

Focus on Fuels

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TM&C Services

Renewable Fuel Standards Set for 2014, 2015, & 2016



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TM&C Services in Fuel Regulations

TM&C provides a full range of services in its fuels regulatory practice. Some of these services are listed below.

- Preparing, reviewing and submitting fuels reports, including CDX submissions.
- Facility audits for compliance with fuels programs.
- Interaction with EPA to pose fuels-related

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What determines RIN prices? In the capitalist world, prices are theoretically set by supply and demand; therefore, it should be easy to forecast RIN prices, right? Not so fast. Although RINs that are generated can be sold to the highest bidder, there is a breakdown using the capitalist price theory. RIN demand is set by the government and not by the free market. To further cloud the issue, there is significant uncertainty on what the requirement for RINs will be after 2016. Some of the issues are explained below.

RIN Prices

by Tom Hogan

The EPA's renewable fuel program for transportation fuels includes a federal mandate to add increasing volumes of renewable fuel to the transportation pool up to 36 billion gallons by 2022. Under the original mandate, the renewable fuel requirement for 2016 should have been over 22 billion gallons; however, the program hit a snag in 2013 when RIN prices spiked to over \$1 per gallon. For perspective, this added 8-10 cents per gallon to all of the gasoline and diesel produced. That doesn't sound like much, but if the total demand was on the order of 12 million barrels per day (9 MMB/d gasoline and 3 MMB/d diesel), 10 cents per gallon is over \$400 million per year.

Politically, the high cost of the program was the "good" news. Spreading out the cost over all of the transportation fuel "only" raised the cost of the product about 10 cents per gallon when the total cost of the product was greater than \$2 per gallon. In addition, the cost is not directly identified on the pump, and the general population has no idea that it is a significant cost. I will bet that if you asked anyone not directly involved in the

- questions.
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 - 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.

production or sale of transportation fuel, to describe the use and cost of a RIN, the answer would be a vacant stare.

Politically, the "bad" news was, the high cost of RINs was partially caused by a physical limit on the ability of the transportation pool to absorb the amounts of renewable fuel required under the RFS program. The ethanol blendwall has been explained many times, but briefly means that for regulatory reasons and possibly performance issues, gasoline cannot contain over 10% ethanol. Sales of higher ethanol blends like E15 and E85 were severely limited. The high RIN price portended a lack of RIN supply and quite possibly a lack of transportation fuel supply. Think gas lines and you know why the political arena was terrified.

The political solution to the 2013 problem was to dither. That's a technical term to describe ignoring the statutory requirements to set the volume obligations for one year until the midterm elections were completed in 2014 and then another year delay just because the problem was so intractable. Many hearings were held and potential votes were counted and those in the administration finally came to a solution that could be announced in late 2015. The timing, after a midterm election and well before the coming presidential elections, is probably no coincidence. The EPA set the obligations for 2014 and 2015, essentially after those years were complete, at close to the actual renewable fuel used in those years. It also set the 2016 obligations at about the same level as the original 2014 mandate.

The RIN pricing for 2016 (around 75-85 cents per gallon) has not reflected the same level of concern as seen in 2013. This is probably because in 2013, the expected obligations for 2014, 2015 and 2016 were a growth to 22.25 billion gallons of renewable fuel, which looked undoable at the time. Today, there is no set expectation on what the future obligation will be beyond 2016. Setting the obligation for 2017 and beyond could again become an unanswered political question until after the presidential elections in November; however, there are political questions and then there are political questions. The current administration cannot be re-elected and may have little reason to delay any decisions; however, the party of the sitting president may have some influence, and a delay in setting the obligation, which is supposed to be preliminarily set in March, is possible.

So where do RIN prices go? In the near term, there are two questions that must be answered to decide if the prices will be driven higher or lower. What is the schedule for the future obligations, will they return to the original mandate? And, what is the status of the prior year RIN inventory? This inventory provides a buffer for RINs in a given year. Up to 20% of any year's obligation can be satisfied by prior year RINs. As long as the prior year RIN inventory is expected to be at least 20% of the coming year's

obligations, there will be little pressure for a large RIN price increase; however, if the prior year RIN inventory is expected to decrease and disappear, RIN price increases will be significant.

Finally, any market (at least partially) uses history to answer what may happen in the future. The EPA has shown that it was responsive to the perceived problem of limited transportation fuel supply. If the RIN prices indicate a similar problem in the future, logic would say that the future obligation will be reduced; however, the latest round of crude oil price decreases should be seen as a cautionary tale. Until 2014, OPEC (actually Saudi Arabia) had shown a willingness to reduce crude oil production to support the price. That historical position changed radically in the past two years. The result is an unforeseen fall in the price of crude oil. In the same way, the federal government's past hesitancy to accept limitations on the supply of petroleum products may not be the same game plan in the future.

All of that uncertainty is a good reason to stay in touch with us here at TM&C to keep you current on the latest developments in the RFS and other regulatory programs.

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