



Maintaining the Renewable Fuel Standard's Point of Obligation



Executive Summary

A small group of companies is attempting to slip changes into the Environmental Protection Agency's (EPA) Renewable Fuel Standard (RFS) that would make the program much more costly for businesses to comply with and much more complicated for the government to administer.

The public comment period on changing the RFS point of obligation—or the point in the fuel value chain where parties are required to comply with the regulation—recently closed and a ruling is expected soon. Changing the point of obligation will hurt:

- **Small Businesses:** Local fuel retailers across America will have to comply with complex, burdensome EPA rules.
- **Consumers:** Everyone could pay more at the pump as local retailers may have to pass on the costs of compliance.
- **Government Efficiency:** Proposed budget cuts at EPA, paired with greatly expanded oversight responsibilities for the RFS program, would make it difficult to administer and harder to ensure compliance, increasing the chance for fraud.
- **Farmers:** Demand for biofuels will drop due to increased costs, harming farmers whose livelihoods depend on selling corn.
- **Responsible Companies:** Businesses who played by the rules and built the infrastructure to comply with the RFS will be unfairly punished.



- **RFS Background**

- Impact of Moving the Point of Obligation
- Opposition to Moving the Point of Obligation

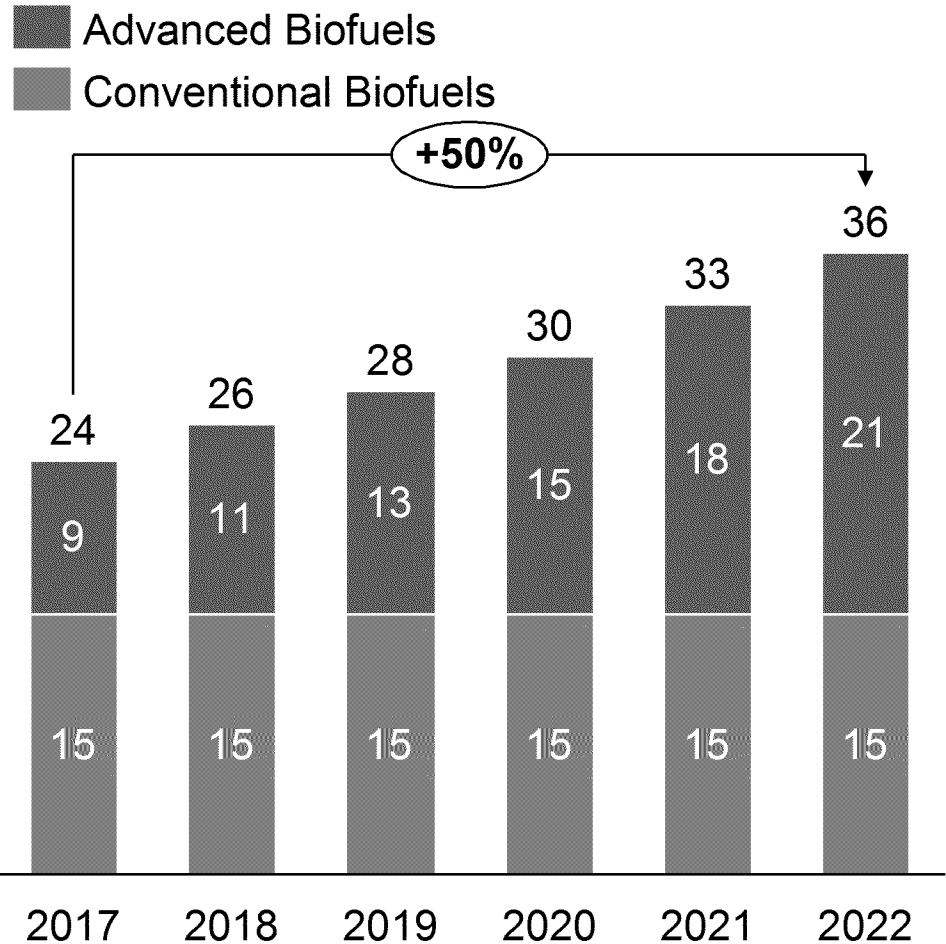


The RFS Mandates Increasing Use of Biofuels for Transportation

About the RFS

- Created by Congress in 2007; overseen by the EPA
- RFS mandates the amount of biofuels to be blended with transportation fuels
- EPA calculates the Renewable Volume Obligation (RVO) that must be met each year
- Parties show compliance at the point of obligation, where the EPA inspects, through purchase or collection of Renewable Identification Numbers (RINs) associated with biofuels

Mandated Biofuel Volumes (Billion Gallons)



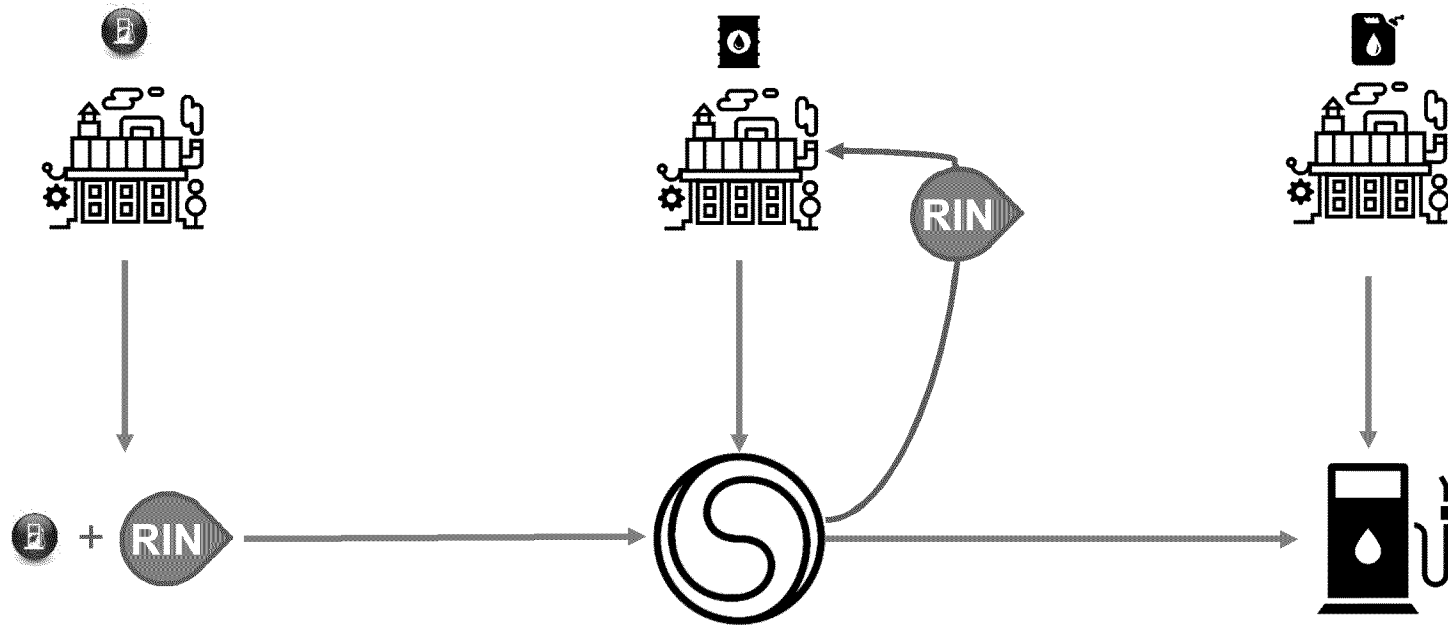


How the RFS Works

Biofuel Manufacturer:
Can sell both the fuel it produces and the linked RINs.

Merchant Fuel Refiner:
Can supplement blending with RINs to comply with their RVO.

Other Refiners:
Able to blend biofuel with gasoline and diesel production to fulfill mandates.

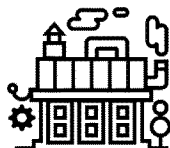


Refiners are required by law to either blend biofuel with their conventional fuels or buy credits called RINs. Many refiners meet their RVOs through blending, while merchant refiners largely purchase RINs.



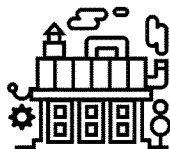
How Companies are Impacted by the RFS

Biofuel Manufacturers



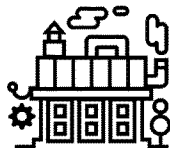
- Biofuel manufacturers are not obligated parties under the RFS, but they are essential to the program as the originators of RINs
- Biofuel manufacturers sell their product and associated RINs to other refiners, who use them to meet their RVOs

Merchant Fuel Refiners



- Merchant refiners are obligated parties and have generally chosen not to invest in the facilities required to comply with their RVOs through biofuel blending
- Primarily meet their obligation through the purchase of RINs on the market

Most Refiners



- Most other refiners invested in blending capabilities and fulfill some or all of their RVOs internally

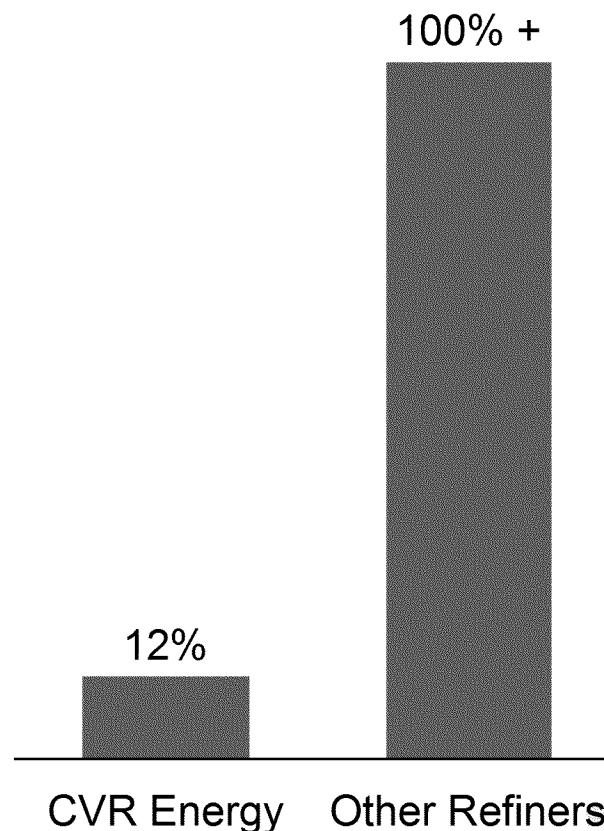


How Companies Comply with the RFS

All obligated parties have the same options to comply with RFS: blend, buy, or export.

- **Blend:** Investing significant resources at the outset of the program to develop biofuel capabilities to ensure compliance
- **Buy:** Merchant refiners like CVR Energy chose to invest very little in biofuel capabilities and instead meet their obligations by purchasing RINs
- **Export:** Exporting more petroleum lowers a firm's RVO because exports don't require a RIN

Percent of Requirement Blended in the Third Quarter of 2016



Source: IHS

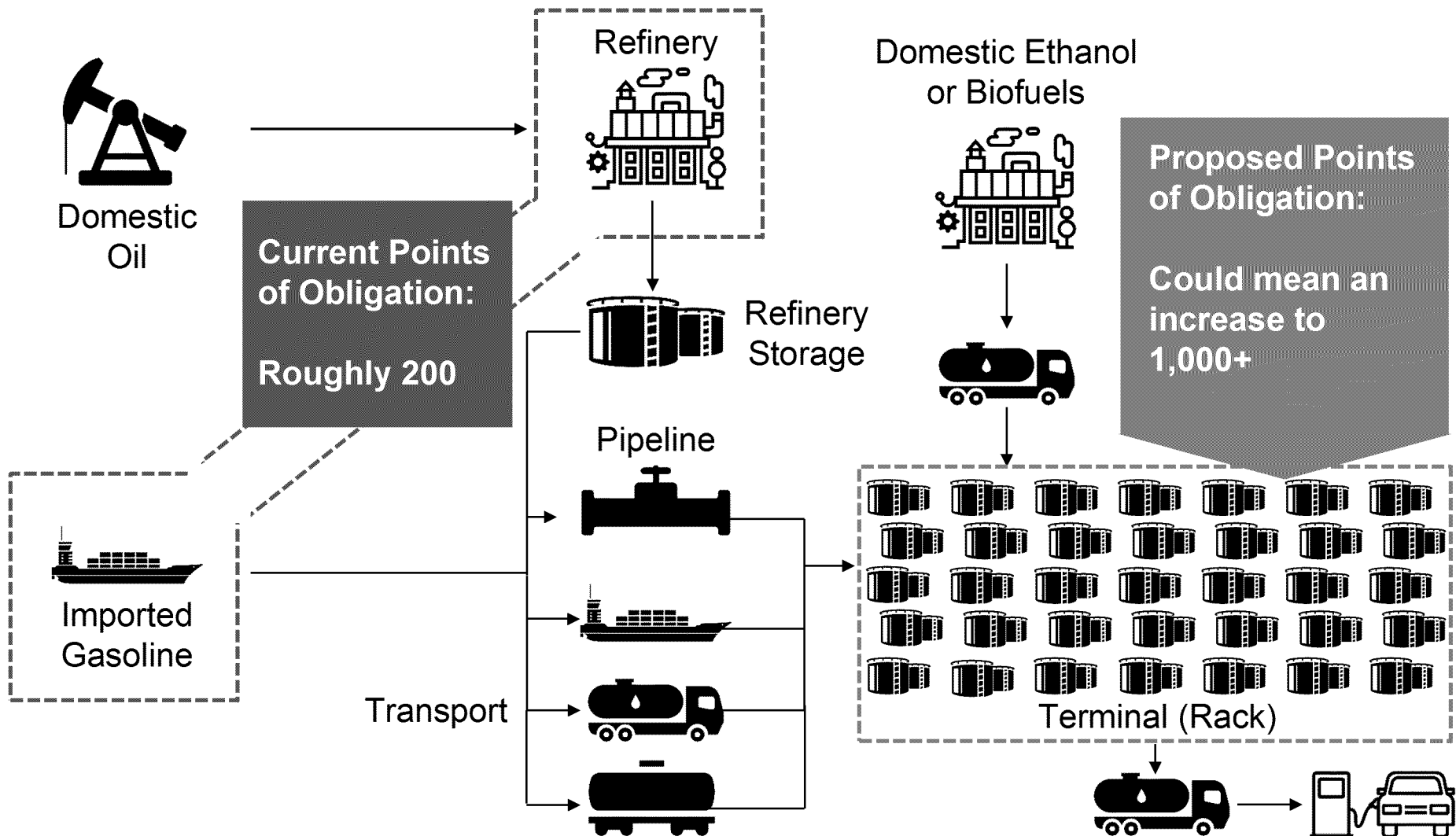
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- RFS Background
- **Impact of Moving the Point of Obligation**
- Opposition to Moving the Point of Obligation



Moving the Point of Obligation Makes the RFS Far More Complex

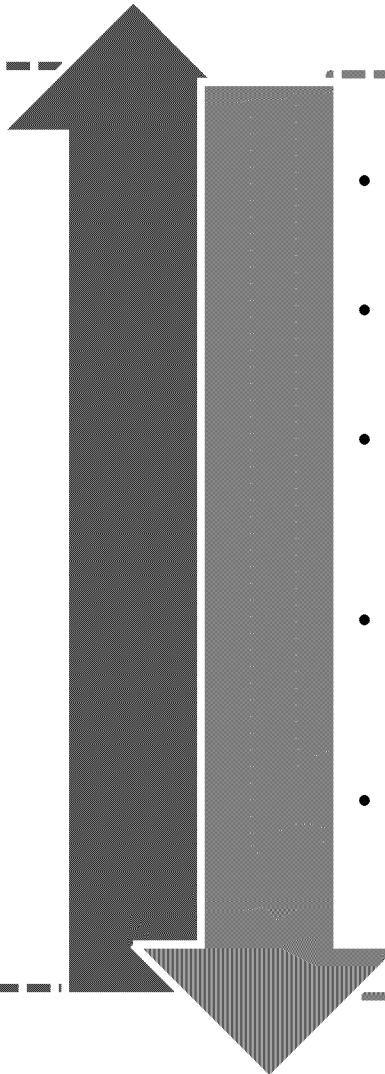




Moving the Point of Obligation Creates Few Winners and Many Losers

Winners

- A small group of companies trying to change the rules mid-game to suit their narrow financial interests



Losers

- **Small Businesses**
 - Higher compliance costs
- **Consumers**
 - May pay more at the pump
- **Farmers**
 - Demand for agricultural products will plummet
- **Responsible Companies**
 - Companies who played by the rules will be punished
- **Government Efficiency**
 - More EPA regulation, complexity, and fraud



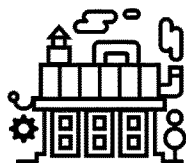
Moving the Point of Obligation May Increase Costs for Consumers

Refiners & Importers

Blenders, Marketers, & Transporters

Retailers

- Refiners and importers may not be incentivized to produce blending-quality petroleum, as they are no longer obligated parties. This will raise costs for consumers when blenders, marketers, transporters, and others have to pay a premium for these products
- Expanded points of obligation would include blenders, marketers, transporters, and others who would have to create or expand capacity, further increasing costs due to necessary investments in equipment, compliance, and product
- Small businesses with no control over gasoline blending may be affected by rising costs for their products, leading to reduced sales





Moving the Point of Obligation Upsets RIN Market and Decreases Biofuel Use

Effect on the market for RINs

- Moving the point of obligation to position holders at the "rack" will cripple the market for RINs
- Many of the newly obligated parties will have no experience complying with the RFS
- Position holders may choose to modify their businesses to avoid costly investments in equipment and compliance
- As position holders exit the market, burdens increase on the remaining parties
- Fewer people blending means there would be less demand for RINs

Effect on the market for biofuels

- The current RIN market creates demand for biofuels – either from producers and blenders to sell the RINs, or refiners and importers to meet RIN compliance
- A reduction in blending due to position holders exiting the RIN market, caused by a change in the point of obligation, will decrease demand for biofuels and lower biofuel prices
- Reduced biofuel demand means reduced demand for agricultural products, hurting small farmers across America



Moving the Point of Obligation Increases Program Complexity

Companies Agree: Points of Obligation Would Increase

Increased Points of Obligation Mean Increased Complexity



"Changing the point of obligation would result in **at least 1,000** new obligated parties."



"Moving the point of obligation would pull **thousands** of companies into this requirement ultimately impacting consumers negatively."



"The proposed change could easily **triple** the number of obligated parties."



"Over **1,000** locations where gasoline and diesel transactions would need to be measured and recorded."



Increased regulations, inspections, and paperwork for businesses that may have no experience with compliance

FRAUD

Increased chance of fraud in the renewable identification number market due to more obligated parties and not enough inspectors



- RFS Background
- Impact of Moving the Point of Obligation
- **Opposition to Moving the Point of Obligation**



Moving the Point of Obligation Faces Resistance

Valero submitted a petition to the EPA to change the point of obligation, backed by CVR Energy

After thorough review and analysis, EPA proposed to reject petition to change point of obligation rules, with public comment period ending in February

Scott Pruitt, President Trump's then-EPA nominee, agreed he to follow RFS law if confirmed - [WHOTV](#)

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"We are going to protect the RFS [and] corn-based ethanol" - Donald Trump, [The Hill](#)

A number of groups representing small and local companies, such as SIGMA, ATA, and NACS, warned of the negative consequences of changing the point of obligation

Public comment period ended February 22



Small Business Groups Voice Their Opposition



Iowa Motor Truck Association

"Changing the point of obligation would create a significant disruption in the fuel and renewable fuel markets."



Pennsylvania Food Merchants Association

Moving the point of obligation would reduce consumption of renewable fuels, "undermining the advances made by the RFS since implementation."



Ohio Petroleum Marketers and Convenience Store Association

"Many of our members would become newly obligated parties if the petitions were granted, and thus we are aware of how problematic this could be."



Serving Neighbors with Fuel & Convenience

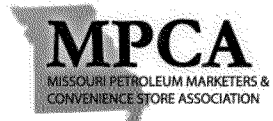
Petroleum Marketers and Convenience Stores of Iowa

"PMCI estimates that more than 100 companies in Iowa would be directly and negatively impacted by being drawn into a rule change imposing the obligation downstream."



California Independent Oil Marketers Association

"Should the EPA grant the petitions, it would have serious negative consequences for small business owners and fuel marketers represented by CIOMA."



MISSOURI PETROLEUM MARKETERS & CONVENIENCE STORE ASSOCIATION

Missouri Petroleum Marketers & Convenience Store Association

Moving the point of obligation may "add significant burdens to small business owners."

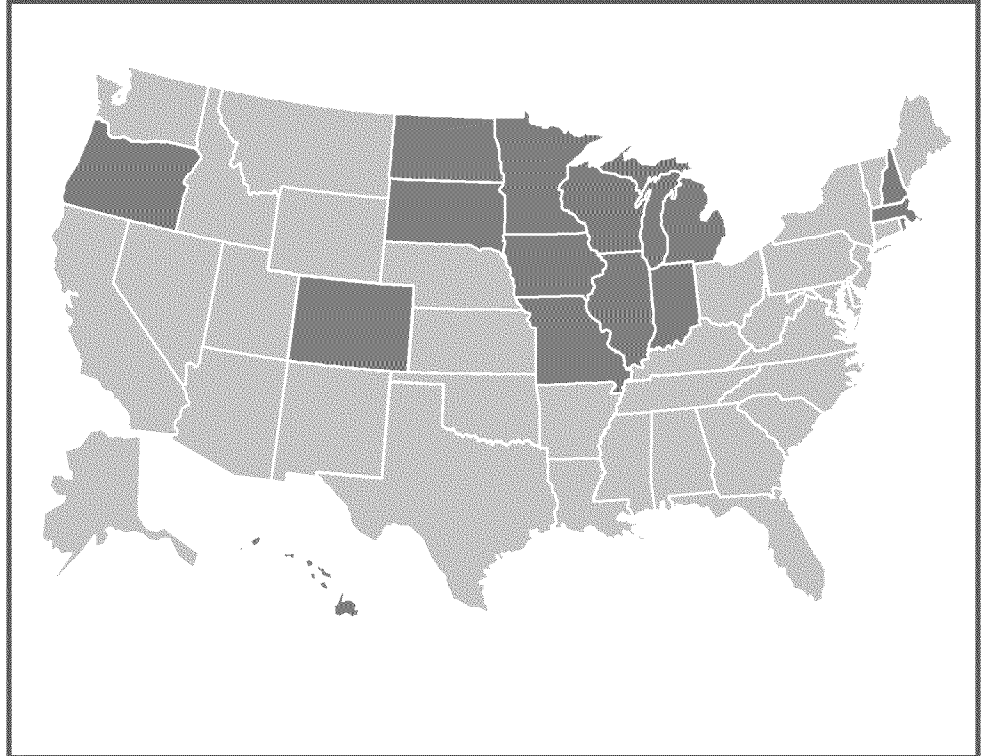


Bipartisan Group of 23 Senators Joins the Opposition

March 16 Letter to President

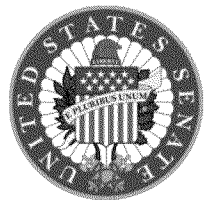
Trump: *"Many small and mid-sized retailers have no experience with regulatory programs of this nature and smaller businesses, particularly in rural areas, often have limited resources, making compliance a costly and time-consuming task. Fuel marketers, retailers, truck stop operators, petroleum producers and renewable fuel producers oppose the change because it would add complexity and uncertainty to the current program and would undermine investments that businesses have made to comply."*

Several of the senators who signed the letter represent states that were crucial to President Trump's election:





A Broad-Based Coalition Now Opposes Moving the Point of Obligation



"Further, a change in the point of obligation would create significant administrative burden for the EPA, as well as additional compliance burdens to thousands of downstream fuel blenders or position holders. Today, there are substantially fewer refiners and importers than downstream fuel blenders or position holders. Thus, EPA's ability to ensure that all obligated parties are compliant with their RFS obligations is relatively straightforward and manageable under the current structure."



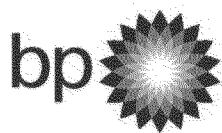
"The RFS is outdated and broken and in need of repeal or significant reform. Moving the RFS point of obligation will not solve the fundamental flaws of the program and does not address the blendwall problem. Moving the point of obligation will simply push the problem to a different group of 'obligated parties,' increase the administrative complexity and create marketplace uncertainty."



"Changing the point of obligation will not increase the use of higher ethanol blends and is not consistent with Congressional intent. As proposed by the petitioners, changing the point of obligation would only serve to reward a limited class of refiners who for several years have chosen not to adapt to the realities the RFS program."



"Changing the point of obligation within RFS creates considerable risk that mandated volumes of biofuels will not or cannot be blended and will create inefficiencies and costs that will ultimately be passed onto the consumer. Refiners and suppliers will no longer have a requirement or incentive that biofuels are blended in an efficient manner or at all."



"Moving the point of obligation will not increase the volume of renewable fuel blended into the transportation pool because this change does nothing to address the key drivers of which would lead to increased biofuels use: a critical mass of compatible vehicles; certified and compatible site infrastructure and a consumer value proposition that will drive demand."



"Moving the point of obligation could have negative unintended consequences by harming the integrity of the RIN program. New obligated parties, many whom are smaller entities than the current obligated parties, do not have the necessary expertise and resources to comply with the complex rules of the RFS, which could lead to cases of uncertainty and error in the RIN transactions and open the door to fraudulent RIN activities."