Achieving Market Stability Under the Set Rule

Maximizing the Low Carbon Fuel Investment Signal

Discussion with Office of Management and Budget

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Renewable Investments With Sustainable Results

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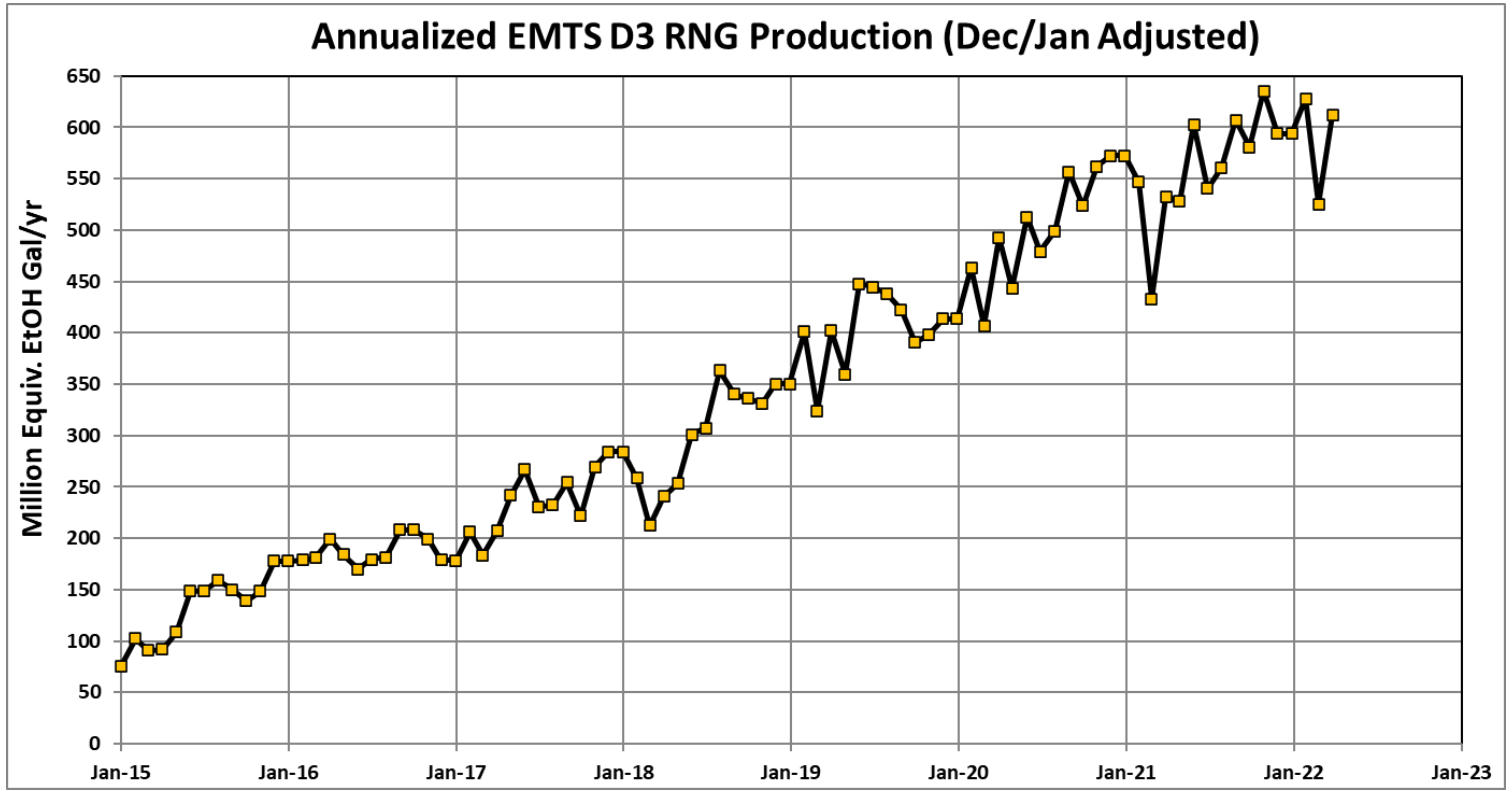
The RFS is sound – but a key element is missing

- **What is missing?** EPA needs a mechanism to clear large D3 surpluses annually
- **Why does it matter?** To maximize investments in fuels with the lowest carbon intensities, EPA needs to avoid prolonged D3 surpluses
- **Innovation can pose challenges –** We understand that addressing possible D3 surpluses poses challenges as EPA moves toward multi-year RFS volume setting
- **Industry is ready to help –** We want to work with EPA to develop effective and legally sound solutions

The RFS Has Succeeded in Driving Substantial Growth…

Because of Four Key Design Features that Worked Effectively Together

1. Ambitious (e.g. 16 bgy) long-term targets
2. Annual RVOs
3. Neutral aim at accuracy for RVOs
4. Protect obligated parties from D3 shortfalls

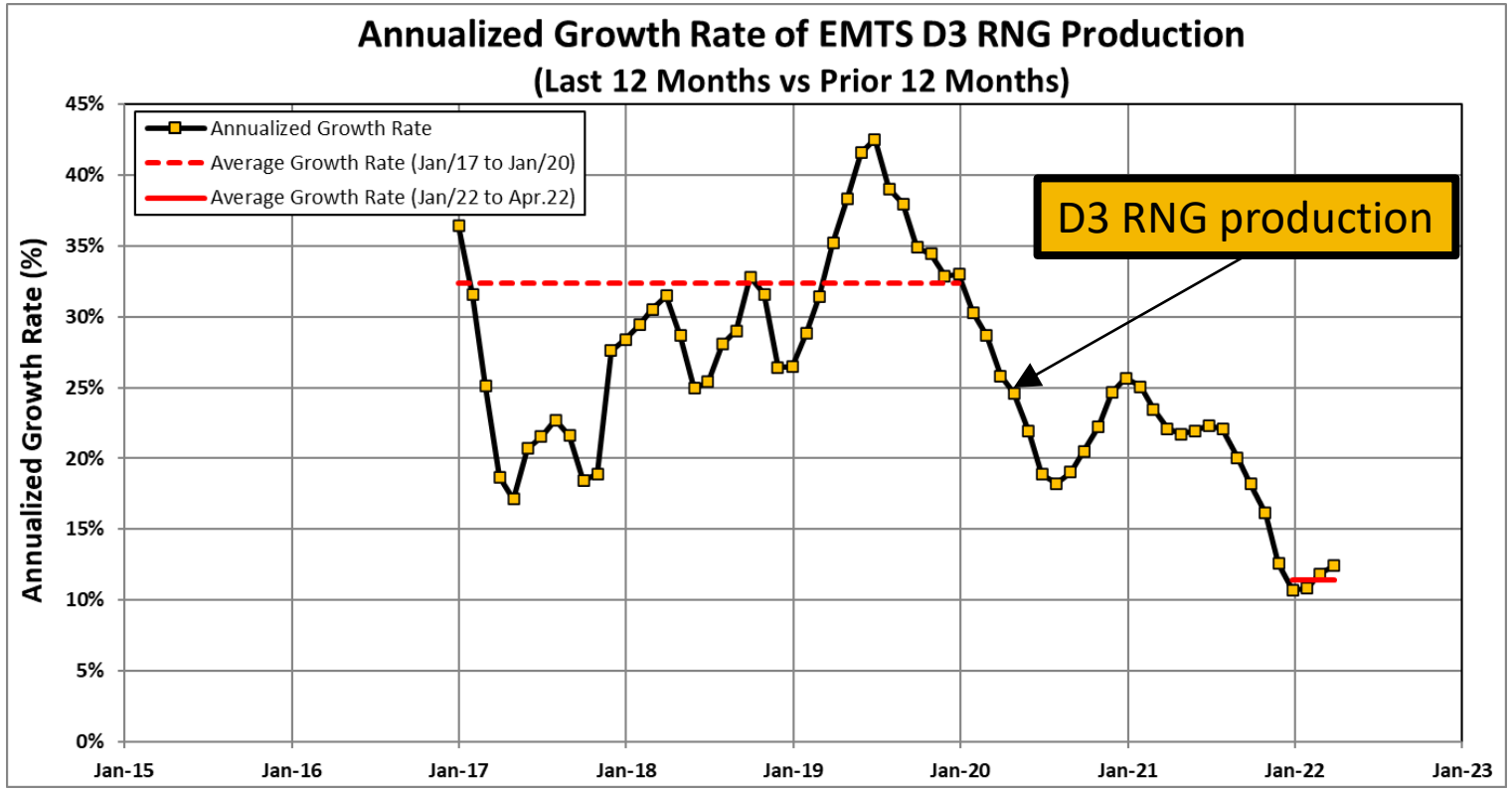


Under this approach, 100% of residual market risk is borne by producers and investors

… but annualized Growth in New Production has fallen Dramatically

The Reason: SRE Approvals Led to an 8% Oversupply of D3 RINs

- Essentially, the market outgrew the mandate (which was depressed by SREs)
- Relatively small surpluses translated into a 90% drop in the price premium for D3 RINs
- With low prices, investors like us stopped developing new projects … but it takes 30 months to develop a new project

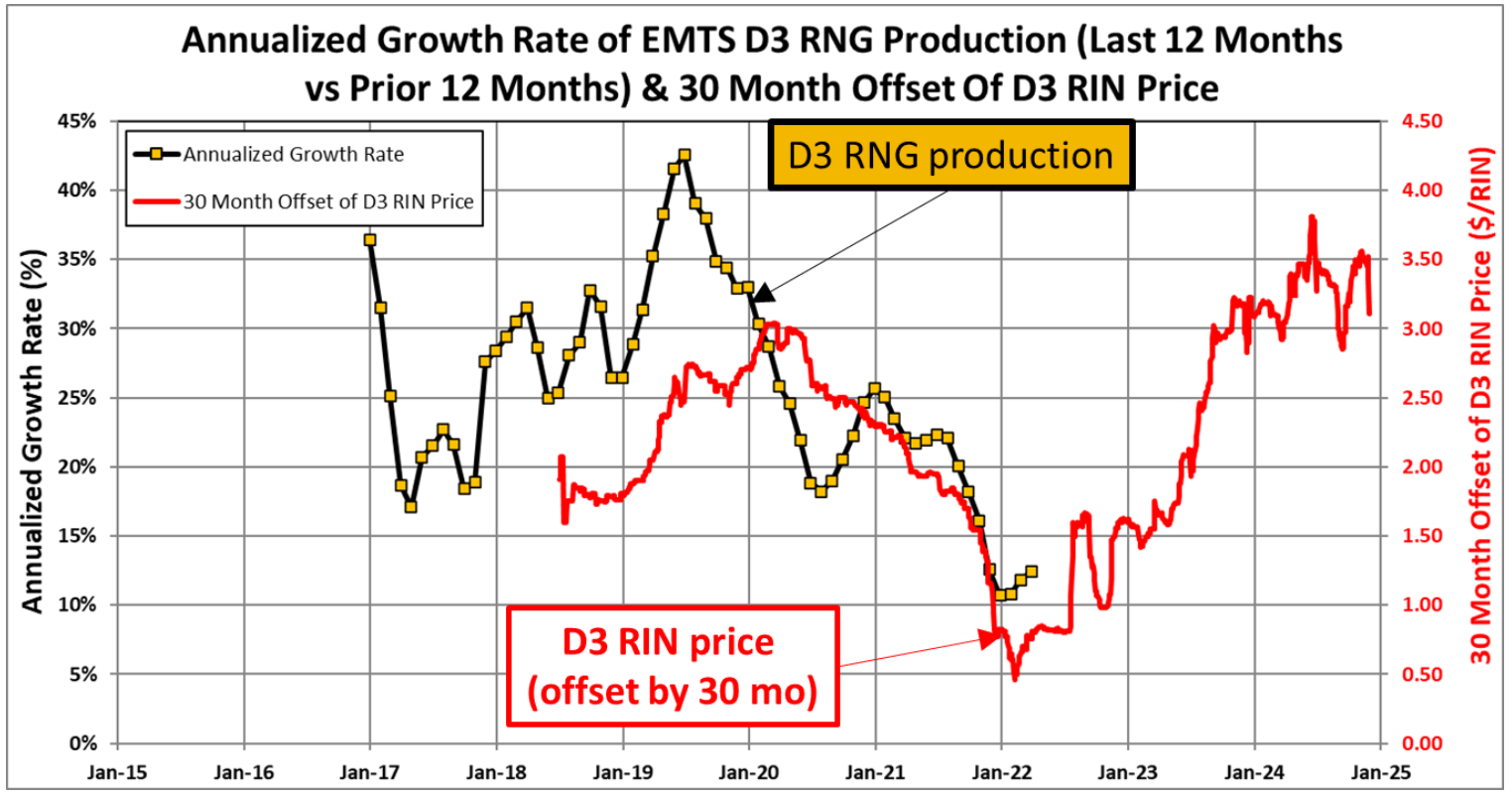


What we are seeing now is an echo of what happened 30 months before ….

Annualized Growth in New Production Fell Dramatically

The Reason: SRE Approvals Led to an 8% Oversupply of D3 RINs

- … Prices hit their floor 30 months ago, but now …
- Investment in our industry is roaring back
- As a result, we expect to see a surge in production volumes in the coming two years



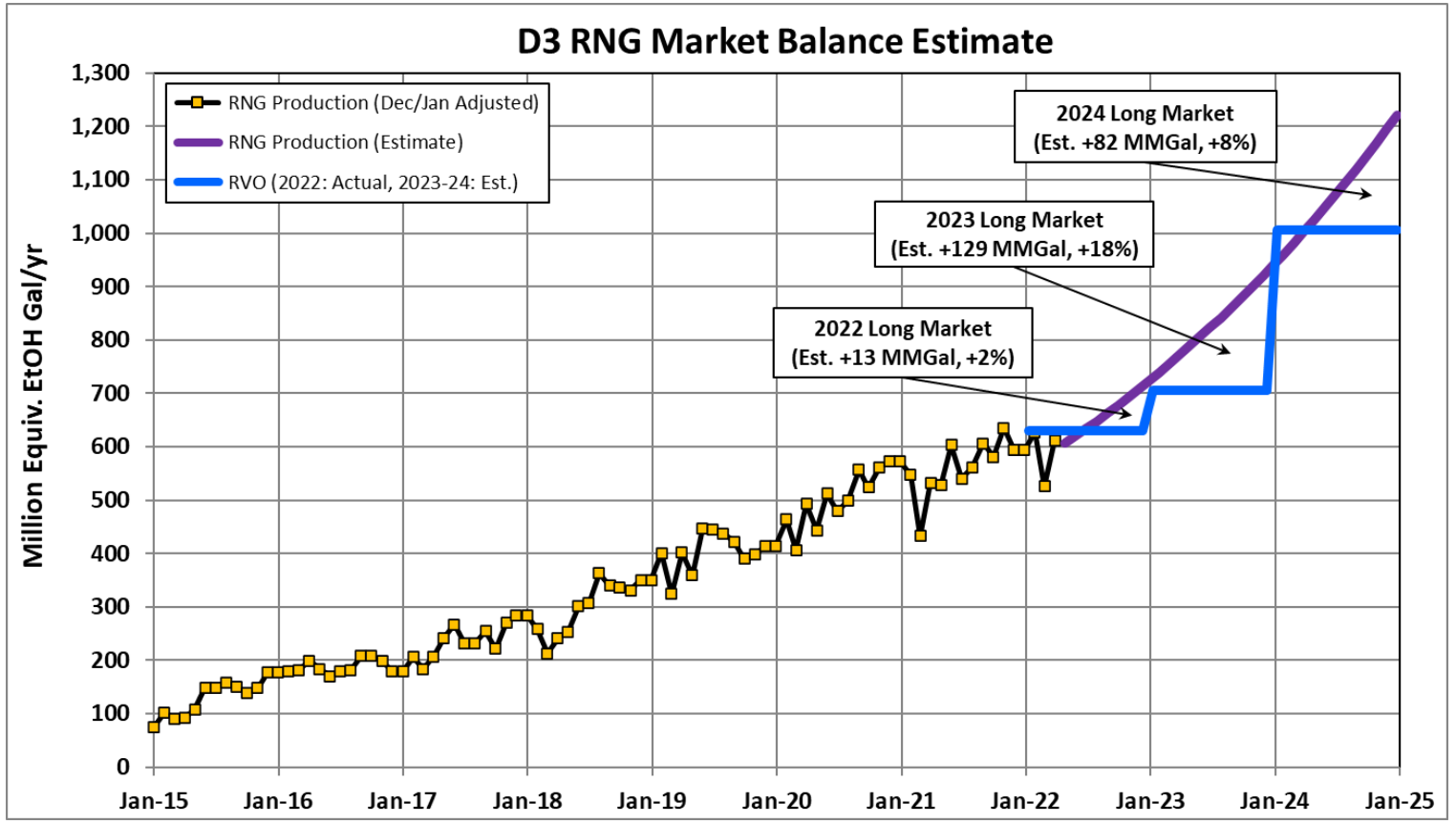
The SRE-driven investment pullback was the most dramatic – but not the only – case of D3 downside volatility borne by producers (not by obligated parties)

Annual Clearing of D3 Surpluses Is Critical for Long-Term Set Periods

The Reason: Production growth could be underestimated which would crash prices

There are numerous reasons why it will be nearly impossible to project growth accurately

- EPA's current methodology systematically under-projects production ramp-ups
- New pathways, like eRIN, will have both uncertain timing and volume (30%+)
- Multi-year RVOs and large RIN banks will handcuff EPA's ability to manage unpredictability in the D3 market



Clear Large D3 Surpluses Annually

The Reason: It is the best way to achieve the purpose of the RFS

- A core purpose of the RFS is to maximize the displacement of fossil fuel with low-carbon renewable fuels.
- The industry understands and supports the desire to break free of annual rulemaking and litigation cycles
- We recognize that annual adjustments based on market performance create an additional challenge for proposing the Set rule
- Regardless of how EPA settles the many other RFS implementation questions, it can…

Include a mechanism to automatically clear any large D3 surpluses that materialize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