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United States Senate

CHARLES E. GRASSLEY

WASHINGTON, DC 20510-1501

September 25, 2013

REPLY TO:

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The Honorable Gina McCarthy
Administrator
U.S. Environmental Protection Agency
1200 Pennsylvania Avenue NW
Washington, DC 20460

Dear Administrator McCarthy:

I've been a strong supporter of domestically produced biofuels for many years. The production of homegrown biofuels allows American consumers to use a product that is renewable, cleaner and domestically produced. The Renewable Fuel Standard has been a great success in achieving higher use of biofuels in our transportation fuel supply.

The Renewable Fuel Standard includes a RIN credit trading system. The RIN credit market was created as part of the Renewable Fuel Standard to provide flexibility and aid obligated parties in complying with their annual renewable volume obligations (RVO's).

I'm concerned about recent reports of manipulation or exploitation of the RIN market by non-obligated parties, including financial institutions. Allegations that the opaqueness of this market is leading to abuse and exploitation by individuals or firms simply to generate profits at the expense of refiners, other obligated parties, and perhaps consumers is troubling. The EPA needs to provide assurances that this market is functioning for its intended purpose, rather than acting as a profit mechanism for Wall Street banks and other financial institutions. For that reason, I'd like the EPA to respond to the following questions.

1. Other trading markets are regulated to protect market participants against fraud, manipulation and abusive trading practices. What safeguards does EPA have in place to protect against RIN market manipulation and abuses by non-obligated third parties who are not directly involved in the renewable fuel supply chain?
2. Please describe the oversight network EPA has in place to ensure that the RIN credit market is not manipulated by obligated parties or non-obligated parties.
3. Is EPA working to modify the RIN credit market to eliminate manipulation and abusive trading practices like hoarding? Has EPA considered implementing the type of volatility controls that are present in other markets, such as limits on daily price movements, position limits, etc.?

RANKING MEMBER,
JUDICIARY

Committee Assignments:

AGRICULTURE
BUDGET
FINANCE

CO-CHAIRMAN,
INTERNATIONAL NARCOTICS
CONTROL CAUCUS

4. Is there a way for the general public and all parties who generate, own or trade RINs to discover the market price for RINS through the EPA's EMTS system? How do the prices reported by third-party industry publications compare to prices reported to the EMTS system?
5. Why doesn't EPA publicly disclose information that would enhance the transparency of the RIN market? Has EPA considered providing aggregated data to the public regarding RIN transaction prices, volumes traded, and volumes held by the various segments of the marketplace (i.e., obligated refiners, obligated importers, non-obligated blenders/marketers, and non-obligated third parties with no tie to the supply chain)?
6. Is it possible for consumers or obligated parties to determine the amount of separated RINs in the market at a given time? Is it possible at any given time to determine from publicly available data who holds those separated RINs?
7. To what degree are non-obligated parties with no direct involvement in the fuel supply chain (e.g., financial institutions, speculative investors, etc.) participating in the RIN market? What percentage of separated RINs are being held by non-obligated parties with no tie to the fuel supply chain? What percentage are being held by non-obligated blenders, marketers and retailers?
8. Is the current opaque RIN credit market the best way to achieve a fair, orderly and efficient market that protects market participants and is free of manipulation?
9. Has EPA considered installing external oversight over the RIN credit market?

It's troubling that there appears to be no way to determine who is trading the credits, at what price, and at what volumes. It's even more alarming that it's impossible to know the extent of the involvement of financial or other speculators. It's imperative, to maintain confidence that the pricing of RINs is based on market forces and not manipulation or excessive speculation, that EPA increase the transparency of the market. By answering these questions, EPA may be able to provide the necessary transparency.

Thank you for your consideration and I look forward to your prompt reply.

Sincerely,


Charles E. Grassley
United States Senator