

## Focus on Fuels

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November 2014

Volume 4, Issue 9



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A funny thing happened at the second absolute final deadline of the Administration's review of the EPA's recommended renewable fuel obligations for 2014- nothing. Yes, that's right, the 2014 obligations that had to absolutely be set by November of 2013 (the 2013 is not a typo) are still undetermined. The specific items that are holding up a final decision are unclear; however, the impact on the various participants can be predicted.

### Limbo - the State of the U.S. Renewable Fuels Program

*by Tom Hogan*

With no mandated renewable volumes, the transportation fuel producers have no certainty on how much renewable fuel they must blend. In addition, the producers have essentially no time left to significantly change the amount of renewable fuel blended in 2014 since there is only one month left in the year. The EPA has indicated that the obligation for 2014 will be set in 2015. The obligation can be set at, 1) the proposed levels from November 2013, 2) the actual amount used in 2014, 3) higher than the actual used, or 4) lower than the actual used.

Setting the volume at either the November 2013 proposed level or the actual 2014 level will likely have no disruptive effects for the transportation fuel producers. The industry has anticipated that the obligations will be similar to the 2013 proposal. Also, if the obligation is set lower than the 2013 proposal, the only impact is that the RIN inventory for prior year RINs will increase, but there will be no additional cost to the fuel producers. However, if the obligation is set significantly higher than the 2013 proposal, the prior year RIN inventory could be reduced or depleted entirely, and the cost of RINs could increase dramatically.

The history of RIN-pricing has been interesting. When the program first began in 2010, the RVOs were set well below the physical

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- Interaction with EPA to pose fuels related questions.
- Industry specialist assistance for required gasoline attestations.
- Industry specialist assistance for in-line

blending audits.

- Assistance in setting up a fuels compliance group/program.
- Personnel reviews of compliance related groups.
- Compliance status reviews and recommendations.
- Negotiations/consultation during EPA enforcement actions.
- 3rd Party Engineering reviews.
- Due diligence reviews of facilities and companies in RFS RINs Program.

ability of the transportation pool to absorb renewable fuel. As the percentage of ethanol in the gasoline pool rose to 10%, the value of ethanol RINs languished at a few cents per gallon. When the percentage of ethanol in gasoline reached 10% and the RVO called for even more, the market realized that it would be expensive to produce higher ethanol gasoline blends and the price of ethanol RINs skyrocketed to over \$1 per gallon. The EPA took note of the very high RIN prices and the potential disruption in fuel supply and proposed to limit the renewable fuel obligation to expected usage, which EPA estimated to be only the 10% added to gasoline with little or no E15 or E85. The RIN prices initially decreased but quickly recovered to about 50-60 cents per gallon where they have stayed until today. RIN prices initially decreased when the EPA announced that the 2014 obligation would not likely be set until 2015; however, there is speculation that delaying setting the obligation is bullish for the renewable fuel industry, and this would raise the value of RINs.

Until the EPA clarifies its thinking on what future RVOs should be, the value of the RINs will be driven by speculation on how the agency will set future RVOs. If the agency reaffirms its analysis from 2013 and sets future RVOs at levels that are expected, the ethanol RIN value might drop near its original value, less than 10 cents per gallon. If the agency chooses to enforce the original RVO levels that anticipate a large amount of E15 and E85, the RIN values are likely to be much stronger.

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