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The Coalition for Renewable Natural Gas

Before the U.S. House Committee on Energy and Commerce

Subcommittee on Environment

Legislative Hearing on Discussion Draft - The 21st Century Transportation Fuels Act

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Summary of Testimony:

- Renewable natural gas (RNG) is biogas-derived biofuel. The RNG industry takes untreated biogas captured from landfills, wastewater facilities and anaerobic digesters and refines it to meet the fuel quality standards of geologic natural gas. It is fully fungible in existing pipeline infrastructure and can be used to fuel natural gas vehicles.

- RNG qualifies as cellulosic biofuel under the Renewable Fuel Standard (RFS). It represents over 95% of the fuel used to meet the RFS program's cellulosic biofuel requirement, and reduces lifecycle greenhouse gas (GHG) emissions by 80% or more compared to conventional diesel fuel.

- RNG production for transportation fuel grew from approximately 33 million ethanol-equivalent gallons in 2014 to 240 million gallons in 2017. That is more than a 620% increase in three years. For 2018, EPA estimated that RNG production would increase by approximately 21% over 2017's levels. EPA data shows that the industry has grown 29% over the last 12 months. EPA has acknowledged that the RNG industry is currently on track to exceed EPA's estimate of 274 million gallons of production for 2018.

- The RNG Coalition supports the RFS program and the notion that the increased production and use of advanced biofuels is consistent with the nation's energy security, environmental and economic policy objectives.

- Current law provides for a permanent RFS program. The *Discussion Draft – The 21st Century Transportation Fuels Act* (Discussion Draft) would sunset the advanced biofuel component of the

RFS program at the end of 2032. The current program provides more policy stability for RNG stakeholders than a program that sunsets in 2032.

- The Discussion Draft would use production data derived from the previous year's EPA Moderated Transaction System to set annual use requirements for advanced biofuels. While the RNG Coalition recognizes the desire to provide certainty in the volume setting process, this approach could have the unintended consequence of causing advanced biofuel production to stagnate or potentially contract.

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Chairman Shimkus, Ranking Member Tonko and members of the subcommittee, I am Manning Feraci. I appreciate having the opportunity to testify before you today in my capacity as the Director of Federal Affairs for the Coalition for Renewable Natural Gas (RNG Coalition).

Renewable natural gas (RNG) is derived from biogas that has been captured from organic waste streams at landfills, wastewater treatment facilities and anaerobic digestion of manure and agricultural waste. The captured biogas is subsequently refined and upgraded to fuel quality standards that make it indistinguishable from geologic natural gas. RNG is fully fungible in our nation's existing energy infrastructure and can be used to fuel natural gas vehicles. RNG currently fuels more than 25% of the nation's medium and heavy duty natural gas vehicles.

RNG qualifies as cellulosic biofuel under the Renewable Fuel Standard (RFS) and generates D3 RINs under the program. RNG represents more than 95% of the fuel used to meet the RFS program's cellulosic biofuel requirements, and is an environmentally-friendly fuel that reduces lifecycle greenhouse gas (GHG) emissions by 80% or more compared to conventional petroleum diesel.

About the Coalition for Renewable Natural Gas:

The RNG Coalition is a not-for-profit association that provides public policy advocacy and education for the RNG industry in North America. The RNG Coalition has over 160 members who represent the full value chain of cellulosic waste feedstock conversion to transportation fuel as regulated under the RFS, including producers of 90% of all the RNG in North America. The association is dedicated to the advancement and increased utilization of RNG as a sustainable domestic fuel resource.

The U.S. RNG Industry is Providing Increasing Volumes of Fuel to Meet the RFS Program's Cellulosic Biofuel Requirements:

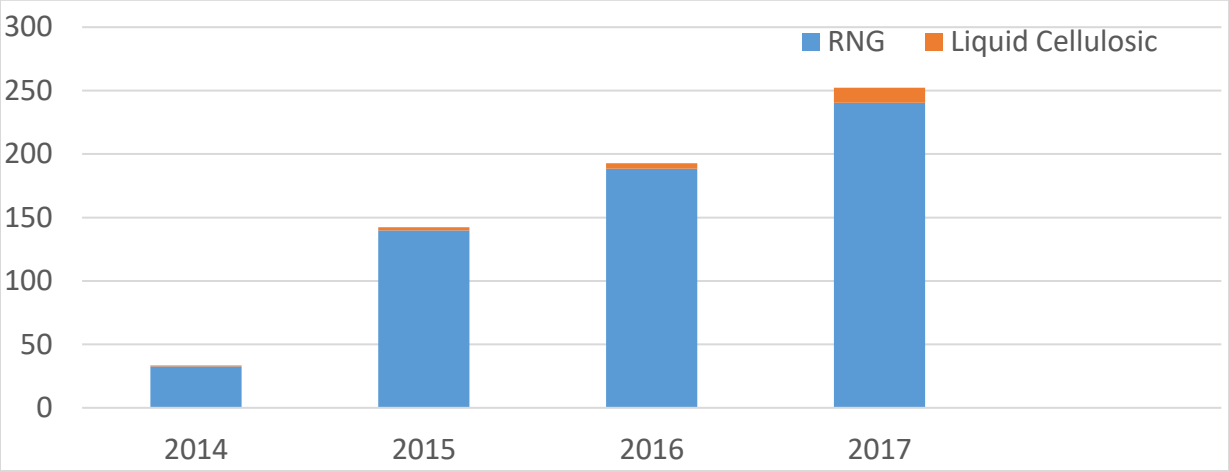
The Energy Independence and Security Act of 2007 (EISA)(P.L. 110-140) requires set annual volumes of renewable fuel, which is to increasingly include advanced biofuels, under the RFS program. The expansion of the RFS program under EISA was intended to, among other things, diversify the transportation fuel market beyond gasoline.

EISA sent the signal to the marketplace that the production of increasing volumes of advanced biofuels, including cellulosic biofuels, was a priority. RNG now represents in excess of 95% of the fuel used to meet the RFS program's cellulosic biofuel requirements.

Upon EPA's inclusion of RNG as a cellulosic biofuel under the RFS program, RNG production for transportation fuel grew from approximately 33 million ethanol-equivalent gallons in 2014 to 240 million gallons in 2017. That is more than a 620% increase in three years. For 2018, EPA previously estimated that RNG production would increase by approximately 21% over 2017's levels. EPA data shows that the industry has grown approximately 30% over the last 12 months. EPA's recently finalized standards for 2019 found 29% growth through September, acknowledging that the RNG industry is currently on track to exceed EPA's estimate of 274 million gallons of production for 2018.

RNG Production Under the RFS (D3)

EMTS Data (Million Ethanol Equivalent Gallons) (data as of May 10, 2018)



Cellulosic biofuels industry entrepreneurs, business owners, financiers, and marketers have invested over a billion dollars in response to Congress enacting the RFS program. The RNG industry has worked diligently on gathering data and industry information to assist EPA in setting the cellulosic biofuel volumes under the program. The RNG industry has developed over 45 production facilities capable of producing high-btu gas that can be used for transportation applications since 2011, with over 50 projects under construction or consideration. On average, each RNG project creates 173 direct and indirect jobs and attracts between $10 million and $70 million in capital investment.

As a result of the RFS, we have a growing, vibrant domestic industry that is converting waste into a domestically produced cellulosic biofuel that can be readily incorporated into our existing infrastructure and be utilized by natural gas vehicles. Further, this is being done in a way that reduces harmful emissions. This is a win-win scenario.

Observations on the Discussion Draft – The 21st Century Transportation Fuels Act:

The RNG Coalition appreciates the opportunity to provide initial feedback on the *Discussion Draft - The 21st Century Transportation Fuels Act* (Discussion Draft). The RFS is a complicated, multi-faceted program, and statutory changes should be carefully considered and vetted given the impact they can have on stakeholders who have made significant investments in fuel projects and infrastructure. In this regard, the RNG Coalition recognizes this subcommittee's diligence in reviewing the RFS program.

As I have mentioned earlier in my testimony, RNG is indistinguishable from geologic natural gas and is used to fuel natural gas vehicles. As such, the industry's comments will be limited to Title II of the Discussion Draft.

<u>Current Law:</u>

EISA provides statutory volume requirements for advanced biofuels, including cellulosic biofuel, between 2009 and 2022. The EPA Administrator (Administrator) is given various waiver authorities to modify these statutory volume requirements in certain circumstances.

Under current law, there is no sunset of the RFS program. Beyond 2022, EISA provides that the Administrator, in coordination with the Secretary of Energy and the Secretary of Agriculture, sets the RFS program's biofuels targets based on a review of the program's implementation through 2022 and an analysis of the following factors:

- The impact of the production and use of renewable fuels on the environment, including on air quality, climate change, conversion of wetlands, ecosystems, wildlife habitat, water quality, and water supply;

- The impact of renewable fuels on the energy security of the United States;

- The expected annual rate of future commercial production of renewable fuels, including advanced biofuels in each category (cellulosic biofuel and biomass-based diesel);

- The impact of renewable fuels on the infrastructure of the United States, including deliverability of materials, goods, and products other than renewable fuel, and the sufficiency of infrastructure to deliver and use renewable fuel;

- The impact of the use of renewable fuels on the cost to consumers of transportation fuel and on the cost to transport goods; and

- The impact of the use of renewable fuels on other factors, including job creation, the price and supply of agricultural commodities, rural economic development, and food prices.

<u>Discussion Draft – The 21st Century Transportation Fuels Act:</u>

The Discussion Draft would make several changes to current law as it applies to advanced biofuels and cellulosic biofuels. Most notably, the Discussion Draft would sunset the RFS program's requirement that advanced biofuels and cellulosic biofuels be introduced into commerce.

The Discussion Draft would also modify how the Administrator sets advanced biofuel and cellulosic biofuel volumes between 2022 and 2032 before the program sunsets. Current law requires the Administrator to consider six factors when setting volume requirements. The Discussion Draft would replace this regime with a program that requires the Administrator to set volumes based on the previous year's production levels.

Specifically, the Administrator would be required to set the volume requirement for advanced biofuel and cellulosic biofuel for the calendar year by no later than March 1st. The volume requirement would be set at the previous year's production level based on information submitted to the EPA's Moderated Transaction System that is used to track RIN generation and transactions. The Discussion Draft also provides that by no later than September 1 of the year, the Administrator shall adjust the volume requirement to reflect any increase in production.

RNG Industry Perspective:

The RNG Coalition supports the RFS program. As a general principle, the expanded domestic production and use of advanced biofuels is consistent with the nation's energy, environmental and economic interests. Since RNG was recognized as a qualifying cellulosic biofuel, there has been strong and consistent growth in RNG production and use. The RFS program has played an integral role in this growth, and as a result, our nation is capturing a potent greenhouse gas from waste and turning it into a fuel that is fully fungible with our existing infrastructure and that can be readily used to fuel natural gas vehicles. In the process, we are transforming waste into another domestic energy resource. These are worthwhile policy outcomes.

Program Sunset:

Current law provides for a permanent RFS program. The Discussion Draft would sunset the program for advanced biofuels, including cellulosic biofuels, at the end of 2032.

Program certainty is vitally important to the RNG industry. RNG projects require significant capital investment and the deployment of new infrastructure. They often involve 20-year offtake agreements with feedstock providers. A long-term RFS program is a vital component of a policy framework that attracts the investment and deployment of capital needed to increase the production and use of clean advanced biofuels like RNG. Conversely, a premature sunset of the RFS program's advanced biofuels requirements would in all likelihood chill investment in new RNG projects, which runs counter to the worthwhile energy, environmental and economic policy goals of the RFS program.

Modification to Setting Annual RFS Renewable Volume Obligations:

The Discussion Draft would use production data derived from the previous year's EPA Moderated Transaction System to set the annual renewable volume obligation (RVO) for the upcoming year. The RVO would be set by March 1 of the compliance year instead of by November 30 of the year preceding the compliance year[1] as is done currently. The Discussion Draft would also instruct the Administrator to conduct a mid-year adjustment to capture increased production of advanced biofuels in the compliance year. The RNG Coalition recognizes that this proposed change seeks to provide additional certainty to the process that is utilized to set the volume obligations under the RFS program.

[1] The RVO for biomass-based diesel is currently set 14-months prior to the compliance year.

Certainty is a goal that is shared by RNG stakeholders. We are, however, concerned that there could be unintended consequences of this approach. Setting the advanced volume targets for advanced biofuels to the previous year's production levels could have the effect of causing the production and use of advanced biofuels to stagnate on a year to year basis, even with a mid-year adjustment to the volume obligation.

The current RFS program sends a prospective market signal that the use of increasing volumes of advanced biofuels is a priority. Setting advanced biofuels based on the previous year's production levels would alter the RFS program's incentive structure and could make it more difficult to finance new project development. It could also create an unhealthy market dynamic where cellulosic biofuel producers would have to carry costs and ultimately accept uneconomic discounted prices for their product. This could lead to a stagnant or reduced advanced biofuel requirement. In addition, a looming sunset of the RFS program's advanced biofuels requirements as provided for in the Discussion Draft could have a chilling effect on advanced biofuel producers, in particular the RNG industry that accounts for over 95% cellulosic biofuels produced and consumed and used in the U.S.

The RNG Coalition supports the basic premise of the RFS program as a policy mechanism designed to increase the domestic production and use of advanced biofuels to meet the nation's energy security and environmental policy objectives. The methodology used to set the volume obligations under the RFS program should be consistent with these goals. The program's volume obligations going forward must be realistic and attainable. They should also be structured in a manner that encourages the steady growth of advanced biofuel production.

Conclusion:

Chairman Shimkus, Ranking Member Tonko and members of the subcommittee, I again thank you for the opportunity to testify today and provide the RNG industry's initial impressions of the Discussion Draft. There are significant energy, economic and environmental benefits associated with the expanded domestic production and use of RNG. The RNG Coalition recognizes the hard work and effort this subcommittee has made to tackle what is admittedly a very tough issue. We remain willing to work constructively with you going forward to achieve the RFS program's worthwhile policy objectives.