

EXAMINING THE IMPACT OF GASOLINE AND DIESEL DEMAND LOSS ON ACTUAL 2020 RFS BLENDING REQUIREMENTS

The annual Renewable Volume Obligations (RVOs) under the Renewable Fuel Standard (RFS) are percentages that specify what share of an obligated party's gasoline and diesel production must be comprised by renewable fuels. EPA requires RVOs for each of the renewable fuel categories established by the statute: cellulosic biofuel, biomass-based diesel, total advanced biofuel, and overall renewable fuel. The RVO percentage for conventional biofuel (e.g., corn ethanol) can be determined by looking at the difference between the total renewable fuel RVO percentage and the total advanced biofuel RVO.

Because the RVO is applied as a percentage requirement, the absolute volume of required renewable fuel blending can deviate significantly from the volumes assumed when EPA finalizes the RVO rule if actual gasoline and diesel consumption deviates significantly from the volumes projected at the time of the final rule.

When it finalized the 2020 RVOs, EPA projected that 2020 gasoline consumption would total 142.7 billion gallons and diesel consumption would total 55.3 billion gallons. However, in the wake of the COVID-19 pandemic, analysts now expect significantly lower gasoline and diesel consumption. For example, IHS Markit projects a 55% reduction in gasoline consumption and a 20% drop in diesel consumption during March and April 2020. This roughly translates into a 10% total reduction in annual gasoline and diesel consumption for the 2020 compliance year.

The tables on the next page examine actual absolute biofuel volume requirements under various scenarios for 2020 gasoline and diesel consumption demand destruction (-10%, -15%, and -20%). The top table assumes EPA issues a volume of SREs that exactly matches the volume projected (and prospectively "reallocated") when the final RVO was set. The bottom table assumes EPA enforces the final RVO (with reallocation) but issues no 2020 SREs (to comply with the 10th Circuit Court decision).

As seen in the tables, a 10% reduction in actual combined gasoline and diesel consumption reduces the conventional biofuel requirement from 15.0 BG to 13.5-14.0 BG (depending on whether EPA maintains its reallocation approach but grants no SREs). Naturally, a more prolonged slump in gasoline and diesel consumption (-15% or -20%) further reduces the actual biofuel blending requirements under the RFS.

This underscores the importance of ensuring EPA adds the 500 MG "remanded" volume to the conventional biofuel requirement as ordered by the D.C. District Court in 2017. It also demonstrates the importance of ensuring EPA does not significantly add to the current large RIN stocks by granting 2019 SREs (25 of which are currently pending).

IF 2020 PROSPECTIVE SRE REALLOCATION EQUALS ACTUAL 2020 SRES

		Final Rule	Gas + Diesel Consumption Reduction Annual		
			-10%	-15%	-20%
Total Gas + Diesel Consumption (BG)-->		173.8	156.4	147.7	139.1
RVOs %		Required Blending (BG)			
Conventional	8.63%	15.00	13.50	12.75	12.00
Biodiesel	2.10%	3.65	3.29	3.10	2.92
Cellulosic	0.34%	0.59	0.53	0.50	0.47
Other Advanced	0.49%	0.85	0.77	0.72	0.68
TOTAL RVO	11.56%	20.09	18.08	17.08	16.07

IF 2020 PROSPECTIVE SRE REALLOCATION IS MAINTAINED BUT NO 2020 SRES ARE GRANTED

		Final Rule	Gas + Diesel Consumption Reduction Annual		
			-10%	-15%	-20%
Total Gas + Diesel Consumption (BG)-->		173.8	156.4	147.7	139.1
RVOs %		Required Blending (BG)			
Conventional	8.63%	15.60	14.04	13.26	12.48
Biodiesel	2.10%	3.80	3.42	3.23	3.04
Cellulosic	0.34%	0.61	0.55	0.52	0.49
Other Advanced	0.49%	0.89	0.80	0.75	0.71
TOTAL RVO	11.56%	20.89	18.80	17.76	16.71