

EPA “SET” Rule – Boom or Bust?

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The Environmental Protection Agency (EPA) has set final Biomass-Based Diesel (BBD) volume mandates for 2023-2025, but what does it mean for the Renewable Diesel (RD) and Biodiesel (BD) industries building more RD and oilseed crush capacity?

Converting the Renewable Volume Obligation (RVO) numbers into physical gallons, the EPA has added 950 million gallons to the non-cellulosic advanced biofuel volumes requirement. EPA also projects the use of BBD to increase by 1.1 billion gallons from 2022-2025 to satisfy volume requirements in other RVO categories. That doesn't satisfy biofuels producers' ambitions, but 1.1 billion gallons of fuel still seems like an exciting opportunity, a jump over 35% from the 3.1 billion gallons they produced domestically in 2022.

A significant challenge is the RD industry's construction boom. Already, the industry appears to be oversupplied. The 2023 Advanced Biofuel RVO of 5.9 billion Renewable Identification Numbers (RINs) is less than the roughly 6.1 billion RINs the industry generated in 2022...before any of the new RD capacity turned on in 2023. RD and BD, the big movers in Advanced Biofuel RINs, are also encountering competition from other RIN generators such as renewable natural gas (RNG) and naphtha. These other sources accounted for about 13% of the advanced biofuels RINs in 2022.

The real gulf in the market will be all the new RD production capacity. The RD capacity commissioned in the last six months (about 735 million gallons) almost fulfills the three-year increase in the Advanced Biofuel RVO. And another 1.6 billion gallons of RD capacity is slated to turn on in the next two years. Where will all this RD go?

One possible answer is that not all that new RD capacity will turn on. Ocean Park estimates that the RD plant fleet is running at only 75% utilization. Actually, outside of RD producer Diamond Green Diesel, utilization is closer to 60%.

There's also a drain on demand looming: the California gold mine is going to run dry. The state consumes just over 80% of the nation's RD. It makes sense because a gallon of RD picks up over \$0.60 per gallon in Low Carbon Fuel Standard (LCFS) credits today. The issue is that the California transportation diesel market is only 3.7 billion gallons, approximately 45% of which is already BBD. Not all of the US's forecasted 4.6 billion gallons of RD production capacity will find a home in California. Furthermore, the LCFS system is already witnessing the growth of non-fuel sources of credits such as electric vehicle chargers and RNG.

A 35% increase in BBD use is good news in absolute terms, but with RD production capacity already overbuilt and the lucrative California biofuels market saturating, that increase in gallons might come with decreases in prices and profits.

Ocean Park's full analysis of the RD and BD market is available upon request. For more information, please visit oceanpk.com or call (310) 670-2093.

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