

EPA Provides RFS2 (RIN) Policy Update

Alert: As expected, no major changes for 2013 although agency flexibility looks likely for the 2014 rule...

The US Environmental Protection Agency (EPA) issued its much anticipated final rule for the 2013 Renewable Fuel Standard (RFS2) today. The abrupt timing of the announcement perhaps threw the market for a whirl as RIN prices dropped 18% this morning to \$0.85/gal in response to broker markets and news reports suggesting an imminent EPA release, easing RFS2. But the final content was not significant for 2013 and was kept open-ended for 2014. Overall, the EPA statement was in line with previously published Citi Research notes (see: [Lord of the RINs](#)) that suggest meaningful policy relaxation as more likely for 2014 but with no sizable easing for the 2013 final rule. To be sure, other than the EPA extending the 2013 compliance deadline by four months to the end of June 2014 and the minor adjustment for cellulosic biofuels (which is likely to also be close to zero in 2014), there were no real shifts for 2013.

The final 2013 rule keeps aggregate blending volumes at 16.55-bn gal; adjusting the advanced renewable constituency very modestly by cutting cellulosic biofuels from 14-mn gal to 6-mn gal; the total advanced carve-out still unchanged at 2.75-bn gal and the conventional ethanol requirement kept at 13.8-bn gal. **Compliance this year should not be a problem given the carryover of 2.5-bn gal RIN credits that can be drawn down.** The EPA appears comfortable with elevated RIN prices persisting as this encourages higher level blending—a stated policy objective. But the statement today should be on the whole modestly bearish RIN prices on the forward outlook given the real potential for RFS2 relaxation next year, with RIN price volatility possibly persisting until further policy clarity is offered.

The EPA is quite likely to show increasing flexibility in issuing new waivers for the 2014 rule. Such temporary 'fixes' in the absence of a legislative amendment can provide RFS2 sustainable breathing room to 2015 while Congress potentially devises an update to the program. The agency has reviewed thousands of comments over the past several months and acknowledges the E10 blend wall issue as tangible and something it would be open to addressing for the 2014 rule.

Policy easing for 2014 is open-ended but the EPA could take several routes. Ongoing partial waivers to reduce components of the advanced carve-out are almost guaranteed (i.e. cellulosic) but the agency could also start curtailing the total renewable fuels requirement in conjunction with this, thereby reducing total blended volumes given E10 saturation. This adjustment also seems to be the most discussed by market participants. However, adjusting the biodiesel (D4) RIN market in ethanol equivalent terms from 1.5x to a higher multiple (i.e. 2.5x) is an accounting gimmick that could also measurably reduce RIN generation costs and aid obligated parties in achieving compliance by 'inflating' RIN production. The EPA clearly favors a move to midlevel blends but the statement today appears to acknowledge that E15 / E85 is a limited release valve and unlikely to provide an immediate solution for a biofuel policy that becomes significantly more binding in 2014.

■ Commodities
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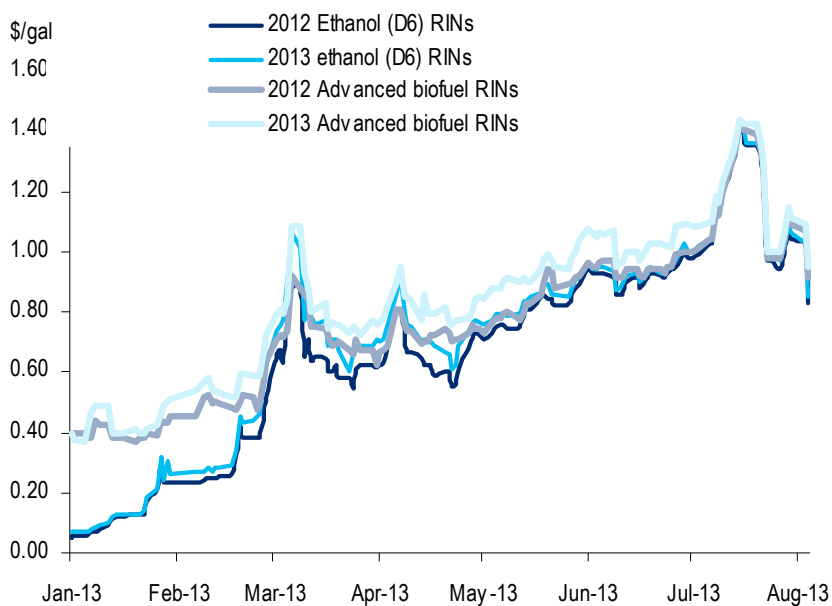
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Figure 1. Renewable Fuel Standards for the 2007 Energy Legislation (EISA) or RFS2*

bn-gal	Corn Based Ethanol	Advanced Renewables	Sum
2011	12.6	1.4	14
2012	13.2	2	15.2
2013	13.8	2.8	16.6
2014	14.4	3.8	18.2
2015	15	5.5	20.5
2016	15	7.3	22.3
2017	15	9	24
2018	15	11	26
2019	15	13	28
2020	15	15	30
2021	15	18	33
2022	15	21	36

Source: EPA, Citi Research, *rounded to nearest single decimal point

Figure 2. Conventional and Advanced RIN prices have surged and converged this year...



Source: Starfuels Inc., Citi Research

Figure 3. Renewable Fuel Equivalence Values

Product	Ethanol Equivalence Value
Conventional Ethanol	1x
Cellulosic biomass ethanol	2.5x
Biodiesel	1.5x
Butanol	1.3x
Non-ester renewable diesel	1.7x
Other renewables (crude linked)	1x

Source: EPA, Citi Research

Appendix A-1

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