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Blending EPA's renewable fuel standard is complex proposition

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Renewable fuels and fiscal and legislative policies affecting renewable fuels, will soon see a brand-new program that will catapult renewable fuels into the mainstream of transportation fuels. Next month, the EPA will begin a program to trade renewable fuel credits as part of the Energy Policy Act.

Inside the Energy Policy Act of 2005 a new program was initiated, commonly referred to as the Renewable Fuel Standard or RFS. Lawmakers wanted to encourage the use of renewable fuels in the United States in order to reduce dependence on foreign oil. This landmark legislation set out to numerically prescribe the amount of renewable fuels to be used, at a minimum, in the U.S. in each year.

The idea is that every year after 2006 the volume of renewable fuels required by the RFS would increase. In 2006, the Energy Policy Act kicked off the first year of implementation by requiring the use of 4 billion gallons of renewable fuel, or about 2.78 percent of all gasoline use in the U.S. That figure would gradually rise every year until 2012 when volumes would reach critical mass of 7.5 billion gallons a year.

Even though the RFS started in 2006, there was really no way for the EPA to track the use of renewable fuel in the U.S. and compare it to the RFS standard of 4 billion gallons per year.

Tracking use

Beginning in September, the EPA will begin tracking the production and use of renewable fuel in the U.S. via a credit trading system that all refiners and importers will use to track their use of renewable fuel. These are significant events for gasoline refiners and importers because these new rules affect them directly.

Now that the EPA has caught up with the legislation, we know what the rules are and how these credits are to be generated, traded and used to comply with the RFS program.

Here's a brief explanation of a very complicated program:

First of all, gasoline refiners and importers are the primary targets of the RFS regulation. Each gasoline refiner and importer is required to use a certain percentage of renewable fuel that they intend to produce or import. The EPA will tell refiners and importers what the annual percentage is before each year's program begins.

Refiners or importers who are not able to purchase and use enough renewable fuel to meet their RFS standard percentage must purchase renewable energy credits which the EPA calls "renewable identification number system" or RINS.

The Energy Policy Act of 2005 did not treat all renewable fuel equally. For the RFS program, ethanol receives one RINS credit for every gallon. Biodiesel receives 1.5 credit for every gallon and cellulostic ethanol receives 2.5 credits for every gallon produced. These credits don't last forever; the RINS expire within 12 months of issuance.

RINS are created by renewable energy producers, namely ethanol and biodiesel refiners and importers. By Sept. 1, these renewable energy producers will have the enviable task of assigning a 38-digit code to their renewable fuel and will be required to start tracking the sale of their renewable fuel along with the RINS associated with that fuel.

Trading RINS

Some might think it would be a good idea to become a renewable fuel producer and trade in these RINS, making more money than by just selling a renewable fuel. While it might make sense for these renewable energy producers to separate the renewable fuel and the RINS, the EPA has outlawed the practice and is requiring the renewable fuel producer to transfer the RINS with each sale of renewable fuel.

Just to make it a little bit more complicated, the EPA has decided that renewable fuel sold into an off-road application will negate the RINS. Those RINS will be retired and will not be used to offset any RFS requirements.

So, which companies will be trading these renewable energy credits and who benefits from the program? Primarily, the major and independent refiners, other than small refiners, will be the recipients of the RINS and will have the ability to trade any excess RINS to those refiners and importers needing credits to meet the RFS requirements.

Secondary beneficiaries will be independent trading companies that purchase renewable fuels for blending into over-the-road fuels such as gasoline and diesel. Tertiary beneficiaries may be brokers who will serve as possible market-makers for the trading of RINS credits.

After learning more about the RFS program, it may seem to many that this credit trading system may require more work than the energy required to produce renewable fuel. Just remember that this program is something that the renewable fuels industry lobbied for and was happy to see enacted into law. Al Gore should be satisfied.

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