RFA RENEWABLE FUELS ASSOCIATION

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# What Others Are Saying About the PES Bankruptcy and RINs

Philadelphia Energy Solutions (PES) and the United Steelworkers (USW) International recently responded to what they characterized as "false and misleading statements" made by the Renewable Fuels Association (RFA) regarding the impact of the Renewable Fuel Standard (RFS) and RINs on independent merchant refineries.

PES has fallaciously blamed the RFS and RINs for its recent decision to seek bankruptcy protection, and now opponents of the RFS are using the bankruptcy as a key talking point in their campaign to reform or repeal the RFS.

**RFA is far from the only organization to challenge the legitimacy of PES' claims about the role of RINs in the company's financial difficulties**. Numerous institutions and experts from the financial community, academia, government, the energy industry, and media have agreed that RINs are not the cause of PES' problems and have contested the company's deceptive assertions. Clearly, RFA is not alone in its skepticism of PES' allegations.

## Here's what others have had to say about the PES bankruptcy:

- Even the **USW** itself has stated that RINs are not the source of PES' financial troubles. Ryan O'Callaghan of the **United Steelworkers Local 10-1** (which represents 700 workers at the PES refinery), said union leaders ***"…have information that the RINs might not be impacting them as stated,"*** and he ***"questioned the severity of the RINs effect."***
- In a four-part analysis (1, 2, 3, 4), the **University of Pennsylvania's Kleinman Center for Energy Policy** (located less than 10 miles from PES) examined the real sources of PES' financial woes. According to the analysis:
    - ***"PES has a long history of being unprofitable"*** and ***"PES was in bad shape to begin with."***
    - The ***"primary challenge"*** facing PES was the loss of access to Bakken crude oil and the narrowing spread between WTI and Brent crude prices.
    - PES investors ***"…sacrificed PES for the benefit of their more profitable investments."*** They **"…*invested billions of dollars in more profitable infrastructure that rendered PES uncompetitive."***
    - Unlike PES, **"*Some other merchant refineries…have acquired or strategically partnered with blending terminal facilities in order to reduce exposure to RIN costs and secondary market volatility."***
- Well-known oil analyst **Phil Verleger** says PES is ***"…scapegoating the RFS for its financial woes…instead of properly attributing the demise of the refinery to the end of the long-time crude oil export ban, antiquated equipment and a lack of investment that kept the plant competitive with other northeastern refineries."***

- Petroleum industry consultants at **Turner, Mason & Company** agree that RINs are not affecting margins for refiners like PES, stating, ***"RFS compliance costs are substantially passed from refiners"*** to wholesale purchasers of gasoline blendstock.
- Investment advisor and venture capitalist **Joelle Simonpietri** also analyzed the PES bankruptcy filing, concluding that, ***"…blaming this chapter 11 bankruptcy on the RFS smells like a political cop-out."*** Simonpietri says the bankruptcy was caused by ***"a flawed business model and failure to manage through change."***
- The **Environmental Protection Agency** has concluded that RINs are not negatively affecting profit margins for oil refiners like PES. According to EPA, ***"…obligated parties, including small entities, are generally recovering the cost of acquiring the credits necessary for compliance with the RFS standards through higher sales prices of the petroleum products they sell. This is true whether they acquire RINs by purchasing renewable fuels with attached RINs or purchase separated RINs."***
- Analysts from **Wells Fargo Securities** recently released an analysis to subscribers that examined the potential impacts of RFS compliance costs on merchant refiners like PES, finding that ***"Most independent refiners now enjoy a net benefit from RINs, based on our analysis."*** The analysts also found that ***"RINs costs are being passed along"*** and ***"investors should not spend much time and effort"*** worrying about RINs.
- Economists from **Harvard University, MIT, and the University of Michigan** also determined that refiners like PES recover the cost of RINs, and thus there is no net impact on margins: ***"RIN prices were passed through one-for-one in the prices of bulk petroleum fuels."***
- Similarly, economists from **Iowa State University** found that ***"…added refiner costs from complying with the RFS are passed on to blenders through higher gasoline prices. We show that high RIN prices…have no impact on profits of refiners, blenders, or integrated oil companies."***
- Prof. Scott Irwin from the **University of Illinois** states that the conditions that drove "high ethanol RINs prices in the first place" are rapidly changing and that ***"…it is not out of the realm of possibility for D6 RINs prices to fall back their pre-2013 level of just a few cents without making any changes to the RFS."***
- Oil refiner **Andeavor** (formerly Tesoro) has challenged the argument used by PES, stating ***"RIN costs are passed through at the bulk finished product sales points and provide refiners with coverage of their exposure to them."***
- Even the **American Petroleum Institute** agrees that PES' arguments are fallacious, stating ***"…RIN costs are largely recovered by refineries, both large and small, through the increased value of gasoline and diesel fuel they supply to the market."***

**It's time for PES to stop scapegoating the RFS and RINs for its financial woes and take responsibility for the actions that truly caused the bankruptcy.**