

EPA Administrator, Scott Pruitt, signed the following Notice on 11/22/2017, and EPA is submitting it for publication in the *Federal Register* (FR). While we have taken steps to ensure the accuracy of this Internet version, it is not the official version of the Notice. Please refer to the official version in a forthcoming FR publication, which will appear on the Government Printing Office's FDSys website (www.gpo.gov/fdsys/search/home.action) and on Regulations.gov (www.regulations.gov) in Docket No. EPA-HQ-OAR-2016-0544. Once the official version of this document is published in the FR, this version will be removed from the Internet and replaced with a link to the official version.

6560-50-P

ENVIRONMENTAL PROTECTION AGENCY

[EPA-HQ-OAR-2016-0544; FRL-XXX]

Notice of Denial of Petitions for Rulemaking to Change the RFS Point of Obligation

AGENCY: Environmental Protection Agency (EPA).

ACTION: Notice of Decision.

SUMMARY: The Environmental Protection Agency (EPA) is providing notice of its denial of several petitions requesting that EPA initiate a rulemaking process to reconsider or change 40 CFR 80.1406, which identifies refiners and importers of gasoline and diesel fuel as the entities responsible for complying with the annual percentage standards adopted under the Renewable Fuel Standard (RFS) program.

FOR FURTHER INFORMATION CONTACT: Julia MacAllister, Office of Transportation and Air Quality, Assessment and Standards Division, Environmental Protection Agency, 2000 Traverwood Drive, Ann Arbor, MI 48105; telephone number: 734-214-4131; email address: macallister.julia@epa.gov.

SUPPLEMENTARY INFORMATION:

I. Background

On March 26, 2010, the EPA issued a final rule (75 FR 14670) establishing regulatory amendments to the renewable fuel standards (“RFS”) program regulations to reflect statutory amendments to Section 211(o) of the Clean Air Act enacted as part of the Energy Independence and Security Act of 2007. These amended regulations included 40 CFR 80.1406, identifying refiners and importers of gasoline and diesel fuel as the “obligated parties” responsible for compliance with the RFS annual standards. Beginning in 2014, and continuing to the present, some obligated parties and other stakeholders have questioned whether 40 CFR 80.1406 should be amended, and a number of them have filed formal petitions for reconsideration of the definition of “obligated party” in 40 CFR 80.1406, or petitions for rulemaking to amend the provision. On January 27, 2014, Monroe Energy LCC (“Monroe”) filed a “petition to revise” 40 CFR 80.1406 to change the RFS point of obligation, and on January 28, 2016, Monroe filed a “petition for reconsideration” of the regulation. On February 11, 2016, Alon Refining Krotz Springs, Inc.; American Refining Group, Inc.; Calumet Specialty Products Partners, L.P.; Lion Oil Company; Ergon-West Virginia, Inc.; Hunt Refining Company; Placid Refining Company LLC; U.S. Oil & Refining Company (the “Small Refinery Owners Ad Hoc Coalition”) filed a petition for reconsideration of 40 CFR 80.1406. On February 12, 2016, Valero Energy Corporation and its subsidiaries (“Valero”) filed a “petition to reconsider and revise” the rule. On June 13, 2016, Valero submitted a petition for rulemaking to change the definition of “obligated party.” On August 4, 2016, the American Fuel and Petrochemical Manufacturers (“AFPM”) filed a petition for rulemaking to change the definition of “obligated party.” On September 2, 2016, Holly Frontier also filed a petition for rulemaking to change the definition of “obligated party.” The petitioners all seek to have the point of obligation shifted from refiners and importers, but differed somewhat in their suggestions for alternatives in their petitions. Some requested in their

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petitions that EPA shift the point of obligation from refiners and importers to those parties that blend renewable fuel into transportation fuel. Others suggested that it be shifted to those parties that hold title to the gasoline or diesel fuel immediately prior to the sale of these fuels at the terminal (these parties are commonly called the “position holders”), or to “blenders and distributors”. All petitioners argued, among other things, that shifting the point of obligation to parties downstream of refiners and importers in the fuel distribution system would align compliance responsibilities with the parties best positioned to make decisions on how much renewable fuel is blended into the transportation fuel supply in the United States. Some of the petitioners further claimed that changing the point of obligation would result in an increase in the production, distribution, and use of renewable fuels in the United States and would reduce the cost of transportation fuel to consumers.

On November 22, 2016, EPA published a notice in the Federal Register announcing its proposed denial of all petitions seeking a change in the definition of “obligated party” in 40 CFR 80.1406, and soliciting comment on its draft analysis of the petitions and proposed rationale for denial. (81 FR 83776). EPA opened a public docket under Docket ID No. EPA–HQ–OAR–2016–0544, where it made its draft analysis available. EPA received over 18,000 comments on the proposed denial, including comments from the petitioners, stakeholders, and individuals supporting the request that EPA change the point of obligation for the RFS program, as well as from many stakeholders and individuals supporting EPA’s proposed denial and reasoning. In comments, petitioners were in agreement that the point of obligation should be moved to “position holders.”

II. Final Denial

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The final decision document describing EPA's analysis of the petitions seeking a change in the definition of "obligated parties" under the RFS program and our rationale for denying the petitions is available in the docket referenced above (Docket ID No. EPA-HQ-OAR-2016-0544). In evaluating this matter, EPA's primary consideration was whether or not a change in the point of obligation would improve the effectiveness of the program to achieve Congress's goals. EPA does not believe the petitioners or commenters on the matter have demonstrated that this would be the case. At the same time, EPA believes that a change in the point of obligation would unnecessarily increase the complexity of the program and undermine the success of the RFS program, especially in the short term, as a result of increasing instability and uncertainty in programmatic obligations.

We believe that the current structure of the RFS program is working to incentivize the production, distribution, and use of renewable transportation fuels in the United States, while providing obligated parties a number of options for acquiring the RINs they need to comply with the RFS standards. We do not believe that petitioners have demonstrated that changing the point of obligation would likely result in increased use of renewable fuels. Changing the point of obligation would not address challenges associated with commercializing cellulosic biofuel technologies and the marketplace dynamics that inhibit the greater use of fuels containing higher levels of ethanol, two of the primary issues that inhibit the rate of growth in the supply of renewable fuels today. Changing the point of obligation could also disrupt investments reasonably made by participants in the fuels industry in reliance on the regulatory structure the agency established in 2007 and reaffirmed in 2010. While we do not anticipate a benefit from changing the point of obligation, we do believe that such a change would significantly increase

the complexity of the RFS program, which could negatively impact its effectiveness. In the short term we believe that initiating a rulemaking to change the point of obligation could work to counter the program's goals by causing significant confusion and uncertainty in the fuels marketplace. Such a dynamic would likely cause delays to the investments necessary to expand the supply of renewable fuels in the United States, particularly investments in cellulosic biofuels, the category of renewable fuels from which much the majority of the statutory volume increases in future years is expected.

In addition, changing the point of obligation could cause restructuring of the fuels marketplace as newly obligated parties alter their business practices to avoid the compliance costs associated with being an obligated party under the RFS program. We believe these changes would have no beneficial impact on the RFS program or renewable fuel volumes and would decrease competition among parties that buy and sell transportation fuels at the rack, potentially increasing fuel prices for consumers and profit margins for refiners, especially those not involved in fuel marketing. In addition, we note that in comments on EPA's proposed denial, commenters favoring a change in the definition of "obligated party" were predominantly in favor of designating position holders as obligated parties. However, position holders are not all refiners, importers or blenders. Therefore, EPA believes the petitioners' proposal is not well aligned with the authority provided EPA in the statute to place the RFS obligation on "refineries, importers and blenders, as appropriate."

A number of parties that either petitioned EPA to change the definition of "obligated party," or commented favorably on those petitions also challenged the rule establishing RFS standards for

2014, 2015 and 2016, alleging both that EPA had a duty to annually reconsider the appropriate obligated parties under the RFS program and that it was required to do so in response to comments suggesting that it could potentially avoid or minimize its exercise of the inadequate domestic supply waiver authority if it did so. In a recent ruling in that litigation, the United States Court of Appeals for the District of Columbia Circuit declined to rule on the matter, and instead indicated that EPA could address the matter either in the context of a remand of the rule ordered on other grounds, or in response to the administrative petitions that are the subject of this notice. See *Americans for Clean Energy v. Environmental Protection Agency*, 864 F.3d 691 (D.C. Cir. 2017) (“*ACE*”). As noted above, EPA is denying the petitions seeking a change in the definition of “obligated parties.” EPA also is re-affirming that the existing regulation applies in all years going forward unless and until it is revised. EPA does not agree with the petitioners in the *ACE* case that the statute requires annual reconsideration of the matter and, to the extent that EPA has discretion under the statute to undertake such annual reevaluations, EPA declines to do so since we believe the lack of certainty that would be associated with such an approach would undermine success in the program.

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EPA has determined that this action is nationally applicable for purposes of CAA section 307(b)(1). since the result of this action is that the current nationally-applicable regulation defining obligated parties who must comply with nationally applicable percentage standards developed under the RFS program remains in place. In the alternative, even if this action were considered to be only locally or regionally applicable, the action is of nationwide scope and effect for the same reason, and because the action impacts entities that are broadly distributed nationwide who must comply with the nationally-applicable RFS percentage standards, as well as other entities who are broadly distributed nationwide that could potentially have been subject to such requirements if EPA had elected to grant the petitions seeking a change in the definition of obligated parties.

Dated:

E. Scott Pruitt,
Administrator.