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Renewable fuel standard RIN credits facing unstable period

Alternative fuel producers are concerned that declining prices for credits used in renewable identification numbers (RINs) from the federal Renewable Fuel Standard will cut deep into their revenue and profits. The federal program that supported corn-based ethanol and biodiesel has in recent years been a leading capital source for new clean fuels such as renewable natural gas; capital has also been needed to produce the fuel and infrastructure - and RIN credits has been the leading resource for many companies.

Cliff Gladstein, president of Gladstein, Neandross & Associates, has warned the market to watch out for price volatility with RINs in recent weeks. Transportation fuel producers were required in the last decade to replace a proportion of their non-renewable fossil-derived hydrocarbons (gasoline and diesel) with bio-based renewable fuels. Alternative fuel producers, especially producers of renewable natural gas (RNG), have been able to tap into the funds to build plants for producing the fuel and delivering it to the natural gas infrastructure.

Selling RIN credits has been vital to their revenue, and seeing share prices drop dramatically has hit some of the companies hard. Prior to the price drop, RIN credits had been very competitive with the price of cheap gasoline and diesel, increasing sales of the clean fuel to fuel suppliers and fleets interested in bringing more clean fuels to their vehicles.

RIN credits came from the Renewable Fuel Standard created in the Energy Policy Act of 2005 and expanded under the Energy Independence and Security Act of 2007. The federal government was looking for energy independence from foreign oil imports during a time when the U.S. was at war with Iraq and Afghanistan. “We’re addicted to oil,” said President George W. Bush during one of his State of the Union speeches.

Senator Ted Cruz (R-TX), a presidential candidate in 2016, has played a leading role in attempting to restrain the power of RFS. The rule is broken and isn’t protecting American energy consumers, he has said. Cruz has also said that if he’d been elected president, he would have abolished the RFS. The usual parties have opposed his moves to place a price cap on the credits, just as they’ve fought “Big Oil” interests. That includes farmers, biofuels producers, and government officials from agri-business states including Iowa Republican senators Chuck Grassley and Joni Ernst.

EPA administrator Scott Pruitt has put together a reform package delivered to President Donald Trump. The place included a RIN price cap, a year-round waiver, and the ability to generate credits from exported ethanol. This move took place in February, and no agreement has been reached yet on possible policy changes. While Trump has supported RFS, it's possible his administration could change direction.

If RIN credits dry up as a viable capital source, clean transportation stakeholders will be driven to find better funding options. That's where two funding sources are poised to take the lead this year:

- **Volkswagen's $2.7 billion mitigation trust fund**, which came from the settlement between the federal government, the state of California, and Volkswagen AG and its Volkswagen, Audi, and Porsche subsidiaries that had sold diesel cars in the U.S. The mitigation trust fund will pay for projects that reduce NOx emissions from VW's affected 2.0 liter vehicles. Court-appointed Wilmington Trust, N.A., is the trustee that administers funding. Eligible projects include those that reduce NOx from heavy-duty diesel sources near population centers. That could include large trucks making deliveries and serving as carriers for ports; school and transit buses; and freight-switching railroad locomotives. All 50 states, the District of Columbia, and Indian tribes, are eligible to become beneficiaries.
- **California's Greenhouse Gas Reduction Fund**, which comes from auction proceeds raised in the state's Cap-and-Trade Program that took effect in early 2012; and that originated in AB 32, the California Global Warming Solutions Act of 2006. Funding raised by companies buying credits at auction to offset their pollutants have gone to zero and near-zero emission passenger vehicle rebates; heavy duty hybrid/ZEV trucks and buses; freight demonstration projects; pilot projects for disadvantaged communities; agricultural equipment; transit districts; and high-speed rail projects. It has been a tremendous success for the state. So far, about $5 billion has been raised and granted by the state through the auction funds. Other states that are following California's zero emission vehicle polices and low carbon fuel standards may be able to build their own revenue following a similar model. California has forged an alliance with the Canadian provinces of Ontario and Quebec. On Feb. 21 of this year, their first joint cap-and-trade auction of carbon allowances involving all three jurisdictions was held.

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