RFS REFORM : Ethanol Mandate

BACKGROUND

In December 2016, the EPA finalized the 2017 volumetric blending mandates for ethanol under the Renewable Fuel Standard (RFS) which requires refiners to blend 15 billion gallons of ethanol into the U.S. gasoline supply. The RFS is important to petroleum marketers because it ultimately determines whether E15 gasoline is required in order to meet annual refiner blending mandates. Unfortunately, it is reported that the EPA is expected to release a proposed rule maintaining the ethanol mandate at 15 billion gallons for 2018.

This is troubling because the existing RFS ethanol blending mandates have already pushed E10, a blend of 10 percent ethanol and 90 percent gasoline, into virtually every gasoline market in the country and fuel consumption predictions for 2017 vary between increasing or decreasing numbers. Any significant increase in the ethanol blending standard will force refiners to move to E15 blends unless gasoline demand rises to offset new blending mandates.

PMAA OPPOSES E15 UNTIL ALL LEGAL UST COMPATIBILITY AND INFRASTRUCTURE UPGRADE ISSUES ARE SETTLED

The majority of existing retail facilities have UST and dispensing systems that are certified by Underwriters Laboratories (UL) to dispense and store up to only 10 percent ethanol. The demonstration that a UST system is compatible with greater than E10 plus blends is difficult, if not impossible, for most retailers and is a major impediment to dispensing and storage of E15. Federal, state, and local laws and regulations, national and international fire codes, as well as all commercial insurance policies, require the use of UL certified storage and dispensing equipment or a specific demonstration that the UST and dispenser system is compatible, such as a manufacturer acknowledgement. Dispensing ethanol blends higher than 10 percent with non-certified equipment exposes retailers to legal liability for non-compliance with federal and state UST regulations and state fire codes and will subject them to significant civil penalties and possible closures. Moreover, E10 plus blends may lead to a significant increase in equipment failure. As a result, releases from UST systems may increase exponentially.

The National Renewable Energy Laboratory and UL tested the compatibility of new and used service station equipment. NREL found 70 percent of equipment currently in use as well as 40 percent of new equipment failed E15 compatibility tests\(^1\). A brand-new location built today would only be compatible if the equipment installed was specifically designed for E10 plus blends.

Another report by the Association of State and Territorial Solid Waste Management Officials (ASTSWMO), states that compatibility of existing UST facilities is one of the biggest challenges and concerns with biofuel blend storage – “Many UST inspectors have seen the impact ethanol blended fuels starting with E10 can have on the corrosion of equipment with STP sumps, and an increased prevalence of leaks from equipment inside dispenser cabinets. Gaskets, adhesives, glues, and sealants (including the standard ‘pipe dope’ commonly used on older systems) have not always demonstrated compatibility even with E10 fuels. Compatibility issues have also been observed in some of the early generation flexible piping systems manufactured in the early to mid-1990s.”


May 2017
RETRO-FIT COSTS FOR COMPATIBLE EQUIPMENT
The cost to petroleum marketers for UST system retrofit would be enormous. PMAA estimates that the average cost to replace the UST system at a retail gasoline station to sell E10 plus blends to be $200,000 per site. Replacement of piping alone would cost a minimum $100,000. Such compliance costs would be staggering for small business retailers and would undoubtedly force many, particularly those in rural areas, to close down.

RFS POINT OF OBLIGATION
Reducing the RFS's 15-billion-gallon ethanol mandate (which was increased in the last few months of the Obama Administration) continues to be a PMAA top priority this year. Related to this issue has been the petition to the EPA to move the point of obligation from the refiner/importer level to the position holder at the rack to reduce the value of RINs. The comment period closed on February 22, 2017.

Petroleum marketers by nature are innovative and adaptive. While a few marketers have been able to take advantage of high RIN values by structuring their businesses accordingly, the majority of branded and unbranded marketers have been unable to do so. The issue on the point of obligation revolves around whether this has created an uneven playing field and whether moving the point of obligation would level that field. Because the issue has been contentious on multiple levels, PMAA decided before the comment period deadline to be neutral on the subject to be reflective of members on both sides of the issue.

For more information on the RFS Point of Obligation, please go to: http://www.pmaa.org/pdfs/RFS_Pt_of_Obligation_PMAA0317.pdf

RFS REFORM BILLS
The Food and Fuel Consumer Protection Act – PMAA Supports
PMAA supported legislation introduced last year by Reps. Bill Flores (R-TX), Peter Welch (D-VT), Bob Goodlatte (R-VA) and Jim Costa (D-CA) known as “The Food and Fuel Consumer Protection Act,” which would reduce the maximum volume of ethanol blended into the nation’s fuel supply at 9.7 percent of projected gasoline demand as determined by the Energy Information Administration (EIA). When the RVO mandates were established by Congress in the 2007 and 2009 energy bills, gasoline demand was expected to increase far more than it has which led the country to the current blendwall dilemma. Were it not for the outdated assumptions the problem would not exist (see the graph that follows). Fortunately, the problems that have been created can be mitigated by adopting the Food and Fuel Consumer Protection Act.

![Outdated Assumptions: Gasoline Demand](image-url)
The act would also require EPA to meet its statutory deadlines in setting annual RFS volumes. If the EPA fails to meet a deadline, the previous RFS volumes under the blend wall would apply. Although the bill had 118 cosponsors and a wide-range of support, the bill unfortunately never made it to the House floor for a vote. PMAA has been active and vocal on the issue since the beginning of the 115th Congress, and is pushing for the bill to be reintroduced.

**Consumer and Fuel Retailer Choice Act – PMAA Opposes**

Until all legal UST compatibility and infrastructure upgrade issues are settled, PMAA opposes H.R. 1311 and S. 517, known as the “Consumer and Fuel Retailer Choice Act”, which would extend the Reid vapor pressure (RVP) waiver to ethanol blends above 10 percent. The bills would allow retailers across the country to sell E15 and other higher-ethanol/gasoline fuel blends year-round. Each year, the EPA regulates RVP for gasoline and gasoline-ethanol blended from June 1 until September 15. During these months, the EPA restricts the retail sale of fuels with ethanol above 10 percent.

**“THE ASK”**

The quickest way Congress and/or the EPA can fix the RFS is to immediately reduce the maximum amount of ethanol blended into gasoline at 9.7 percent for 2018 and future years. PMAA believes that reducing the ethanol mandate to this level is the most effective way to lower the value of RINS and, in turn, allow all petroleum marketers to compete on a level playing field. PMAA also urges lawmakers to oppose H.R. 1311 and S. 517. (Committees: House Energy and Commerce; Senate Environment and Public Works; All lawmakers)

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