

BCAP Relaunch Should Bring New Biomass Producers into the Supply Chain

The redesigned Biomass Crop Assistance Program may have some shortcomings when it comes to funding and longevity, but it still provides significant opportunities for making new biomass materials economically viable for energy production.

By Daniel Simon and Tom Kimmerer | January 25, 2011



Land Use	Material	Owner	
Forest	Forest thinning Post-disaster forest debris Wood chips Slash: tops, cutoffs, bark Trees without timber or pulp value	Federal Agency Yes, with forest management plan; must reduce fire risk, remove invasives or improve forest health	Private, State, Tribal Yes, with forest management plan; must reduce fire risk, remove invasives or improve forest health
	Trees with timber or pulp value	No	Yes, as above
Agriculture	Forbs (e.g., sunflower, clover)		Yes, with approved conservation plan
	Grasses, nonyard		
	Vines, nonyard		
	Mosses		
	Title I Crop Residues		
	Corn cobs and stover		
	Bagasse		
	Rice hulls, straw, wheat straw, nut hulls		
	Orchard and vineyard waste		
	Energy crops, woody or herbaceous		
Title I Crops			
Ineligible	Yard waste and urban wood		No
	Algae		
	Animal waste and byproducts Food waste		

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PHOTO: MOORE VENTURES LLC

The wait is finally over. The USDA has relaunched the Biomass Crop Assistance Program and is once again accepting applications from biomass conversion facilities (BCFs), including biomass power and thermal plants.

The redesigned program substantially reduces the list of eligible fuels, imposes new and complex rules, and may have limited funding and longevity. Despite these changes, the updated BCAP presents strong opportunities for conversion facilities to gain access to new fuel sources and to build more robust supply chains. A solid understanding of the new rules and administrative procedures is essential for conversion facilities and producers to benefit fully.

Birth of BCAP and the 2009-'10 Pilot Program

The 2008 Farm Bill created BCAP to encourage the use of otherwise wasted biomass materials for energy and to stimulate interest in new crops for renewable energy feedstocks. The program was designed to meet these goals through a matching payments component for existing fuel sources and establishment payments and annual payments component for new energy crops.

USDA, through the Commodity Credit Corp. and Farm Service Agency, initially implemented a pilot version of the matching payments component. Launching the program in 2009 in quick response to a presidential directive to aggressively accelerate biofuel production, USDA did not issue detailed requirements on how biomass materials needed to be produced, collected, harvested or separated from higher-value material. The guidelines also did not require BCFs to purchase eligible materials at fair market value.

Many biomass facilities benefited from the initial program by negotiating lower fuel prices with suppliers, who then received matching payments to make up the difference. The program, however, negatively affected other industries by distorting feedstock prices for mulch, fiberboard, nursery media, and other products. A report recently issued by USDA's Inspector General also found that the pilot program's brisk implementation led to "wide-ranging problems" in its operation.

In February 2010, USDA suspended the program and issued a new proposed rule, allowing matching

payments for existing contracts through the end of March 2010. During the pilot program's short life, USDA paid approximately \$244 million in matching payments.

USDA received more than 26,000 comments on the proposed regulations, which delayed release of the final rule until October 2010. On Dec. 14, 2010, FSA published new documents and began accepting applications from BCFs to become "qualified." All previous certifications of facilities were revoked. FSA also published documents for the establishment of Producer Areas. Documents and procedures are still being established in early 2011.

New BCAP Rules

The new BCAP rules include greater restrictions on what qualifies as eligible biomass and how that material is collected and harvested, as well as requirements for demonstration of sustainable agriculture and forestry practices. The new rules also implement the Project Area program of the 2008 Farm Bill, providing incentives to establish energy crops.

Matching Payments: FSA will make matching payments of up to \$45 per dry ton for eligible fuel delivered to a registered BCF. Eligible fuels must be collected directly from the land, and cannot be collected from another facility. For example, bark stripped from trees in the forest is eligible if the bark is delivered directly to the BCF, even if the wood from the trees goes to another use; bark stripped from trees at a wood processing mill is ineligible because it did not come directly from the land. Similarly, agricultural materials must be picked up directly from the land and transported to the BCF. Corncoobs from an ethanol plant are not eligible, but corn stover collected in the field is eligible.

Materials that have an existing market in a given area may be ineligible for matching payments. For example, bark is an eligible material unless there are already markets for bark mulch and other products within the geographical area of the BCF. Eligibility is determined by local FSA agents, who must determine whether a given feedstock had a local market as of Oct. 27, 2010.

The following materials are not eligible for matching payments: Title I crops (such as corn and soybeans); animal, food and yard waste; and algae. Although Title I crops are not eligible, waste from Title I crops, such as corn stover, is eligible. The yard waste exclusion is broad enough to exclude all urban forestry materials.

The matching payments are to be made at the fair market value of the feedstock. BCFs will be required to maintain lists of all biomass purchases, both from eligible materials owners and sellers who are not participating in BCAP. The arm's length requirement of the original program has been removed, allowing payments between affiliates.

Perhaps the most complex aspect of the new BCAP rules is the sustainability requirement. Crop residues require a conservation (or equivalent) plan registered with FSA, while forest materials require a forest management, stewardship or equivalent plan. Forest materials must be taken during operations to reduce fuel hazards, remove invasive species or improve forest health. This should not be a major impediment, as sound forest management improves forest health. Material from Federal lands cannot include wood that has timber, lumber or pulp value; material from private lands is not subject to this restriction, but is still subject to the existing markets condition. Some clarification from FSA offices may be required concerning eligibility of forest materials.

Otherwise eligible material delivered to a BCF may nevertheless fail to qualify for matching payments if the material owner fails to register with the local FSA office before delivery; the material owner fails to provide documentation, including a receipt for payment and an assessment of the material's moisture content; the biomass delivered contains ineligible material; or for a number of other reasons, such as supplying false information.

Because payments are made on a dry weight basis, actual measurement of moisture content of the delivered material is required. CCC reserves the right to amend the list of eligible fuels. Establishment and Annual Payments: A major goal of BCAP is to mitigate risks that prevent producers from entering the biomass market. Implementation of the establishment and annual payments provisions of BCAP is intended to provide incentives for producers to enter the market. Producers of energy crops, along with the potential consumers of their products, may apply to the FSA to create a Project Area located near a BCF. All approved producers within that Project Area can qualify for matching payments for up to 75 percent of the establishment of an energy crop, and ongoing payments for up to five years for herbaceous perennials and 15 years for woody plants.

Producers who are registered participants in a Project Area are still able to get up to two years of matching funds for delivery of biomass to the conversion facility associated with the Project Area. In addition, producers in a Project Area who are not participants in the project are eligible for matching payments. The rules regarding eligibility for Project Area approval and establishment and annual payments are stringent. Potential Project Area participants are encouraged to contact their local FSA office as soon as possible to begin discussions of eligibility.

The final rule states that a producer will enter into a contract with CCC to commit acres to establish and produce an eligible crop. These contracts are intended to promote the production of a long-term source of biomass feedstock that can be harvested in a reasonable period of time. The contracts will take into account the appropriate establishment period for a specific crop. The expectation is that at least one harvest for biomass delivery to the conversion facility will take place within the period of the contract.

Is the New BCAP Worth the Effort?

Although substantially more restrictive than the original, the revised program is clearly designed to achieve the original intent of BCAP: to bring more biomass fuel to market and to provide incentives for the creation of supply chains and new energy crops. Despite the new regulations' complexities, participation in BCAP provides significant opportunities for BCFs. In most areas of the country, there is a significant lack of capacity within the supply chain, and an unwillingness of producers to establish energy crops. BCAP can help overcome these supply limitations.

Under the original trial program, BCAP simply lowered the price of fuel for conversion facilities. The new program instead provides a strong price incentive for suppliers to accept the risks of changing their operations in order to provide fuel to biomass facilities.

The new matching payments program can help bring new eligible biomass material producers and harvesters off the sidelines and into the biomass energy supply chain. For instance, matching payments may turn some waste products previously too expensive to otherwise collect and harvest for energy

usage into economical fuel sources. Matching payments can also open up new biomass fuel supplies that were otherwise too far away to use economically due to higher transportation costs.

Although qualifying BCFs will have to purchase these new sources at the fair market value of similar materials, more fuel sources can help create a larger and more flexible fuel market, possibly providing BCFs more stable fuel supplies. Some plants also can benefit from blending additional biomass types together. Although vendors receiving matching payments cannot charge below-market rates to undercut their competitors, matching payments could indirectly lead to lower prices through greater competition.

The new BCAP also allows qualifying BCFs and/or their affiliates to constitute eligible material owners that may receive matching payments. This change could create new opportunities for biomass plant owners to become their own fuel suppliers.

As with any new agricultural policy, there are still some uncertainties about the implementation of BCAP. Some uncertainties will be quickly resolved by FSA, but others may take some time. Communication with your local FSA office may help answer questions.

Major Budget Concerns Remain

Potential BCAP participants need to be aware of concerns regarding adequate funding and continued authorization.

BCAP is currently operating under a continuing resolution funding the federal government only through March 2011. Additional congressional action will be required to fund BCAP for the remainder of FY 2011 and FY 2012.

Congress also must decide whether to authorize—and fund—BCAP beyond FY 2012. If BCAP fails to attract a sufficient number of energy crop producers, Congress may be less inclined to extend the program beyond FY 2011.

Conclusion

Although portions of BCAP have been scaled back substantially from the pilot program, the final rules still provide significant opportunities for making new biomass materials economically viable for energy usage. Would-be participants need only bone up on the rules, get to know their local FSA agents and ready themselves for a vigorous pursuit of those opportunities.

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<http://biomassmagazine.com/articles/5256/bcap-relaunch-should-bring-new-biomass-producers-into-the-supply-chain/>

