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Statement

Chairman Lankford, Ranking Member Speier and other members of the Subcommittee, I appreciate the opportunity to testify on the Renewable Fuel Standard (RFS) program and the EPA's efforts to issue the most recent annual rule under the program. Congress established the RFS program in the Energy Policy Act (EPAAct) of 2005 and significantly expanded it in 2007 with passage of the Energy Independence and Security Act (EISA).

With regard to the RFS, Congress's primary objectives for the expanded program were to increase U.S. energy security and decrease greenhouse gas (GHG) emissions from transportation fuel by (1) replacing an increasing amount of petroleum-based transportation fuel with renewable fuels and (2) requiring an increasing percentage of these renewable fuels to result in significantly lower lifecycle GHG emissions than 2005 petroleum fuels. EISA established new volume targets for renewable fuel, reaching a total of 36 billion gallons by 2022, including 21 billion gallons of advanced biofuels. These fuels are an important component of the broader strategy to combat climate change.

EISA requires the EPA to publish annual standards for four different categories of renewable fuels: cellulosic, biomass-based diesel, advanced and total. These standards apply to refiners and importers of gasoline and diesel fuels. For each category of renewable fuels, EISA specifies lifecycle GHG reduction requirements and annual volume targets. For the advanced biofuel category, which must reduce lifecycle GHG emissions by at least 50% as compared to baseline petroleum fuels, those targets rapidly grow as a share of total renewable fuels from 13% in 2006 to nearly 60% by 2022. EISA also gives the EPA authority to reduce the volume targets under certain circumstances.

Annual RFS rules for past years have generally reflected EISA's targets. One exception, however, concerns cellulosic biofuels. EISA requires that the standard for cellulosic biofuel reflect the EPA's projection for production of that fuel in the coming year if the EPA's projection is lower than the statutory target. Since 2010, it has been necessary for us to lower the volume for cellulosic biofuel based on our projections. Although significant progress continues to be made in bringing more cellulosic biofuel to market, the large yearly increases in EISA's targets for that category and the relatively slow pace of production increases have resulted in a growing gap between the statutory targets and actual production. When we lower the volume targets for cellulosic biofuel, EISA authorizes us to also lower volumes for the advanced and total categories by the same amount or a lesser amount as the cellulosic reduction.

Another important trend affecting the RFS program is the recent and sustained decline in gasoline consumption as a result of improved vehicle fuel economy and other factors. We applaud the trend in improved vehicle fuel economy, which improves the nation's energy security and reduces GHG emissions. However, lower gasoline consumption means there is less gasoline into which to blend EISA's specified volumes of renewable fuels.

In developing proposed 2014 RFS volume requirements, we took these market realities into account. We proposed to use authorities granted under the Clean Air Act to adjust the required cellulosic, advanced and total volumes for 2014 below the targets specified in the statute. We also proposed to maintain the biomass-based diesel volume requirement at 1.28 billion gallons, 280 million gallons more than the Act specifies as a minimum.

Our proposed rulemaking explained the need to reduce the cellulosic volume for 2014 based on our projection of available biofuel supplies for that year. The proposal also considered the need to reduce the advanced and total volumes to account for the projected shortfall in cellulosic volumes. It further considered whether domestic supplies would otherwise be adequate to meet prescribed volumes given the constraints on the ability of the fuel infrastructure to accommodate increasing volumes of renewable fuel. In that context, the proposal included a detailed discussion of what is known as the ethanol “blend wall,” which limits, at least in the short term, how much ethanol can be blended into gasoline given the existing vehicle mix and distribution infrastructure. As gasoline consumption has declined compared to projections at the time of EISA’s passage, the country’s gasoline fuel pool has become saturated with ethanol at the 10 percent level earlier than anticipated.

If gasoline demand continues, on average, to trend downward or remain flat, increasing the amount of renewable fuel used in the fuel pool will require significantly greater use of fuels with higher ethanol content or increased production and use of non-ethanol “drop-in” biofuels (fuels that are more easily distributed and consumed in today’s transportation system). Examples of fuels with higher ethanol content are E15 and E85. Both E15 and E85 fuels have significant potential for growth but both require changes in fuel infrastructure and marketing and vehicle

mix to reach consumers in quantities that can make needed contributions to meeting statutory targets for total renewable fuels.

Today's fuel market includes many participants, such as refiners, renewable fuel producers and blenders, distributors and retail station owners. Meeting Congress's goal of significantly increasing renewable fuel use therefore involves many market participants, and there are many diverging views.

This Administration strongly supports the statutory goal of the RFS program to increase the production and use of renewable fuels, particularly the advanced biofuels, over time. We have paved the way for increased use of higher-level ethanol blends, including by granting partial waivers for the use of E15 in 2001 in newer light-duty cars and trucks. We have improved the quality, transparency, and efficiency of our petition review process for new biofuel pathways that can count under the RFS program. In September, we updated our website to include new tools and resources that provide basic information quickly and easily for our stakeholders and to provide for a more user friendly interface for petitioners to guide them through the process of getting approval for their new biofuel pathways. We also developed a new *Efficient Producer* petition process that expedites the processing of certain types of petitions. Since September, we have approved nine of these *Efficient Producer* petitions. These are only a few examples of the work that continues under this program.

In proposing the 2014 RFS standards, EPA sought to advance the broader goal of the RFS program to spur long-term growth in renewable fuels, while taking account of the need to overcome the constraints that exist in the market and fuel system today. The 2014 proposal included a lengthy discussion and analysis about the proposed adjustments to the RFS program's

renewable fuel volumes, and sought public comment on several alternative approaches to setting the volume requirements.

The proposal generated significant comment, and diverging views, particularly about how volumes should be set in light of lower gasoline consumption, and whether and on what basis the statutory volumes for renewable fuels should be lowered. Most notably, commenters expressed concerns regarding the ability of the proposed approach to provide continued progress towards achieving the volumes of renewable fuel targeted by the statute. The hearing and the more than 340,000 comments submitted demonstrated the high level of public interest in the program as well as the wide diversity in views on the proposal.

EPA, in consultation with other federal agencies, has been evaluating these issues in light of the purposes of the statute and the Administration's commitment to its goals. These issues are both very challenging and very important to the future of the RFS program. We recognize that our consideration of them has delayed issuance of the 2014 standards.

Accordingly, and as stated in the announcement we made on November 21, EPA intends to take action on the 2014 standards in 2015. In the same timeframe, we plan to take action on RFS standards for both 2015 and 2016. We will take this opportunity to set standards for 2015 and 2016 so that the RFS program can continue to spur growth and provide greater certainty to investors and other market participants.

The EPA recognizes that the delay in issuing the 2014 standards has exacerbated uncertainty in the market for both renewable fuel producers and obligated parties. We will also take action on the 2015 and 2016 RFS standards next year so that we get back on a more predictable, timely schedule for issuing such rules. Issuing rules every year has proven to be a

significant implementation challenge, particularly in the last several years as cellulosic biofuels have continued to face challenges in scaling up to commercial production and the fuel pool has become saturated with E10, raising concerns about the E10 blendwall. Resolving the fundamental issues that we are facing as part of the 2014 standards rulemaking should go a long way to enabling EPA to complete annual rulemakings on time.

Closing

EPA will continue to engage with our stakeholders and work in close consultation with the Departments of Agriculture and Energy as we move forward with completing the annual standards for 2014 and setting standards for 2015 and 2016. I want to emphasize that our intention is to put the annual standard setting process back on schedule.

Again, I thank you for the opportunity to serve as a witness at this hearing for the Subcommittee.



Janet McCabe is the Acting Assistant Administrator for the Office of Air and Radiation, having previously served as OAR's Principal Deputy to the Assistant Administrator. Prior to joining EPA in November 2009, McCabe was Executive Director of Improving Kids' Environment, Inc., a children's environmental health advocacy organization based in Indianapolis, Indiana and was an adjunct faculty member at the Indiana University School of Medicine, Department of Public Health.

From 1993 to 2005, Ms. McCabe held several leadership positions in the Indiana Department of Environmental Management's Office of Air Quality and was the office's Assistant Commissioner from 1998 to 2005. Before coming to Indiana in 1993, Ms. McCabe served as Assistant Attorney General for environmental protection for the Commonwealth of Massachusetts and Assistant Secretary for Environmental Impact Review. Ms. McCabe grew up in Washington, D.C. and graduated from Harvard College in 1980 and Harvard Law School in 1983.