

FAQ: Renewable volume obligation (RVO)



What is the RVO?

The “RVO” refers to the renewable volume obligation – the obligation to introduce biofuels to the US road fuels pool. Under the US renewable fuels standard (RFS), companies must encourage biofuel blending by either blending biofuels themselves, or by buying biofuel tickets (RINs) from companies that have done the blending themselves.

Who are the obligated parties?

Any company that manufactures domestic US gasoline or diesel is an obligated party under the RFS. This includes companies that have imported road fuels into the country. A company’s blending obligation is proportionate to the volume of gasoline or diesel it has manufactured. Fuels that are exported from the US do not confer an obligation on the manufacturer.

What biofuels must be blended?

The RFS allows parties to meet their obligations with a variety of different biofuels. These fall into four distinct buckets: renewable; advanced; biomass-based; and cellulosic. In practice, the vast majority of biofuel blended is ethanol or biodiesel. Blending a single gallon of any allowable renewable fuel generates a single RIN that can be used to demonstrate compliance or sold to an obligated party on the open market.

How is the size of the obligation decided?

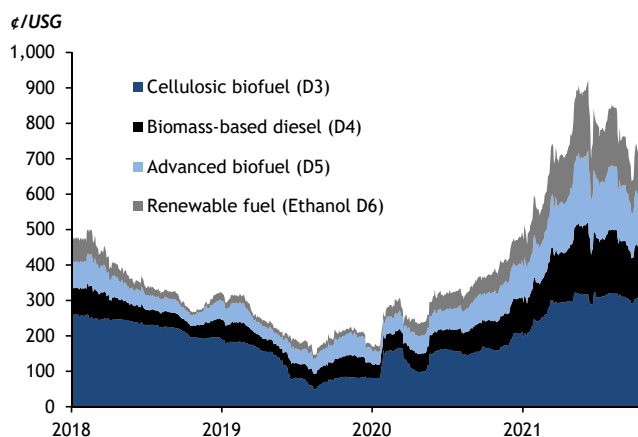
The US Environmental Protection Agency proposes – and subsequently confirms – an overall renewable volume obligation for each calendar year. A different volume target is set for each of four different types of biofuel. Obligations are sometimes determined retroactively.

RIN types	2020 percentage standard (Percent of RINs required per gallon of fuel)
Cellulosic biofuels (D3)	0.34%
Biomass-based diesel (D4)	2.1%
Advanced biofuel (D5)	0.49%
Renewable fuel (D6)	8.63%

What is the “Argus RVO” and how is it calculated?

The *Argus* RVO is the cost of complying with the RFS for each gallon of gasoline or diesel. To calculate the RVO, *Argus* weights its four *Argus* RIN assessments according to the prevailing EPA blending targets for each type of biofuel. These weightings change each time the EPA proposes a new set of blending targets.

Argus RVO Breakdown



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Compliance Category	EPA Final 2020 RVO Percentage Standard	"De-nested" RIN sub-categories	"De-nested" RINs required per single gallon of petroleum	Argus RVO 2020 Percentage	Argus RVO (Sum of below formulas)
Cellulosic biofuels (D3/D7)	0.34	Cellulosic biofuels	0.0034	0.34	=0.34%*D3 RIN price
Biomass-based diesel (D4)	2.1	Biomass-based diesel	0.021	2.1	=0.21%*D4 RIN price
Advanced biofuel (D5)	2.93	Additional advanced biofuel	0.0049	0.49	=0.49%*D5 RIN price
Renewable fuel (D6)	11.56	Additional renewable fuels	0.0863	8.63	=8.3%*D6 RIN price

How is the RVO index used?

Argus RVO is commonly cited as a negative line item (discount) in contracts for non-obligated fuels. These might include export cargos of gasoline, marine diesel sales, or even aviation gasoline. In these instances, the product will typically be invoiced using an obligated US benchmark price (domestic gasoline or diesel) *minus Argus* RVO. For example:

- Export gasoline priced at *Argus* Colonial gasoline *minus Argus* RVO
- Marine diesel priced at *Argus* NYH barge ULSD *minus Argus* RVO

What is the RVO futures contract?

ICE RVO is a suite of cash-settled futures contracts offering exposure to the *Argus* RVO index. The suite of contracts includes daily, monthly, and balance-of-month offerings. The monthly contract ultimately settles against the average of published *Argus* RVO values over the course of the named calendar month, while the daily contract settles against the *Argus* RVO quote on the day in question.

How are RVO futures used?

Argus RVO futures are used to "fix" the RVO component of contracts, and to strip the RVO out of certain trades. Among the many potential use cases, the most common include:

- Companies with physical fuel contracts citing *Argus* RVO. They can fix the *Argus* RVO exposure by trading this contract and unwinding positions on pricing days. Daily and BALMO contracts allow tailored exposure to specific pricing days.
- Companies trading arbitrage between US and European markets. They can use the RVO contract to lock in their RVO exposure at the same time they lock in the arb.
- Traders taking a view on refining margins. They can trade the RVO contract simultaneously with the gasoline or diesel crack, ensuring that RIN volatility will not sour their trade.

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