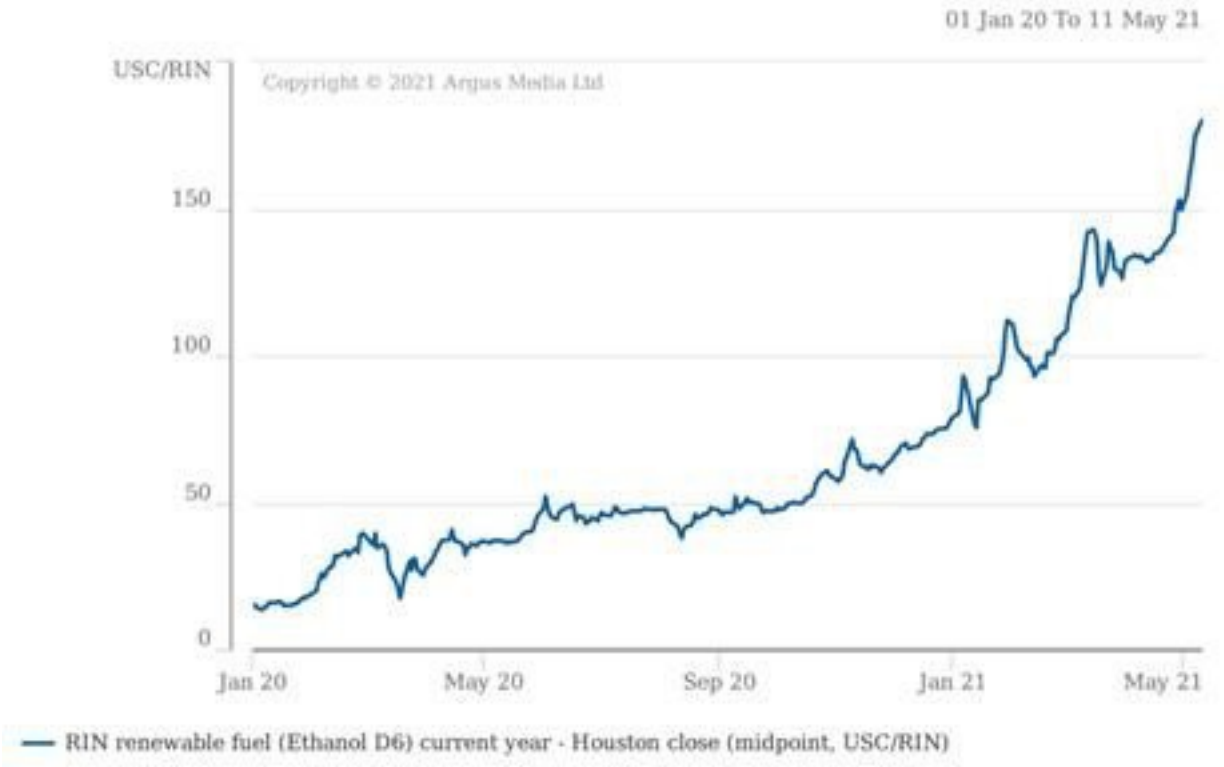
The cost of RFS compliance credits, specifically D6 renewable identification numbers (RINs), is out of control. Sales of D6 conventional ethanol RINs recently registered above $1.90 (**the highest trades in history**, and about **19 times higher than trading prices from the beginning of 2020**). In totality, **RINs are inflating the cost of wholesale gasoline production by more than 20 cents a gallon**, **a bigger impact than the federal gasoline tax**.



Ethanol RIN price tracker January 2020 - May 2021.
Derived from Argus Media group data.

Refineries are obligated to submit RINs to EPA each year to prove that sufficient biofuel blending is taking place, even though ethanol blending generally doesn't take place at refineries. The RFS requires that billion gallons of biofuels be added to gasoline and diesel fuel in the United States, and that means every year, refineries have to generate or purchase billions of RINs to comply with the law. The price of RINs traded on the open market is volatile, and this year it's skyrocketing.

Purchasing enough RINs to satisfy the RFS **inflates the cost of wholesale gasoline by about 23-cents a gallon**. Individual refineries are dealing with total RFS bills triple what they paid in 2019 and in excess of several hundred million dollars. For some, the cost of RINs exceeds facility utility bills and even total employee payroll. Costs like these are unsustainable, and some of the facilities hardest hit are the few remaining refineries located in the Mid Atlantic, a region that needs its energy security shored up.

Lots of factors are at play in the price of RINs and broader RFS compliance. Here are three:

- **We're in danger of running out of RINs:** Every year biofuel mandates increase in size beyond consumer demand and infrastructure capacity, refineries rely more and more on second-hand RINs to meet their obligations. A RIN becomes "second-hand" when an entity that blended ethanol decides to sell that RIN on the open market. Since many refineries have no role in ethanol blending whatsoever, much of the sector is entirely dependent on the RIN bank for RFS compliance. The number of second-hand RINs available for purchase in the RIN bank is dwindling rapidly. Last year, for example, the number of RINs required for RFS compliance exceeded the number of new RINs generated from physical biofuel blending. The shortfall of new RINs required refineries to draw down older RINs from the bank. If EPA doesn't act, many believe the RIN bank could completely zero out.
- **Uncertainty around relief waivers:** Prior to the January 2020 10th Circuit ruling that threw the entire RFS small refinery relief program into doubt, D6 RINs were trading around 10 cents. After the 10th Circuit, and around every announcement from the administration suggesting that small refinery lifelines are not a priority, RINs have continued to march upward to the point that they're now hovering around $1.90.
- **The high price of ethanol and corn:** Corn prices this year are high, and as a result, so are ethanol prices. This week, ethanol gallons are priced around $2.50 (per OPIS). A gallon of wholesale gas blendstock from refineries is a lot less, closer to $2.19. In this environment, where RINs are scarce (and priced accordingly) and ethanol is expensive, consumers pay a price. And any time ethanol is blended into gasoline solely for RFS compliance purposes, rather than for octane, it functions as a tax on consumers.

Within the context of any conversation about RINs, it's critical to restate that **RIN prices don't drive ethanol blending**. That's for two reasons: (1) RIN price variations don't have an immediate impact on the blend wall (meaning expensive RINs can't quickly overcome the realities of infrastructure incompatibility and consumer demand that limit higher uses of ethanol); and (2) even if RINs went away altogether, every gallon of wholesale gasoline blendstock from refineries would still run through a blending terminal where ethanol would be added to nearly all of it in order to make finished gasoline, with sufficient octane. Octane, rather than RFS, is ethanol's insurance policy.

There are different points of view on how much the RFS costs consumers and whether refineries recover all their RIN expenses through wholesale. What we know is this: consumers are paying for the RFS and not every refinery is unscathed by the program. Excessive ethanol blending when ethanol is priced higher than refined wholesale gas certainly inflates consumer prices. And biodiesel blended solely because of the RFS inflates consumer costs by more than $1 billion every year.

The RFS was designed fifteen years ago for a vehicle fleet that's very different from the one we have today. We're consuming about 30 billion fewer gallons of gasoline than was projected back in 2007 when RFS was passed. How much pain needs to be experienced by refineries and consumers before policymakers take it seriously enough to prioritize relief and reform?

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