethanolrfa.org/page/-/rfa-association-site/Outlook/CurrentAdvancedCelluloseBiofuelsProjects2-25-10.pdf?nocdn=1>.

⁴⁶ Wallace E. Tyner and Sarah Brechbill, “Cellulosic Biofuels: Feedstocks, Conversion Technologies, Economics, and Policy Issues,” CRS Workshop on the Development of the U.S. Cellulosic Biofuels Industry, Washington, DC, October 6, 2009; and conversation with Wallace Tyner from Purdue University, February 2, 2010; EPA, *Renewable Fuel Standard Program (RFS2) Regulatory Impact Analysis*, EPA-420-R-10-006, Washington, DC, February 2010, pp. 171 and 186, <http://www.epa.gov/oms/renewablefuels/420r10006.pdf>.

What Policy Options Are Available to Meet the Congressionally Mandated RFS for Cellulosic Biofuels?

Congress may decide to take legislative action to address the limited cellulosic biofuel production capacity for the RFS. Some options were introduced in the 111th Congress.⁴⁷ Other possible options available to Congress are lowering the cellulosic biofuel mandate, modifying the DOE Loan Guarantee Program, implementing new financial support mechanisms, or making federal lands available for biomass removal. Cellulosic biofuel advocates may find it beneficial for Congress to make the cellulosic biofuel mandate more attainable in the near term (e.g., two to five years). Opponents may view any additional congressional action to assist the cellulosic biofuel community as harmful to the entire renewable energy market in the long run.

Congress may also choose to monitor EPA's implementation of the RFS. EPA is responsible for implementing the RFS and revising the RFS when necessary. EPA's initial waiver was issued on the first year that cellulosic biofuel was to contribute to the advanced biofuels portion of the RFS. Some suggest the waiver was issued partly due to the economic hardships faced by the industry.⁴⁸ Whether the cellulosic biofuel industry can scale up production to meet the RFS targets in coming years is unclear.

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⁴⁷ The 111th Congress considered legislation that would have affected cellulosic biofuel production if enacted. Section 129 of the American Clean Energy and Security Act of 2009 (H.R. 2454, also known as Waxman-Markey) would have amended the Loan Guarantee Program to incorporate renewable fuel pipeline construction.⁴⁷ Title I of the American Clean Energy Leadership Act of 2009 (ACELA, S. 1462) would have amended the Loan Guarantee Program and created a Clean Energy Deployment Administration, under DOE, to advance lending and implementation of commercial clean energy technologies. H.R. 2283 and S. 943 would have waived the lifecycle greenhouse gas emission reduction requirements for renewable fuel production.

⁴⁸ Renewable Fuels Association, January 2010, personal consultation.