Ethanol Upending Refiners Pushes $13 Billion on U.S. Drivers

BY Bradley Olson & Dan Murtaugh, Bloomberg, March 19, 2013

U.S. drivers face a $13 billion increase in the cost of gasoline this year as the price of federally-mandated ethanol credits has risen 10-fold for oil refiners including Valero Energy Corp. (VLO) and CVR Energy Inc. (CVI)

Fuel processors such as Valero, the world's largest independent refiner and Exxon Mobil Corp. (XOM) are pushing the U.S. Environmental Protection Agency to reduce the amount of ethanol they're required to add to gasoline to avoid what they say will be a sharp spike in prices at the pump just as the summer driving season begins.

Refiners buy biofuel credits, known as RINs, which are available as an alternative to actually blending ethanol into gasoline. The cost of those credits has ballooned from 7 cents at the start of the year to more than $1 as the 2013 federal mandate for biofuel exceeds 10 percent of gasoline sales, the maximum that refiners say the market can absorb.

Energy traders and hedge funds are treating ethanol credits like "a casino," Michael Jennings, chairman and chief executive officer of Dallas-based refiner HollyFrontier Corp., said at the annual gathering of the American Fuel and Petrochemical Manufacturers in San Antonio today. "It will drive, in its current form, higher prices at the pump."

Companies that blend gasoline and ethanol are also buying and holding on to the credits, expecting prices to go higher and making them harder to get, Valero Chairman and CEO Bill Klesse said in an interview yesterday at the refinery group's meeting.

Pump Price

"You have traders hoarding," Klesse said. "The EPA has to address it and address it now."

Concern about the rising cost of the credits has driven down refiners' share prices, draining $5 billion in market value last week from the 10 largest publicly traded U.S. independent refiners, according to Barclays Plc.

Consumers are at risk of paying 10 cents a gallon more for gasoline this year if the ethanol credits continue to sell at a price of more than $1, Roger Read, a Houston-based analyst for Wells Fargo & Co. (WFC), said in a March 11 note to investors.

Pump prices may surge even more as the credits make imports more expensive and create an incentive for U.S. refiners to seek export opportunities where no ethanol blending is required, Read said.

Economic Cost

"The likely impact for U.S. consumers is higher gasoline prices as supply declines," he wrote.

The Renewable Fuels Association, a Washington-based group that represents biofuel companies, had no immediate comment on the refiners' statements.

An increase of 10 cents for every gallon of gasoline consumed with ethanol would equate to more than a $13 billion cost to consumers for the 13.8 billion gallons of ethanol that are mandated for blending this year, according to data compiled by Bloomberg.

The rising cost of credits will be negative for refiner earnings in the "best case" and "in the worst case could take down both the

U.S. consumer and the domestic economy," Chi Chow, an analyst at Macquarie Group Ltd. in Denver, said in a March 13 note to clients.

Valero, which is also among the country's top ethanol producers, plans meetings with members of Congress and agency officials this week to discuss potential changes to the Renewable Fuel Standard, part of a 2007 law that requires the blending of biofuels, said Bill Day, a company spokesman.

The agency is accepting public comments on the fuel standards until April 7, and then will review the comments before deciding on any potential revisions to blending requirements next year, according to an e-mailed statement.

Car Warranties

As the amount of gasoline the U.S. consumes has declined, refiners are unwilling to blend fuel with more than 10 percent ethanol to meet the federal requirement. For an alternative to blending ethanol, refiners buy credits called Renewable Identification Numbers, or RINs, to cover part of the requirement.

Some auto manufacturers won't offer a warranty if drivers use fuel with more than 10 percent ethanol, effectively capping how much refiners can blend at about 13.4 billion gallons for 2013, Charles Drevna, the industry group's president, said March 17 at the conference. That's 400 million gallons less than the government mandate, raising demand for RINs to make up the difference.

Rising Price

The price for RINs rose to a record $1.06 on March 8 and closed at 77 cents yesterday, up from 7 cents on Jan. 8, according to data compiled by Bloomberg.

The law allows blenders of the fuel, such as owners of retail gasoline stations and storage tanks, to be granted RINs that they can sell to refiners or traders. Blenders have seen profits from selling RINs soar amid the runup in prices, Jack Lipinski, CEO of refiner CVR Energy Inc., said in an interview at the conference.

"The intent of the law was to assure ethanol was blended," he said. "RINs should not be a separate profit center."

Lipinski and Valero's Klesse said the government should consider making the companies that blend the fuels before selling them to retail stations responsible for proving they're meeting minimum ethanol use requirements, a short-term solution that may quickly force down RIN prices.

Exxon favors capping the amount of ethanol mandated for blending at 10 percent of gasoline demand, Bill Colton, vice president for corporate strategic planning, said last week.

Drevna and refining company Tesoro Corp. favor a complete repeal of the Renewable Fuel Standard, a prospect that may become more probable as gasoline prices rise due to the cost of RINs, Paul Sankey, an analyst with Deutsche Bank AG in New York, said in a March 12 note to clients.

"The train is getting ready to leave the station," Stephen Brown, vice president of government relations for Tesoro, said in an interview yesterday at the conference. "Reform is going to come to the market."

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http://www.bloomberg.com/news/2013-03-18/refiners-pay-price-as-traders-hoard-ethanol-credits-valero-says.html

CAPP contact: Charlie Peters

Our editorial: Congress shouldn't interfere with ethanol policies

Congress is wrong to enforce use of cellulosic fuel, since the product doesn't even exist

The Detroit News, March 19, 2013 at 1:00 am

After years of criticism and wasted tax dollars, Washington last year finally cut its 45-cents-per-gallon subsidy for corn ethanol fuel, saving taxpayers $6 billion a year. That was a good move, but ethanol meddling has continued.

When it comes to ethanol, the federal government is determined to interfere. The mandate for plant-based, cellulosic ethanol in your gas is a good example.

The plot was hatched by President George W. Bush in 2006 as part of a self-conscious oil-man's pledge to end America's "addiction to oil." This coincided with emerging evidence that corn ethanol may be bad for the environment and that it's production diverts precious food to fuel. The 2007 Energy Act mandated that oil refiners use 100 million gallons of cellulosic ethanol by 2008 and 36 billion gallons by 2022.

The biggest roadblock? The product — which is derived from switch grass or farm waste — did not yet exist commercially. To jump-start production, Congress dished out $1.5 billion in tax money to companies to develop the fuel. Washington figured that if it built a mandated market, somebody would surely come.

The effort was not lacking in investors, most notably General Motors, which made a big splash at the 2008 Detroit Auto Show when it announced it had partnered with Coskata Inc. to develop cellulosic ethanol from biomass. Anticipating the fuel mandated for its vehicles, GM was keen to reap profits as well.

"We look to put as much as 10 billion gallons of ethanol on the market by 2022," said a Coskata spokesman after GM's investment.

Four years later and Coskata has abandoned its cellulosic efforts, having failed to develop a competitive product. British Petroleum has also abandoned ambitious plans launched in 2008.

Indeed, the cellulosic ethanol industry has not produced a single gallon of fuel for the commercial gasoline market.

Yet, Congress's mandate remains.

In 2012, the Environmental Protection Agency required oil refiners to blend 8.7 million gallons of cellulosic fuel into gasoline. And since the product doesn't exist, the agency then handed out millions of dollars in oil industry fines for non-compliance.

John Griffin of the Associated Petroleum Industries of Michigan says this is harmful. "The renewable fuels mandate is one of our chief concerns," he says. "If we fall short, then we're fined." And those fines are being passed on to American consumers who are already struggling to pay nearly $4 for a gallon of gas.

The industry has sued the EPA and won a temporary reprieve from the mandate under a provision of the law that allows the agency to set a more reasonable mandate based on "the projected volume available." But a reasonable mandate for a product that doesn't exist is another justification for more government mischief-making.

"Refiners are in no position to ensure, or even contribute to, growth in the cellulosic biofuel industry," said Washington, D.C., Court of Appeals Judge Stephen Williams, noting the absurdity of enforcing the cellulosic law.

Only in Washington. Given reality, Congress ought to repeal its useless cellulosic ethanol mandate.

http://www.detroitnews.com/article/20130319/OPINION01/303190309/1008/opinion01/Editorial-Congress-shouldn-t-interfere-ethanol-policies

CAPP contact: Charlie Peters

Clean Air Performance Professionals

What They Didn't Say

Stella, Hemmings Motor News, MARCH 2001

(Gary Condit, Dick Cheney, Chandra Levy, ENRON, Arnold, Gray Davis, MTBE, ethanol & Alex Farrell)

(snip)

"Rep. Gary A. Condit (D-Calif.) has introduced legislation, in the opening days of the 107th Congress, to help drive gasoline prices down while protecting the environment. HR 52 seeks to relieve California from federally mandated year-round gasoline oxygenate requirements while preserving the full benefits of California's reformulated gasoline program. Condit introduced the bipartisan legislation with another member of the California delegation, Rep. Chris Cox. 'California already meets Environmental Protection Agency requirements for reducing emissions of toxic air pollutants and ozone-forming compounds,' Condit said. 'When a state meets these requirements, under this legislation, they would not be required to add oxygenates to gasoline'."

http://clubs.hemmings.com/clubsites/capp/mar01.html

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