The Renewable Fuels Standard Program (RFS)

Energy Policy Act of 2005 (EPAct) and EPA

- Established a Renewable Fuel Program
    - Renewable Fuel Standard (RFS) – requires a specific volume of renewable fuel in US market (based on previous years volume of gasoline consumption [as reported by DOE/EIA]

Key Statutory Elements of the "RFS"

- By Aug 8, 2006 EPA must promulgate regulations that ensure that gasoline (interpreted more broadly) sold in US contains applicable volume of renewable fuel
    - 4.0 billion gallons in 2006 increasing to 7.5 billion gallons in 2012
    - EPA is required to convert the volumes into annual standards representing the percent of gasoline production using annual EIA predictions of gasoline consumption

The RFS standard must account for…

- Small refiner exemptions and participation
- State waivers if any
- Carryover from one year to the next (deficits and credits)

The RFS – The Basics

- EPA must promulgate regulations that ensure the use of renewable fuels
  2006: 4.0 billion gallons/yr
    - 2007: 4.7
    - 2008: 5.4
    - 2009: 6.1
    - 2010: 6.8
    - 2011: 7.4
    - 2012: 7.5
    - 2013+: Same percent of renewables for 2012 (0.25 billion gal of which must be cellulosic ethanol)
- EPA must converted into percent of gasoline production Based on annual EIA predictions of gasoline consumption given to EPA each Oct 31

RFS Rule Must

- Define who are the liable parties
- Refiners/blenders/importers as appropriate

Establish a credit trading program

- Not every gallon of gasoline has to contain renewables
- Not every refiner's production has to contain renewables
- Key Issues in Developing Credit Trading Program
- What is a credit?
- Who can generate credits and how are they generated?
- How are credits traded (how will the market work)?
- What are the "appropriate" credits for non-ethanol renewables?

Establish compliance assurance provisions
Account for…

- Deficit carryover from one year to the next
- Small refiner exemptions and participation
- State waivers if any

2007+ RFS Rule - Key Analytical Work

- Development of regulatory impact analyses
- Economic impacts
- Environmental impacts
- Energy impacts

Existing RFS Compliance for 2006 -Summary of "Default Rule"-

- EPA published as a direct final rule on December 28, 2005 that Applies to 2006 only Refiners, importers, and gasoline blenders held responsible collectively; no individual liability
- 2.78% of all gasoline (interpreted more broadly) nationwide must contain renewable
  - ~4.0 billion gallons of which both Ethanol and biodiesel count
  - If 2.78% is not met, the deficit would carry over to the RFS requirement for 2007
  - However, expect far greater than 4.0 billion in 2006
  - >4.0 billion gallons was already used in 2005

- Since no adverse comments were received, it went into effect on February 28, 2006

2007+ RFS Proposed Rule

- Normally a 2-3 year process for a major rule
  - 1+ years to develop proposal and supporting documents
  - Extensive Intraagency and Interagency review
  - Public hearing and comment period
  - Final rule ~1 year after proposal
- We have been accelerating the process for RFS
  - Proposal targeted for September
  - Final rule in early 2007
- Most rules become effective after a several year lead time
- This rule will become effective 60-days later – the minimum
- Only possible if broad stakeholder consensus on the proposal

Developing the 2007 Rule - Guiding Principles for RFS Program Structure and Stakeholder Input

- Began the process by gathering input from all key stakeholders
  - Refiners
  - Renewable producers
  - Ethanol
  - Biodiesel / Renewable Diesel
- Other possible renewables
- Distributors and Marketers
- Agricultural interests
- DOE, USDA
- Environmentalists

Potentially Qualifying Renewable Fuels
- Ethanol
- Corn
- Other Starches
- Cellulose
- Sugar
- Biodiesel (ester) and Renewable Diesel
  - Veg Oils and Animal Fats
- Biocrude
- ETBE
- CNG, Fischer-Tropsch diesel/gasoline, MTBE, Methanol
  - Biogas
  - Biomass gasification
  - Sewage plant
- Others

Status of Proposal
- Spent months going back and forth with various stakeholders
- Believe we have general consensus on the design of the program
  - Obligated Parties
  - Credit generation, trading, and use
  - Recordkeeping and Reporting
- Are in the process of completing our analysis of
  - Costs
  - Emission and air quality impacts
  - Economic impacts
- Signature in September 2006