

RFS Public Hearing: API Testimony

Kansas City, MO June 9, 2016



Good morning and thank you for the opportunity to testify today. I am Patrick Kelly, Senior Fuels Policy Advisor at The American Petroleum Institute. API is the only national trade association representing all facets of the oil and natural gas industry. API's more than 625 members include large integrated companies, as well as exploration and production, refining, marketing, pipeline, and marine businesses, and service and supply firms.

Blendwall

Our members' primary RFS concern is the ethanol blendwall. Serious vehicle and retail infrastructure compatibility issues continue to exist with gasoline containing more than 10 percent ethanol. Gasoline demand increases projected in 2007 did not materialize nor did the commercialization of cellulosic biofuels – both factors that make the statutory volumes unattainable. Congress provided EPA with waiver authority and we are encouraged that EPA proposes to again use this RFS waiver authority in 2017 to reduce the unattainable statutory volumes, thereby avoiding negative impacts on America's fuel supply and preventing harm to American consumers.

9.7% & E0

However, we remain concerned that EPA is proposing standards that exceed 9.7% ethanol in the gasoline pool. A small tolerance below 10% is needed to account for the difficulty of blending ethanol into every gallon, to ensure a fungible RIN market, and to preserve a market for consumers that choose E0, or clear gasoline. Strong consumer demand for E0 continues to exist, as demonstrated in EIA data that show E0 was 5.3 billion gallons in 2015. EPA standards should preserve the ability for consumers to choose E0.

E15 & E85

E15 and E85 are not answers to the ethanol blendwall. EPA presumes demand for these blends will drive total ethanol volumes to exceed 10% of gasoline supply in 2017. History

demonstrates that motorists have largely rejected E85 because – according to AAA data – the fuel economy penalty ends up costing consumers more money in the long run. It is not reasonable for EPA to assume any significant near-term ethanol volume increases from E15 or E85. EPA’s unrealistic market scenarios fail to account for the significant retail investments that are needed, particularly when only 7 percent of vehicles on the road were designed to use E85, and just more than 10% (including FFV’s) were designed to use E15.

Cellulosic Biofuel

Finally, EPA still does not have an acceptable model for predicting cellulosic production capacity and the time it takes to ramp-up production. Rather than accepting the aspirational projections from producers, API recommends EPA use actual demonstrated production, and demonstrated ramp-up rates.

Conclusion

Obligated parties have few choices to meet the aggressive volumes proposed – use of banked RINs or over-compliance on biomass-based diesel. The increased mandated biomass-based diesel volumes limit volumes of other biofuels that could be used to meet the total advanced and total renewable volume requirements.

In closing, EPA’s proposal to reduce the RFS volumes from the unattainable statutory levels is appropriate and necessary to avoid near-term economic harm. Until Congress repeals or significantly reforms the RFS, EPA must continue to address the outdated volume requirements by exercising its waiver authorities. We believe that EPA did not go far enough in reducing the volumes as the levels exceed the 9.7% ethanol in gasoline volumes that allows for E0 sales and recognized the vehicle and infrastructure constraints that limit E15 and E85.

Thank you again for the opportunity to discuss these issues, and I am happy to answer any questions.