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E-MAIL AND FACSIMILE SUBMISSION

Robert Stephenson
Director
Conservation and Environmental Programs Division
Farm Service Agency (FSA)
U.S. Department of Agriculture (USDA)
Stop 0513
1400 Independence Ave., SW
Washington, DC 20250-0513

RE: Comments on USDA's Proposed Rule regarding the Biomass Crop Assistance Program (BCAP) – 7 CFR Part 1450, RIN 0560-AH92

Dear Mr. Stephenson:

The Pellet Fuels Institute (PFI) appreciates the opportunity to provide comments on the Biomass Crop Assistance Program (BCAP) Proposed Rule.

PFI is a non-profit trade association that serves the pellet industry, which is comprised of pellet mills, pellet appliance manufacturers and industry suppliers. We are writing specifically on behalf of pellet mills. As of 2009, pellet manufacturing directly employs approximately 2,300 people in the U.S. and supports thousands of industry-related jobs in fields such as transportation and logging. Also, there are an estimated 1,000,000 residences/businesses in the U.S. currently heating with pellets.

PFI supports BCAP and believes that it has helped the biomass industry survive this economic downturn. PFI is willing and able to work with USDA and FSA in its efforts to ensure the availability of a sustainable supply of biomass feedstock. A majority of the pellet industry has benefited from the aid of the BCAP program and supports the continuation of its assistance. However, PFI has some concerns with the proposed rule.

Comments:

Eligible Materials Definition

PFI has grave concerns with the tapering of the "eligible material" definition in the proposed rule to exclude vegetative wastes, including wood wastes and wood residues that would otherwise be used for "higher value products." This exclusion language can be interpreted to apply to sawdust and mill residues/byproducts. These feedstocks are the

primary component of pellet production throughout the country. If this tapering of the definition is kept in this rule, numerous pellet mills will be extremely hampered in their ability to receive these materials, which will put them in a competitive disadvantage with other biomass applications and products. Densified biomass pellets should be considered a higher value product, especially since numerous regions in the U.S. treat them as such. The use of these feedstocks in the production of pellets **IS** the highest value product in many areas in which they are produced and should not be excluded in this proposed rule.

Advanced Biofuels Definition

PFI strongly supports the definition of “advanced biofuels” included in the Supplementary Information and Qualified Biomass Conversion Facility sections of the Proposed Rule to include pelletized biomass. Pellet fuel is a renewable, clean-burning and cost stable heating alternative currently used throughout North America. Pellets are made of renewable substances, generally recycled wood byproduct, and are uniform in size, shape, moisture, density and energy content. Pellets belong in this definition.

Matching Payment Options

PFI believes that the \$45 per dry ton matching payment for eligible biomass materials should remain in place. All uses of biomass material should be treated equally in all matters. This proposed rule should **NOT** favor one technology or application over another. PFI recommends that FSA implement the program to ensure that it is both technology and feedstock neutral and that all biomass energy conversion technologies qualify equally. To favor one technology/use of the feedstock would put the other worthwhile uses in a competitive disadvantage and could result in a distorted and unfair market for biomass industries.

PFI believes that matching payments based on a facility’s historical baseline for heat or power production will be difficult to understand and administer. This will also create an unwarranted advantage to new biomass companies that do not have a historical baseline. In the end, basing a payment option on a historical baseline will penalize existing pellet mills which are running at capacity. However, in order to control costs, we accept that considerations may be needed to keep the program functional. If FSA decides to include a lesser matching payment option in this rule, PFI recommends that FSA consider awarding payments based on the efficiency of the usable energy of all of the biomass technologies. Using this method will ensure that the best use of the energy will get the larger assistance since it is performing in the optimal manner.

Transactions between Parties

The proposed rule replaces the “arms length transaction” provision in the Notice of Funds Availability (NOFA) with “related party transaction” language. This provision would prevent a biomass conversion facility from receiving matching payments if it sells qualified material to itself or to another business it owns or operates. Many pellet mills either have another business operation which produces eligible biomass material, like a sawmill, or own lands from which they secure eligible biomass material for their own use. Under a related party transaction restriction, pellet mills in this position would be ineligible for BCAP matching payments if they sell their eligible biomass material to a qualified biomass conversion facility they own. However, if that same material is sold to a qualified biomass conversion facility and vice versa, that transaction would qualify for

a matching payment under BCAP. PFI believes that this is not consistent with the intent of BCAP. Businesses with pellet mills in operation and have a dedicated source of eligible feedstock should not be penalized or deprived of matching payments because they had the foresight to establish an additional business operation to utilize the byproduct of their primary business or to secure biomass by buying timber on the stump so that it can be harvested during times of low supply.

Moisture Testing Requirements

PFI supports the adoption of the industry-wide standard for measuring moisture as outlined in the Discussion of Comments on NOFA section of the Proposed Rule.

Scale Tickets

PFI supports the improved language to scale ticket reporting requirements as outlined in the Discussion of Comments on NOFA section of the Proposed Rule.

Small Industrial/Commercial Facilities as a Qualified Conversion Facility

PFI recommends that small industrial/commercial applications for heating that utilize biomass should be eligible to become a qualified conversion facility. This will help expand the demand market for biomass heating applications, which will be beneficial in long term.

Pellet Mills as either a Qualified Conversion Facility or an Eligible Material Owner

Pellet mills should be afforded the ability to be either a qualified conversion facility or an eligible material owner. Pellet mills have the characteristics of both designations and should be afforded the right to choose which one best suits the respective mills needs.

Thank you for your consideration of these comments. Please contact me or Seth Voyles, PFI's Manager of Government Affairs, at 703-522-6778 if you have any questions.

Sincerely,



Don Kaiser
Executive Director
Pellet Fuels Institute