energy API

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August 18, 2016

The Honorable Timothy G. Massad
Chairman
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, NW
Washington, DC 20581

The Honorable Gina A. McCarthy
Administrator
U.S. Environmental Protection Agency
William Jefferson Clinton Federal Building
1200 Pennsylvania Ave., N.W.
Washington, DC 20460

Re: Renewable Fuels Association Request to Investigate RIN Markets

Dear Chairman Massad and Administrator McCarthy,

The Renewable Fuels Association (RFA) recently requested that the Environmental Protection Agency (EPA) and the Commodity Futures Trading Commission (CFTC) investigate potential manipulation in the Renewable Identification Number (RIN) market. RFA claims that "basic market fundamentals suggest RIN prices should have remained stable –or fallen- following the [2017 RFS] proposal's release." API and our member companies support the efforts of a bipartisan group in Congress to enact legislation that will fix the broken and unworkable Renewable Fuel Standard (RFS) program. API, as a trade association, cannot forecast RIN prices or predict what the market *will* do or *should have* done. However it is important for us to point out the inaccurate and misleading statements RFA made in its August 1, 2016 letter.

RFA contends that "basic market fundamentals suggest RIN prices should have remained stable –or fallen- following the [2017 RFS] proposal's release."[1] The claim is supported with record ethanol production statistics and data suggesting that RIN supply and inventories are growing, while omitting critical information that, if included, would lead to the opposite conclusion.

Per basic economic theory, supply and demand are the primary factors influencing the price of a commodity such as a RIN, and RIN demand, in this instance is ultimately determined by the volumes mandated in the annual EPA RFS rulemakings. A RIN is valid in the year it is generated, or can be carried over into the following year, and has no value outside the RFS program. It is no surprise, therefore, that RIN market swings have tended to occur at the time EPA issues its annual proposed or final rulemakings.

[1] Dinneen, Bob, Renewable Fuels Association; *Request to investigate potential manipulation in the RIN market.* August 1, 2016.

RFA overstates RINs supply by citing that "record ethanol production in 2015 enabled net RIN generation to significantly outpace the 2015 RFS volume obligation." RFA is ignoring ethanol exported in 2015 for which ethanol exporters must submit RINs to EPA, reducing the supply of RINs that are available for compliance. The supply of RINs available for compliance is further reduced by any biofuel spills, contaminated fuel, error corrections, invalidly generated RINs, and renewable fuel used for non-transportation or heating oil purposes. University of Illinois at Urbana-Champaign professor Nicholas Paulson quantified the impact in a recent analysis: *"Accounting for projected exports (520 million) and non-compliance retirements (120 million) suggests net generation of 14.26 billion D6 RINs in 2016, or 240 million RINs shy of the 14.5 billion gallon targeted mandate level for the year."*[2]

A reduction in RIN carryover was predicted by a leading investment bank as reported by Oil Price Information Service (OPIS) and Reuters.[3] EPA estimated 1.72 billion carryover RINs are available for compliance after 2013. The investment bank predicted that carryover RINs will decline to 1.39 billion at the end of 2016 and further decline to 786 million by the end of 2017. The firm has attributed this decline in carryover RINs, along with higher and more volatile RIN prices, to EPA's proposed biofuel volumes.

RFA claims RIN stocks are increasing, citing a March 2016 analysis by the University of Illinois at Urbana-Champaign professor mentioned above. After EPA's proposed rule was issued however, the same author revised his position writing *"Projections for net generation for the year suggest that some level of RIN stocks may be needed to meet target mandate levels for 2016."*[4]

EPA expects biodiesel to substitute for corn ethanol to meet the increasing mandate in 2016 and 2017 due to the market's inability to absorb any additional ethanol into the gasoline supply, as well as the vehicle and infrastructure constraints, and lack of consumer demand for higher ethanol blends such as E15 or E85. As the RIN generated from biodiesel becomes the substitute for a RIN generated from corn ethanol, economic principles indicate the price of each RIN will likely move closer to parity. The RFA ignores the relationships in the pricing of different RIN types and points out that their letter "focuses only on conventional renewable fuel RINs."

The Renewable Fuels Association request is a clear attempt to distract attention away from the real problems presented by the RFS mandate. The oil and natural gas industry is not alone in pointing out the potential problems created by the RFS. From recreational boaters and motorcyclists to environmental groups and food groups, an ever-increasing number of Americans are seeking the repeal or significant reform of the RFS mandate.

Sincerely,

Frank J. Macchiarola

[2] http://farmdocdaily.illinois.edu/2016/08/2016-mid-year-rin-update.html
[3] http://www.reuters.com/article/usa-biofuels-idUSL1N19L14A
[4] http://farmdocdaily.illinois.edu/2016/08/2016-mid-year-rin-update.html