

RINs Help Drive Gasoline Prices Higher

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ARE HIGHER GASOLINE PRICES OVER THE past few months a sign that the industry is close to reaching the ethanol blend wall? The soaring cost of ethanol Renewable Identification Numbers (RINs) is being blamed, in part, for rising pump prices, and motivating reductions in East Coast fuel supplies.

Prices of renewable fuel credits that refiners need to comply with the federal Renewable Fuel Standard (RFS) mandate, soared last month. Corn-based ethanol RIN credit prices jumped from last year's average of about 3 cents per gallon to the 70-to-80-cents range. The tight market for RINs is adding about 5 to 7 cents per gallon to wholesale gasoline prices, and that could rise further.

Each year, the RFS mandates volumes of renewable fuel that refiners must blend into motor fuels used on U.S. roadways. The agency assigns RINs to each gallon of biofuel, and then tracks the credits to ensure that refiners meet renewable fuel use mandates. Refiners that don't use enough renewable fuel can buy credits in the RINs market to meet their obligation, in lieu of blending physical gallons of ethanol.

THE RUN ON RINs

Anticipating the blend wall with a perceived lack of RINs, refiners started buying them early this year. They're expected to draw down on their stockpiles of RINs to meet the 2013 mandate.

What really spiked the RINs market last month was a government report suggesting ethanol production would fall short of the 13.8 billion gallons that refiners are required to blend this year. The Energy Information Administration projected 2013 ethanol production would be about 13.1 billion gallons, with 12.5 billion gallons available for blending after exports. If correct, refiners will need to come up with 1.3 billion surplus RINs to bridge the gap. There are probably 2.3 billion to 2.5 billion surplus RINs available, but folks holding surplus credits are going to want a good price.

Ethanol RIN values are expected to average about 67 cents per gallon during 2013-14, up from an average of 11 cents in 2012-13. Long term, RINs are projected to cost about 70 cents or more, until at least 2023.

THE BLEND WALL BATTLE

The RINs price increases are a good sign that refiners have reached the ethanol blend wall – where the maximum amount of gasoline has been blended with the current 10 percent ethanol mandate. Refiners are concerned about exceeding E10 and resisting EPA's push for an E15 blend. There's good evidence that higher blends could result in damage to the vehicle's engine, particularly older ones. EPA approves E15 use in most cars and trucks made after 2001. That's about 80 percent

of the national fleet, but what about the other 20 percent?

Refiners must somehow find a way to stuff more ethanol into the gasoline pool. So far, only a handful of retail stations carry E15 because there is no demand for higher blends. There are already plenty of Flex-Fuel vehicles around, but most owners aren't buying E85.

In 2007, EPA didn't expect ethanol production to exceed 10 percent of the national gasoline supply by 2013. EPA imposed the blending mandates when our fuel demand was growing, and domestic oil production was diminishing. Today, we have improved fuel economy and steadily declining gasoline demand. Our imports are the lowest they've been in 20 years, and our domestic exports are at a 15-year high. Things have changed. It's time to take a fresh look at the RFS goals, and the actual benefits they deliver.

Higher prices for RINs could become an incentive for refiners to export motor fuel offshore, where it would not be subject to the RFS requirements. Blend wall issues will become tricky for East Coast refiners, who typically import about 200,000 barrels per day from Europe.

Gasoline stocks are already below year-ago levels, and imports have been fairly subdued so far this year. Lower inventories and fewer imports would most likely lead to tighter gasoline supplies, and higher prices along the East Coast this summer. ☞

