

What do Big Oil's Quarterly Earnings Say About the *Real* Impact of RINs on U.S. Gas Prices and the Financial Performance of the Petroleum Sector?

It's earnings time once again and quarterly financial results are pouring in from petroleum companies. It's not surprising that many oil companies are yet again reporting big margins and huge profits. But what *is* somewhat surprising is what these companies are telling investors, analysts, and the SEC about the real impacts of the RFS and RINs on their bottom line and U.S. fuel prices. The information shared during earnings season has differed significantly from the American Petroleum Institute's bombastic advertisements, embellished op-eds, and exaggerated Congressional testimony. In fact, many companies involved in petroleum refining, blending, marketing, and retail announced that RINs had little or no impact on their operations; and in many cases, these companies *profited* from the sale of RINs. As noted by OPIS, "...some refiners may be *enjoying* the higher RIN values despite the prevalent market perception that refiners are incurring rising RIN costs."¹ *Below are several revealing statements from companies involved in gasoline refining, blending and marketing.*

BP

With respect to RINs, BP told analysts and investors that the company is "...*quite well positioned* in the short term. We're net long RINs. We've been able to trade into this spike recently and done *quite well* out of it. I'm very pleased about that." According to Reuters, "BP also blends a fair amount of ethanol with gasoline at its terminals on the U.S. East Coast and Gulf Coast, which generates RINs..."²

ExxonMobil

The nation's largest refiner stated during its earnings call that RINs have had little or no effect on the company's financials. "We are a net purchaser of RINs, but I will tell you we are *pretty well balanced*. We do generate the majority of our credits by blending our biofuels directly. ...*it's not real significant*," said David Rosenthal, Vice President of Investor Relations & Secretary. When asked by an analyst if RINs had any material impact on ExxonMobil's quarterly financial performance, Rosenthal replied, "***No, not at all.***"³

Phillips66

Phillips66 CFO Greg Maxwell reported that RINs have not necessarily affected strong refining margins or refinery runs: "...with the market cracks where they are, they're still encouraging high run rates." Maxwell also noted that while RINs may represent a cost for Phillips66's refining business, they are a profit for the company's blending and marketing business. "All of the RINs that are generating through our blending activities *show up as a benefit in Marketing and Specialties*, and then the cost of those RINs or the value, if you will, are transferred over to Refining." As noted by OPIS, "...the company operates on both ends, getting RINs from blending through its terminal systems and buying RINs when it sells unblended gasoline."

¹ OPIS Biofuels Update. 7-31-2013.

² <http://www.reuters.com/article/2013/07/30/bp-rins-idUSL1N0G01IT20130730>

³ ExxonMobil 2nd Quarter Earnings Call. 8-1-2013

OPIS further reported that Executive Vice President Tim Taylor said "...the company *may increase [biofuel] blending* to reduce its RIN exposure."⁴

Hess Corporation

According to Chief Financial Officer John Rielly, "Our retail and terminal networks generate more renewable credits than we require to meet our supply needs. *We're generating around \$20-million/month of excess RINs.* [For the third quarter] if you were to take the current pricing in place right now and say you sold all the RINs at that price, you could expect us to record an after-tax benefit of \$35-40 million." Rielly also stated that "...the cost of RINs rising in recent months has *led to some RIN sharing at wholesale levels*, which is reducing our retail fuel margins and offsetting some of the direct benefit from selling the excess RINs."⁵ This means Hess is passing along some of the value of the RIN to customers.

Murphy Oil

Murphy reported the increase in its refining/marketing income in the quarter was "...primarily due to better results for ethanol production operations and *higher sales prices for ethanol renewable identification numbers (RINs)* in the current period. ...*Profit from ethanol RIN sales was higher* in 2013 due to significantly stronger sales prices for these credits."⁶

Marathon Petroleum Company

In Marathon's quarterly earnings call, senior vice president of Finance and Commercial Services Garry Peiffer admitted that gasoline imports haven't been affected by higher RIN prices, as has been threatened previously by some oil trade groups. Peiffer said, "...gasoline imports were similar to past years, so that means that importers—who have to acquire a RIN—*were still making money bringing barrels to the U.S....*" Marathon also acknowledged the "zero-sum" nature of the RIN market, stating that RIN costs are not likely to be passed on to consumers. Peiffer said, "There are marketers out there...who are net sellers of RINs and then we have obligated parties who are buyers of RINs convening at the wholesale level, so it's going to be very confusing for buyers of E10 and other biofuel [blends] to say is there a [pass-through RIN cost] added on or is it not added on..."

Casey's General Stores

As noted by OPIS, the latest quarterly earnings for Casey's General Stores "...would have been well under spring 2012 levels if not for the impact of renewable fuel credits, or RINs, generated by the Midwestern retailer. Casey's divulged that its *margins benefited from the sale of 10.3-million RINs for \$4.8-million in the period.*"⁷

Western Refining

Western Refining reported that increasing its wholesale and retail operations has allowed the company to obtain the RINs it needs to comply with the RFS: "As we have mentioned previously, *our growing Wholesale and Retail businesses generate RINs* which satisfy a significant portion of our renewable fuel obligations."⁸

⁴ OPIS Biofuels Update. 7-31-2013.

⁵ <http://www.platts.com/latest-news/oil/houston/volatile-crude-spreads-have-made-rail-attractive-21354880>

⁶ <http://online.wsj.com/article/PR-CO-20130731-916461.html>

⁷ Oil Express News Alert. 6-14-2013.

⁸ <http://www.reuters.com/article/2013/08/01/idUSnGNX31MHQD+1cf+GNW20130801>