

## Big Oil's Self-Inflicted Blend Wall and its Impact on RIN Pricing

Prices for conventional renewable fuel RINs (Renewable Identification Number)<sup>1</sup> have risen to unprecedented levels in 2013. Oil companies and various media outlets have suggested the increase in RIN prices is due to the arrival of the E10 “Blend Wall” and the supposed inability of obligated parties to meet Renewable Fuel Standard (RFS) obligations with physical volumes of renewable fuels. Some representatives of the oil industry have even gone as far as to suggest higher RIN prices will lead to higher gasoline prices at the pump—despite the fact that ethanol remains at a considerable discount to gasoline. The truth is, the E10 “Blend Wall” was erected by the oil companies themselves, and it is little more than a convenient excuse for their refusal to move to higher-level ethanol blends. Here are the facts about Big Oil’s self-inflicted blend wall and its impact on the RIN market:

- EPA’s RIN banking and rollover provisions under the RFS were intended to “...protect against potential renewable fuel *supply shortfalls*...” and benefit oil companies “...who need a guaranteed supply in order to meet their regulatory obligations under this program.”<sup>2</sup> The provisions were **not** intended to allow oil companies to **avoid blending physical gallons** of renewable fuels to meet annual RFS obligations, which is exactly what they are doing today.
- Congress enacted the RFS2 in 2007 with the express purpose of **transforming and diversifying the U.S. fuels market**. However, oil companies have blatantly ignored the law, refusing for **more than five years** to make *any* meaningful investments in infrastructure that would allow the sale of E85 or other blends above E10.
- When it comes to RFS compliance, oil companies have a choice: purchase a gallon of ethanol (with a RIN attached) **or** purchase a detached RIN from third parties or other oil companies who previously blended more ethanol than required. Unfortunately, oil companies are choosing to purchase detached RINs and bank them rather than increasing their use of ethanol. This is occurring despite the existence of **practical and economical options** for increasing ethanol use.
- Viable options exist for breaking through the E10 “Blend Wall” and meeting RFS requirements with physical volumes. E15 and E85 blends are legally approved and offer a workable pathway for meeting increased RFS volumetric requirements. Only slight increases in E15 consumption would be needed in 2013 to satisfy this year’s RFS obligations with physical gallons rather than banked RINs. If E15 accounted for **just 1%** of total gasoline sales in 2013, the RFS requirement for renewable fuel could be met strictly with physical gallons of ethanol.<sup>3</sup>

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<sup>1</sup> A RIN is a numbered credit generated by a biofuel producer attached to each gallon of renewable fuel sold under the RFS. When obligated parties under the RFS (typically oil refiners and fuel blenders) buy a gallon of renewable fuel, they also obtain the RIN credit associated with that gallon. The RIN is then used by the obligated party to demonstrate compliance with their obligation to blend renewable fuel. RINs can be banked or traded (detached) by refiners to enhance program flexibility.

<sup>2</sup> See EPA Summary and Analysis Comments for RFS, EPA420-R-07-006, April 2007.

<sup>3</sup> Assumes gasoline demand of 133.8 billion gallons, 13.38 billion gallons of ethanol use at E10, and 200 million gallons of ethanol use at E85. Thus, 220 million gallons of ethanol would need to be consumed as E15 to meet the 13.8 billion gallon RFS requirement for “renewable fuel.” This means 1.47 billion gallons of E15 would need to be consumed, which equates to 1.09% of projected gasoline demand. Does not account for impact of sugarcane ethanol imports that may be used to meet advanced biofuel standard.

- Ignoring all the data demonstrating the efficacy of E15 use in automobiles (including decades of E25 use in Brazil), oil companies and their surrogates have raised concern about a lack of automaker warranty coverage for E15. But the current automotive fleet is absolutely capable of consuming the marginally higher levels of ethanol that the RFS requires in 2013 even if warranty coverage is not extended to the existing fleet.
  - Approximately 15 million flex-fuel vehicles are on the roadways today, and 30-35% of model year (MY) 2013 light duty vehicles include *explicit* coverage of blends up to E15 in their warranty statements and owners' manuals. By the end of 2013, there will be more than 20 million vehicles on the road that are **unequivocally approved by the auto manufacturers themselves** for E15 or E85 use—almost 10% of total vehicles.
  - Further, EPA's E15 waiver approval applied to MY2001 and newer vehicles. MY2001 and newer vehicles represent approximately 75% of the U.S. light duty automotive fleet and 85% of vehicle miles traveled. Less than half of these vehicles are still covered by a vehicle warranty in any case.
- Ethanol prices remain at a significant discount to gasoline prices, meaning there is a **strong economic incentive to maximize ethanol blending**. Yet, oil companies have so far avoided increasing their use of ethanol, and have instead chosen to stockpile excess RINs.
  - In recent weeks, a gallon of ethanol (with a RIN attached) has sold for roughly 30-40 cents/gallon less than a gallon of gasoline. For 2012, ethanol's discount to gasoline averaged approximately 50 cents/gallon. Futures prices for ethanol and RBOB gasoline indicate an average discount of more than 50 cents/gallon persisting through December 2014. Thus, the argument that prices for ethanol (and attached RINs) are somehow contributing to higher gasoline prices is patently false.
  - In fact, U.S. consumers are missing out on an opportunity for **lower gasoline prices** due to the oil industry's refusal to move to blends above E10. With ethanol priced 50 cents per gallon less than gasoline, a gallon of E10 would be at least 5 cents per gallon cheaper at the pump than a gallon of unblended gasoline. Meanwhile, a gallon of higher-octane E15 would be 7.5 cents per gallon cheaper.
- There is no data or analysis to support the idea that higher RIN prices are pushing gas prices higher. In fact, the data show **no correlation at all** between prices for RINs and gasoline.
  - In response to a question about the impact of RINs on gasoline prices, EIA Administrator Adam Sieminski said, "As far as we can tell—and we've tried to look at this at EIA—**we can't really see any big impact** in the price of gasoline from what happened with RINs in the first quarter this year."<sup>4</sup>
  - A recent analysis by Informa Economics found, "A fact-based review of developments in the gasoline, ethanol and RIN markets indicates that the Renewable Fuel Standard in general and RINs in particular **have not been a demonstrable factor** in the rise in retail gasoline prices that has occurred in early 2013."<sup>5</sup>

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<sup>4</sup> <http://energycommerce.house.gov/hearing/overview-renewable-fuel-standard-government-perspectives>

<sup>5</sup> <http://www.ethanolrfa.org/news/entry/new-study-rin-credits-not-a-factor-in-higher-gas-prices/#sthash.nyNOPqyu.dpuf>