Obama's Modest Biofuel Quota for 2017 Blasted by Producers

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By Jennifer Dlouhy and Mario Parker, Bloomberg

The Obama administration tried to strike a cautious compromise Wednesday in setting quotas for a controversial renewable fuels program that pits Big Oil against Corn Belt interests.
The Environmental Protection Agency (EPA) proposed compelling refiners to blend 18.8 billion gallons of biofuelinto the U.S. gasoline and diesel supply next year, with no more than 14.8 billion gallons of that coming from conventional corn-based ethanol. The overall number — which is higher than oil companies wanted but lower than what biofuel producers sought — represents a modest increase over the 18.11 billion gallons of total renewable fuels the agency required for 2016.

But it is still far below a 24 billion gallon biofuel target that lawmakers established in a 2007 statute, and it dips below the law's 15 billion cap on conventional renewable fuel, limiting the potential for ethanol producers such as POET LLC, Green Plains Inc. and Pacific Ethanol Inc.
The EPA's proposal — like last year's version — reflects oil companies' concerns that the Renewable Fuel Standard is pushing them beyond a "blend wall" where the targets force them to mix a higher proportion of ethanol into fuel than the 10 percent level approved for use in all cars and trucks.
"It's a very cautious proposal," Pavel Molchanov, a senior vice president and analyst at Raymond James Financial Inc., said in a telephone interview. "It's a cautious proposal and that's really a reflection, particularly for corn-ethanol, that blending is very close to that 10 percent threshold."

Backers React
Biofuel backers blasted the EPA's plan, saying the agency was kowtowing to oil companies.
"The agency continues to cater to the oil industry by relying upon an illegal interpretation of its waiver authority and concern over a blend wall that the oil industry itself is creating," Bob Dinneen, head of the

Renewable Fuels Association, said in an e-mailed statement. “As a consequence, consumers are being denied higher octane, lower cost renewable fuels. Investments in new technology and advanced biofuels will continue to languish and greenhouse gas emissions from automobiles will be unnecessarily higher.”

Brooke Coleman, executive director of the Advanced Biofuels Business Council, said the proposed targets don’t live up to the goals of the Renewable Fuel Standard: to drive the commercialization and use of low-carbon alternatives on U.S. roads.

“If the administration wants our industry to be aggressive when it comes to financing and commercializing low carbon fuels in the United States, as they have asked us to do, they need to hold up their end of the bargain and make some critical adjustments to the RFS final rule,” Coleman said in an e-mailed statement.

Oil Industry

Oil industry trade groups had lobbied the EPA to cap the total ethanol mandate at 9.7 percent of gasoline demand — an amount that would provide a buffer below the 10 percent blend while simultaneously accommodating sales of ethanol-free gasoline. The EPA’s proposal instead would require ethanol be about 10.3 to 11 percent of gasoline demand — about the same as the 10.4 percent to 10.9 percent volume estimated for the 2016 quotas — according to calculations from the American Petroleum Institute.

"From our standpoint, it continues the threat of breaching the blend wall,"said Frank Macchiarola, director of the American Petroleum Institute’s downstream group. "EPA is pushing consumers to use high ethanol blends they don’t want and that are not compatible with most cars on the road today. The administration is potentially putting the safety of American consumers, their vehicles and our economy at risk.”

Although modest, the EPA’s proposed 2.1 percent increase in required renewable fuel that could be derived from corn starch is a benefit for ethanol producers and represents a continuing headwind for oil refiners, said Benjamin Salisbury, an analyst with FBR Capital Markets & Co.

"The EPA continues to very slowly edge the market above the 10 percent blend wall, which we view as part of a concerted effort to incentivize consumption of higher blends over time without risking market disruption," Salisbury said in a note to clients.

Rob Barnett, senior energy policy analyst at Bloomberg Intelligence in Washington, said the EPA was doing its best "to hit the ball straight down the middle" and be respectful of the blend wall. Still, the "higher targets will probably put some cost pressure on some of refiners. Refiners are going to have to blend more."

Under the EPA's proposal, refiners would be forced to blend 4 billion gallons of advanced biofuels next year, including 312 million gallons of cellulosic ethanol and 2 billion gallons of biomass-based diesel. That target "significantly understates" potential biodiesel production, said Anne Steckel, vice president of federal affairs for the National Biodiesel Board.
Similarly, DuPont, the chemical and agribusiness company, said in a statement it was "disappointed" with the proposal, because the numbers reflect infrastructure constraints — such as too few E15 and E85 filling stations — instead of producers' ability to supply biofuels.

Market Moves
Denatured ethanol for June delivery rose as much as 3.4 cents, or 2.1 percent, on the news, climbing to $1.627 a gallon on the Chicago Board of Trade, the highest since July 2015. Renewable identification numbers, the tradeable credits that EPA and refiners use to show compliance with the law, jumped 12 percent to 83 cents, according to StarFuels, a Jupiter, Florida-based brokerage.

Biofuel producer shares also moved higher Wednesday. Green Plains, the fourth-biggest U.S. ethanol maker, rose 6.2 percent to $15.97 in New York. Renewable Energy Group Inc., an Ames, Iowa-based biodiesel producer, jumped 3.6 percent to $9.56. Pacific Ethanol, a company with plants along the West Coast and in the Midwest, climbed 6.1 percent to $4.37.

The EPA is partly relying on climbing gasoline use to support the higher overall quotas. Americans will consume a record 143 billion gallons of gasoline this year, according to a May 10 forecast from Energy Information Administration.
The proposal is now subject to public comment through July 11, with a public hearing scheduled June 9 in Kansas City, Missouri. The EPA has until Nov. 30 to finalize the quotas for the following year — a deadline it has repeatedly missed. But under a court order last year, the EPA rolled out three years' worth of biofuel targets, and agency officials stress that they are back on schedule.

EPA Comments
"This administration is committed to keeping the RFS program on track, spurring continued growth in biofuel production and use, and achieving the climate and energy independence benefits that Congress

envisioned from this program," Janet McCabe, acting assistant administrator for EPA's Office of Air and Radiation, said in a news release.

The mandates were authorized by Congress 10 years ago in a program that requires steadily escalating volumes of biofuels to be blended into the country's gasoline and diesel fuels. That federal law lays out a target of 24 billion gallons of renewable fuels in 2017, with no more than 15 billion of them coming from traditional corn starch-derived ethanol.

The law also empowers the EPA to lower the numbers in some cases. The agency did that for the first time for overall renewable fuels last year, sparking a legal challenge from biofuel producers. The litigation challenging the 2016 targets is not likely to be resolved before the EPA's November deadline to finalize the 2017 quotas.

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