

TO: State Association Executives

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RE: New U.S. EPA Renewable Fuel Regulations

U.S. EPA Renewable Fuel Standard (RFS)

BACKGROUND:

The Renewable Fuel Standard – Congress mandated the U.S. EPA under Section 1501 of the Federal Energy Policy Act of 2005, to promulgate regulations implementing a new Renewable Fuel Standard (RFS). The RFS regulations are complicated and highly technical because the EPA intended them to apply to refiners, who have sophisticated compliance capabilities. Unfortunately, the EPA wrote the regulations too broadly and inadvertently required below the rack blenders to comply.

Who Must Comply – Below the terminal rack petroleum jobbers who blend E-100, B-100 or B-99 into gasoline or *clear* diesel fuel must comply with the RFS regulations outlined in this memo. The RFS regulations also apply to petroleum marketers that contract with common carriers to blend ethanol or biodiesel at the terminal rack as well as jobbers who take title to E-100, B-100 or B-99 and gasoline or clear diesel fuel separately with the intent of blending later at the terminal rack or at the bulk plant level.

Who is Exempt - Below the terminal rack petroleum jobbers who blend E-100, B-100 or B-99 into *dyed* fuels are not subject to the RFS regulations. In other words, jobbers who blend renewable fuel using only dyed fuels such as off-road fuels and heating oil are not subject to any of the regulations outlined in this memo. However, the exemption only applies if the blender indicates to the renewable fuel producer in writing that the renewable fuel purchased will only be blended into dyed fuels. Producers will include language on product transfer documents indicating that the fuel is exempt from RFS regulations. Dyed fuel blenders should contact their renewable fuel producer for additional information on the exact requirements for written notice as requirements may vary from producer to producer. In addition, jobbers who buy ethanol or biodiesel *pre-blended* at the terminal rack are also not subject to the RFS regulations.

Compliance Dates – Blenders must register with the EPA by September 1, 2007. The first quarterly report is due November 30, 2007.

RFS Basics – Congress set a renewable fuel goal of 7.5 billion gallons per year by 2012. The EPA's job is to see that the goal set by Congress is met. The EPA regulations ensure this goal is met by:

- Identifying "obligated parties" (refiners) who are assigned a specific volume of renewable fuel that they must produce each year ;
- Assigning to each gallon of renewable fuel produced, a specific batch tracking number or RIN (renewable identification number);

- Requiring renewable fuel blenders to register with the EPA; and
- Requiring renewable fuel blenders to separate and report RIN numbers on a quarterly basis.

The Purpose Behind RFS - By identifying obligated parties, assigning RIN numbers to renewable fuels and requiring blenders to register and report blending activity, the EPA is able to determine whether obligated parties are meeting their assigned production volumes and whether the total national renewable fuel goal set by Congress is met each year.

RFS Specifics –

- **Renewable Fuel Producers** – Producers of E-100, B-100 and B-99. Renewable fuel producers are responsible for assigning batch tracking numbers or RINs to each gallon of renewable fuel produced. These numbers follow the renewable fuel downstream until blended with gasoline or clear diesel fuel.
- **Obligated Parties** – Under the RFS regulations, refiners are identified as “obligated parties”. As obligated parties, refiners are assigned annual RFS production quotas by the EPA that they must meet. Each obligated party’s production quota added together must equal the total national renewable fuel goal for the year as set by the EPA and Congress.
- **Blenders** – Below the terminal rack renewable fuel blenders (jobbers) are not obligated parties and not assigned any production quotas by the EPA. Blenders may however generate renewable fuel credits when blending E-100, B-99 or B-100 into gasoline or clear diesel fuel. These renewable fuel credits may then be sold to obligated parties to help them meet their annual EPA production quotas. Although blenders are not obligated parties for production quota purposes, they must still comply with many other aspects of the renewable fuels regulations.
- **Registration** – Registration is the most important compliance step for jobbers to take under the RFS regulations. Any blender, who takes title of E-100, B-100 or B-99 from a producer and blends with clear diesel or gasoline, **must** register with the EPA by September 1, 2007. This includes oxygenate blenders if the oxygenate is derived from renewable fuels. Renewable fuel producers **will not** sell E-100, B-100 or B-99 to any blender who is not registered with the EPA by September 1, 2007. Registration is also required if a blender decides to sell renewable fuel credits or is required to report RIN activity and transactions to the EPA.

Registration must be done online at:

<http://www.epa.gov/otag/regs/fuels/fuelsregistration.htm>

Blenders must fill out the first three electronic forms, print them out, have them signed by a corporate officer and mail them to the EPA at the address provided. The EPA registration number that blenders must have in order to purchase renewable fuel after September 1, 2007 will be assigned at the time the forms are filled out electronically and downloaded.

- **RIN Numbers** - The RFS requires renewable fuel producers to generate renewable identification numbers (RIN) for each batch of renewable fuel (B-100, B-99 or ethanol) produced. Each RIN number attaches to the batch and follows the renewable fuel downstream via product transfer documents (PTDs). The RIN number assigned by the

renewable fuel producer will appear on PTDs as follows (note: actual RINs are comprised entirely of numbers);

K-YYYY-CCCC-FFFF-BBBBB-RR-D-SSSSSSSS-EEEEEEEE

K =	The first number in the RIN indicates whether the renewable fuel is blended or unblended . If the numeral “1” appears as the first number it means the ethanol, B-100 or B-99 is unblended. If the first number appears as the numeral “2” it means the renewable fuel is blended with gasoline or clear diesel fuel.
YYYY =	Calendar year of renewable fuel production or import,
CCCC =	EPA determined Company ID
FFFF =	Renewable Fuel Producers Facility ID
BBBBB =	Renewable Fuel Batch number
RR =	Code identifying the Equivalence Value multiplied by 10
D =	Code identifying cellulosic biomass ethanol (2 for ethanol and 1 for cellulosic biomass ethanol).
SSSSSSSS =	Start of RIN block number
EEEEEEEE =	End of RIN block number

- **Separating RINS** – Once the renewable fuel is blended into gasoline or clear diesel fuel, the RIN is “separated” from the blended fuel. Separation occurs by simply changing the first numeral in the RIN number from “1” to “2” and adding the blenders EPA registration number. Separating RINs allows the EPA to determine when the renewable fuel becomes motor vehicle fuel and when those separated RINs may be traded, sold, or expired. Any party that owns RINs must report and track the separation of RINs.
- **RIN Credit Trading** - If a refiner is unable to blend enough renewable fuel to meet their assigned production quota, then they can buy RIN credits on the open market to make up the difference. Surplus RINs are generated when some refiners produce more renewable fuel than required or anytime downstream petroleum blenders produce a renewable fuel blend. The excess RINS can be sold or traded to other refiners who can not meet their assigned renewable fuels volume through production. The EPA assumes that a RINS trading market will form sometime in the future as refiners and other obligated parties try to meet their assigned production quotas.
- **Reporting** – Once a downstream blender takes title to the renewable fuel and attached RINs, the blender is responsible for managing those RINs and reporting them to the EPA. Blenders must report RIN transactions each quarter to the EPA. The first quarterly report is due on November 30, 2007. Blenders must also file a quarterly report (also due November 30, 2007) indicating the amount of renewable fuel in gallons held at the beginning and end of each quarter. The RINs Activity Report and the RINs Transaction report forms and filing instructions can be found at:

<http://www.epa.gov/otaqs/regs/fuels/forms.htm>

Annual audits of documentation used to file quarterly reports must be filed with the EPA as well. The first annual audit reports are due on May 31, 2007. Instructions on how to file the annual audit may be found at <http://www.epa.gov/otaq/renewablefuels/index.htm> Click on “Compliance Help”.

- **Recordkeeping** – Blenders must keep on file all renewable fuel sales records, product transfer documents and quarterly reports to the EPA for a period of five years.

The Bottom Line –

- Petroleum marketers who blend renewable fuels into gasoline or clear diesel should register with the U.S. EPA immediately in order to purchase renewable fuels after September 1, EPA registration number.
- Clear fuel blenders should develop a product tracking system for renewable fuel volumes and separated RINS. This system should include a five year record retention requirement. Also, these blenders should familiarize themselves with the EPA reporting forms and instructions before the first quarterly report is due on November 30, 2007.
- Petroleum marketers who blend renewable fuel in to dyed fuel (including heating oil) only are not required to register but should contact their renewable fuel producer regarding written notice requirements necessary for the blender to purchase product without attached RINs.
- Need more help? Go to <http://www.epa.gov/otaq/renewablefuels/index.htm> and click on "Compliance Help".