May 15, 2014

The Honorable Barack Obama
President
United States of America
The White House
Washington, DC 20500

RE: Maintaining the Methodological Integrity of the Renewable Fuel Standard (RFS)

Dear Mr. President,

On behalf of the Advanced Ethanol Council (AEC), the Biotechnology Industry Organization (BIO) and the signatories listed below, we are writing to express our concern about the Administration's impending decision regarding the Renewable Fuel Standard (RFS).

As you know, the RFS requires oil companies to blend increasing volumes of low carbon biofuels over time. The RFS is necessary because the highly consolidated, vertically integrated oil industry is not otherwise going to cede market share to renewable fuels. It is an unfortunate reality that current fuel markets do not properly reward innovation, and that any effort to curb oil dependence and reduce carbon emissions in the sector will require effective policies like the RFS.

The issue in question is the Administration's proposal to drastically cut the RFS blending targets and fundamentally change how the RFS works. While we are hopeful that the Administration recognizes that its proposed cuts are too aggressive, and intends to increase the volumes in the final rule, it is not clear that the Administration yet recognizes that its proposal changes how the RFS works at a fundamental level, and that this methodological shift would effectively undercut advanced biofuel projects under development.

Almost 40 advanced biofuel companies, which together produce the lowest carbon fuel in the world, submitted a letter to your office in late 2013 expressing concern about your new methodology.[i] To reduce the 2014 blending requirements and volumes in future years, EPA is proposing to use its general waiver authority based on "inadequate domestic supply." But EPA is putting forward a novel interpretation of the word "supply" to mean the ability of current infrastructure to deliver renewable fuel *blends* to consumers, instead of the available supply of renewable fuel to obligated parties. We believe that this new interpretation is inconsistent with the plain meaning of the statute and its legislative history. But the bigger issue is that this interpretation has the practical effect of handing the future trajectory of the RFS to the oil industry by virtue of the fact that the oil industry itself controls the distribution of fuel to consumers. Simply put, the proposal converts obligated parties under the Clean Air Act into non-obligated parties.

As part of the deliberative process, it is critical for the Administration to understand exactly who this policy shift would impact. Some have suggested that this methodological change only impacts first generation biofuels because it is being proposed in response to concerns about that compliance pool. But the agency's shift is actually systemic in nature, and therefore applies to how investors would look

at all types of qualifying biofuel under the RFS. The threat that oil companies could simply ignore the RFS vastly increases supply-chain risk for *new* projects, in addition to those already in the ground. Given that more than 90 percent of future blending obligations under the RFS are for advanced biofuels, the Administration's new methodology would actually scuttle U.S. investment in advanced, low-carbon biofuels in direct conflict with the Climate Action Plan and your Administration's goals with regard to reducing oil dependence and promoting advanced biorefineries via USDA and DOE programs.

We are aware of the oil industry's efforts to characterize the program as a political risk and a substantive failure. But the program is the primary focus of incumbents because it is working. The broader biofuels industry has produced enough conventional and advanced biofuels to meet the statutory requirements every year. It is now clear that the carbon-cutting and job-creating benefits of the RFS come without an increase in gas prices, even with higher RFS/RIN credit prices.[ii] In fact, the RFS is generally credited with reducing gas prices by introducing billions of gallons of American-made renewable fuel into world fuel markets during times of extreme tightness between supply and demand.[iii]

But with recent announcements in mind, we are concerned about the current proposal's impact on climate change. Our industry has invested billions of dollars in the development and commercial deployment of ultra-low carbon biofuels during your Administration alone. These investments were made based on the expectation that when we succeed, the RFS will be maintained as a mechanism to open the market for our fuels. The current proposal would break that promise by allowing incumbent fuel producers, who want to see the program fail, to limit the distribution of renewable fuels and thereby define future RFS blending obligations. And by any account, the real world alternative to renewable fuels is marginal, high carbon intensity oil.

In an effort to get the program back on track, we have discussed this methodological problem and potential solutions to it with various energy staffers and economic advisors in your Administration. As we approach the release of the final rule, our industry is increasingly concerned that your Administration may not be giving proper weight to the importance of the RFS methodology when it comes to investment signals and creating markets for more innovative, cheaper products.

To that end, we would like to amplify the dialogue we are currently having with your Administration to ensure that the RFS remains the global gold standard for advanced biofuels policy. We would look forward to an opportunity for further engagement.

Sincerely,

R. Brooke Coleman
Executive Director
Advanced Ethanol Council (AEC)

Jim Greenwood
President and CEO
Biotechnology Industry Organization (BIO)

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[i] AEC, BIO Letter on 2014 RVO, http://www.ethanolrfa.org/page/-/PDFs/AEC%2C%20BIO%20letter%20to%20POTUS%20on%202014%20RVOs.pdf?nocdn=1

[ii] See http://www.card.iastate.edu/policy_briefs/display.aspx?id=1217 (concludes that the original 2014 statutory targets can be met without creating problematic economic impacts); http://www.card.iastate.edu/publications/dbs/pdffiles/14pb18.pdf (concludes that continuing to increase the RFS blending requirements will result in higher RIN prices, but higher RIN prices actually slightly reduce prices at the pump for the predominant blend of gasoline).

[iii] See http://thehill.com/blogs/congress-blog/energy-environment/196135-rfs-kept-gas-prices-down (oil sector economist concludes that the RFS reduced pump prices by at least $1 per gallon in 2013).