

March 31, 2015

The Honorable Fred Upton
Chairman
Committee on Energy and Commerce
House of Representatives
2125 Rayburn House Office Building
Washington, DC 20515

The Honorable Frank Pallone
Ranking Member
Committee on Energy and Commerce
House of Representatives
2125 Rayburn House Office Building
Washington, DC 20515

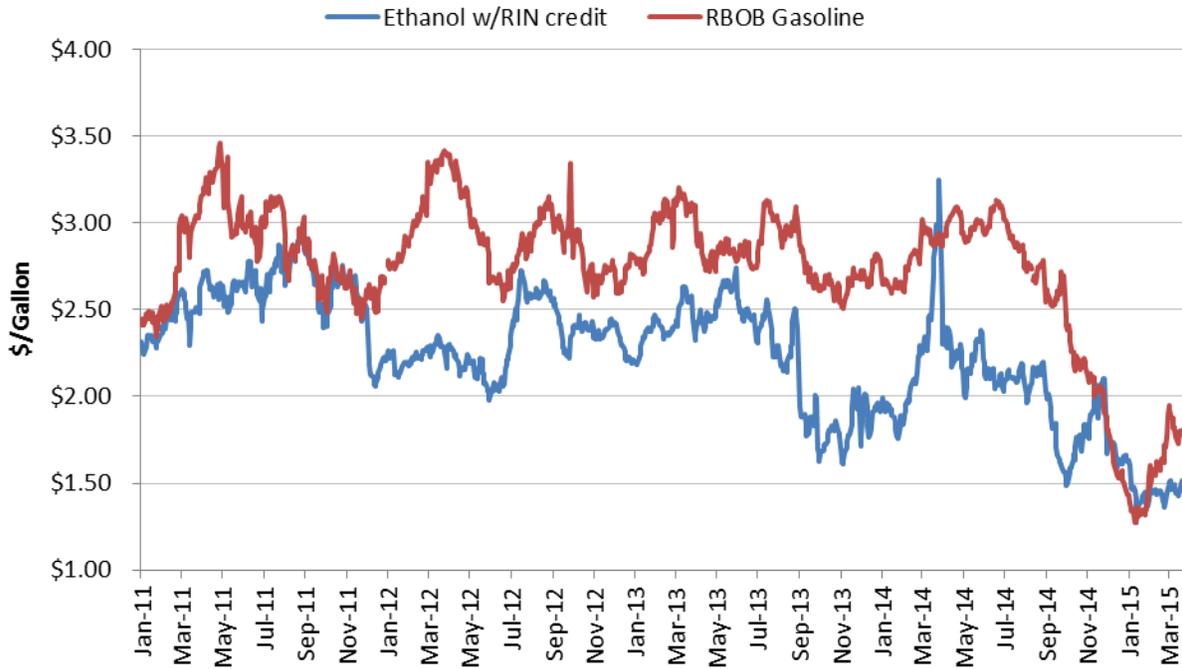
Dear Chairman Upton and Ranking Member Pallone:

A letter dated March 16, 2015 from the Petroleum Marketers Association of America (PMAA) contained a number of misleading and erroneous statements about the economic competitiveness of ethanol, the ethanol compatibility of existing retail gasoline infrastructure, the cost of installing infrastructure to distribute ethanol blends greater than E10, and the retail sectors' acceptance of E85. On behalf of the Renewable Fuels Association, I am writing to correct the record and provide the facts on the economic benefits of blending ethanol.

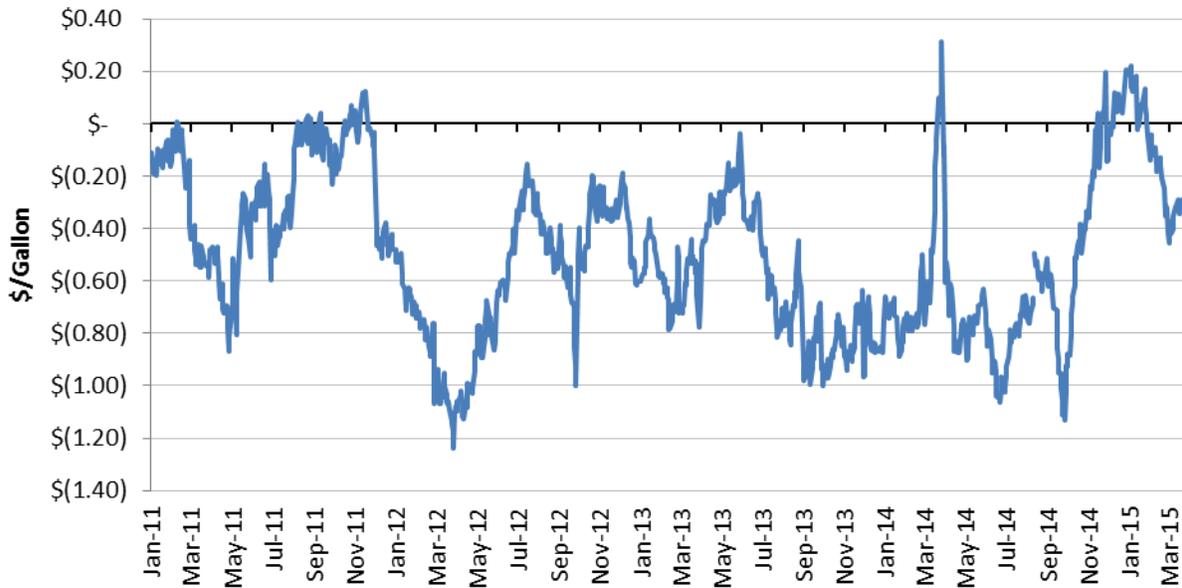
PMAA wrote that "ethanol is taking a hit" because its wholesale price was near parity with wholesale gasoline for a brief period in late 2014. While it is true that wholesale ethanol prices traded near parity with—or even above—gasoline prices intermittently in November, December, and January, the PMAA letter curiously ignores the fact that ethanol prices have returned to their normal relationship with gasoline prices. In fact, ethanol prices have been below gasoline prices every day since January 30, 2015, and have been \$0.26/gallon cheaper than gasoline, on average, during this period. On the day PMAA sent the letter, the price of ethanol was \$0.29/gallon below the price of gasoline.

Over the past four years, it has been exceedingly rare for wholesale ethanol prices to surpass gasoline prices. Indeed, since Jan. 1, 2011, daily ethanol prices have been below gasoline prices 91% of the time, and ethanol has been cheaper than gasoline by an average of \$0.51/gallon. The unusual ethanol/gasoline pricing dynamics experienced in late 2014 resulted from the rapid collapse of crude oil prices late last year. While the ethanol market was somewhat caught off guard by the plunge in crude oil and gasoline prices, as noted above, a more normal pricing relationship between ethanol and gasoline emerged in February 2015.

Daily RBOB Gasoline and Ethanol Prices (front month futures)



Ethanol Price Differential to RBOB Gasoline (front month futures)



In response to the re-emergence of more normal ethanol/gasoline pricing dynamics, ethanol demand has been strong. In fact, ethanol blending by refiners and blenders hit its highest level of the year last week, according to the Energy Information Administration (EIA). Meanwhile, ethanol export demand remains robust, as blenders and refiners around the world recognize the economic benefits of using U.S.-produced ethanol.

PMAA's contention that ethanol "must be priced at least 30 percent lower than conventional gasoline for motorists to receive similar energy content..." demonstrates the organization's misunderstanding regarding the actual utility of ethanol in the gasoline pool. Refiners and blenders value ethanol primarily for its extremely high octane content, not for its energy content relative to gasoline. As a source of octane, ethanol is cleaner and far less expensive than competing octane boosters derived from hydrocarbon refining processes.

PMAA again makes the claim that the ability of a fuel station owner to offer higher ethanol blends comes with a \$200,000 price tag. While this is possible, it is also extremely rare. The Petroleum Equipment Institute (PEI) published a report in September 2013 (<http://bit.ly/1G1UGD2>) that concludes the cost of adding higher blends will vary at each retail location. The report showed that some retailers will find the barrier to entry may be as low as \$1,100, while some could see the price tag associated with PMAA's comments. That said, PMAA's example would require a retailer to install a completely new underground fueling system, which would include a new underground storage tank, piping and up to four new dispensers. The good news omitted by PMAA's letter is that most do not need to adjust their underground fueling systems. Here are some important statistics:

- **More than 80%** of existing Underground Storage Tanks are compatible with E15, according to ICF International.
- The Steel Tank Institute says **all** existing and new steel storage tanks are compatible with up to 100% denatured fuel ethanol
- According to the Petroleum Equipment Institute, **all** fiberglass tanks manufactured since the early 2000s are approved to store 100% denatured fuel ethanol
- Most above-ground equipment (e.g., pumps) already in use at retail stations is compatible with at least E15:
 - The two primary U.S. pump manufacturers guarantee that all pumps built since 2008 for Wayne, and 2003 for Gilbarco, are E15 compatible.
 - Inexpensive retrofit kits (less than \$1000) are available to make some older pumps E15 compatible and some E85 compatible.

The ethanol industry alone has committed more than \$30M to retail fuel infrastructure this year. This complements many state-level efforts via tax credits or grants, along with various grant

programs through numerous agricultural and public health organizations, and even Clean Cities. The notion from PMAA that available funding cannot tempt retailers into offering these higher level blends is simply wrong. Retailers are looking for ways to differentiate themselves and offering lower priced products can definitely do that. These announcements from Sheetz (<http://bit.ly/1Nvsxn6>), Murphy USA (<http://bit.ly/1G9gOde>), and MAPCO (<http://bit.ly/1G9gJWR>) underscore the point.

Finally, PMAA picked two rural states as examples of where they would expect E85 in the future, noting that some E85 pumps have been removed from service. But they failed to note that the overall E85 station count is up and the new stations are much higher volume than those that have disappeared from the landscape. The Fuels Institute recently published a report, E85 – A Market Performance Analysis and Forecast (<http://bit.ly/1xN4B8b>). The report clearly shows the number of E85 stations in the U.S. has increased by over 14% per year since 2007. PMAA, nor anyone exploring E85, can ignore that level of growth is significant and has happened mostly outside the Midwest where there are more flex-fuel vehicles (FFVs) and more opportunity for higher volumes exists.

Thank you for this opportunity to correct the record. With warm regards and wishes for a more sustainable energy future, I am

Sincerely,

A handwritten signature in black ink that reads "Bob Linder". The signature is written in a cursive style with a long, sweeping underline that extends to the right.

President & CEO

cc: Dan Gilligan, PMAA President