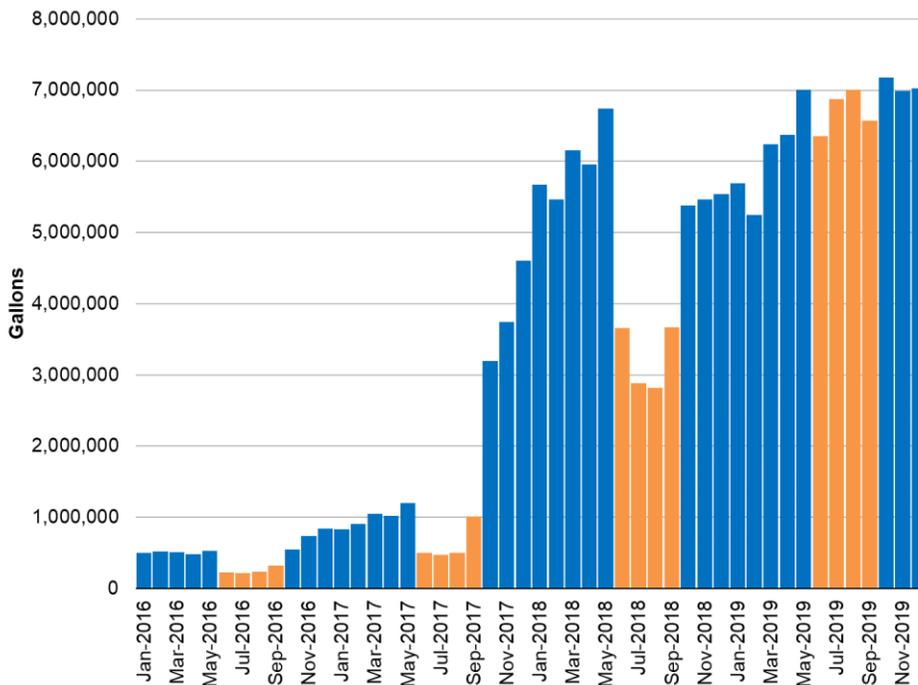


E15 SALES SURGE AFTER REMOVAL OF REGULATORY BARRIER, BUT RFS REFINER EXEMPTIONS LIMIT EXPANSION

February 4, 2020

E15 sales [data](#) released by the Minnesota Department of Commerce on Monday clearly demonstrate that interest in E15 is strong and that the Trump administration’s elimination of an obsolete regulatory barrier is working.¹ Sales of E15 at stations in Minnesota that report volumes were 78.5 million gallons (MG) in 2019, up 32% from 59.4 MG the year before (Exhibit 1). Accounting for the 20% of stations that are identified by the Department as selling E15 but that do not report volumes, it can be estimated that total E15 sales in the state were 97.5 MG in 2019.

Exhibit 1: Monthly E15 Sales in Minnesota



Source: Minnesota Department of Commerce

Previously, sales of E15 had been restricted each year during the June 1–September 15 volatility-control period in areas where conventional gasoline is sold. As a result, E15 volumes typically plummeted during the summer. However, in

¹ Minnesota is the only state that reports sales volumes of E15 and flex fuels like E85 on a monthly basis.

May 2019 the EPA allowed E15 to be sold year-round by extending to it the 1-psi Reid Vapor Pressure waiver that was already available for E10 blends.

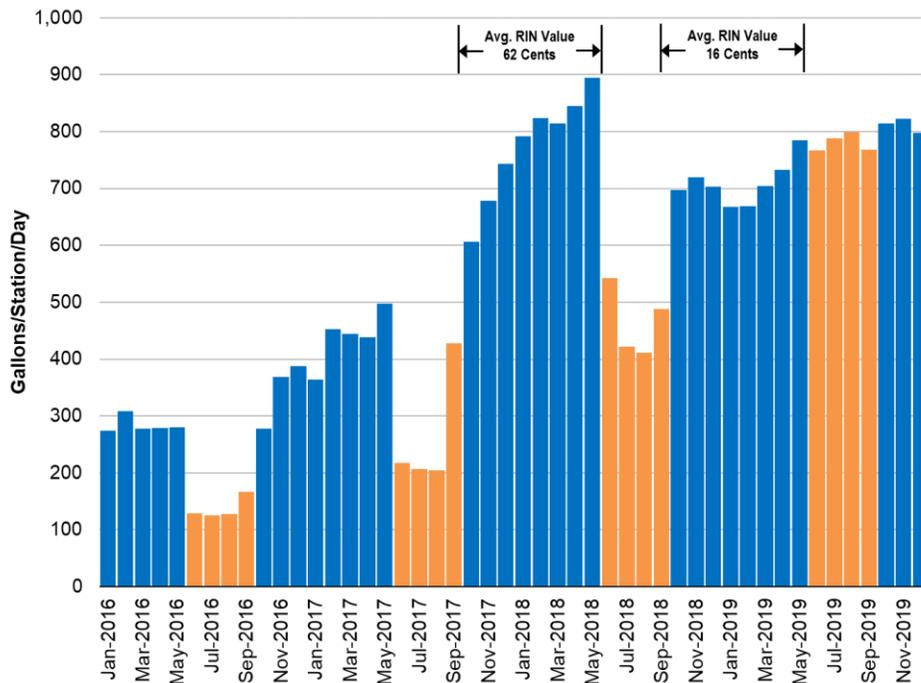
The jump in sales during the June–September 2019 period was even more impressive than the annual increase. Reported volumes more than doubled to 26.8 MG in 2019 from 13.0 MG in 2018. For the first time ever, sales in the summertime kept pace with prior months.

Extrapolating to the national level, the Minnesota volumes would imply sales of 499 million gallons of E15 in 2019, containing 75 million gallons of ethanol.

Still, the Minnesota data show that the deluge of Renewable Fuel Standard compliance exemptions granted to oil refiners by the EPA kept sales of E15 and higher-level ethanol blends from growing even more rapidly.

In order to normalize the data for the expansion in stations offering E15 over time and for the varying number of days in each month, E15 sales can be expressed in terms of the volume per station per day. As explained above, prior to the EPA rulemaking in May 2019, E15 sales were concentrated during the October–May period. On the basis of sales per station per day, E15 volumes continued to surge from October 2017 to May 2018 but experienced a setback during the subsequent October 2018–May 2019 period (Exhibit 2).

Exhibit 2: Minnesota E15 Sales per Station per Day



Source: Minnesota Department of Commerce (E15 Sales), OPIS (RIN Prices)

What changed? The EPA granted numerous RFS exemptions to small refineries, which came to light in early 2018. As a result, the price of ethanol-related renewable identification numbers (RINs), which are credits used to demonstrate compliance with the RFS, fell from nearly a dollar in the fall of 2017 to roughly 20 cents by the end of May 2018, averaging 62 cents between October and May. During the subsequent October 2018–May 2019 period, ethanol RINs averaged only 16 cents and were in single digits for four weeks in October and November.

Higher RIN prices incentivize retailers to offer blends with higher ethanol content and, along with ethanol prices that are typically at a discount to gasoline, facilitate more competitive pricing of such blends to drive increased sales. The undermining of RIN prices from the RFS exemptions threw this trend into reverse.

Fortunately, the number of stations in Minnesota selling mid-level blends (predominantly E15) had expanded to 329 in October 2018 from 229 in October 2017, an increase of 44%. Additionally, wholesale ethanol prices were on average 41 cents/gallon cheaper than gasoline futures prices during the period from October 2018 to May 2019. These two factors allowed overall sales of E15 to remain fairly robust. (The number of stations grew more slowly in 2019, as a result of a combination of low RIN prices and the expiration of a program that helped to defray the cost of installing biofuels distribution infrastructure.)

Looking to the future, there are several reasons for optimism. E15 can now be sold year-round, and volumes during the summer of 2019 were robust. Retailers in Minnesota have demonstrated their interest in offering E15, as long as regulatory conditions are favorable and generally predictable. The USDA is in the planning stages for a new Higher Blends Infrastructure Incentive Program, and the administration has committed to streamline E15 labeling and to reduce other remaining barriers. Finally, the impact of new small refinery exemptions will hopefully be lessened or eliminated for the 2020 compliance year and beyond, as a result of EPA's December rule setting RFS volumes, as well as a 10th Circuit Court decision in January that vacated three past exemptions. Taken together, these factors could spur future E15 growth in Minnesota—and the entire United States.