

October 4, 2018

The Honorable John Shimkus
U.S. House of Representatives
Committee on Energy and Commerce
Subcommittee on Environment
2125 Rayburn House Office Building
Washington, DC 20515-6115

Dear Chairman Shimkus,

On September 20, 2018, you sent me a letter containing additional questions for the record for the July 25, 2018 hearing titled "Background on Renewable Identification Numbers under the Renewable Fuel Standard." Most of your questions appear to be related to the impact RIN prices have on consumer pump prices. This is probably a topic better addressed by one of the other panelists who have more expertise in this area. Nonetheless, as more of an observer than analyst on these issues, I am providing my views on your questions.

1. There has been a debate over how much RIN prices affect gasoline prices. Dr. Lade's testimony suggests high RIN prices effectively tax gasoline and diesel, discouraging their use, and subsidize biofuels, stimulating their demand.
 - a. How much are prices at the pump influenced by RIN prices? What is the amount of this hidden tax that consumers face?

I have seen no evidence to date suggesting a direct correlation between RIN price changes and a change in pump prices for gasoline. As a result, I am not confident that there is a complete pass through of RIN prices to the consumer. Gasoline prices can vary significantly across the United States and a number of different factors and variables influence gasoline prices. Given that RIN prices can fluctuate significantly day-to-day, I believe it would be very difficult for refiners, blenders, and/or retailers to adjust the retail price of gasoline to account for RIN price fluctuations.

Additionally, refiners are not all equally situated – some have greater bargaining power than others do. This means that some refiners can pass through the cost of RINs in their sales contracts and others cannot.

- b. How much has uncertainty about the future of the Renewable Fuel Standard played into RIN and gasoline prices? What does that mean for consumers at the pump?

I believe that the uncertainty over the near and longer term future of the RFS has caused tremendous volatility in the RIN market. For example, prices for D6 RINs have been higher than \$0.70 per RIN and lower than \$0.20 per RIN just this year – a swing of more than 350%. Since the emergence of the E10 blendwall issue in 2013, D6 RINs reached a high of \$1.46 per RIN from a low in 2012 of less than \$0.01 per RIN – a more than 14,000% swing in just one year. These price fluctuations appear to be unrelated to any tangible cause other than regulatory and/or political uncertainty.

As stated above, it is difficult to determine how much a change in RIN prices impacts gasoline prices. I do know, however, that RIN price fluctuations can greatly affect the compliance costs for obligated parties, to differing degrees, depending on the obligated party's size and location of its refinery(ies).

- c. How sensitive are RIN prices to the world price of oil or other conventional energy markets?

I have no firsthand knowledge of any correlation between RIN prices and other commodities.

- d. For those that argue that there is no "pass through" to the pump - other than compliance, what then is the practical impact of RINs on the retailers?

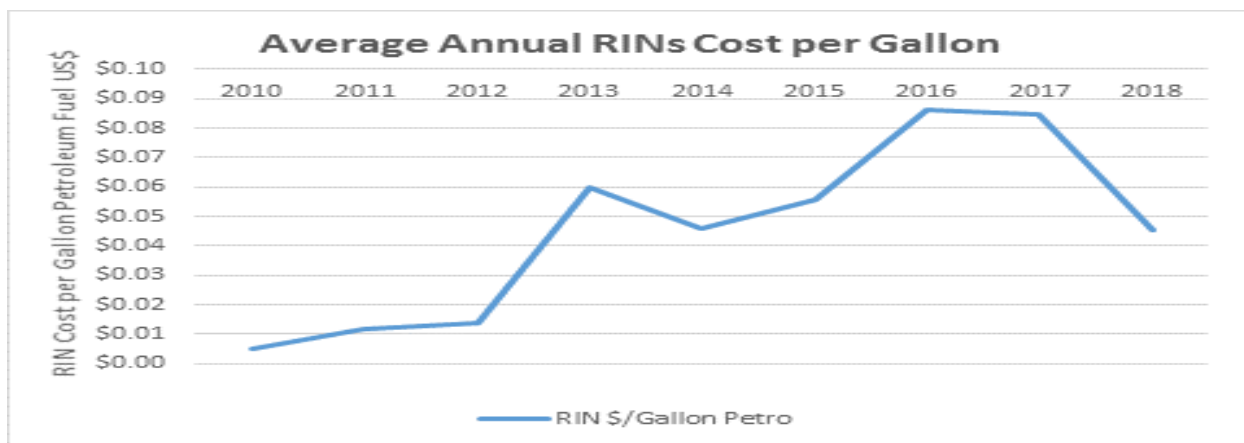
There is no single correct answer to this question as each retailer is differently situated, and thus there is no universal impact. Some retailers make a significant profit from selling RINs, (as evidenced by their annual

reports), as they are able to purchase bulk ethanol and gasoline in large quantities and blend the products together themselves. Smaller retailers often do not have their own blending facilities and therefore buy pre-blended products. Because of this, many smaller retailers do not participate in the RIN market and do not profit from RIN sales. Therefore, smaller retailers could be placed at a competitive disadvantage because they do not have access to significant profits from RINs that larger retailers have. In general, I do not believe that RINs are a net cost to retailers.

2. The RIN market monetary value fluctuates based on RIN prices and other factors. The cost to show RFS compliance-by purchasing RINs-has typically been a concern when RIN prices escalate.
 - a. How much of an economic burden is it for refineries to comply with the RFS?

In my experience, refineries have very different compliance costs based on their location and operational structure. Integrated refiners (those with retail facilities and rack positions) are better positioned to blend renewable fuel and can acquire RINs through blending, thereby lessening the need to purchase RINs. As a result, this can lower their compliance costs. Merchant and small refiners often lack blending infrastructure and many do not have any retail facilities. As a result, they are not able to blend significant volumes of renewable fuel and must satisfy their obligations by purchasing RINs. If a refiner is able to pass through 100% of their RIN costs to their wholesale customers, then there is little, if any, economic burden associated with the RFS program. However, as mentioned above, the ability to pass through 100% of RIN costs is a matter of location, operational structure and bargaining power, oftentimes disadvantaging smaller refiners.

Here is a slide showing the average annual cost of RINs, per gallon of gasoline or diesel produced, if a refiner were to buy all of its compliance needs from the RIN market. It is this cost that refiners pass along to their downstream customers to the best of their ability.



I hope you find this information helpful. Please let me know if you need any further information related to the RFS program.

Very truly yours,

Sandra B. Dunphy

Sandra B. Dunphy
Director
Energy Compliance Services