

Erie-based Hero BX sees tax credit as short-term fix

Erie plant, industry wait for mandates, solid customer base

By JIM MARTIN - ERIE TIMES-NEWS

The president of Erie-based Hero BX is hoping a \$1-a-gallon tax credit is restored soon for the sake of the company and its employees.

But he doesn't need to see it restored forever.

The tax credit, which expired Dec. 31, figures to be a key to helping the industry stand on its own until customers are established and mandates kick in that build demand, said Mike Noble, president of Hero BX.

The company, formerly known as Lake Erie Biofuels, is Pennsylvania's largest biofuel producer and one of the largest plants in the country with a production capacity of 45 million gallons a year.

But the plant hasn't been producing at full capacity for much of this year, operating for just 20 of the first 71 days of 2010.

Simple math explains the slowdown.

"It costs us about \$3 to produce a gallon of biofuel and (without the subsidy) we are selling it for \$2," said Chris Peterson, company vice president.

Critics have repeatedly questioned the use of a business model that relies on a subsidy for its survival.

Both Peterson and Noble insist, however, that economics isn't the driving rationale for using more biodiesel. The real advantages are dramatically reduced pollution and less demand for foreign oil, Peterson said.

Instead of petroleum, Hero BX makes diesel from a blend of animal fats, fish oil and used restaurant grease.

"You hear a lot of environmentalists, interested parties and others state this country is addicted to foreign oil," Peterson said. "If we want to get off foreign oil, we need to do something about it."

Hero BX and the industry as a whole view that something as a continuation of the \$1 blender's tax credit, which the Senate voted March 10 to extend through 2014.

But the Senate can't do this alone.

It's going to need the approval of the House of Representatives and President Barack Obama. And that could take time.

Noble said the quickest route to extending the tax credit would be a conference committee.

"Here is the problem," he said. "Right now the House is talking about nothing but health care."

By the time health care is likely to be resolved, the Congressional calendar seems likely to get in the way.

"If it (the tax credit) doesn't pass by the 29th, they are gone for two weeks vacation," Noble said. "That puts us well into April, by which time we could be in deep trouble."

In the short term, that's likely to mean more idle days at Hero BX.

"We are trying to juggle our money," Noble said. "But we can't run at full rate because we don't have enough cash flow."

That won't be the case forever, he said.

A statewide mandate that requires 2 percent biodiesel to be included for all on-road diesel is expected to cement the demand for about 23 million gallons a year beginning in May.

New federal Renewable Fuel Standards will also help, Peterson said, by requiring that 1.15 billion gallons of biodiesel be used nationwide this year.

Those mandates and the \$1 tax credit are similar to the measures that helped ethanol take hold as a renewable additive to gasoline, Noble said.

In another five years, he said, the biodiesel industry should be able to walk without the crutch of a tax credit.

"We just need an opportunity to establish ourselves," he said.

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