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Air and Radiation Docket
ATTN: Docket ID No. EPA-HQ-OAR-2013-0120
U.S. Environmental Protection Agency
Mailcode: 6102T
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Washington, DC 20460

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Dear Mr. French,

The Renewable Fuels Association (RFA) is pleased to submit comments in response to the Environmental Protection Agency’s (EPA) notice regarding the draft guidance letter: “E85 Flexible Fuel Vehicle Weighting Factor for Model Year 2016-2019 Vehicles.”

RFA is the leading national trade association for the domestic ethanol industry. Its mission is to advance the development, production, and use of fuel ethanol by strengthening America’s ethanol industry and raising awareness about the benefits of renewable fuels. RFA’s 300-plus members are working to help America become cleaner, safer, energy independent and economically secure.

As we expressed in comments responding to the proposed rule for 2017 and Later Model Year Light-Duty Vehicle Greenhouse Gas Emissions and Corporate Average Fuel Economy Standards (“CAFE/GHG rule”), RFA is greatly concerned the final 2017-2025 standards will significantly discourage future production of flexible fuel vehicles (FFVs) (we incorporate those comments by reference). As a result, we believe the CAFE/GHG rule will frustrate the goals and intent of the Energy Independence and Security Act of 2007 and significantly complicate compliance with the Renewable Fuel Standard (RFS).

1 Docket ID No. EPA-HQ-OAR-2013-0120-0002
2 Docket ID No. EPA-HQ-OAR-2010-0799-9490. Also available at: http://ethanolrfa.org/page/-/2017-2025%20CAFE-GHG%20comments.pdf?nocdn=1
As currently written, the FFV weighting factor guidance letter further dissuades automakers from meaningful production of FFVs beyond 2016. By using inappropriate assumptions about future ethanol volumes and E85 consumption, the draft guidance letter would virtually eliminate what little incentive remained for production of FFVs in the 2016-2019 timeframe.

Notwithstanding our previous concerns about the treatment of FFVs in the 2017-2025 CAFE/GHG rule, we offer the following specific comments in regard to the draft guidance letter.

I. IN GENERAL, EPA TAKES AN OVERLY CONSERVATIVE APPROACH TO ESTIMATING FUTURE ETHANOL VOLUMES AND E85 CONSUMPTION BY FFVS. IN SHAPING ITS VIEW OF FUTURE E85 CONSUMPTION BY FFVS, EPA GIVES INAPPROPRIATE CONSIDERATION TO HISTORICAL E85 CONSUMPTION TRENDS.

EPA’s draft letter makes reference to “current limited usage of E85” and “low current usage of E85.” The letter further notes that “current real world usage [of E85] is near zero.” EPA uses these and similar statements to justify certain assumptions regarding the Agency’s future view of E85 consumption by FFVs. While it is beyond dispute that past and current use of E85 is low, it is unreasonable to assume such a trend will continue in the future. E85 consumption by FFVs has been low in the past due in large part to the fact that annual RFS requirements could be easily satisfied by consumption of low-level ethanol blends like E10 in conventional vehicles (i.e., non-FFVs). Beginning in 2013, however, blending E10 alone will no longer be a sufficient means of complying with the RFS. For the first time in the program’s history, the RFS in 2013 obliges regulated parties to increase production and sales of ethanol blends above E10.

Already, the RFS program’s RIN (Renewable Identification Number) mechanism is working to strongly incentivize increased blending and consumption of E85 to facilitate compliance. Several recent economic analyses have documented how RIN prices will drive increased E85 consumption as obligated parties under the RFS confront the so-called E10 “blend wall.”3 The large and growing volume of FFVs in the U.S. light-duty auto fleet provides a readily available means of rapidly increasing renewable fuel consumption as required by the RFS. Accordingly, we do not believe past performance should be used in any way as an indicator of future E85 consumption by FFVs. We encourage EPA to ensure its estimates of future E85 consumption by FFVs are not being negatively biased by the historical behavior of the E85 market.

II. EPA SHOULD REVISE SEVERAL KEY ASSUMPTIONS RELATED TO CALCULATING THE WEIGHTING FACTOR (“F FACTOR”) FOR MY2016-2019 VEHICLES.

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RFA believes EPA should revise several of its individual assumptions underlying the estimates of future E85 consumption by FFVs. When compounded, these assumptions result in an “F factor” that is far lower than what is justified. Therefore, we believe EPA should give strong consideration to revising several key assumptions, as specified below.

**a. FFV sales projections should be revised downward to better reflect expected future FFV production and sales.**

EPA correctly notes that “there is significant uncertainty with regard to the continued production rates of flex fueled vehicles,” and also highlights the dilemma of the circular influence of FFV production as an input to the OMEGA model. Therefore, RFA recommends taking a much more conservative approach to estimating future FFV production and sales volumes. In 2006, the “Detroit Three” automakers (Ford, General Motors, and Chrysler) committed that FFVs would make up half of their light-duty vehicle output beginning in 2012. While the “Detroit Three” automakers have made substantial strides toward honoring this commitment, foreign automakers have thus far chosen not to produce large volumes of FFVs despite the current availability of generous compliance credits. If foreign automakers aren’t building FFVs under the current credit regime, it seems unreasonable that they would increase FFV production when the credits are made much less attractive or are eliminated. Thus, we believe it is illogical to assume that FFV output will grow from today’s level of 17% of new vehicle production to 50% by 2020.

A March 2011 analysis by Air Improvement Resource, Inc. projected that FFVs would represent 23% of new vehicle sales in 2020 if the “Detroit Three” automakers honored their commitment (i.e., FFVs produced by other automakers are excluded). It may be reasonable to assume automakers other than the “Detroit Three” will continue to produce FFVs at current rates, which amounted collectively to 0.7% of total light-duty vehicle production in MY2011. Thus, FFVs from all automakers may represent approximately 24% of new vehicles in 2020. We note that this is very close to the “low sales” case presented in the draft guidance letter. Therefore, we recommend that EPA adopt the “low sales” case as its primary estimate of future FFV production.

Further, we note that the Energy Information Administration’s (EIA) 2013 Annual Energy Outlook (AEO) reference case projects FFV production rates far below levels assumed by EPA for the guidance document. Table 57 of the 2013 AEO shows FFVs accounting for a flat or declining share of total vehicle sales through 2022. In fact, EIA projects FFV sales will be less than 10% of total vehicle sales between 2016 and 2019, in part because, “…phasing out of CAFE credits for their sale…reduce their penetration.” While we believe the EIA scenario is

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4 According to a Nov. 14, 2006 joint statement by Chrysler Group, Ford Motor Company and General Motors: “…we stand ready to make half of our annual vehicle production E85 flexible fuel vehicles or capable of running on bio-diesel by 2012.”

5 See Attachment A to RFA comments on 2017-2025 CAFE/GHG rule.

overly pessimistic given the commitment of the “Detroit Three,” it does highlight the excessive nature of the high and middle FFV sales cases in EPA’s guidance letter analysis.

At the very least, the high sales case should be eliminated from EPA’s analysis and the current middle and low cases should be considered as bounding scenarios. We disagree with EPA’s statement that “the F factor does not vary widely across FFV sales scenarios.” On the contrary, EPA itself acknowledges that the difference in the F factor between the low sales case and the high sales case is 0.11 in the RFS2 “E15” scenario, and 0.17 in the RFS “No E15” scenario (incidentally, the difference of 0.17 is nearly as large as the entire 0.2 F factor proposed by EPA). These are significant variations that could absolutely influence an automaker’s decision to build an FFV instead of a conventional automobile.

b. Ethanol volume projections should be revised upward to be more consistent with other EPA projections.

We believe the ethanol volume estimates utilized by EPA are exceedingly conservative and ignore other, more robust projections conducted by the Agency itself. For the guidance letter, EPA relies primarily on its mid-ethanol case from the RFS2 Regulatory Impact Analysis. This case projects just 16.9 billion gallons (bg) of ethanol being consumed in 2016 and just 19.6 bg in 2019. These estimates suggest ethanol will account for only 76% and 70%, respectively, of overall renewable fuel use for RFS compliance in 2016 and 2019. This ignores the fact that ethanol has accounted for approximately 93% of the volume of renewable fuels used to comply with RFS2 requirements since its inception. In its proposed rule for 2013 Renewable Volume Obligations, EPA acknowledges that ethanol has been the primary means of RFS compliance: “While other non-ethanol biofuels can also be used to meet the RFS requirements, ethanol has predominated and will likely continue to predominate in the near future.”

It is unclear why EPA chose not to include the high-ethanol case from its RFS2 RIA in the analysis conducted for the guidance letter. This case estimates consumption of 19.9 bg of ethanol in 2016 and 25.5 bg in 2020. These volumes represent 89% and 91%, respectively, of overall renewable fuel use for RFS compliance in 2016 and 2019. Obviously, these percentages are much better aligned with ethanol’s current and past contribution to RFS compliance. Further, we note a recent analysis of the air quality impacts of the EISA conducted by EPA scientists assumed ethanol would be used as the predominant means of meeting RFS requirements. The study modeled an ethanol consumption trajectory that culminated with 34 bg in 2022. A key assumption in the study is that 20 bg of ethanol would be consumed as E85 in 2022.

Additionally, we believe the ethanol volume projections used by EPA from the EIA’s 2013 AEO Early Release are not credible or realistic. The 2013 AEO’s ethanol projections, which represent a stark departure from previous AEOs, are predicated on the questionable assumptions that 1)...

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8 78 Fed. Reg. 9,301
9 Cook et al., 2011, Atmospheric Environment, 45: 7714-7724
the RFS will not drive measurable ethanol consumption above E10 in the mid-term, and 2) the long-term RFS requirements will be revised downward significantly. Already, the first EIA assumption is being rigorously tested, as the RFS has driven E85 economics to a point where consumer demand is increasing. This will undoubtedly continue as the RFS compels obligated parties to use ever greater volumes of ethanol than can be consumed as E10. Therefore, we do not believe EPA should use the 2013 AEO projections, even as a lower bound.

RFA recommends that EPA adopt the RFS2 RIA high-ethanol case or the ethanol volume projections from Cook et al. as the upper bound of its ethanol volume assumptions for the guidance document. In addition, the RFS2 RIA mid-ethanol case should be used only as a lower boundary.

c. EPA should revise its ethanol use scenario assumptions to account for uncertainty in the timing of mid-level ethanol blend market penetration.

While RFA firmly believes that E15 has proven itself as a perfectly safe and effective fuel for use in MY1994 and newer vehicles, we note that some automakers—and the associations that represent them—continue to discourage its use in their vehicles. Only Ford and General Motors have explicitly allowed the use of E15 in some of their newer vehicle models (MY2012-2013 only), despite EPA’s finding that E15 is safe and effective for all MY2001 and newer vehicles. In addition, EPA’s inequitable treatment of E10 and E15 with respect to volatility waivers is a significant hurdle to consistent E15 sales. Because of this issue, E15 retailers in conventional gasoline areas will likely only sell E15 to FFVs during the summer gasoline season. Therefore, we believe FFVs will continue to play an important role in consuming E15 in the near- and mid-term. This is another reason to encourage the ongoing production of FFVs at a high rate of output in the 2016-2019 timeframe. We fully expect that E15 will one day be as common as E10 is today, but in the meantime EPA should err on the side of encouraging greater production and use of FFVs.

Because of these uncertainties, RFA believes EPA should, for the purposes of the guidance document, treat volumes of ethanol consumed above the E10 saturation point as E85 consumed in FFVs.

III. IN ORDER TO PROVIDE MARKET AND REGULATORY CERTAINTY TO AUTOMAKERS AND OTHER AFFECTED INDUSTRIES, EPA SHOULD FINALIZE THE F FACTOR FOR MY2016 THROUGH MY2019.

The guidance letter proposes an F factor of 0.2 for MY2016 and states that manufacturers may continue to use the factor through MY2019 “unless EPA revises the weighting factor.” Similar language suggesting EPA may revise the F factor for MY2017-2019 appears elsewhere in the document. As EPA knows, automakers need regulatory certainty and substantial lead time to implement changes because engineering and production plans for certain model year vehicles are “locked down” well in advance of the actual model year production. In addition, a consistent regulatory landscape allows all affected industries to plan and prepare most effectively and
economically. For these reasons, we believe the F factor that EPA ultimately finalizes for MY2016 should also apply through MY2019, and EPA should clearly communicate that it will not make any revisions or changes to the F factor until MY2020 at the earliest. This would provide more regulatory and marketplace certainty for automakers and other affected industries.

IV. CONCLUSION

As we have demonstrated, review and revision is merited for many of the assumptions underlying EPA’s F factor analysis in the draft guidance document. EPA’s current analysis results in an F factor that is far lower than is justified. Indeed, following the recommendations in this comment letter would result in an F factor in the range of 0.4-0.6 for MY2016-2019 FFVs. We believe an F factor in this range is justified by the more robust assumptions and projections discussed herein, and we submit that such a factor would help ensure a modest incentive remains in place for FFV production. In turn, continued production of FFVs in the 2016-2019 timeframe will help facilitate achievement of Congress’ goals and intent with the RFS.

Thank you for the opportunity to comment on the draft guidance document. We applaud EPA’s careful consideration of stakeholder feedback on this issue. If you have questions regarding the contents of this letter, please contact Geoff Cooper at gcooper@ethanolrfa.org or Kristy Moore at kmoore@ethanolrfa.org.

Sincerely,

Bob Dinneen
President & CEO