

To: Dravis, Samantha[dravis.samantha@epa.gov]
From: Stout, Robert
Sent: Sat 4/1/2017 12:34:23 PM
Subject: Fwd: RIN price economics
[MIT Study on RIN Price Passthrough.pdf](#)
[ATT00001.htm](#)

FYI.

Sent from my iPhone

Begin forwarded message:

From: "Brien, Michael P" <Mike.Brien@bp.com>
To: "Stout, Robert" <Robert.Stout@bp.com>, "Streett, Mary" <Mary.Streett@bp.com>, "Morrell, Geoff" <Geoff.Morrell@bp.com>, "Walker, Ryan" <RYAN.WALKER@bp.com>
Subject: RIN price economics

MIT

“When we examine wholesale prices on comparable obligated and non-obligated fuels, for example the spread between diesel and jet fuel in the U.S. Gulf, we find that that roughly one-half to three-fourths of a change in RIN prices is passed through to obligated fuels in the same day as the RIN price movement, and this fraction rises over the subsequent few business days. Using six different wholesale spreads between obligated and non-obligated fuels, we estimate a pooled long-run pass-through coefficient of 1.01 with a standard error of 0.12.”

“We also examine the transmission of RIN prices to retail fuel prices. The net RIN obligation on E10 is essentially zero over this period, and indeed we find no statistical evidence linking changes in RIN prices to changes in E10 prices.

In layman’s terms, this is saying that the refiner is compensated for the RIN cost and the blender uses the RIN value to offset the higher cost of the blendstock. The net effect to the consumer is zero.

Edgeworth Economics

On the issue of “windfall profits”

EPA addressed these claims directly and at length in its proposed denial. EPA concluded that RIN transactions do not represent windfall gains to non-integrated blenders and integrated refiners, nor do they represent discriminatory costs to merchant refiners. The Agency’s responses are all on point, namely: □ Non-integrated blenders and integrated refiners do incur a cost to acquire RINs, notwithstanding the fact that the cost does not show up in their financial statements as a discrete line item. Rather, 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.12 EPA also points out that integrated refiners experience a cost associated with RINs when they sell blended E10, as the wholesale price for E10 is less than the combined prices of the component fuels—petroleum blendstock plus ethanol.13

□

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.14 This conclusion has been confirmed by EPA as well as independent researchers in academia. For example, economists at Iowa State University recently concluded that, conditional on the presence of competition in the markets for blendstocks, gasoline, and RINs (a caveat we address further,

below), “moving the point of obligation would have little-to-no impact on the distribution of gains and losses from high RIN prices or on the overall effectiveness of the program.”15 In another recent paper, which Valero cites repeatedly for other purposes, a group of academics performed a statistical analysis of fuels prices and concluded that “an obligated party with a net RIN obligation, such as a merchant refiner, is able to recoup their RIN costs on average through the prices they receive in the wholesale market.”16

EPA

"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. 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."

"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."