EPA OKs Increase in Biomass-Based Diesel Mandate

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What Do Bigger Targets Mean for Producers, Livestock, Obligated Refiners & Diesel-Using Public?

In Washington, the Environmental Protection Agency (EPA) issued its final rule for 2013, establishing 1.28 billion gallons as next year's biomass-based diesel volume requirement under the Renewable Fuel Standard (RFS), up from 1.0 billion gallons in 2012.

"This 1.28 billion gallon level is in line with what the EPA had originally proposed for 2013 dating back to last year," commented Raymond James energy analyst Pavel Molchanov. "However, the delay in formalizing this target had led investors and biodiesel industry participants alike to question the EPA's commitment to this level. The RVO was originally expected to be completed in July, and with the election fast approaching, many had thought the final ruling may not occur until mid-November."

What Does This Mean in Context of the Overall RFS2 Targets for 2013?

The 2007 Energy Independence and Security Act (EISA) called for 2.75 billion gallons of advanced biofuels in 2013 — that's up from 2.0 billion gallons in 2012. That can come from any qualifying source (a registered fuel that provides a 50 percent lifecycle reduction in emissions, compared to petroleum-based fuels), and includes sugarcane ethanol, some advanced forms of corn ethanol, biobutanol and all forms of biomass-based diesel. Obligated parties can also buy renewable

identification number (RIN) credits in lieu of blending “wet” gallons of fuel.

Overall, it means that the diesel side is expected to pick up 40 percent of the increase in RFS2-mandated volumes for 2013 (280 million out of 750 million gallons). That’s relatively conservative — given that biomass-based diesel accounted for 50 percent of the 2012 pool. According to producers, it’s highly feasible to achieve the production volumes.

Do Biomass-Based Diesel Fuel Mandates Cost the Public?

1. **The yes view:** Mandates invariably cause fuel prices to increase — in many cases, massively so — by requiring fuel distributors to utilize fuels with favorable environmental or social attributes, instead of choosing the lowest cost supplies.
2. **The no view:** Mandates can reduce fuel costs by reducing demand for imports — and even small reductions in import volumes through alternative production, in these times of tight refining capacity, can have substantial depressive impact on prices.
3. **The social cost view:** Fuels cost more than money. They can have impact on air quality and health (particularly among children); energy imports come with hidden social and financial costs in burdening the nation’s military with the task of defending fuel shipping lanes. Energy imports also reduce local employment in energy production, and reduce the direct and indirect local economic impact that flows from job creation.
4. **The EPA view:** Yes, there is a financial cost — but it’s a rounding error. “The [Annual Energy Outlook] AEO projects that the U.S. will consume 44.9 billion gallons of blended diesel in 2013. Averaged over this diesel pool, the quantifiable costs of the 1.28 billion gallon mandate translate into a per-gallon cost of between $0.006 and $0.008 in 2013.”

Why Don’t Ranchers & Poultry Farmers Freak out over Increases in the Biomass-Based Diesel Portion of the Renewable Fuel Standard?

Generally, because they use soybean meal rather than soybean oil to feed livestock — so there’s less competition between livestock and fuel on the biomass-based diesel side. Plus, animal residues have to be used somewhere — and they have made an excellent feedstock for fuel production at the 75 million gallon Dynamic Fuels facility (owned by Syntroleum and Tyson), and will be the key feedstock at the 130 million gallon Diamond Green Diesel facility (jointly owned by Darling and Vaero).

Other Changes in RFS2 Relating to Home-Heating Fuel

This year, the EPA amended its rules to expand the scope of renewable fuels that can generate RINs to include fuel oil that can be used to generate heat to warm buildings or other facilities where people live, work, recreate or conduct other activities. This rule will allow producers or importers of fuel oil that meets the amended definition of heating oil to generate RINs, provided that other

requirements specified in the regulations are met. Fuel oils used to generate process heat, power or other functions, however, will not be approved for RIN generation.

Bipartisan Support

In thanking RFS2 supporters on Capitol Hill, Iowa's Randy Olson pointed to a concerted bipartisan effort, including support from Sen. Charles Grassley (R), Sen. Tom Harkin (D), Rep. Leonard Boswell (D), Rep. Tom Latham (R), Rep. Bruce Braley (D), Rep. Dave Loebsack (D) and Rep. Steve King (R) — plus the backing of former Iowa governor and now Secretary of Agriculture Tom Vilsack.

What's your take? Please feel free to comment below! Copyright 2012; Biofuels Digest [1]

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