



MEMBER UPDATE

July 19, 2007

◆ **BLENDERS REQUIRED TO COMPLY WITH COMPLICATED REPORTING**

Don't delay in registering for the Compliance Workshop on August 13th. It will sell out. Space is limited.

Under Section 1501 of the Energy Policy Act of 2005 EPA was instructed to promulgate regulations to create the Renewable Fuel Standard (40CFR Part 80.1100). Under these rules, marketers will be required to register and report renewable fuel usage if they take title to and blend renewable fuels. Anyone who blends renewable fuels into on-road fuel must register and comply with EPA's new rules. The September 1, 2007 registration deadline for the Renewable Fuel Program will come quickly and pose new hurdles for fuel suppliers and blenders.

The Renewable Fuel Program (also known as the Renewable Fuel Standard Program, or RFS Program) is intended to increase the volume of renewable fuel required to be blended into motor fuel. Once effectively initiated (the RFS actually began in 2006 but blenders have not been effected until now), Refiners, blenders of reformulated fuel and Importers (Obligated Parties) will be required to meet the federal RFS each year.

As outlined by the Energy Policy Act of 2005, Obligated Parties must document the following gallons of renewable fuels used:

<u>Year</u>	<u>Billion Gallons</u>
2006	4.0
2007	4.7
2008	5.4
2009	6.1
2010	6.8
2011	7.4
2012	7.5

In order to insure that the above goals are reached, EPA will establish annual standards for Obligated Parties and will reflect the annual renewable fuel gallons each Obligated Party must reach in their Renewable Fuels Volume Obligation (RVO). Each year, Obligated Parties must reach the goals set forth in the RFS or make-up for their deficit in the following year. The standards will be reflected in a percent of total gallons of gasoline produced. The first year RFS is currently set at 4.02%. Many entities are currently discussing possible amendments to the 2005 Energy Act that will increase renewable fuel usage goals.

In contrast to the current RFS schedule, 2006 ethanol usage alone, was 5.4 billion gallons or 3.8% of the total ~141 billion gallons of gasoline consumed in 2006. Many are speculating that the current RFS schedule will change and increase the demand for renewable fuels as renewable fuel production increases. According to the Renewable Fuel Association, as of May 8, 2006, 6.09 billion gallons of ethanol was produced with an additional 6.43 anticipated over the next two years due to new ethanol plant construction.

The Energy Information Administration (EIA) predicts that due to the rapid growth in domestic ethanol, that the RFS goal, currently established for 2012 (7.5 billion gallons), will be surpassed by the end of 2007. Refiners will not have to work very hard to meet their RVOs.

Gallons of biodiesel (B100), which may be used towards satisfying the renewable fuel standard, will be gallons of renewable fuel produced on top of the ethanol “surplus”.

The Federal Renewable Fuels Standard (RFS) calculation is similar to what Iowa lawmakers adopted a year ago that ultimately goes into effect January 1, 2010 based on 2009 gallons sold. Marketers will add B100 gallons plus E100 gallons and divide by total gasoline (not total gasoline and total diesel) gallons to determine the percentage of renewable fuels standard. The Federal RFS similarly divides pure biofuel gallons by gasoline gallons to derive the percentage acquired.

Who are the players in the Renewable Fuel Standard Program and what are their roles?

Those directly impacted by the RFS are those that create renewable fuels (**Producers**), those required to document to the EPA the annual usage of renewable fuels (**Obligated Parties**), and those that determine when the renewable fuel is actually blended with on-road motor fuel (**Blenders**).

Producers of renewable fuels must track and report their gallons produced. ASTM fuel quality standards must be met in order for the renewable fuels to be eligible under the RFS. More importantly, the RFS requires renewable fuel Producers (ie. Producers of ethanol and biodiesel) to generate unique renewable fuel identification numbers (RINs). Each 38 digit RIN is attached to a gallon or batch of renewable fuel and tracked by EPA. **The Producer must attach the RIN to every gallon of renewable fuel sold for the purpose of blending with on-road motor fuel.**

<u>Renewable Fuel</u>	<u>RIN Value (Equivalence Value)</u>
Ethanol	1.0
Biodiesel (mono-alkyl ester)	1.5
Cellulosic Ethanol	2.5
Butanol	1.3
Non-ester Renewable Diesel (animal)	1.7

Equivalence Values are a reflection of net energy content per gallon in Btu units.

NOTE: A Producer of cellulosic ethanol (RIN value of 2.5 for each gallon produced) may choose to transfer only 1 RIN per gallon at the time of title transfer. The Producer of cellulosic ethanol has the option of retaining 1.5 RINs along with the authority to re-assign the k-code from a “1” to a “2”. Re-assigning the k-code to “2” creates RINs that may be traded or sold to Obligated Parties. This means that the cellulosic ethanol producer will most likely have a large advantage in the RIN selling market.

Also, if an ethanol producer can modify an ethanol plant so that the energy input to create the ethanol is derived from biogas (methane from manure), then it too will be able to generate 2.5 RINs per gallon of ethanol (40CFR 80.1101(a)(2)), allowing the Producer to sell or trade up to 1.5 RINs directly to Obligated Parties. RINs created with renewable fuels other than cellulosic or cellulosic biomass ethanol must be transferred with the renewable fuel until they have been blended with on-road motor fuel. One gallon of biodiesel will always be transferred with 1.5 RINs, for example.

Obligated Parties are those that are designated as refiners or importers of motor fuel in the 48 contiguous states. They consist of refiners, reformulated fuel blenders (other than oxygenate blenders) and Importers that are registered with the EPA. It is the Obligated Party’s duty to document that they are

meeting the current RFS and Renewable Volume Obligation (RVO) each year. The Obligated Party will meet the RFS by either buying and blending renewable fuels at terminals or purchasing credits (much like the current carbon credit market) on an open market. Obligated parties may carry-over upto 20% of credits into the next compliance year. All excess RINs expire following one year of circulation. RINs are designed to expire in order to insure continual future use of renewable fuels.

Renewable Fuel Blenders

Petroleum marketers who take title to renewable fuels in their pure form (including B99.9) fall under the RFS requirements. A Producer will only sell renewable fuel to a party that is registered under the RFS program. An off-road diesel and heating oil exception exists for blenders and will be explained below. Product Transfer Documents, with the 38 digit RIN (see below), will be used to track and document each gallon of renewable fuel produced. The primary objective for the Blender is to document when the renewable fuel becomes blended with on-road motor vehicle fuel. Once this has been completed, tracking and reporting of the renewable fuel stops and the unique RIN number no longer has to be indicated on Product Transfer Documents that accompany the blended product. Additional reporting requirements for the State of Iowa, however, may still be required of the retailer.

Once the Producer assigns a RIN number, it can only become reassigned by blending into motor vehicle fuel. The only exception to this rule is when a Producer of cellulosic (biomas) ethanol retains a portion of the 2.5 equivalant valued RIN. It is the act of “separating” RINs that allow EPA to determine when the renewable fuel has become motor vehicle fuel and when those separated RINs may be traded, sold, or expired. Un-blended renewable fuel will have a “k-code” of “1” and typically cannot be traded or sold. Once the renewable fuel has been blended with on-road motor fuel, by the Blender, the k-code within the RIN will be re-assigned to “2”. A RIN designated with a k-code of “2” may be traded, sold, or expired by the Blender.

- ◆ K-YYYY-CCCC-FFFFF-BBBBBB-RR-D-SSSSSSSS-EEEEEEEE
- ◆ K = Code distinguishing assigned RINs from separated RINs,
- ◆ YYYY=Calender year of renewable fuel production or import,
- ◆ CCCC=EPA determined Company ID
- ◆ FFFFF=Renewable Fuel Producers Facility ID
- ◆ BBBBB=Renewable Fuel Batch number
- ◆ RR=Code identifying the Equivalence Value (ethanol = 1.0, biodiesel = 1.5, cellulosic ethanol = 2.5) multiplied by 10.
- ◆ D=Code identifying cellulosic biomass ethanol (2 for ethanol and 1 for cellulosic biomass ethanol).
- ◆ SSSSSSSS=Start of RIN block
- ◆ EEEEEEEE=End of RIN block

Any party that owns RINs must report and track the separation of RINs (k-code from a “1” to a “2” and the sale, trading, or expiring of RINs(40CFR 80.1152(c)).

Examples of Blenders who must register, track, report and separate RINs

Iowa currently has 131 registered renewable fuel Blenders with the Iowa Department of Revenue. Because the federal RFS creates a situation where only registered Blenders will be able to purchase renewable fuel from Producers, this number is expected to grow. Some current Blenders who may not be registered with the State will be forced to register with EPA and hence forced to register with the Iowa Department of Revenue if they desire to continue blending renewable fuels.

Marketers who purchase their fuel pre-blended do **not** have to register within EPA’s RFS program. Marketers who purchase E10 at the terminal, from one supplier, are purchasing pre-blended fuel.

If a marketer takes title of E100 and gasoline separately, with the intent of blending either at the terminal or at a bulk facility, they must be registered under the RFS program. This is true for a retailer who orders a load of E10 via a common carrier also. If the common carrier, under the direction of the retailer, blends

a load of E10 at the terminal, then the retailer has become the blender. The common carrier does not take title to the fuel and therefore cannot be the blender. The retailer must tell the carrier to pick up a load of pre-blended E10 to avoid getting caught-up in the RFS program requirements.

Likewise, a marketer who takes title to B100 or B99.9, with the intent of blending on-road diesel, must register under the federal RFS if they wish to continue blending renewable fuels. **B99.9 is not considered pre-blended.** If the marketer only blends with dyed off-road diesel, however, the blender does not have to register because only on-road renewable fuels are considered by the current federal RFS. In this example, the blender must inform, in a documentable fashion, that they are purchasing B100/99.9 for off-road diesel. The biodiesel producer will transfer title of the B100/99.9 with a statement that indicated RINs are not included on the Product Transfer Document (PTD).

The RFS program only applies to on-road motor fuel use. PMCI expects future rules that may include off-road diesel. Again, the Blender must, in a documentable fashion, inform the biodiesel producer that the B100/99.9 will be used for off-road use. If the Blender does not, then the Producer will assume that the B100/99.9 is being used for on-road diesel and will attach the required amount of RINs. Once the Blender has accepted the fuel along with the RINs, the Blender must track and report under the RFS.

If the Blender purchases biodiesel with the RINs and later blends the biodiesel with dyed diesel, the Blender must expire those RINs which means they will not be available for future trade or sale.

Can the Producer also be the Blender? A renewable fuel Producer may only be considered a Blender if that Producer can designate the renewable fuel as motor vehicle fuel and can document that the blended product is used as motor vehicle fuel. Furthermore, a biodiesel Producer must blend less than 80% B100 into diesel fuel before the RINs may be separated.

Reporting Requirements for Blenders

At the time this article was written, templates for the tracking and reporting requirements have not yet been completed by EPA. Two separate reports for Blenders will be forthcoming. They are the RIN Activity Report and the RIN Transaction Report.

To begin, for the Blender, the Producer will create the 38 digit RIN. The RIN must always track the renewable fuel and will be placed on the Producers Product Transfer Document (PTD). The Blender will need to keep all PTDs for a period of five (5) years. Audits are expected throughout the RFS program and your PTDs will help document your RINs coming in versus your RINs going out.

Once the Blender has taken possession of the B100/99.9 or E100, a **RIN Transaction Report** will be completed. The Transaction Report is submitted to EPA quarterly and documents RIN purchases, RIN sales, retired RINs and expired RINs. A separate RIN Transaction Report is required to be submitted to EPA for each purchase, sale, retired, or expired RIN. Once the Blender has blended the renewable fuel, k-codes must be changed from a "1" to a "2". The new RIN, with the k-code of "2", along with any transfer of RINs to another party (trade or sale) will be documented on the quarterly Transaction Report.

The report will include:

- the Blenders company name,
- company registration number,
- company's facility registration number (if the report is submitted on a facility-by-facility basis),
- the corresponding quarterly reporting period,
- transaction type (purchase, sale, retired, or expired RIN),
- transaction date,
- trading parties name if RIN is sold or purchased,
- trading parties EPA company registration number if RIN is sold or purchased,

- RIN subject to the transaction,
- explanation of retired RINs (spill, used for off-road diesel blending), and
- "any additional information that the Administration may require". (40CFR part 80.1152(c)(1))

The second quarterly report that the Blender must submit is the RIN Activity Report. The Activity Report tracks the number of gallon RINs owned at the beginning and at the end of each quarter and the number of gallon RINs purchased, sold, expired, or retired within a quarter.

It should be noted that if renewable fuels were not blended or handled in a given quarter, then no RIN Transaction reporting is required.

Reporting for both reports must be completed by the end of the second month after the quarter for which the report is being submitted. Reporting for the quarterly reports are May 31, August 31, November 30, and February 28.

All reporting may be completed on-line using EPA's Central Data Exchange (CDX) program. Blenders must register under the CDX program before they are allowed on to the secured and encrypted site. Details and guidance for the CDX may be found at <http://www.epa.gov/otaq/renewablefuels/rfs-cdx.pdf>. The CDX program generates a confirmation e-mail which lets users know that reports have been submitted. All information entered into the CDX program must be retained for a period of five years.

Mandatory Self-Audits

Under the RFS program, any party that owns RINs will be subject to EPA's Attest Engagements requirements which are designed to verify all documents used in the RIN management process. Audits will be performed annually (May 31) under standards established by the American Institute of Certified Public Accountants and the Institute of Internal Auditors. Only outside certified public accountants or certified independent auditors may perform the audit. Blenders will have to contract and pay for these services each year.

◆ EPA WEBINAR TO BE HELD IN CONJUNCTION WITH PMCI LIVE WORKSHOP

On **August 13th**, out-of-state marketers have the option to participate in a webinar with EPA and listen to the presentation being conducted in West Des Moines, Iowa. Out of state marketers are also welcome to register and attend the live presentation.

To view workshop "live" via the internet:

- ◆ Click on this link: <http://powerlink.powerstream.net/003/02469/live1.asx>

Those viewing the webcast should have DSL, cable internet or something comparable and a good set of head phones or speakers. The above link should be broadcasting a test screen with music after 6 p.m. on Sunday, August 12. You do not need to register to participate in the webinar.

Internet viewers can participate in class discussion as well, although live attendees will have priority for questions and dialogue. Internet viewers will have two ways to submit questions or comments during the live webcast.

To submit questions:

- ◆ Call in questions to **913-551-8612 or 913-551-8602**. This will be similar to "Talk Radio" with an eight second delay. Therefore, those participating in live discussion via the telephone should turn off their computer speaker to avoid confusion.
- ◆ Email questions to this email address, R7workshop@yahoo.com. A laptop will be on site at the workshop and presenters will address all email questions during the webcast.

Renewable Fuels Standard (RFS) Workshop

As of September 1, 2007, renewable fuel blenders must register under EPA's RFS program. Standard penalties for those that do not register, track and report blending will apply. EPA may levy fines as high as \$32,500 per violation.

- This Workshop will provide blenders the necessary information needed to comply with the RFS program
- Requirements on Renewable Identification Number (RIN) tracking, reporting, and transferring.
- Attendees will have the opportunity to register on-line following the RFS Workshop.
- Tom Christian, EPA Washington DC, will present RFS information and answer questions during the program.

Monday, August 13
8:00 a.m. – 12:00 p.m.
(onsite registration to follow)
DMACC West Campus
Synerge Center Auditorium
5959 Grand Ave
West Des Moines, IA
(1/2 mile west of I-35)

Open to the first 120 registrants.
Additional sessions will be added
as necessary.

**Personnel with authority to
sign-off on the registration
must attend. All are welcome!**

Bring your EPA assigned company/
entity ID number if you have one.

REGISTRATION FORM

Please enroll the following participant(s) from our company for the *Renewable Fuels Standard Workshop*. Cancellations must be received seven (7) days prior to the class to receive a full refund.

\$75/ person for PMCI Members or \$175/person for Non-Members

Name of Participant(s) _____

Enclosed is our registration fee in the amount of \$ _____

Contact _____

Company _____

Address _____

City _____ State _____ Zip _____

Phone _____ Fax _____

Method of Payment Check Credit Card Visa MasterCard AmEx

Credit Card # _____

Expiration Date _____ Security Code (3 digits on back of Visa/MC or 4 digits on front of AmEx) _____

Credit Card Billing Address (if different than above) _____

Signature _____



**Return registration with payment made payable to
Petroleum Marketers & Convenience Stores of Iowa
1303 50th Street, West Des Moines, IA 50266 - Fax 515.224.0502**