

Fix The RFS!

Have you noticed? Higher prices at the pump. Fuel shortages. Loss of independent refineries and high-paying jobs. Higher fuel imports. And our national security is being compromised. What the heck is going on here? Well... it's the collateral damage caused by the Renewable Fuel Standard, or RFS.

The RFS is a government program that is now having the opposite effect of what Congress intended it to do. Unless the EPA and Congress take action, it's going to get a lot worse. Like all government programs, the Renewable Fuel Standard began with good intentions.

Back in 2005 we were rightfully concerned about increasing oil imports. So, Congress passed the RFS requiring ethanol to be blended into gasoline to reduce our foreign oil dependence.

But then the shale revolution made America the largest oil and natural gas producer in the world. When that happened the RFS should have been dramatically changed, but instead it became the problem. Here's why.

Under the Renewable Fuel Standard oil refineries are forced to either blend fuels or purchase Renewable Identification Numbers or "RINs." RINs identify the amount of ethanol being blended into the gasoline and diesel that refineries produce.

In the beginning, the RINs were only a few cents each. But, as per usual, the government program distorted the market, and the cost of RINs exploded. RINs are now so expensive, they threaten to put most independent refiners out of business.

Eight refineries shut down or announced closing in 2020 resulting in the loss of thousands of jobs that provide huge economic benefits to the communities they serve. In 2018, the largest refinery on the east coast cited the cost of RINs as the major factor in its bankruptcy. This is a big deal.

Diversity of fuel supply matters a lot. Remember the Colonial Pipeline Hack? Within days, about half of the gas stations in North Carolina, Georgia, South Carolina, and Virginia were out of gas. This very real national security threat was exposed for all the world to see. Suddenly, people realized it's not such a good idea that one pipeline from Texas is supplying roughly half of the gasoline needed on the eastern seaboard.

But that's what happens when there aren't enough refineries producing fuel where it's needed. Over-Priced RINs are undermining the reason the RFS was created. But it's even worse than that.

Independent refineries should never have been forced to buy RINs in the first place. They don't blend ethanol into the fuel supply. They can't. It's too corrosive. Ethanol blenders do that work just prior to fuel going to the gas station.

This backward structure has created a situation where blenders and Wall Street traders have no incentive to control the cost of RINs because they are the ones making loads of cash on the high prices. And here's another unintended consequence: the RFS has resulted in foreign biofuel producers cashing in with imports, 475 million gallons in 2020 alone. This is the opposite of what the RFS was designed to do.

There are even more problems, but let's talk solutions.

In the short-term, EPA should reduce the total volume of mandated ethanol blending in order to quickly lower RIN prices to a reasonable level. Many state governors have already requested this relief.

Keep in mind, reducing that mandate won't actually lower the amount of blending being done in the real world because we still need ethanol to provide higher levels of octane in our cars and trucks anyway.

Once that's done, EPA needs to move quickly to fix this broken program permanently. EPA could require that blenders, not refiners, be responsible for handling RINs, which makes much more sense because blenders are the ones that manage the RINs in the first place. Or EPA could give refiners the option to purchase low-cost RINs directly from the government if they can't find reasonably priced RINs elsewhere.

There are other potential solutions, but the point is, the EPA or Congress need to fix this problem that they created.

We can't afford to lose any more refineries. Our fuel supply should be coming from as many locations as possible for America's economic and national security.

EPA and Congress: do your jobs. Provide refiners immediate relief and then fix the Renewable Fuel Standard once and for all.

For the Clear Energy Alliance, I'm Mark Mathis. Power On.