

FUELS News 360°

MARKET NEWS & INFORMATION

Why Renewable Volume Obligations Matter for Consumers

Sara Bonario, Supply Director

In the last few months, you may have read about the EPA's renewable volume obligation (RVO) under the Renewable Fuel Standard (RFS). You may be wondering – what is this regulatory change, and how will it affect consumers?

The renewable volume obligation is based on a percentage of national forecasted diesel and gasoline consumption, and requires that a certain percentage of biofuels be blended into normal petroleum fuels. To satisfy the requirements, obligated parties must buy and submit (“retire”) Renewable Identification Numbers, or RINs, which are produced by biofuel producers.

Currently, refiners and importers are required to meet RINs obligations. For every gallon of gasoline or diesel they refine, they must retire a certain number of RINs. The difficulty for these entities lies in the fact that RINs are created by biofuel producers, and the RIN is attached to the physical biofuel gallon. Only the entities blending biofuels and petroleum products at the rack can separate the RIN from the fuel and sell it to a refiner.

The EPA is considering a policy change where the point of obligation would shift from refiners and importers to at-the-rack blenders. Given President Trump's relationship with Carl Icahn, a billionaire investor who owns an 80% stake in a small refinery, some suspect the White House may favor the change.

For consumers, the issue appears *prima facie* to be neutral – whether refiners or blenders are obligated to buy RINs, the cost is passed down to consumers. Switching the point of obligation to blenders, however, would have numerous disadvantages, including contributing to the reduced use of biofuels.

The first disadvantage deals with refiner blending incentives. Refineries can control how easily petroleum fuels blend with biofuels. If refiners are not incentivized through RIN obligations to produce products that mix with biofuels, they may opt to produce lower quality product to cut operational costs, making it difficult for downstream suppliers to meet their new RIN obligations.

Such a scenario would cause two serious problems. First, making blending more difficult would reduce the total quantity of biofuels used, counteracting the very purpose of the RFS. Second, it would leave blenders responsible for a problem they cannot control. If this were the case, many suppliers would leave the “above rack” market (that is, they would cease owning inventory at terminals) and opt for simply purchasing from other blenders, reducing competition and raising prices.

Another disadvantage to moving the point of obligation to blenders is regulatory compliance. There would be a tremendous increase in the number of obligated parties if the obligation point moved to blenders—from around 200 parties to over 1,000. This explosion in the number of obligated parties would lead to more errors, more audits, and more EPA expenses to facilitate those audits.

Most companies who currently blend biofuels do not have the regulatory know-how to comply with RFS obligations. They will need to hire new resources and spend time and money on compliance. These costs will be passed along to consumers and will increase the government's burden to manage the additional 800+ obligated parties.

Shifting the point of obligation from refiners to fuel marketers only re-shuffles the regulatory deck—it does not change any fundamental costs. Refiners are currently capable of meeting their obligations without issue. The transition costs, however, are likely to cause substantial short- and medium-term consequences for marketers and consumers alike. •