Small Retailers
COALITION

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Dear Colleagues:

Welcome to the Small Retailers Coalition! I am writing to thank you for joining our coalition to help combat an issue that threatens the future viability of our businesses – the impact of the Renewable Fuel Standard ("RFS") on small retailers that sell gasoline to retail and convenience stores. The impact of the current structure of the RFS program on your business, and thousands of others, is that the large retailers have a $.10 to $.15 cent per gallon advantage over you in the current market.[1]

Why is this?

- Under the RFS program refiners and importers of petroleum fuels are responsible for making sure that a certain amount of renewable fuel gets blended into the fuel pool to offset their petroleum fuel production. In other words, the point of obligation for the RFS is currently placed on the refiners and importers. In connection with such obligation, the EPA requires refiners and importers to turn in credits, referred to as Renewable Identification Numbers ("RINs"), based on how much petroleum fuel the refiner made or how much the importer brought in that year. As outlined below, refiners and importers who do not blend their petroleum fuel with renewable fuel before selling such petroleum fuel in the market are forced to buy RINs every year to meet their obligations under the RFS program.
- RINS are generated when renewable fuels are produced. They are "attached" to the gallon of renewable fuel until the renewable fuel is blended with gasoline or diesel at the rack. At that point, they can be "separated" and sold.
- This means that whoever blends renewable fuel into petroleum fuel (referred to as a "Rack Seller") receives a RIN that is in high demand from the refiners and importers who have to buy them to stay in business. RIN prices are shooting up because the amount of RINs the refiners and importers must turn in increases every year, and yet there is an insufficient amount of renewable fuel blended to create the RINs that such refiners and

[1] There is extensive market research that demonstrates that customers will drive out of their way to purchase gasoline from an outlet selling gasoline $.03 cents a gallon less than nearby competitors. Thus, with large retailers having a $.10 to $.15 cent per gallon advantage, the small retailers will be forced out of the marketplace, leaving only the large retailers as viable providers.

importers need to meet their obligations. This creates a scarcity of RINs and, in turn, keeps RIN prices high.

In short, this system creates a huge windfall for Rack Sellers who are not refiners and importers of petroleum fuels, and thus, not obligated under the RFS program to turn in the RINs they receive. Rack Sellers, such as major retailers, are able to take advantage of their position at the rack where they are able to blend fuel and receive RINs for future sale to obligated parties under the RFS program. For example, a major retailer (that can blend without obligation under the RFS program) made approximately \$118 M on the sale of RINs alone in 2015. In light of this system, more of the major retailers who have the financial resources to blend fuel at the rack are getting into the RIN-selling game.

Despite the fact that small retailers make up over 50% of the retail fuel business in this country, the national trade associations representing retailers and petroleum marketers are not currently representing and protecting the interests of small retailers and small convenience store owners with regard to the RFS program and RIN issue.

As such, I am encouraging all of our members to write to the EPA, (the White House and your Congressman) to urge them to move the point of obligation to Rack Sellers so there is a level playing field for us all.

Since I know you all are very busy, this site contains a link to a template letter that you can customize to reflect your operations and send to the EPA (and others). I have also included copies of letters from some of our colleagues and a letter that I sent to the Assistant Administrator of the EPA so that you can see how we are framing this issue and requesting that the EPA change this rule to allow us to compete fairly in our market.

You can continue to check this website for updates and resources. If you have any questions, or would like additional information, please feel free to contact our counsel, Suzanne Murray, at Suzanne.Murray@haynesboone.com or 214.651.5015.

Respectfully yours,

Bill

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