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ML Strategies' Energy & Environment Update: Week of 6/16/2014

June 16, 2014 | Blog | By David Leiter

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With most of the energy sector's attention focused this month on what the Environmental Protection Agency is doing with its proposed 111(d) rule regulating carbon emissions, less was said about what the agency did not do: release the long-awaited 2014 volume obligations for the Renewable Fuels Standard (RFS). Legislative efforts to repeal or reform the RFS have subsided since the agency released a draft rule substantially reducing the amount of biofuels required to be blended into the nation's gasoline. The agency has not sent the final rule to the Office of Management and Budget for review, and it seems unlikely that the agency will finalize a rule before the 2013 obligations expire at the end of the month. As a result, the agency announced June 6 that it would extend the compliance demonstration deadline and the associated deadline for submission of attest engagement reports for the 2013 RFS. The new deadlines are September 30, 2014, and January 30, 2015, respectively. The agency understood that at the very least, because the RFS allows obligated parties to carry forward up to 20 percent of their credits, it had to inform obligated parties of their obligations for 2014 before requiring them to demonstrate compliance with the 2013 RFS requirements.

The delay of 2014 numbers will only further frustrate obligated parties, who already call for the full scale repeal of the RFS, and heighten the uncertainty for advanced biofuel producers, who saw the required volumes of their fuels drop below what was statutorily required when the agency released a draft rule last November. In its draft rule, the agency proposed a 2.2 billion gallon advanced biofuel target for 2014, a 20 percent reduction from 2013's advanced biofuel requirement of 2.75 billion gallons, and more than a 40 percent reduction from the 3.75 billion gallons enumerated in the RFS statute. The delay and likelihood for reduced targets is sowing uncertainty in the advanced biofuel industry and suppressing new investment.

One of the underlying tensions pulling the volume obligation down might be a policy to reduce the amount of imported sugar cane ethanol that could meet the advanced biofuel target. This preference for domestic production is seen even in a bill (H.R. 4849) Representative James Lankford (R-OK) introduced last week that would repeal the corn ethanol requirement in the RFS but preserve volume obligations for domestically-produce advanced biofuel, biomass-based diesel, and cellulosic biofuel.

The sector is also eagerly awaiting a final rule approving new technology and feedstock pathways under the RFS. This would allow new fuels to generate advanced and cellulosic biofuel credits. Given the scarcity of cellulosic biofuel production, approving certain pathways—such as a new cellulosic pathway for landfill gas to CNG/LNG—would increase cellulosic biofuel production overnight.

The weekly *Energy & Environment Update* from ML Strategies provides an overview of what's happening on and off Capitol Hill and around the world that may impact energy and environmental policies and industry players. **Read the *Update* here**.

Authors

David Leiter