

RFS EDUCATIONAL SERIES BRIEFING NO. 9: MARKET FACTORS INFLUENCING RIN VALUES

by Clayton McMartin

RIN values are affected by a number of factors, ranging from the current year's mandate of renewable fuel to the level of overall confidence in the marketplace. The following would represent a partial list of contributing factors to the value of a RIN:

- Transportation cost – The cost to transport ethanol and other biofuels play a key role in the overall RIN value.
- RFS mandate – The mandated level of renewable fuel, the Renewable Fuel Standard, for the specific year establishes the demand and therefore influences price.
- Waiver petitions and other uncertainties that await EPA's ruling have proven to have a dramatic impact on RIN prices.
- Vintage year – Current vintage year RINs will have more value than RINs from the prior year due to limitations on the use of prior year RINs.
- Blending Margins – The net economic margin considering petroleum product price, biofuel price, and other blending tax credits has a direct impact on the availability of RINs and consequently the price.
- RIN failures – Invalid RINs in the market place result in oversupply of RINs and consequently drive the price of RINs down and with it the demand for physical product.
- Deadlines – The yearend deadline and the overall readiness by industry can result in last hour panic and a resulting price increase.

Since the inception of the RFS program, RIN prices have seen a dramatic increase from when RIN trading originally started on Sept. 1, 2007. RIN credits originally traded at 0.25 cents each – primarily because industry did not initially understand the program. RINs have since traded for over 25 cents each, a multiple of 100 times.

FUTURE VIEW: With the impending RFS2 regulations, there will be several types of RINs in the marketplace – each trading at a different price point and in some cases driven by technology specific issues. These future RIN values will be based upon similar factors as described above and as they apply to a specific type of RIN. For example cellulosic RINs (Type C RINs) will have a different value than RINs derived from say corn ethanol (Type R RINs – also known as renewable fuel RINs), due to their availability in the market place.

In fact, due to a special consideration in the 2007 Energy Independence and Security Act (EISA), RINs derived from cellulosic biofuels (Type C RINs), bring a new twist to RIN values. Type C RINs will have a floor price of not less than 25 cents per RIN, and possibly more depending upon the rack price of gasoline in any given year. This is a subject we will explore more in future briefings.

Clayton McMartin is the President of the Clean Fuels Clearinghouse and the founder of the RINSTAR® renewable fuel registry. Hundreds of companies process renewable fuel and RINs on RINSTAR® each day. More information about the company is available at www.CFCH.com or by calling (575) 377-3369.