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Cc: Morrell, Geoff[Geoff.Morrell@bp.com]; Walker, Ryan[RYAN.WALKER@bp.com]; Streett, Mary[Mary.Streett@bp.com]; Stout, Robert[Robert.Stout@bp.com]
From: Stout, Robert
Sent: Fri 3/31/2017 8:33:02 PM
Subject: FW: PoO Studies, Comments
[SIGMA NACS Final Obligated Party Supplemental Comment Letter 02_22_17.pdf](#)
[Analysis of Proposed Change of Point of Obligation - Edgeworth FINAL.PDF](#)
[Comment UPS.PDF](#)
[A Preliminary Assessment of RIN Market Dynamics, RIN Prices, and Their E....pdf](#)
[Kinder Morgan Point of Obligation.pdf](#)
[NATSO PoO Comment.pdf](#)
[comment Monroe Energy Exhibit A - RFS Obligated and Non-Obligated Partypdf](#)

FYI.

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From: Brien, Michael P
Sent: Friday, March 31, 2017 4:13 PM
To: Walker, Ryan
Cc: Brien, Michael P
Subject: FW: PoO Studies, Comments

SIGMA NACs - Association represents the gasoline marketers and convenience store operators. Members make up about 80% of the retail gasoline market. Their comments include a study conducted by Argus demonstrating that refiners include RINs prices in their decision models which determine refinery production (See Attachment 4, p. 15 Summary). “Obligated parties are able to recover RIN costs today because RIN value is fundamentally incorporated into fuel price calculations and contracts.” Also see p. 22 of submission (p. 14 of comment letter) where SIGMA documents how the CA LCFS has driven shippers/marketers to abandon biofuel blending rather than incentivizing blending.

EPA – Assessment of RIN market dynamics.

Concludes that RIN values are transferred efficiently through the retail value chain.

“While RIN prices were significantly higher in 2013 than in previous years, we did not see, nor would we expect to see, a corresponding net increase in the overall retail price of transportation fuels across the entire fuel pool. This is because the RIN price, rather than acting as an additional cost, generally acts as a transfer payment between parties that blend renewable fuels and obligated parties who produce or import petroleum-based fuels and are required to obtain RINs for compliance purposes.⁴ RINs are generated by renewable fuel producers and sold attached to volumes of renewable fuels to fuel blenders or obligated parties. When the RINs are separated from the renewable fuel and sold independently, the RIN seller may use the revenue received for the RIN to discount the effective cost of the renewable fuel. In order to recover the cost of purchasing RINs, however, obligated parties are expected to increase the selling price of the petroleum products they produce. If fuel prices are fully flexible, markets are perfectly competitive, and we assume no changes to the price of renewable or petroleum based fuels, these two price impacts, the discounting of renewable fuels enabled by the sale of the RINs and the higher petroleum prices that result from the cost of purchasing RINs, are expected to offset each other, resulting in the RIN price having no net impact across the entire fuel pool.”

Additionally: “Merchant refiners, who largely purchase separated RINs to meet their RFS obligations, should not therefore be disadvantaged by higher RIN prices, as they are recovering these costs in the sale price of their products. Were this not the case, merchant refiners could, and we expect would, avail themselves of other compliance strategies such as contractual arrangements and investing in fuel blending and distribution infrastructure, which are available to merchant refiners looking for alternative methods for meeting their RIN obligations.”

Edgeworth Economics (Study conducted on behalf of Growth Energy, association representing corn ethanol producers).

Comments support EPA's justification in their petition to deny a change in the PoO and make five main points refuting assertions of the PoO proponents.

- Page 2: RINs represent neither a windfall profit to the blender nor an out of pocket cost to the refiner – “the cost of RIN acquisition for blenders is integrated in their cost to acquire ethanol—ethanol with RINs attached costs more than ethanol without RINs” and “Because prices of gasoline blendstocks sold at wholesale reflect RIN values, merchant refiners recoup their costs to acquire RINs when they sell their gasoline products”

- Page 5: Changing the PoO does not incentivize more biofuel blending – obligated parties and retailers operate in a competitive marketplace. The incentive to increase blending is created by the RIN price and is consistent whether realized when a blender blender sells a separated RIN or as a cost when a refiner acquires a RIN to meet its obligation. Changing the PoO will not alter this.

- Page 8: There is no evidence of RIN market speculation. RIN market is operating with efficiency and liquidity.

- Page 9: Current RIN system does not promote fraud. Fraud cases cited have all occurred in the biodiesel market that don't involve large, sophisticated players. This is not the experience in the gasoline/ethanol space and changing the PoO to the blender level could in fact lead to more fraud as more of the obligation would fall to new, smaller and less capable parties.

- Page 11: Changing the PoO will increase complexity and the number of points of compliance EPA has to administer.

UPS – non-obligated party currently but a large bulk fuel purchaser and blender of biofuels to service its centrally fueled delivery truck fleet. Reinforces position that if the PoO was changed to apply to blenders, then UPS would likely change how it operates and could reduce the level of biofuel blending it performs today.

Kinder Morgan – One of the largest terminal owner/operators in the US. Provides perspective on what changing the PoO to the rack would be to increase the number of points of obligation and parties in the system.

NATSO – Association representing the truck stop operators across the US where the majority of biodiesel fuel is sold. NATSO members are not obligated parties but blend and distribute biodiesel across their facilities. Key points made by NATSO are:

- “If position holders were to become obligated parties, there would inevitably be a decrease in the number of “position holders” in markets throughout the country. Indeed, marketers would be incentivized to acquire fuel “below the rack” in order to avoid RFS obligations.”

- “Another reason that the number of position holders in any given market would decrease if position holders were to become obligated parties is that many current position holders primarily sell gasoline, not diesel fuel. (Indeed, many position holders, such as trucking and railroad companies, do not sell fuel at all.) However, upon becoming an obligated party, one assumes an obligation in all four renewable fuel categories. Position holders that primarily sell gasoline, therefore, will inevitably find themselves short D4 (biodiesel) RINs. Their only options would be to (a) purchase such RINs in the open market, and pass along the costs to consumers via higher prices at the pump; (b) begin selling substantially greater volumes of diesel fuel; or (c) only acquire fuel below the rack. None of these are attractive options for these businesses, nor would they be positive developments for consumers or EPA’s ability to ensure that the RFS’s objectives are achieved.”

Monroe Energy (Study prepared by IHS)

The study outlines the number of participants at several points of the fuels value chain (current obligated parties, blenders, rack sellers and rack buyers). Monroe’s intent was to demonstrate that the potential increase in obligated parties resulting from a change in the PoO would not be that significant. However, the largest impact (capturing non-obligated blenders and other rack participants) could represent a 5x increase in the number of points of compliance and is consistent with the concerns raised by Kinder Morgan as well as EPA.

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