

## Focus on Fuels

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### E-15 RVP Waiver Do Refiners Love or Hate? The Answer is Yes.



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A little late for this summer season, the question of whether or not to extend the 1 psi waiver to E-15 in the summer time has again become the question du jour. It has been debated since the E-10 blend wall became a limitation on the amount of renewable fuel that can be absorbed in the transportation pool. Every six months or so, I hear that the summertime 1 psi waiver has been extended to E15. An announcement to that effect was going to be made within 24 hours. Alas, for one reason or another, the announcement never came and E-15 was still relegated to RFG areas or conventional gasoline areas with low blendstock for oxygenate blending vapor pressures. Today, I also heard that approval is imminent and again I wait for the announcement. I do not doubt that eventually E-15 will be allowed the 1 psi waiver, primarily because the RVP of E15 is no higher than the RVP of E10. But the more interesting question is, what do refiners think of E-15? Is it the best thing since sliced bread or worse than a bad sunburn at the beach?

### Do Refiners Love or Hate?

#### 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 questions.
- Industry specialist assistance for required gasoline attestations.
- Industry specialist

#### The Politics

The timing of the latest consideration is suspiciously convenient for the upcoming elections. E-15 and the entire renewable fuel program are fraught with politics with a dollop of environmentalism added. What could be better for the country than replacing foreign crude oil with domestic ethanol? We become more energy independent, and it doesn't hurt that domestic producers of ethanol are also voters. The program can also be argued to be environmentally sound because we are not consuming limited resources. The arguments for and against these issues are well beyond any short article, but they help to frame the discussion. The bottom line is that the issues are more political than scientific. By raising the issue after the summer season and before elections, it is possible to straddle the issue for a time before it actually impacts next summer's RVP control period. The parties likely to be involved in the posturing include the President, Senators, Congressmen (and women), Governors, state legislators, renewable fuel producers both domestic and foreign, petroleum industry participants, farmers, cattlemen (and women), and just

- 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.

about anyone with an opinion on ethanol in their gasoline. The list is almost too large to compile. Since we can't exhaust all of the arguments for these interests, this article focuses on refiners and how they might look at an approval of the E-15 waiver.

### **Lower Refinery Throughput**

An argument against the waiver by refiners is that the higher the ethanol content, the less fuel the refiners will produce through their refinery. This is a real argument and volumes might seem small until you consider the amount of gasoline consumed in the United States. Gasoline consumption in the United States is on the order of 9-9.5 million barrels per day. Five percent of that is over 450,000 B/D. The impact on crude runs could be any of the three following options. First, assuming refinery charges are near 18 million B/D, and gasoline yield at 60%, utilization at refineries could decrease by 750,000 B/D (~4.1%) simply by allowing E-15. In this case, refinery output of other products would also be reduced, which is unlikely. Second, the input to the refinery would decrease by 450,000 B/D (~2.5%) and the inputs would change to continue to make all of the products except the lost gasoline. Or third, and the option I believe is most likely, refinery throughput would stay the same and gasoline exports would simply increase by 450,000 B/D. The actual impact is likely to be a combination of all three options depending on the choices each refiner might make. Some loss of refinery throughput would be expected.

### **Lower RIN Prices?**

If E-15 is granted the 1 psi waiver, there will be up to 50% more ethanol blended into gasoline and won't the price of RINs decrease? Possibly, but I believe it is unlikely. EPA's current policy is to look at the ability to absorb ethanol into the fuel system and has unofficially recognized the blend wall at E10. If E-15 is granted the waiver, based on the past few years, EPA is likely to increase the RVO to force 15% ethanol into the transportation system. This could even have the opposite effect of raising RIN prices as the industry accommodates the higher ethanol percentage in gasoline. The current RFS mandate of 36 billion gallons of renewable fuel by 2022 has not been modified. EPA has limited the RVO based on a provision that if supply is limited, the RVO can be reduced. EPA has interpreted this provision to mean that if there is no demand, that it is a limit on supply. If E-15 becomes a year-round option, EPA would be bound by the regulations and congressional mandate to increase the RVO to assume E-15 is the "de facto" limit. Refiners are not likely to enjoy much relief from RIN prices based on approval of the E-15. An exception might be if the approval of the E-15 waiver is after the RVO is set for a given year, RIN prices would be reduced. If that were to happen, the lower prices could cascade into future years, possibly until 2022 when the program must be reviewed.

### **E-15 and the Dilution Effect**

A point not usually considered is the intersection of the latest proposed fuels regulations streamlining rules, the impact of granting the

summertime E-15 waiver and the Tier III sulfur in gasoline regulations. Currently, very little conventional gasoline is allowed to capture the dilution impact of sulfur and benzene due to the addition of ethanol downstream of the refinery. This hasn't been all that important until the sulfur content in gasoline was reduced from 30 ppm to 10 ppm for most refiners beginning in 2017. Sulfur credits became much more valuable under the new rule because it's much harder to reduce gasoline sulfur below 10 ppm than 30 ppm. EPA's proposed streamlining regulations will make it easier for a refiner to capture this diluent impact if they are finalized as proposed. In this scenario, refiners would benefit from the dilution effect of a higher ethanol content fuel.

### **Refiners Love/Hate E-15 Waiver**

Refiners are no different than any other manufacturer. They are used to competing in a free market and are leery of government mandates that cede their market share to other industries; however, they have been burdened in the past few years by very high RIN costs. If the E-15 waiver were to really reduce the price of RINs, most refiners and especially merchant refiners would be very happy; however, refiners are understandably wary that any approval of the E-15 waiver would just increase the RVO and RIN costs would not decline. Finally, refiners are likely to applaud most of the proposed streamlining efforts including the diluent effect of E-15 if the waiver is granted.

Turner, Mason & Company can help you sort out all of the possibilities as the fuels regulations ebb and flow with the political climate. Give us a call if you need some help or if you would just like to discuss the latest rumors.

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