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TM&C Services

Surprises in Meeting Renewable Fuels RVO

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TM&C Services in Fuel Regulations

TM&C provides a full range of services in its fuels regulatory practice. Some of these services are listed below.

- Preparing, reviewing and submitting fuels reports, including CDX submissions.
- Facility audits for compliance with fuels programs.

Surprises in Meeting the 2015 Renewable Fuels RVO

Renewable fuel comprises about 10% of the gasoline pool and about 5% of the diesel pool in the United States. This volume has increased from 2014 through 2016 and is scheduled to take a relatively significant increase in 2017. The most prominent public information on the usage of renewable fuel is the volume and pricing of RINs. RINs are traded in a public forum. The EPA publishes information on the RINs every month. However, the information from some months is much more interesting than most. This Focus on Fuels tries to tease out some highlights from the most recent EPA information as well as look at what a new administration might do with the program. Thanks for taking your time to spend a few minutes with us.

Surprises in Meeting the 2015 Renewable Fuels RVO

by Tom Hogan

The renewable fuel program was essentially put on hold from 2013-2015. The obligations for those years unwound several years later in 2016/2017 with EPA recently posting 2015 RIN generation and retirement information. In addition, the EPA has expanded the publicly available RIN data. A summary of selected historical RIN information and the specifics for 2015 and 2016 are shown in the tables below.

Table 1				
	Net RINs	*RVO RIN retirement*		
	Generated,	*RINs*	*% Prior*	*EOY RINs*

- Interaction with EPA to pose fuels-related questions.
- Industry specialist assistance for required gasoline attestations.
- Industry specialist assistance for in-line blending audits.
- Assistance in setting up a fuels compliance group/program.
- Personnel reviews of compliance-related groups.
- Compliance status reviews and recommendations.
- Negotiations/ consultation during EPA enforcement actions.
- 3rd-Party Engineering reviews.
- Due diligence reviews of facilities and companies in RFS RINs Program.

	billion	billions	Year	Available for Next Year, billion
2013	16.6	13.6	14.6	1.6 (2013 into 2014)
2014	17.2	16.3	9.9	1.8 (2014 into 2015)
2015	17.9	17.4	10.2	1.6 (2015 into 2016)
2016 (est.)	19.4	18.4	8.7	2.5 (2016 into 2017)
2017 (proj.)	19.4	19.28	13.0	2.6 (2017 into 2018)

Source: EPA Public Data on Renewable Fuel

Table 2			
Net RIN Generation, billions			
	2015	2016	Difference
Cellulosic (D3)	0.1	0.2	0.1
Biomass Based Diesel (D4)	2.8	4.0	1.2
Advanced Biofuel (D5)	0.2	0.1	(0.1)
Renewable Fuel (D6)	14.8	15.1	0.3
Total	17.9	19.4	1.5

Source: EPA Public Data on Renewable Fuel

There was a big jump in RIN generation from 2015 to 2016 (see Table 1). This increase is primarily due to an over 40% increase in the biomass based diesel usage in 2016. This large increase is due to increased use of conventional biodiesel of about 1 billion gallons and higher use of renewable diesel for the balance. Also, the RIN inventory which hovered around 10% of the RVO obligation in 2014-2016 is expected to increase almost a billion gallons going into 2017. This should result in lower RIN prices.

The data showed that there were imports of renewable fuel in 2016 that resulted in the generation of about 1.7 billion RINs. It is interesting that a program (Energy Independence and Security Act) whose stated objective is to insulate the United States from supply disruptions as a result of foreign imports, would rely on imports for about 10% of the total renewable fuel. Also, a newer table shows the size of the unsatisfied RVO carried from one year to the next. For 2015 into 2016, the obligation carryover (or deficit) is very low on the order of 10-30 million RINs out of an obligation of over 17 billion RINs or less than 0.2%. This is the lowest percentage deficit carryover since 2010 when the data was first compiled.

Outlook for 2017

The most common question I hear, most frequently referring to the renewable fuel program, since the Republicans success in the recent elections is, "What will happen to existing programs?". The honest answer is I don't know. But by examining the extremes of the program, it is possible to make an educated guess at what may lay in store. The two extremes of the program are to discontinue the program all together or to push on to meet the original congressional mandate of 36 billion gallons of renewable fuel per year by 2022. Neither option is likely. I'll address the second possibility first.

I do not believe it is politically possible and also not physically possible to meet the original mandate for 36 billion gallons in 5 years. The only way to meet that goal would be to increase ethanol in gasoline above the current blend wall of 10 vol% or dramatically increase the volume of E85 sold or increase biodiesel above the current typical 3-5 volume percent in the distillate pool. None of those options are likely to be politically acceptable to the general public unless there is a dramatic shift in the pricing relationship between petroleum fuels and renewable fuels. In addition, it is questionable that there would be enough vehicles capable of burning gasoline with over 15 vol% ethanol. I would handicap meeting the original goal of 36 billion gallons in 2022 as very, very low.

Similarly, discontinuing the entire program appears to be a losing political strategy. Ethanol and biodiesel producers, as well as their suppliers, primarily selected grain farmers, are numerous enough and politically astute enough to forestall the abolition of the program. However, there is some precedent for discontinuing programs beneficial to certain agricultural interests. Specifically, a subsidy for ethanol producers was ended several years ago. The lack of pushback was probably related to some degree to expectations under the renewable fuel program.

After ruling out the dream programs for the renewable fuel industry and the petroleum industry, what might happen? Moderation is the order of the day. The program could easily be frozen at the current level. However, with the Trump administrations stated goal to put America first, it would be in character to revise the renewable fuel program to exclude renewable fuel imports from the program. If that occurred and the RVO was not reduced, it could be difficult to meet the current and future RVOs. If the program is not frozen at current levels, it is likely that any increases will be moderate, keeping it below 20 billion gallons through Trump's first four years. As an engineer, I can't resist putting the options into equation form.

Current program + Increases to 36 billion gallons = political suicide (revolt by the general population)

Eliminate current program = political tightrope (alienate renewable fuel manufacturers, farmers and some environmentalists and risk being a one term administration)

Maintain the current program = no pluses but avoids serious political consequences

Slow Walk Renewable Fuel Growth = same as maintain the program (as long as increases are small)

The Trump administration has put a hold on the 2017 RVO along with 29 other EPA regulations that were promulgated in late 2016 and not yet in force. It is possible that the delay could be extended. The outcome of the review could be very interesting for all of the parties involved. However, we do not expect that there will be dramatic changes to the 2017 RVO. However, relatively small changes could impact the current RIN pricing.

Stay tuned to this newsletter. The new administration could result in very different approaches to meeting our national goals. Give us a call if you have any questions or compliance challenges in the renewable fuel program or any other fuels compliance program. We at Turner, Mason & Co. keep track of all of the latest developments.

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