

# Emerging Issues Forum Omaha, Nebraska

## **RINs**

Preparing Your Business for  
the Changes Ahead

April 8, 2010



# RFS2 Release

- Released Wednesday 2 / 3 /2010
- President's "Green Team"
  - DOE – Steven Chu
  - USDA – Tom Vilsack
  - EPA – Lisa Jackson
  - Dept. Interior – Ken Salazar
  - Energy / Climate Czar – Carol Browner

# Highlights

- Effective July 1, 2010
  - 60 Days for Congressional Review
  - 18 Months Later than EISA Requirement
- Four Separate Standards
  - RFS1 Had only 1
  - RFS2 Standards are categorically based on GHG Reductions

# Highlights Continued

- ILUC Methodology Remains
  - Corn Ethanol Qualifies as Renewable Fuel (Type R)
  - Soy based Biodiesel Qualifies as Biomass Based Diesel (Type B)
- Cellulosic Mandates Cut in 2010
  - Reduced from 100 Million Gallons to 6.5 Million Gallons (Type C)

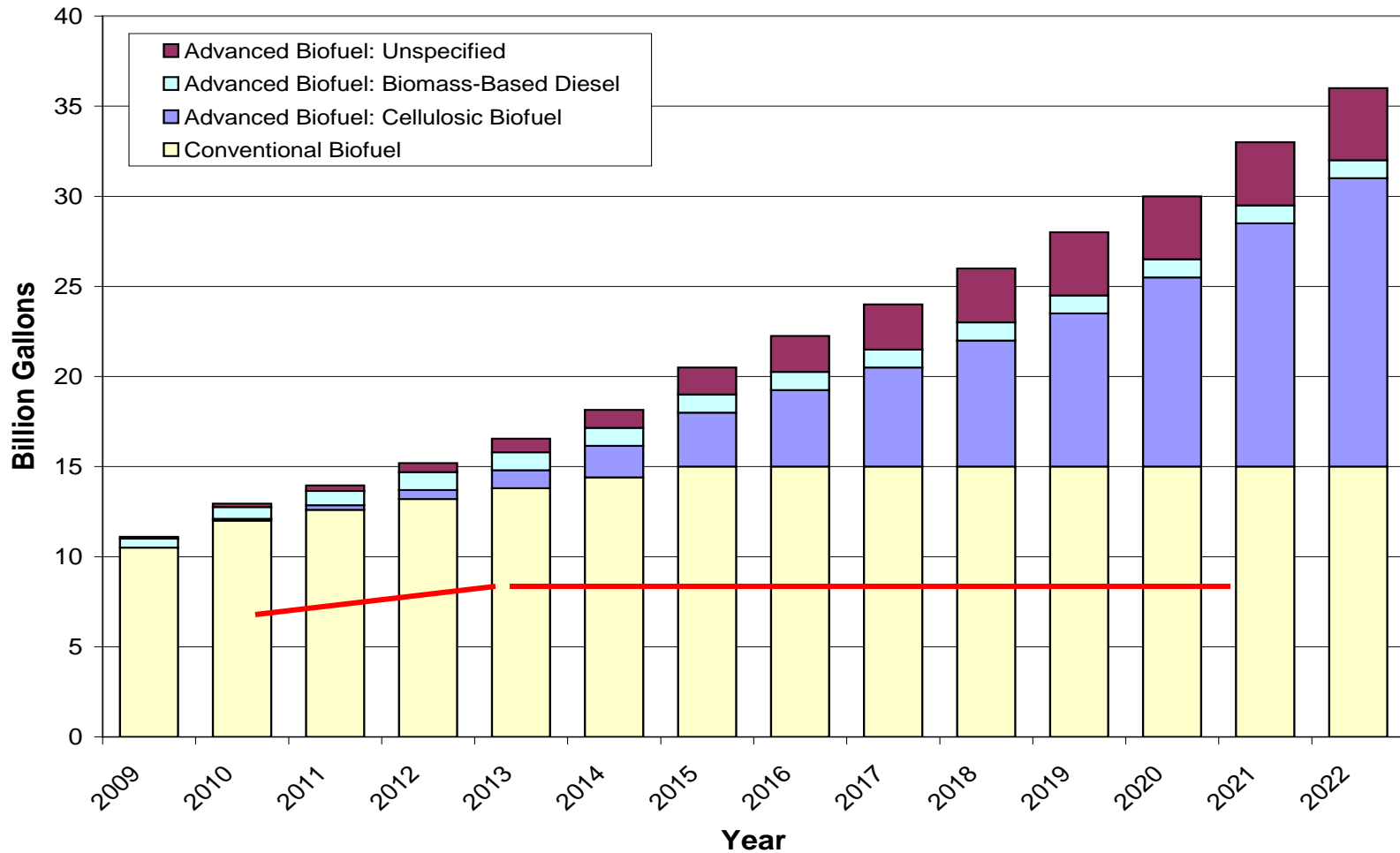
# Highlights Continued

- Producers Will Need to Re-register and qualify each Facility
- Feedstock Must Be Qualified as Renewable Biomass
  - No immediate additional requirements for domestic crop based sources
  - Significant requirements for non-crop based sources. (Waste grease, Animal Fats, etc.)

# Four Product Classes (CBAR)

- Type C
  - Cellulosic, 60% GHG Reduction
- Type B
  - Biomass Based Diesel, 50% GHG Reduction
- Type A
  - Advanced Biofuels, 50% GHG Reduction
- Type R
  - Renewable Fuel, 20% GHG - Grandfathering

# RFS 1 vs. RFS 2



# What Are RINs and How do They Work?

- Renewable Identification Numbers (RINs)
- Administrative Approach Began with RFS1
- Currency of Compliance
- Credits Generated with Biofuel Production
- Transmitted with Physical Fuel
- Activated by Blending with Petroleum
- Applied Towards the Annual Obligation

# The Devil Is In The Details

- Avoid Costly Surprises
- Read the Regulations
- Work with Experts
- Consider Impact on Your Strategic Plans
- Be Prepared For EMTS



# Let's Start with a Simple Example



- Producer
  - Writes a Check
  - Sell Record
- Customer
  - Writes a Deposit Slip
  - Buy Record
- EMTS
  - Clears Transaction

# Insight Into a RIN Registry



- RINSTAR®
- Private Sector
- Developed in 2007
- Validation and Clearing Service
- Third Party Provider

# EMTS Database

- EPA Will Soon Serve the Role of Moderator
- Very Supportive of the Concept
- Mandatory Central Clearing
- Modifying our Private System to Integrate Directly
- Large Operators Will Want to Do the Same



# Here to Share Experience

- Industry's Private Sector Registry
- 4 Years of Ongoing Development
- Nearly 3 Years of Real World Application
- You will Face Many of the Same Challenges
- Sharing Solutions

# Producers On RINSTAR®



- 71 Total Facilities
- Across 23 States
- Ethanol
- Biodiesel
- Advanced Biofuels
- Cellulosic

**RINSTAR has a Representative Set of Producers**

# Total Supply Chain Approach

- Central Registry Interacts with Every Link
  - Importers, Exporters, Marketers
  - Traders, Blenders, Refiners
- Critical to Delivering Product
- EMTS will Interface with Each
- 221 Member Companies
- Interact with over 500 Counterparties



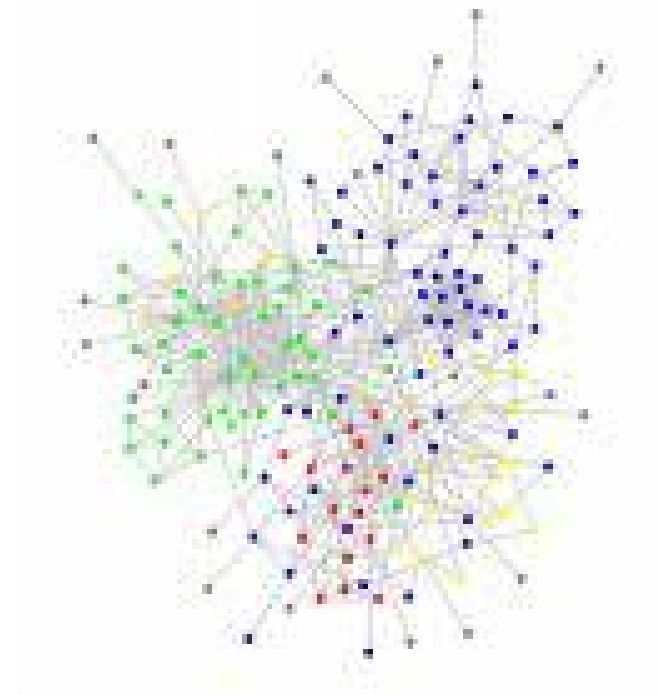
# Managing Data

- RINSTAR History

- 16 Billion, 400 Million Gal-RIN Transactions
- Over 2.5 Million Records

- Our Projections for EMTS

- Over 1 Million Records per Month



# Now For Some Perspective

- 1 Million Records per Month
  - Approx 20 Working Days/Month
  - 50,000 Records per Day
  - 6,250 Records per Hour

■ **HUGE** Undertaking



# Impact of RFS2 on Your Business

- Significant in Many Areas
  - Much More than Just the Mandate
  - Wholesale Changes to Your Administrative Processes
- Share 2 Examples Today
  - What Happens in the Real World
  - The Coming Change in Your Business Processes

# Credit Memos

- Major Adjustment for Several Companies
  - Also Known as Credit Invoice / Credit Rebill
- We Have Seen Hundreds
  - Supplier Initiated
  - Impacting Millions of RINs
  - Significant Loss due to Rework
- AKA - Recall and Replace

**CREDIT  
MEMO**

# Real World Example

- Discovered in the 3<sup>rd</sup> Week of March 2010
- Conducting Validation for one of Our Members
- We see a Very High Occurrence of Duplicated RIN Transfers
- This Should Convince You of the Need for A Central Registry

# Time For An E-mail



# In The Universe of EMTS

- Forward Operating
- No Deleting of Records
- No Modification of Records
- Reversals Require a Release of Interest
- Many Will Require Remedial Actions and Approval From EPA



# Another Reality Check

- Consider 99.5% Accuracy
  - 50,000 Records per Day
  - ½ of 1% Result in Errors
  - 250 Errant Records per Day
- Consider 99.9% Accuracy
  - 50 Errant Records each Day
- Significant Impact on Your Business



# Key Observation

- RINs are Part of a Compliance Program and Experience has Shown that They are Best Managed in a Compliance System
- The Refining Industry has Learned this Lesson Twice
  - RFG
  - ULSD



# Second Issue For Today

- Reflect on Our Earlier Demonstration
  - Sell Record (Check)
  - Buy Record (Deposit Slip)
- Counterparty Confirmation Will be New
- Confirmation Must Match on 8 Different Fields

# Matching Criteria

- RIN Year (Vintage)
- Fuel Code (D Code)
- RIN Quantity
- Reason Code (6 different options)
- Trading Partner
- Assign Code (K=1 or 2)
- Transaction Date
- Price Paid (per Gallon or per RIN)



# Time is of the Essence



- 5 Days to Confirm Trade
  - 2 Days Extra – Really 7
- Inventory Is Pending Until Confirmed
- Think of Ledger Balance and Available Funds
- Unconfirmed Transactions are Purged

# RINSTAR Solution

- Generation of Both the Buy and Sell Record Simultaneously
- Aging Reports and Notifications
- Automatic Resubmission When Timed Out

**Counterparty Confirmation is Important**

# An EMTS Recap

- Why it is Necessary
  - Reduce Errors and Duplicate RINs
  - Restore Confidence
- How it Works
  - Transactions are Cleared Through Central Database
- What it Will Do For You
- What it Will Not Do For You

# EMTS Has Its Limits



- Will Not Generate PTDs
- Does Not Satisfy Recordkeeping Requirements
- Does Not Handle RFS1 RINs
- Does Not Satisfy All Reporting Requirements
- Does not Eliminate Attestations

# The RFS2 RIN Solution

- EMTS Serves and Important Role
- Changes in Your Business Practices Will be Required
- Counterparty Confirmation Will be a Significant Issue
- RINSTAR® Offers a Proven Third Party Solution

# Clear as Mud?



# FREE White Paper

- Authored by Clayton McMartin and Graham Noyes from Stoel Rives
- Download from [WWW.CFCH.com/whitepaper](http://WWW.CFCH.com/whitepaper)
- The Cost to Prepare Would be in the Thousands of Dollars
- Our Way of Contributing to a Successful Transition



*The Renewable  
Fuel Registry*

# Questions & Answers



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# Nested Standards

**Type C**

**Type B**

**Type A**

**Type R**

	Cellulosic biofuel requirement	Biomass-based diesel requirement	Advanced biofuel requirement	Total renewable fuel requirement
2009	n/a	0.5	0.6	11.1
2010	0.1	0.65	0.95	12.95
2011	0.25	0.80	1.35	13.95
2012	0.5	1.0	2.0	15.2
2013	1.0	a	2.75	16.55
2014	1.75	a	3.75	18.15