

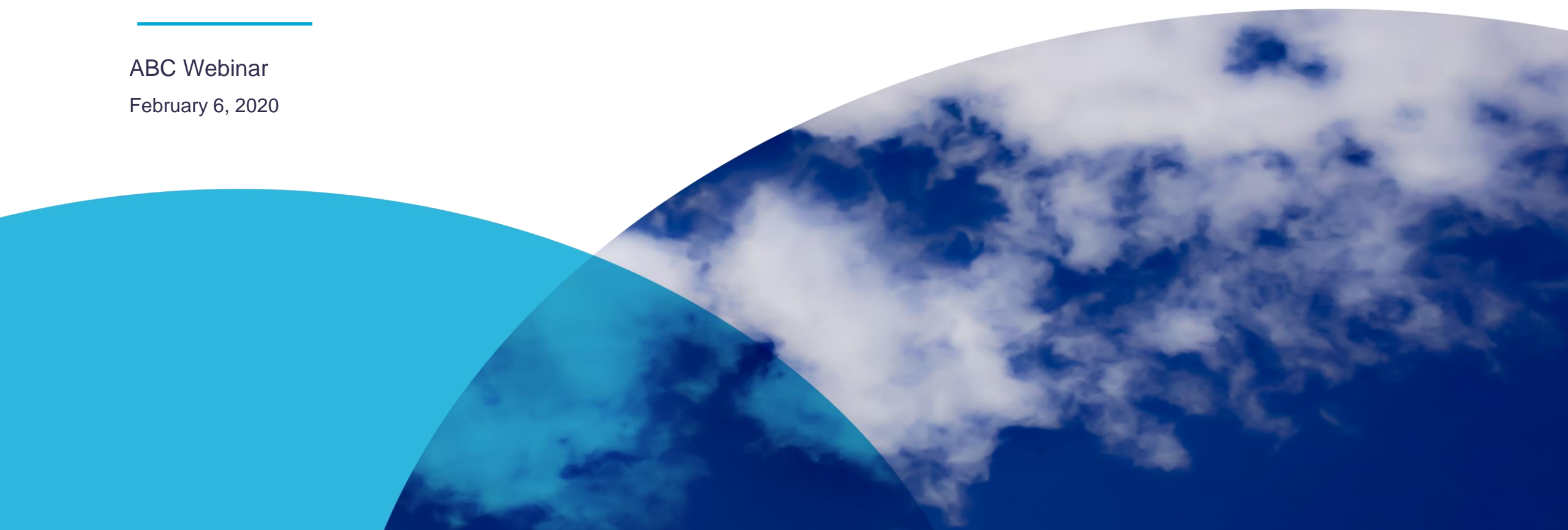
2020 Biogas Policy: Tax Credits, RFS, and LCFS

ABC Webinar

February 6, 2020



**AMERICAN
BIOGAS
COUNCIL**



Today's Speakers



Maureen Walsh
Federal Policy
Director

American Biogas
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EcoEngineers



Patrick Serfass
(Moderator)
Executive Director

American Biogas Council

Quick Notes



- You should be able to hear me talking now. If you can't, use the questions module to describe your issue.

- Two Audio Options: Phone or Computer
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- Pro tip: Don't call in on our phone if your audio is set to "Mic and Speakers"

- Ask questions using the Questions Panel on the right side of your screen at any time.

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← Audio

← Questions



Who we are

The only US organization representing the entire biogas industry

All sectors represented

- Project developers/owners
- Equipment retailers and dealers
- Waste management companies
- Waste water companies
- Farms
- Utilities
- Municipalities
- Consultants and EPCs
- Financiers, accountants, lawyers and engineers
- Non-profits, universities and government agencies

200+
organizations

2,000+
individuals



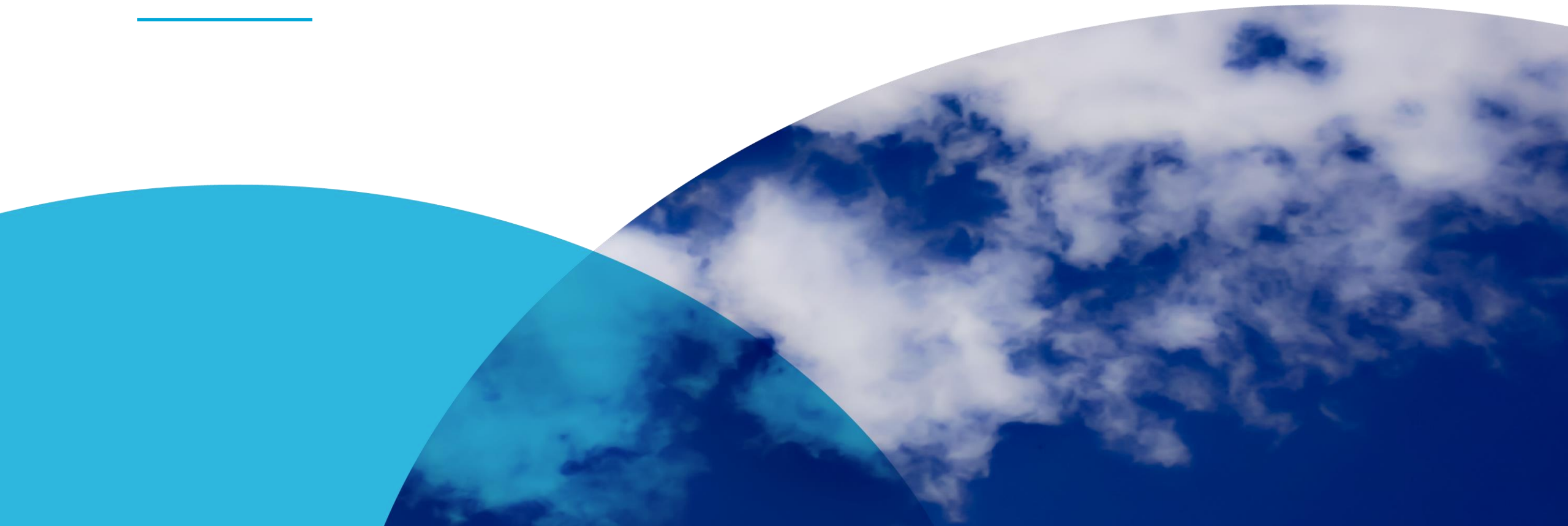


Topics Covered

- Biogas electricity tax credits
- Alternative Fuels Excise Tax Credit
- Agriculture Environmental Stewardship Act
- Renewable Fuel Standard
- Why RIN values doubled in the last two weeks
- New LCFS verification requirements
- Q&A and more!



Maureen Walsh, Director of Policy



2019 Extenders Package



- Section 45 Production Tax Credit for Renewable Electricity
 - Retroactively extended for 2018. Prospective extension for 2019, 2020
 - For open loop and closed loop biomass, landfill gas
 - Production tax credit is 1.1 cents per kilowatt hour of energy production
 - Credit is taken off of what you would pay to the Federal Treasury
- Ability to Irrevocably Choose to Convert to a 30% Investment Tax Credit
 - Can use "safe harbor" to lengthen credit until 2024.
 - In order to keep safe harbor valid, must expend 5% of overall construction cost yearly OR make substantial contribution toward construction (please consult a tax attorney or accountant for further information on the safe harbor)
 - Further information IRS notice 2016-31 <https://www.irs.gov/pub/irs-drop/n-16-31.pdf>
 - Project must be placed into service no longer than four years.

2019 Extenders Package



- How to Use the Section 45 Production Tax Credit for Renewable Electricity
 - 2018 - amend your tax filing and take either the PTC or ITC off your tax burden
 - 2019 – you will be able to use this credit now while filing your 2019 taxes
 - 2020 – you will be able to use the credit when filing your 2020 tax
 - 2020-December 31, 2024 – If you are using the Investment Tax Credit, you can "safe harbor" your project by expending at least 5% of overall construction cost yearly OR make substantial contribution toward construction (please consult a tax attorney or accountant for further information on the safe harbor)
 - Further information <https://www.irs.gov/pub/irs-drop/n-16-31.pdf>
 - Project must be placed into service no longer than four years.

Alternative Fuel Excise Tax Credit



- Tax incentive for alternative fuel (including renewable natural gas) that is sold for use or used as a fuel to operate a motor vehicle. A tax credit in the amount of \$0.50 per gallon of fuel produced and used to operate a motor vehicle.
- Credit was retroactively extended for 2018. Also included two years going forward, 2019 and 2020.
- For an entity to be eligible to claim the credit they must be liable for reporting and paying the federal excise tax on the sale or use of the fuel in a motor vehicle.
- Eligible entities must be registered with the Internal Revenue Service (IRS).
- Further information: Excise Tax Branch
IRS Office of Chief Counsel
(202) 317-6855
<http://www.irs.gov/>

Alternative Fuel Excise Tax Credit



- How to Use the Alternative Fuel Excise Tax Credit
 - 2018 - amend your tax filing
 - 2019 – you will be able to use this credit now while filing your 2019 taxes
 - 2020 – you will be able to use the credit when filing your 2020 tax
 - Unlike the Investment Tax Credit, there is no "safe harbor" mechanism.
 - This credit will expire (unless renewed again) at midnight on December 31, 2020.

2020 Tax Policy: What's Next



- Background
 - President Trump has indicated that he would like to see a 2.0 version of tax reform
 - Congressional Republicans would like to address technical issues with the tax reform bill as well
 - Congressional Democrats have numerous priorities including renewable energy and efforts to mitigate climate change
- Biogas Priorities
 - Include the Agricultural Environmental Stewardship Act (S. 2542 and H.R. 3744)
 - Bill would establish a 30% ITC for non electricity uses of biogas and the use of nutrient recovery technologies
 - The bill as included in the Green Act introduced by the House Ways and Means Committee at the end of 2019.
 - This bill and its passage remain one of our top tax priorities

2020 Tax Policy: What's Next



- Biogas Priorities (continued)
 - Longer term extension of PTC for Renewable Electricity
 - Are requesting a 5-year extension of the credit which would parallel what the Solar and Wind Industry received in 2015.
 - Combination of Section 45 extension and passage of the Agricultural Environmental Stewardship Bill would give biogas projects the ultimate and flexibility to use biogas for electricity or RNG
 - Longer term extension of the Alternative Fuel Excise Tax Credit
 - Are requesting a 5-year extension of the credit which would parallel what the Solar and Wind Industry received in 2015.

Renewable Fuel Standard



**Biogas
Perspectives for
2020**

**Final 2020
RVOs**

Waivers

eRINs

Renewable Fuel Standard



- 2020 Final RVOs
 - Overall, the ABC was pleased to see the cellulosic volumes increased by 52 million gallons to 577 in the final rule. CNG and LNG from biogas makes up over 95% of the cellulosic category.
- Outlook for Waivers – the Trump Administration continues to telegraph that it will issue more SRE's than previous administrations. A recent 10th Circuit Court of appeals decision may complicate issues.
- eRINs
 - Once again, not included in the 2020 RVOs
 - Lawsuit over 2019 is continuing. May grow into another law suit to include 2020 RVOs.
 - Continue to up the pressure on Congress to do something in appropriations.

Renewable Fuel Standard



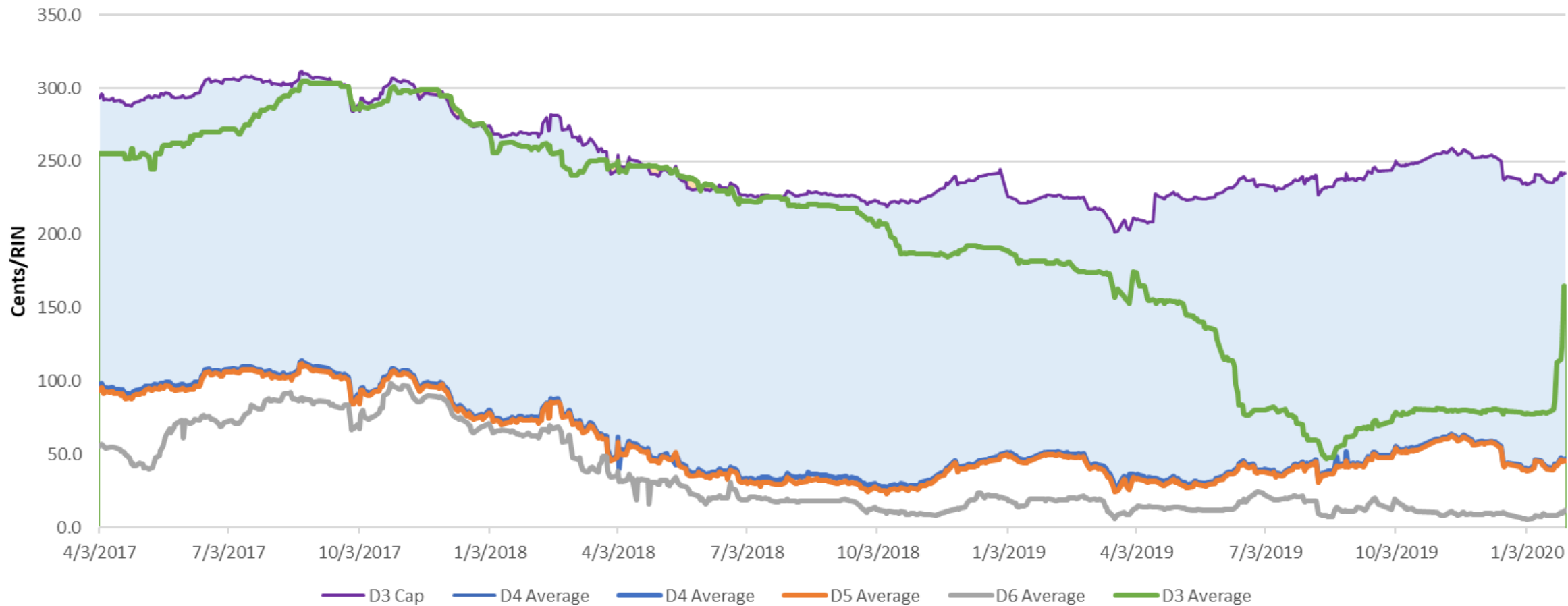
- What's Next:
 - 2021 RVOs due in late spring/early summer
 - SRE's will continue to be an issue. We expect this to heat up more as Presidential and Congressional reelection efforts move forward
 - Election outcomes likely to affect much of the future of the RFS program
 - Advocacy efforts continue - elevate eRINs on both a Congressional and Presidential level.



RFS Updates

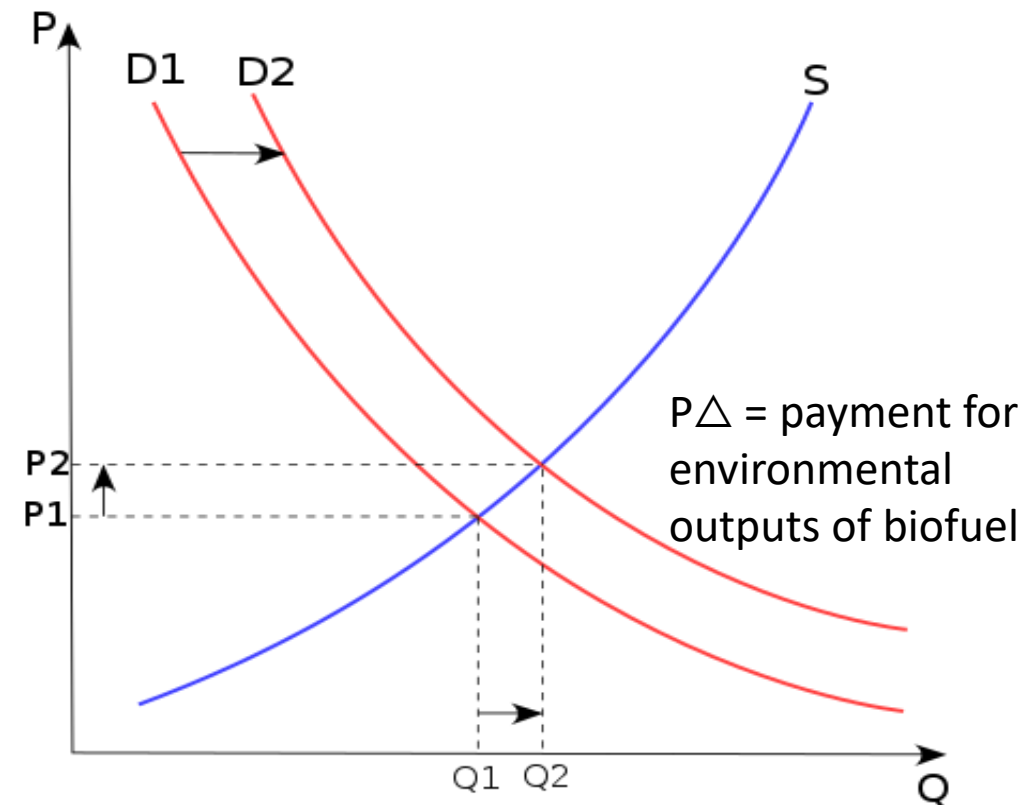
RIN Price History

RIN Price Chart - D3, D4, D5, D6 RINs
April 2017 to January 2020



RIN Supply-Demand Dynamics Plus Regulatory Uncertainty Drive Volatility

- Renewable Volume Obligation pace of biofuel production relative to RVOs
- Availability of banked carryover RINs from previous year
 - Can be used for up to 20% of current year obligation
- Regulatory uncertainty
 - Over 350,000 comments filed on 2019 RFS proposal
- Small Refinery Exemption (SRE) waivers
 - Impact on RIN value and availability
- 2022 reset of RFS under development
 - Slated to be released in 2019, pending



2019 Look Back

	D3 RINs
2019 RVO	418,000,000
SREs Waived (7%)	(29,000,000) (est.)
2018 RIN Carryover	(30,000,000) (est.)
2019 D3 RIN Production	(377,000,000) (est.)*
Remainder (LONG)	(18,000,000) (est.)

Unknowns:

- Actual petroleum refining volumes
- SRE volumes for 2019
- Exact carryover volumes

Estimated 18,000,000 RINs overproduced compared to 2019 RVO

**9.8 million gallons from cellulosic ethanol*

2020 Outlook

- 2020 Proposed RVO – 540 million gallons
- 2020 Actual RVO – 590 million gallons
 - 41% increase
- Follow D3 RIN production data
- Follow SRE process
 - The more SREs issued, the less demand for D3 RIN prices



2020 Outlook

- Follow wholesale gasoline prices for 2020 CWC calculation
 - Sets D3 price cap
 - 2020 appears to be close to 2019
 - \$1.77 in 2019
 - **\$1.80 in 2020**
 - **Price Cap: D5 RIN + CWC Price**
- RFS set/reset process or any RFS reform
 - Draft to CBO for scoring



2020 RIN Prices – Time for a Rebound?

	2019 D3 RINs
2019 RVO	418,000,000
SREs Waived (7%)	(29,000,000) (est.)
2018 RIN Carryover	(30,000,000) (est.)
2019 D3 RIN Production	(377,000,000) (est.)*
Remainder (LONG)	(18,000,000) (est.)

	2020 D3 RINs
2020 RVO	590,000,000
SREs Waived (7%)	(43,000,000) (est.)
2019 RIN Carryover	(18,000,000) (est.)
“True” 2020 D3 RVO	529,000,000 (est.)
RINs generated per month	44,000,000

31,400,00 RINs/month in 2019

13 mill more RINs per month = 37,000 MMBtu/day of additional projects

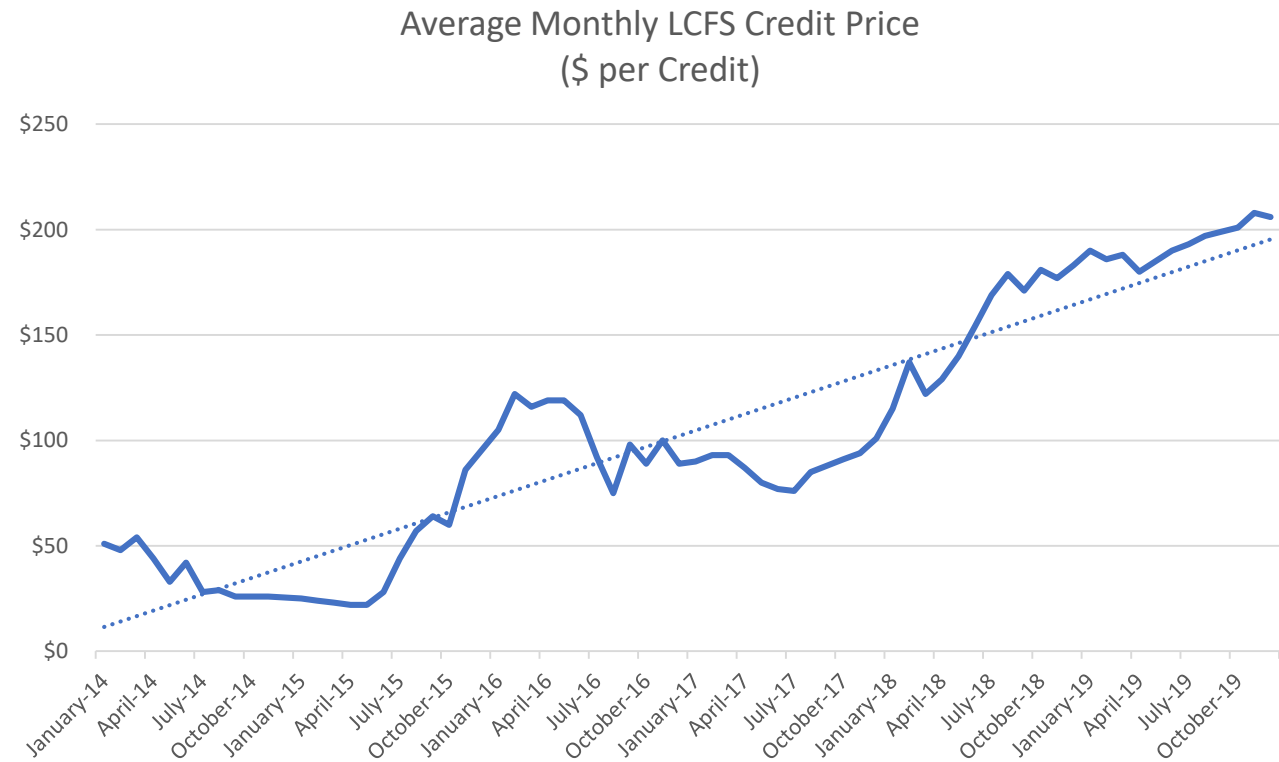
**30-60 more projects in 2020*



LCFS Updates

LCFS Credit Characteristics

- \$200 price ceiling (adjusted for inflation)
- No floor
- No expiration date
- Brokers can represent regulated parties, but cannot take title to credits or act independently



2019 LCFS Regulatory Updates Overview

- Updates to LCFS program effective Jan. 1, 2019
- Transition all pathways to CA-GREET 3.0 from CA-GREET 2.0
- LCFS verification program included
 - **First compliance year is 2020**
 - Will be **mandatory**
 - Will affect both regulated parties and producers of renewable fuels
 - **First verification reports due in August 2021**
- Verification will include:
 - **Annual Fuel Pathway CI valuation**
 - **Annual quarterly transactions verification**
 - **Annual Site Visit**
- Each facility and credit generator must have Compliance Monitoring Plan



LCFS Verification Requirements

Initial Validation (One time)

- Site visit (starting 2020)
- Initial review and statement to certify pathway
- Must be completed by accredited third-party verification body

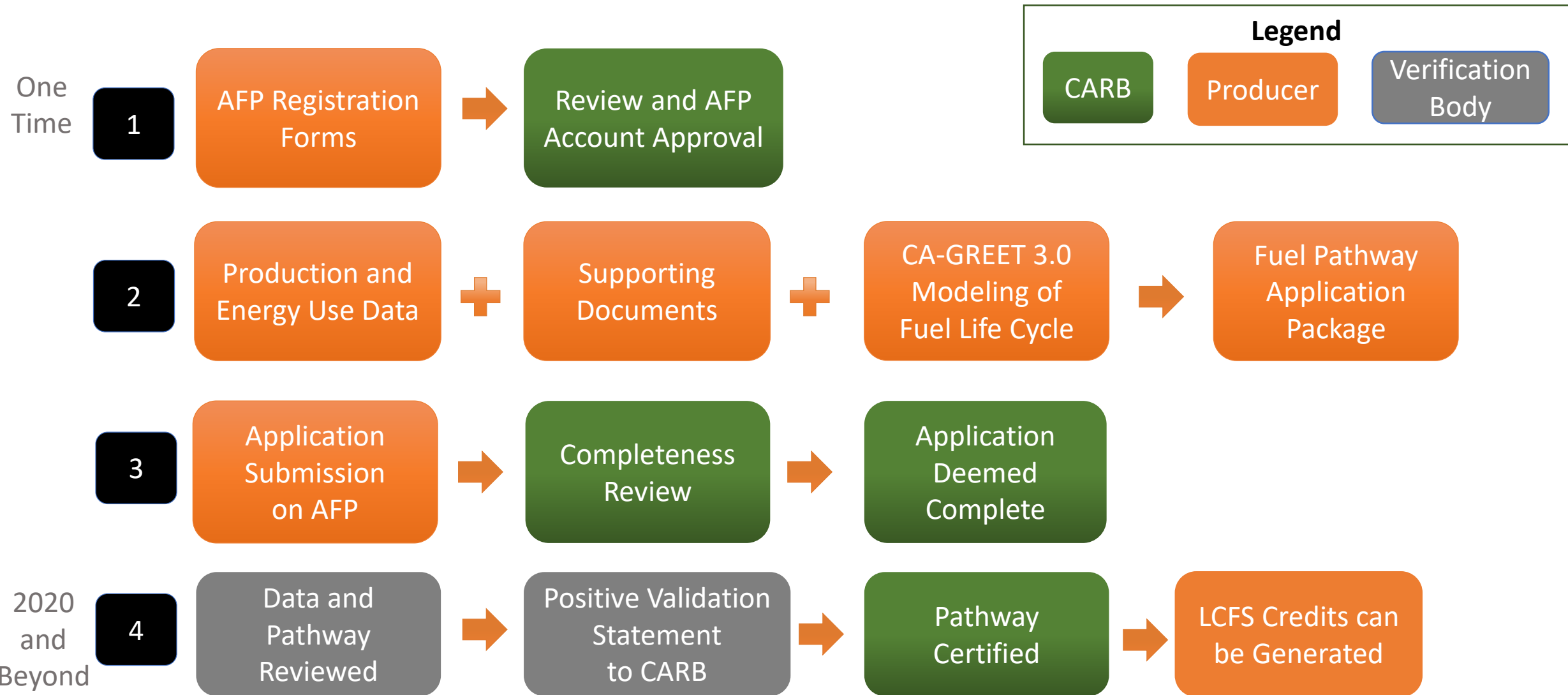
Ongoing Verification Services*

- Fuel pathway report review
 - Verification of CI score components
- Verification report
 - Verification of data collected and reported
- Site Visit
 - Annual visit for verification

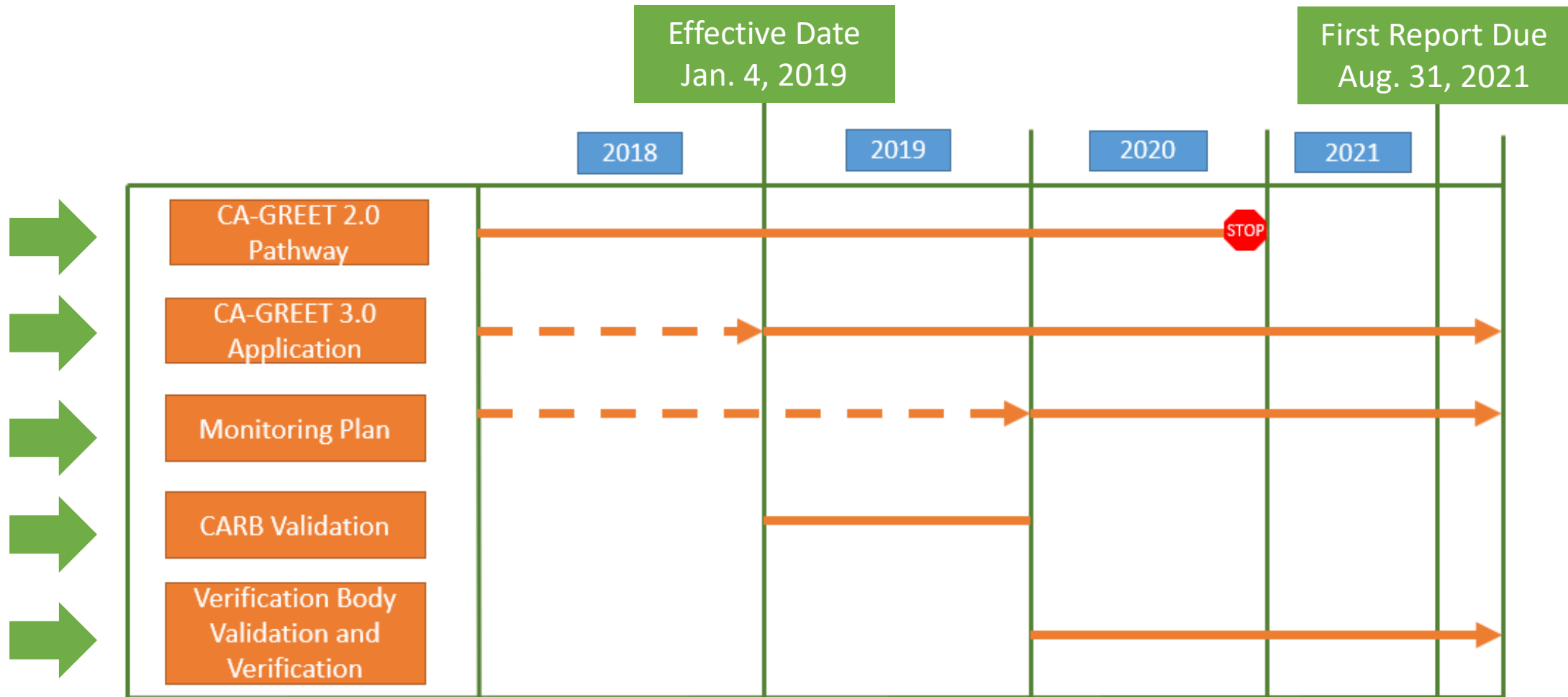


**Verification may occur on a quarterly or annual basis*

LCFS Registration Process Overview



Timeline: Applying for a CA-GREET 3.0 Pathway Now



Legend



Approved Verification Bodies

- 21 companies recently approved as official CARB verification bodies.
 - Must follow strict conflict of interest requirements
 - <https://ww2.arb.ca.gov/lcfs-verification>
 - Not all verification bodies are equal, check experience as GREET modeling is a requirement
 - ABC Members: EcoEngineers, SCS Engineers, Tetra Tech
- All new pathway applications must be validated by third party verification body.
 - Recommend procuring verification body 2-3 months prior to pathway submission to CARB
- Now is the time to procure verification body





Questions and Answers



Maureen Walsh
American Biogas Council



Brad Pleima
EcoEngineers

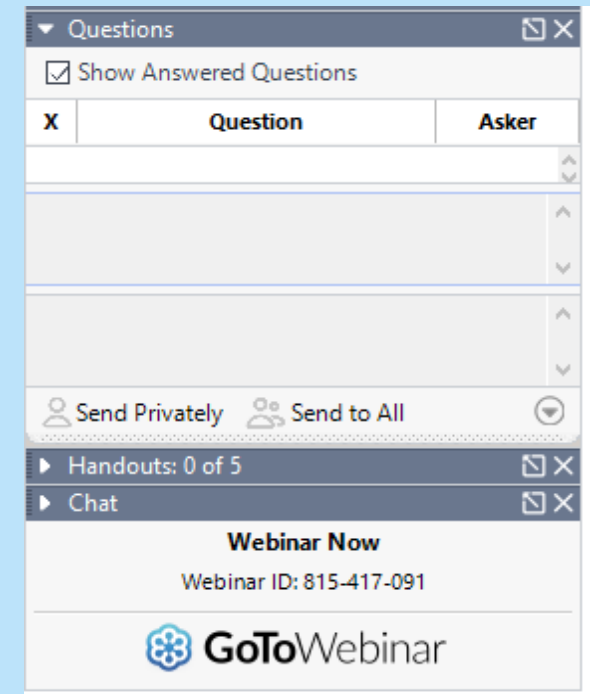


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Ask Questions using the Questions Panel on the right side of your screen.

All questions and comments will be recorded.

A recording of the webinar and slides will be available by tomorrow to all ABC Members and all attendees of the webinar



Upcoming Webinar:

Closing the Deal

March 4th at 1:00pm EST

In this ABC webinar panelists lay out everything you need to know to get your biogas projects up and running, from quantifying biogas project risks and mitigating them, to attracting lenders and securing financing, and every handshake in between. We will cover the hottest trends in financing, the value of an independent engineering review, how to attract investors and lenders, and more.

Speakers:

Gus Simmons, Cavanaugh Solutions

Bob Powell, Brightmark Energy

David Maxwell, Sustainable Development Capital LLP

Paul Greene, Montrose Environmental Group, Inc.

Thank you!

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- Connect with other biogas and anaerobic digestion leaders
- Support the industry's growth and outreach

Thanks for attending!