



QuikTrip Corporation

CORPORATE OFFICE
4705 South 129th East Avenue
Tulsa, Oklahoma 74134-7008
P.O. Box 3475
Tulsa, Oklahoma 74101-3475
918-615-7700

February 22, 2017

The Honorable Scott Pruitt
Administrator
U.S. Environmental Protection Agency
1200 Pennsylvania Ave., NW
Washington D.C. 20460

Re: Proposed Denial of Petitions for Rulemaking To Change the RFS Point of Obligation (EPA-HQ-OAR-2016-0544)

Dear Administrator Pruitt,

On behalf of QuikTrip Corporation and its wholly owned subsidiary, QT Fuels Incorporated (“QT Fuels”) (QuikTrip Corporation and QT Fuels are collectively referred to herein as “QuikTrip”), I write in support of the Environmental Protection Agency’s (“EPA” or the “Agency”) proposal to deny petitions for rulemaking to change the point of obligation under the Renewable Fuel Standard program (“RFS” or the “Program”).¹

QuikTrip respectfully files this letter to supplement its comment letter dated August 17, 2016 (Attachment 1),² and calls on the Agency to expeditiously deny the various petitions to initiate rulemakings to change the point of obligation under the RFS. If the RFS is to remain an ongoing policy in the United States of America, the current setup and structure – with the point of obligation placed upon refiners, manufacturers, and importers – is the best and most efficient way to ensure the Program’s success. For the many sound reasons EPA highlighted in its proposal to deny, changing the point of obligation would not help the RFS achieve its enumerated goals. Rather, changing the point of obligation would undermine the Program.

In addition to the concerns highlighted in QuikTrip’s August 17 letter, it is important to emphasize that changing the point of obligation will impose enormous regulatory burdens on entities that have no control over the chemical composition of petroleum products. The regulatory uncertainty in conjunction with the time it will take to transition the Program to a new structure will catalyze significant disruptions in the RINs market. This uncertainty and disruption

¹ Environmental Protection Agency, Petition for Rulemaking, Notice of Opportunity to Comment on Proposed Denial of Petitions for Rulemaking To Change the RFS Point of Obligation, 81 Fed. Reg. 83766 (Nov. 22, 2016).

² Letter from QuikTrip to Administrator McCarthy (Aug. 17, 2016), Docket Filing Identification Number: EPA-HQ-OAR-2016-0544-0013, *available* at <https://www.regulations.gov/document?D=EPA-HQ-OAR-2016-0544-0013>. QuikTrip requests that this letter be incorporated into this comment record.

will, in QuikTrip's view, halt investment by retail stores in expanding E15 offerings. In short, it will hinder the goals of the RFS.

Thank you for your consideration. Please do not hesitate to contact QT as you consider this important matter.

Respectfully,

A handwritten signature in blue ink that reads "Bruce Morgan". The signature is written in a cursive style with a long horizontal line extending from the end of the name.

Bruce Morgan
Vice President, QuikTrip Corporation
President, QT Fuels Incorporated



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4705 South 129th East Avenue
Tulsa, Oklahoma 74134-7008
P.O. Box 3475
Tulsa, Oklahoma 74101-3475
918-615-7700

August 17, 2016

The Honorable Gina McCarthy
Administrator
U.S. Environmental Protection Agency
1200 Pennsylvania Ave., NW
Washington D.C. 20460

**Re: Opposition to Petition for Rulemaking to Change Definition of Obligated Party
Under the Renewable Fuels Standards, 40 C.F.R. § 80.1406**

Dear Administrator McCarthy,

On behalf of QuikTrip Corporation and its wholly owned subsidiary, QT Fuels Incorporated (“QT Fuels”) (QuikTrip Corporation and QT Fuels are collectively referred to herein as “QuikTrip”), I write to oppose the petition for a rulemaking to change the point of obligation under the Renewable Fuel Standard program (“RFS” or the “Program”), which was submitted by Valero Energy Corporation and its subsidiaries (“Valero” or the “Petitioner”) on June 13, 2016, and the petition submitted by the American Fuel & Petrochemical Manufacturers on August 4, 2016.¹

In support of its petition, Valero contends that altering the point of obligation will further the goals of the Program because it will increase incentives for companies like QuikTrip to blend more renewable fuels. Petitioner also asserts that altering the structure of the RFS will ensure that small retailers are not placed at a disadvantage vis-à-vis larger retailers. Finally, Petitioner complains that it is competitively and economically disadvantaged by the current structure of the RFS. These assertions are without foundation.

QuikTrip strenuously urges the Environmental Protection Agency (“EPA” or the “Agency”) to deny this petition. Today, the RFS is working. Retailers like QuikTrip have incentives to maximize their blending of renewable fuels. In fact, QuikTrip is already blending as

¹ Valero, Petition for Rulemaking: Renewable Fuel Standard Definition of Obligated Party—40 C.F.R. § 80.1406 (June 13, 2016); American Fuel & Petrochemical Manufacturers (“AFPM”), Petition for Rulemaking: Renewable Fuel Standard Definition of Obligated Party—40 C.F.R. § 80.1406 (Aug. 4, 2016). While QuikTrip’s letter directly addresses assertions in the Valero Petition, all of the statements and arguments herein apply to Petition submitted by AFPM.

much renewable fuel as it can in the current market. Given the highly competitive nature of the retail fuels market, if we do not respond to consumer demand, we will go out of business. Whether E0, E10, or higher blends, we are agnostic about what fuels to sell; we stock what our customers want. If consumers wanted to fill their tanks with carbonated water (and it were legal to do so), we would find a way to market carbonated water fuel. This is because we are always in touch with our customers.

We also have every incentive to blend. Because of how the Program is structured, we are able to utilize the value of RINs associated with blending to lower the price of renewable fuels sold at retail. This makes renewable fuels more attractive to consumers and has led to greater consumption of renewable fuels. If our customers want E15 or E20, we would be delighted to provide more of those products. So far, however, our customers have not indicated they are ready to purchase higher blends in a sufficient enough quantity to cover the investment costs necessary to offer those fuels. Although we currently only offer E10, we will respond to our consumers' demand to offer E15 as it arises. We are always responding to signals from consumers and the market about what fuels we offer.

Altering the point of obligation would be anti-consumer and undermine the goals of the RFS. It would be anti-consumer because it would alter the balance of control between the retailer and the manufacturer. This is a serious concern because retailers are advocates for the consumer while the manufacturer does not have the same incentive to care about the customer. Changing the point of obligation will reduce competition at the rack because many retailers will choose to move below the rack to avoid incurring volume obligations. With fewer competitors at the rack, companies like Petitioner, which control the base petroleum product being introduced into commerce, will be able to raise prices. This increase in price will trickle down to retail. When products blended with renewable fuels are less price competitive compared to unblended product, fewer consumers will buy those products.

Finally, it is important to note that while QuikTrip and other retailers have competed successfully within the existing RFS structure, Petitioner's so-called disadvantage was entirely of its own making. Petitioner chose to rid itself of its guaranteed RIN supplier, its downstream convenience store chain, when the RFS was *already in place*.² It is disingenuous and inappropriate, therefore, for Petitioner to come crying to regulators to fix the outcomes of the business decisions it chose to make *after* the Program was established. Like QuikTrip and many other retailer-position holders, Valero is completely capable of investing in renewable fuel infrastructure and increasing its blending operations.

² Business Wire, *CST Brands, Inc. Spins Off from Valero Energy Corporation* (May 1, 2013), <http://www.businesswire.com/news/home/20130501005416/en/CST-Brands-Spins-Valero-Energy-Corporation>; see also Reuters, *Valero may raise \$3.5 billion through retail arm auction* (Sept. 27, 2012), <http://www.reuters.com/article/us-valero-retail-auction-idUSBRE88Q12D20120927>; MarketWatch, *Valero retail spinoff CST Brands to start trading Thursday* (May 1, 2013), <http://blogs.marketwatch.com/energy-ticker/2013/05/01/valero-retail-spinoff-cst-brands-to-start-trading-thursday/>; Vicki Vaughan, *Valero sells remainder of CST Brands shares* (Nov. 14, 2013), <http://www.mysanantonio.com/business/local/article/Valero-sells-remainder-of-CST-Brands-shares-4984168.php>.

As detailed in the subsequent pages, QuikTrip respectfully requests that EPA deny this petition and retain the current point of obligation.

I. Introduction to QuikTrip

QuikTrip Corporation is a privately held convenience and gasoline marketer headquartered in Tulsa, Oklahoma. Founded in 1958 by Chester Cadieux, QuikTrip has grown into an \$11 billion company with more than 700 stores in 11 states: Oklahoma, Texas, Kansas, Missouri, Iowa, Nebraska, Illinois, Arizona, Georgia, South Carolina, and North Carolina. The company retains its family roots with Chester's son, Chet Cadieux III, as the current President and CEO. With over 22,000 employees, QuikTrip has made Fortune Magazine's list of Best Companies to Work For every year for the last fourteen years. QuikTrip is also consistently ranked as one of the top convenience store marketers in product quality and friendly service. QT Fuels is a wholly owned subsidiary of QuikTrip Corporation and is involved in fuel acquisition above and below the rack since October 2013.

QuikTrip has an extensive fuel offering for our customers. We offer various grades of gasoline and diesel, including: E0 87 octane, E0 91 octane, E10 87 octane, E10 89 octane, E10 91 octane, E10 93 octane; and Ultra-Low Sulfur On-Road Diesel as B0, B5, B15, and B20. QuikTrip provides conventional gasoline; a specialized Arizona-specific Cleaner Burning Gasoline ("CBG"); reformulated gasoline ("RFG"), and specialized low-Reid Vapor Pressure ("RVP") blends that vary depending on the region.

Beyond providing our customers with a varied fuel offering, QuikTrip is an industry leader with regard to environmental issues impacting fuel retail. QuikTrip has partnered with fuel system manufacturers to develop cutting edge systems to minimize environmental impact. Recognizing the many difficulties that higher renewable fuel blends pose to existing infrastructure, QuikTrip is also a frontrunner in research and development on Microbial Induced Corrosion in USTs and sumps, and has partnered with EPA and state environmental agencies to investigate ethanol-driven corrosion.

In order to provide our customers with extensive, cost-competitive fuel offerings, we acquire fuel products in a number of different ways. QuikTrip acquires product both above and below the terminal, on the spot market, and in the pipeline.³ We are a significant and large shipper in the Colonial, Plantation, Explorer, Magellan, and Kinder Morgan West Coast pipelines. Given our numerous transactions at the tank terminal level, QuikTrip is, in many instances, a "position holder" pursuant to the Internal Revenue Code.⁴ QuikTrip also purchases significant quantities of ethanol in the Midwest and has ethanol transported to various markets across the United States. In addition to its numerous above-the-rack fuel acquisitions, QuikTrip is also a significant below-the-rack buyer across our markets, meaning we purchase product from

³ QuikTrip purchases in the following spot markets: Los Angeles, Pasadena, Texas, Central Oklahoma, Chicago, and New York Harbor.

⁴ 40 C.F.R. §48.4081-1.

other entities that have done all of the inventory, procuring, and blending up until it gets to the truck. In my nearly 20 year tenure with the company – since well before the establishment of the RFS – QuikTrip has been acquiring product both above and below the rack.

As a retailer, our business survives and prospers only inasmuch as we can spur in-store sales for our company. The primary way we have been successful in this endeavor is by offering gasoline and diesel retail sales at competitive prices, leading directly to increased foot traffic in our stores. We have developed our fuel purchasing model (buying both above and below the rack) in order to more effectively compete on price. Because QuikTrip competes with the best suppliers of fuel in the nation, we moved to buying above the rack in order to compete more effectively with branded manufacturers. At the same time, QuikTrip maintains a significant presence below the rack to ensure supply security and flexibility. Nevertheless, rack prices can be more competitive than spot prices and QuikTrip buys below the rack to ensure it remains price-competitive.⁵

QuikTrip does not create consumer demand; we respond to consumer demand. Many times, we must provide different fuels to our different stores because of regional fuel specifications. As such, in metro areas where there is a high demand for fuel, our fuel acquisition model tends to be a mix of above and below-the-rack purchases, which enables the company to respond efficiently and quickly to changes in market price. Finally, because of the way QuikTrip and other retailers aggressively compete on price, we act as marketplace disrupters and ensure that consumers always pay the lowest price.

II. Altering the point of obligation will not increase QuikTrip’s incentives to blend renewable fuels.

As you are aware, the RFS was established with the goal of increasing U.S. energy security while increasing renewable fuel usage with cleaner air quality characteristics than traditional, petroleum-based gasoline or diesel. Despite the numerous requirements in the RFS, the statute does not require consumers to buy one type of fuel over another. If we have learned anything over our decades in the retail fuel business, QuikTrip has learned this: consumers almost universally make purchasing decisions based on price – regardless of the fuel type being offered. Thus, for renewable fuels to be accepted and purchased in the marketplace, they must be priced competitively with petroleum-based fuel counterparts.

The current market structure of the RFS incentivizes the introduction of renewable fuels through the need of obligated parties to acquire and then retire RINs. This was the goal of the Program, and the current structure of the Program has succeeded at increasing renewable fuel usage in the domestic fuel supply. For refiners, manufacturers, and importers—those that control the introduction and content of petroleum-based products into the market—the RIN system provides them several ways to meet their obligations: through direct blending operations, acquiring RINs on the open market, or contractually requiring the RIN to be transacted back to the refiner/importer after blending. For a fuel retailer such as QuikTrip, blending renewable fuels

⁵ Racks are their own economic system that also responds to demand and sometimes rack prices are more attractive for fuel retailers than the spot market.

(even though we are under no obligation to do so) allows us to use the value of a RIN associated with that blending activity to lower our cost of goods sold, making fuels with renewable components more cost-competitive than unblended products. The cost-competitive nature of these blended fuels helps spur consumers to purchase these renewable-based fuels – precisely the goal of the RFS. If we were unable or chose not to pass along these RIN savings to the consumer, renewable fuels could not compete economically with non-renewable fuels, which would likely result in a dramatic decline in the purchase and use of renewable fuels. Simply stated, changing the point of obligation to position holders (such as QuikTrip) would make renewable fuels less attractive to consumers and thus defeat the very intention and purpose of the RFS.

In the petition, Valero contends that retailer-position holders only blend to separate the RINs and reap windfall profits off trading, failing to pass along any RIN savings to consumers. This is simply not true. The retail fuels market is one of the most transparent markets that exist. We display our prices prominently on signs posted outside each and every store – a feature unique to the retail fuels industry. In our industry, consumers can window shop for price without even leaving their vehicles. In addition, not only is the retail fuels industry one of the most transparent, it is by its nature transactional; that is, each and every cost increase or decrease felt by the fuel retailer is inevitably passed along to the consumer.⁶

If we acted as Petitioner contends we do – keeping all the RIN value for ourselves and failing to pass those savings through to consumers – our competitors across the street corner would discover this as a way to gain a competitive advantage; they would pass along their RIN savings to consumers in order to out-compete us on price. QuikTrip cannot afford not to pass along RIN savings because we rely on competitive fuel prices to drive foot traffic to our stores. The ability to blend renewable fuels, and in the process recognize the value of a RIN, simply allows us to lower our cost of goods sold and to pass along those savings to our customers, thereby incentivizing foot traffic to our stores. In contrast, non-retail position holders, such as the Petitioner, have little incentive to pass along RIN savings to consumers through the retailer. In fact, the further upstream you go in the fuels supply chain, the more opaque the market becomes; this lack of transparency lends itself to less cost-savings for consumers.

Petitioner states that changing the point of obligation will help “resistant markets open up.”⁷ As we make clear in the sections below, changing the point of obligation will not incentivize QuikTrip to blend more renewable fuels, nor will it incentivize consumers to purchase those fuels. In fact, in contrast to our current operations, changing the point of obligation may well cause us to blend fewer renewables in order to avoid the obligation associated with a restructured Program. Further, retailers have a number of infrastructure liability constraints that prohibit them from “open[ing] up” markets to higher ethanol blends. These

⁶ See U.S. Energy Information Administration, Michael Burdette and John Zyren, *Gasoline Price Pass-Through* (Jan. 2003), available at http://www.eia.gov/pub/oil_gas/petroleum/feature_articles/2003/gasolinepass/gasolinepass.htm.

⁷ Valero, Petition, *supra* note 1, at 23.

infrastructure constraints have been well documented, and EPA has even cited these constraints as a reason for less ethanol blending.⁸

The petition contends that Oklahoma retailers are not creating higher renewable fuel blends because “they are making a premium on clear gasoline with no regulatory compliance pressure and increasing the shortage of RIN supply to increase the value of their surplus RINs...”⁹ Firstly, all markets are local. Therefore, in certain market segments – for instance, areas of Oklahoma – the demand for E0 gasoline, or “neat” gasoline, is greater than in most areas of the country. As a retailer that only survives by selling what its consumers demand, we meet this demand and sell neat gasoline at some of our stores in Oklahoma. In fact, those customers generally pay a premium for neat gasoline because we do not have a RIN to use to lower the cost of the product. This is not creating a record profit for us or a shortage of RIN supplies as the total volume of E0 is relatively small compared to the volumes sold of E10.

In reality, refiners and importers have only themselves to blame for so-called inflated RIN prices.¹⁰ As noted in a recent Bloomberg article, referencing EIA data, refiners and importers continue to manufacture at heightened levels.¹¹ Without a corresponding increase in consumer gasoline demand and blending, this excess manufacturing has led to supply gluts across the United States of which EPA is no doubt aware. Having increased stockpiles of refined products is significant because it creates a time lag for the resolution of RIN obligations. RIN obligations are incurred upon manufacture of petroleum products, and RINs are freed for satisfaction of those obligations only when renewables are blended into the fuel supply. Thus, the increase in stocks of unblended product has not only driven down the price of those products but it has also created a disconnect between the volume of RIN obligations incurred by obligated parties and the availability of RINs to satisfy those obligations. In other words, by over-producing, refiners have caused/incurred increased RIN obligations that cannot be balanced out by corresponding blending to meet those obligations; and that disconnect has resulted in higher RIN prices.

III. QuikTrip Urges EPA To Deny Petition and Retain the Existing Point of Obligation.

A. To stay competitive at retail, QuikTrip passes RIN value on to consumers.

⁸ EPA, Final Rule, Renewable Fuel Standard Program: Standards for 2014, 2015, and 2016 and Biomass Based Diesel Volume for 2017, 80 Fed. Reg. 77420 (Dec. 14, 2015), at 77464 (noting that EPA “[does] not believe, based on past experience, that the core concerns retailers have with liability over equipment compatibility and misfueling would change if the RFS volume requirements were increased significantly...[and does] not believe that the E15 expansion can occur on the scale and timeframe that ethanol proponents believe it can.”).

⁹ Valero, Petition, *supra* note 1, at 23.

¹⁰ QuikTrip also acknowledges the importance of the timely setting of renewable volume obligations (RVO) to ensuring marketplace stability.

¹¹ Christopher Sell, *Here’s Why It’s All Downhill for Oil Refiners* (July 28, 2016), <http://www.bloomberg.com/news/articles/2016-07-28/here-s-why-it-s-all-downhill-for-oil-refiners>.

Petitioner implies that QuikTrip and other large retailers purchase above the rack to enrich themselves and take advantage of the existing RFS structure and do not pass on RIN value to consumers. Then, Petitioner states that QuikTrip and other large retailers have a “competitive advantage over small retailers that threatens the future of small retail stations and could undermine retail competition and harm the consumer.”¹² Basically, Petitioner argues that the Program is preventing RIN values from being passed on to consumers and “preventing the market from realizing the opportunities to invest in renewable fuel infrastructure.”¹³ Simply stated, Petitioner’s positions are meritless.

Every day, QuikTrip competes against other retailers for consumers’ business. We operate in one of the most price competitive businesses around, where our price signs are visible to consumers from blocks away. QuikTrip cannot afford to not pass along RIN value because it allows us to lower our prices at retail and compete more effectively with our competitors. What’s more, our competition has access to buying below the rack where prices can many times be more competitive than above-the-rack prices. To highlight the inaccuracies in Petitioner’s claims, in Appendix A, we compared the difference between market rack prices (Phoenix and Dallas Fort Worth), the corresponding spot plus price, and the value of ethanol RINs. If a position holder were enriching itself by keeping the RIN value, then one would expect the price differential to at least equal the value of a RIN (i.e. rack price - spot plus price = RIN value). As is demonstrated in Appendix A, the lower rack price reflects the value of the RIN, which is being passed on to the below-rack buyer.

We also note that while Valero’s concern for small retailers and retailer competition is touching, it is also a red herring. The retail fuels market has a long and storied history of competition and survival. Contrary to Petitioner’s argument, changing the point of obligation will make it more difficult for retailers to compete at the rack and will lead to an upward pressure on prices that will harm consumers. Certainly, there will be less incentive to pass along RIN values to consumers because non-retailer position holders will never have the same incentive to pass along RIN values to consumers that retailers (large or small) have.

B. Contrary to assertions by Petitioner, altering the point of obligation will disincentivize infrastructure investments.

Petitioner asserts that changing the point of obligation would incentivize infrastructure investment at blending operations and retail, leading to increased amounts of renewable fuels reaching the marketplace. Setting aside the fact that consumers are not demanding higher ethanol blends on a large scale, while blending infrastructure at the rack can more easily be improved to accommodate additional renewable blends, the chief concern is not at the rack but at the retail level. Changing the point of obligation does not remedy this reality.

As has been well-documented by national trade associations representing the fuel wholesaling and convenience store industry, retailers face numerous legal obstacles in selling fuels with higher ethanol blends, and thus are restrained in how much blended fuel they can sell

¹² Valero, Petition, *supra* note 1 at 9.

¹³ Valero, Petition, *supra* note 1 at 12.

to consumers.¹⁴ These restraints disincentivize infrastructure investments that the Petitioner claims would allow additional ethanol blending and consumption in the marketplace.

Unlike many retailers, all of QuikTrip's outlets in existence today were built by the company from scratch. Thus, in almost every instance, QuikTrip knows what fuel distribution and storage equipment we have in the ground. For these outlets, we know whether our equipment is certified to hold specific renewable fuel blends (*e.g.* E15 or higher). For other retailers, this is often not the case and those retailers have no way of knowing whether their equipment can store higher renewable fuel blends. This can be a serious problem because federal regulations require QuikTrip and all retailers to use equipment that has been listed by a nationally recognized testing laboratory as compatible with the fuel the equipment is storing and dispensing.¹⁵ For the fuel retailing industry, the primary testing laboratory is Underwriters Laboratories ("UL"). Up until 2010, no fuel dispensers were listed by UL as compatible with ethanol concentrations above ten percent, and UL policy does not permit device listings to be revised. As such, even though we know what equipment we have in the ground, any of our fuel equipment that has been in operation since before 2010 cannot legally sell E15 or higher blends. The same would be true for any retailer with equipment dating back to before 2010.

Further, the EPA recently finalized regulations updating Underground Storage Tank ("UST") requirements.¹⁶ These regulations require UST owners and operators to proactively demonstrate compatibility of their underground fueling equipment if storing blends with greater than 10 percent ethanol or 20 percent biodiesel. Failure to comply exposes us to fines from the EPA of up to \$37,500 per day. In order to comply, UST owners must demonstrate compatibility by: (a) certification or listing of their system equipment or components by a nationally recognized testing laboratory (such as UL) for use with the fuel stored; (b) written explicit approval of the equipment or component by the manufacturer; or (c) another method that the implementing agency determines to be no less protective of human health and the environment than the other two options.¹⁷ Similar to fuel dispensers, unless we have recently replaced our UST system at a location and have the appropriate paperwork, we risk substantial fines if we cannot proactively demonstrate that the UST system is listed as being compatible with higher ethanol blends.

¹⁴ See Society of Independent Gasoline Marketers of America and the National Association of Convenience Stores Comment Letter on Environmental Protection Agency Proposed Rule, Renewable Fuel Standard Program: Standards for 2017 and Biomass-Based Diesel Volume for 2018, at 4-7, *available at* <https://www.regulations.gov/document?D=EPA-HQ-OAR-2016-0004-1808>.

¹⁵ See *e.g.*, Occupational Safety and Health Administration ("OSHA") regulations: 29 C.F.R. 1926.152(a)(1) ("Only approved containers and portable tanks shall be used for storage and handling of flammable and combustible liquids.") "Approved" is defined at 29 C.F.R. 1910.106(35) ("Approved unless otherwise indicated, approved, or listed by a nationally recognized testing laboratory.") See also 29 C.F.R. 1910.7 (definition and requirements for a nationally recognized testing laboratory).

¹⁶ EPA, Final Rule, Revising Underground Storage Tank Regulations – Revisions to Existing Requirements and New Requirements for Secondary Containment and Operator Training, 80 Fed. Reg. 41566 (July 15, 2015), *available at* <https://www.gpo.gov/fdsys/pkg/FR-2015-07-15/pdf/2015-15914.pdf>.

¹⁷ 40 C.F.R. §280.32.

New site constructions are built with compatible equipment that can hold higher renewable blends. For existing sites, however, replacing fuel dispensing and UST equipment is not a cheap proposition. Depending on where a site is located, breaking concrete to replace a UST can easily cost upwards of \$100,000, per site, especially when one considers the costs of permitting and the costs of component parts (e.g., tank probe), which can quickly run into the thousands of dollars. In addition, dispensers can run over \$20,000 each. These are substantial investments for our business, and ones we cannot make lightly.¹⁸ In most cases, unless and until consumers are demanding higher renewable blends at substantially higher levels than they are today, it does not make economical or business sense to replace existing fueling infrastructure without a guaranteed return on these investments. In short, whether or not QuikTrip elects to replace its USTs, dispensers, and piping comes down to a question of “return on investment” and customer demand.¹⁹

In addition to OSHA and EPA regulations, QuikTrip also faces misfueling and automobile warranty liability if we offer higher renewable blends. Many years ago, QuikTrip made a business decision to guarantee that its gasoline would not harm a consumer’s engine.²⁰ While QuikTrip has the capacity to undertake such a program, this program only covers damage to an engine caused by QuikTrip motor fuel. It does not cover damages caused by consumer misfueling. Misfueling and automobile warranty liability present significant concerns for retailers large and small, including QuikTrip, and deters many retailers from offering higher blends. The threat of enforcement actions or litigation deters additional investments in these fuel offerings, and this liability risk exists outside the current RFS structure. This would not change if EPA changes the point of obligation under the RFS.

Petitioner claims that changing the point of obligation would incentivize us to make infrastructure investments in order to offer additional renewable blends. However, changing the point of obligation would not lead to additional investments, and may in fact have the opposite effect. As we have stated above, we currently blend renewable fuels mainly because the blend value of a biofuel, including the RIN, allows us to lower our cost of goods sold and make the fuels more competitive at retail. Moving the point of obligation to the rack may cause us to avoid blending all-together or severely curtail our blending activities. At the very least, moving the point of obligation will take away the cost-savings attributed to the RIN, causing renewable fuels to be priced less competitively than they are today. This will make renewable fuel blends less price competitive at retail and fewer consumers will purchase those products—declining demand for a product will not incentivize us to make additional investments to offer that product. In essence, therefore, Petitioner’s proposal to change the point of obligation is likely to reduce consumer demand for renewable fuels, and thus runs contrary to the very intent of the RFS.

¹⁸ In addition to complying with existing regulatory requirements, QuikTrip consistently goes above and beyond what is required by law. We have been recognized for our state-of-the art fuel system that includes several redundant leak prevention systems and other system components to ensure we have an environmentally sound system.

¹⁹ The same significant upgrade costs would be incurred by the small retailers whom Petitioner purports to protect. Those retailers would likely have great difficulty incurring those costs while staying in business.

²⁰ For more information on QuikTrip Gauranteed Gasoline ®, see <http://www.quiktrip.com/Gasoline>.

C. Contrary to assertions by Petitioner, obligated parties do recover RIN costs in the price of fuel sold to downstream entities.

Proponents to change the point of obligation suggest that somehow spot prices do not reflect RIN values. A comparison of domestic jet fuel and domestic ultra-low-sulfur diesel (“ULSD”) disproves this point. Historically, a gallon of jet fuel (which is not subject to the RFS) has been more expensive than a gallon of ULSD (which is subject to the RFS).²¹ If RIN prices were not influencing spot price, then in a comparison of the spot price for domestic jet fuel and the spot price for domestic ULSD fuel, jet fuel would continue to sell at a premium to ULSD.²² But, as Appendix B shows, RIN prices do influence spot prices for fuels that generate an RVO. Since 2013, the price differential of these products decreased significantly to the point where the spot price premium carried by domestic jet fuel essentially converted into a spot price discount. This data suggest that RIN values are reflected in the spot market.

IV. If EPA wishes to further the goals of the RFS, it should maintain the existing point of obligation. Changing the point of obligation will decrease consumption of renewables.

While the Petitioner contends that changing the point of obligation would lead to more renewables reaching the marketplace, the requested change would actually have the opposite effect and prevent the RFS from achieving its goals. Non-manufacturer position holders, including QuikTrip, and other downstream entities do not control how fuel is introduced into the market nor do we control the composition of the product. We are not producers of refined product, but rather buyers of product. Refiners, manufacturers, and importers control product composition and the manner in which product is introduced. Outside of their obligations under the RFS, these entities have no incentive to displace their main product – petroleum – with renewable fuel compatible blend stocks. This is precisely why these entities are the obligated parties under the Program; the Program’s intent is to displace petroleum with renewable blends.

For refiners and importers, they control how to meet their obligations under the current RFS structure. Downstream entities will not have this luxury should the point of obligation be changed. Rather, their ability to satisfy their obligations under a revised RFS structure would be affected by their upstream counterparts. In this situation, those upstream counterparts would have significant leverage and incentive to raise prices. Not only this, blend stocks will become specialty products for which manufacturers will charge a premium. It is also important to note that having fewer entities competing at the rack means that retailers of all sizes will have fewer upstream suppliers from whom they can purchase product, which means that they will be squeezed on price by the entities that remain at the rack. All of these price increases will inevitably be passed down to consumers in the form of higher gasoline prices.

²¹ Jet fuel runs at a premium for several reasons, including the fact that manufacturers of jet fuel are not required to meet stringent sulfur regulations.

²² We have chosen to compare jet fuel and ULSD because they are both products from the distillate pool and manufactured within the same production stream.

As mentioned earlier, fuels with renewable blends are only competitive in the marketplace insofar as they are priced competitively with petroleum-based fuels. Any cost increase for renewable blends will have the direct result of less renewable fuel consumption, contrary to the RFS' stated objectives. Further, should the point of obligation be changed to position holders, these entities (including QuikTrip) will be incentivized to purchase fuel below the terminal rack, thus avoiding the obligation. Our main incentive for purchasing above the rack is to acquire fuels slightly cheaper than below the rack – these transactions afford us the opportunity to offer products at a more competitive price and put downward pressure on the retail price of fuels. Should we move to purchasing exclusively or semi-exclusively below the rack, where fuel is generally more expensive, we will be unable to offer fuel at the prices we currently are able (*i.e.*, all fuel will be more expensive to acquire, both for us and our customers).

V. QuikTrip strongly urges the Agency to oppose efforts to change the point of obligation.

In conclusion, QuikTrip respectfully requests that EPA deny the petitions submitted by Valero and the American Fuel & Petrochemical Manufacturers to change the point of obligation under the RFS. As mentioned above, QuikTrip acquires product above-the-rack in order to obtain the best price on product that will allow us to compete more effectively at retail. QuikTrip did not begin purchasing above the rack with the advent of the RFS; we have been doing so since long before the RFS was created. If EPA were to grant these petitions and alter the point of obligation, QuikTrip would likely alter the way in which we acquire product. In addition to the administrative costs that we would incur in order to comply with the RFS, the cost savings at wholesale would likely be cancelled out by new volume obligations. As such, we will need to revisit each and every contract throughout our portfolio to determine the cost-benefit of continuing to purchase above the rack. In most cases, we expect that it will remain too costly for us to do so, and we would move below the rack. When this happens, consumers will suffer because prices will increase. This *will* happen because there will be less price competition at the rack and since all prices flow down in the fuels market, retailers will have less room to maneuver down on price at retail. We also will likely have fewer incentives to blend as much renewable product as we can into the fuel supply. Less renewables will be blended into the fuel supply, which will result in decreased consumption of renewables The RFS is working today. If EPA changes it now, it will not work as well tomorrow.

QuikTrip appreciates your attention to this matter and stands ready to assist EPA as it considers this issue further.

Respectfully,



Bruce Morgan
Vice President, QuikTrip Corporation
President, QT Fuels Incorporated

cc:

Janet McCabe, Acting Assistant Administrator for Air and Radiation, Office of Air and Radiation

Christopher Grundler, Director, Office of Transportation and Air Quality

Appendix A

Appendix A: Rack Prices and RIN Value²³

Executive Summary

Petitioner claims fuel companies who buy and blend at the rack are able to enrich themselves by exploiting the RIN rebate. To test this hypothesis, the following charts compare the difference between market rack prices, the corresponding spot plus price (comprised of the spot price plus additional expenses to get to the corresponding market), and the value of ethanol RINs. The spot plus is utilized as the low-end benchmark for pricing while the rack prices in the various markets are utilized as the price points of comparison. If an entity is enriching itself by the value of the RIN, we would expect the price differential to at least equal the value of a RIN (i.e. rack price - spot plus price = RIN value).

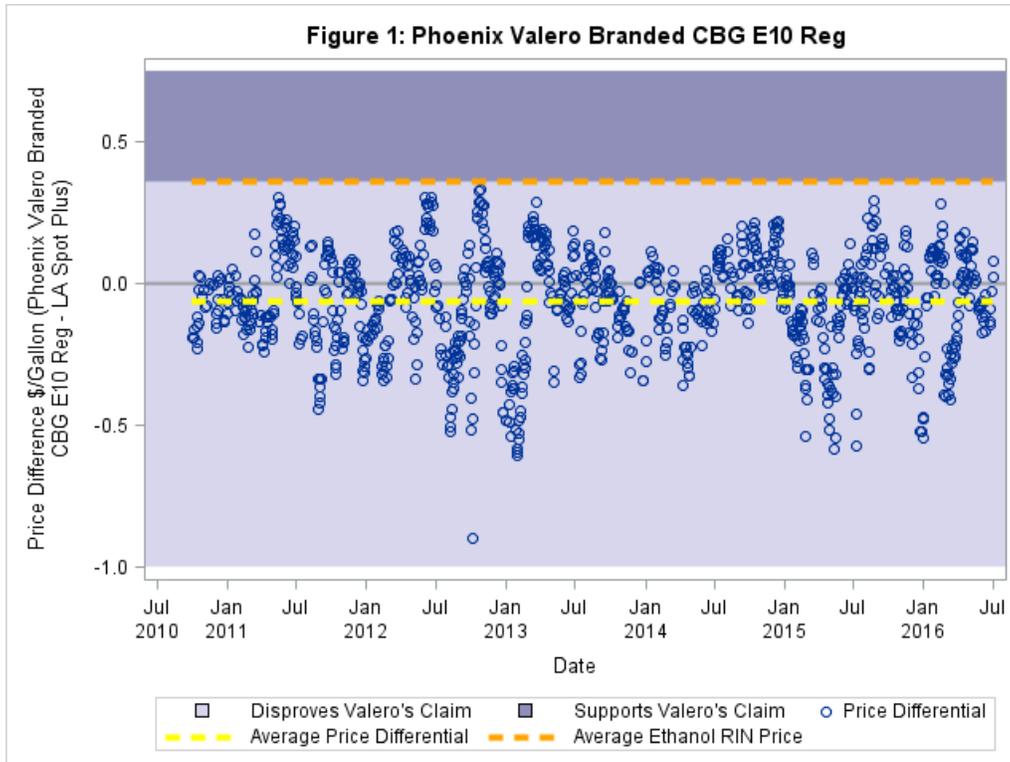
To visualize these relationships, Figure 1 highlights the difference between Valero's Phoenix rack price, the corresponding LA spot plus price, and ethanol RIN values. As can be seen in the figure, the average price differential (yellow line) is less than the mean RIN value (orange line). This implies that Valero is not pocketing the full RIN rebate—a direct contradiction of Petitioner's own claim. Moreover, contract low prices (the best benchmark of how the market operates as a whole) were used to test another price differential against the Los Angeles spot plus price to either support or disprove the findings with Valero's Phoenix rack prices. Figure 2 shows a Phoenix contract low price differential where the yellow average price differential line is below the orange average ethanol RIN price line. This disproves Petitioner's claim that entities are able to enrich themselves off of the full RIN value at the rack.

To support these findings, a second analysis was performed by using data from the Dallas Fort Worth market. Figures 3 and 4 compare the price differential between Valero's rack prices in the Dallas Fort Worth market, the Gulf Coast spot plus price, and the average ethanol RIN price. In both graphs, the yellow line (the average price differential) is well below the orange line (average ethanol RIN price), refuting Petitioner's claim that position holders at the rack pocket the full RIN value. Moreover, the contract low price for the Dallas Fort Worth market was analyzed and the results are presented in Figures 5 and 6. The price differential highlighted in these two charts is the difference between the contract low price and the Gulf Coast spot plus price. The average price differential (yellow line) is below the average ethanol RIN price (orange line), which again contradicts Petitioner's claim that entities are able to enrich themselves via the RIN value at the rack.

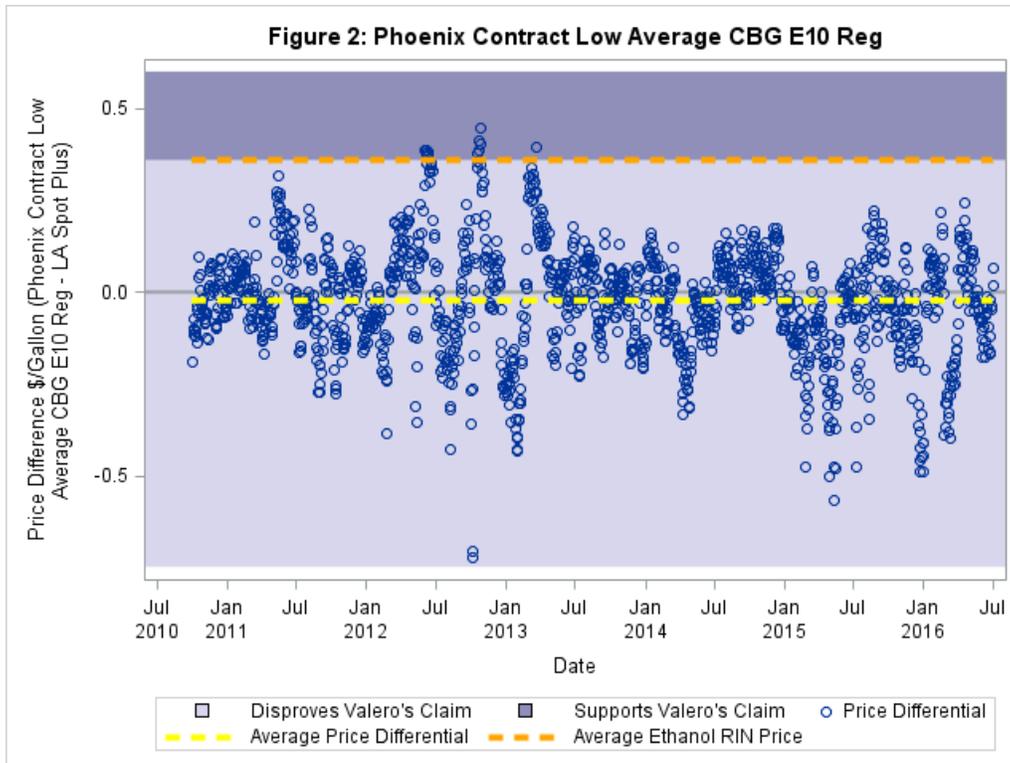
In conclusion, the results from the Phoenix market analysis show (for all grades of fuel) that the price differential is less than the ethanol RIN values on average. Additionally, the Dallas Fort Worth analysis provided parallel results highlighting that the rack and contract low price were found to be on average lower than the ethanol RIN values. Taken together, these results contradict Petitioner's claim that all parties who buy and blend at the rack are maximizing financial gain and failing to pass along RIN value downstream.

²³ To compile the attached analyses and charts in Appendices A and B, we have used base data provided by the Oil Price Information Service ("OPIS").

Phoenix Valero and Contract Low Rack Pricing

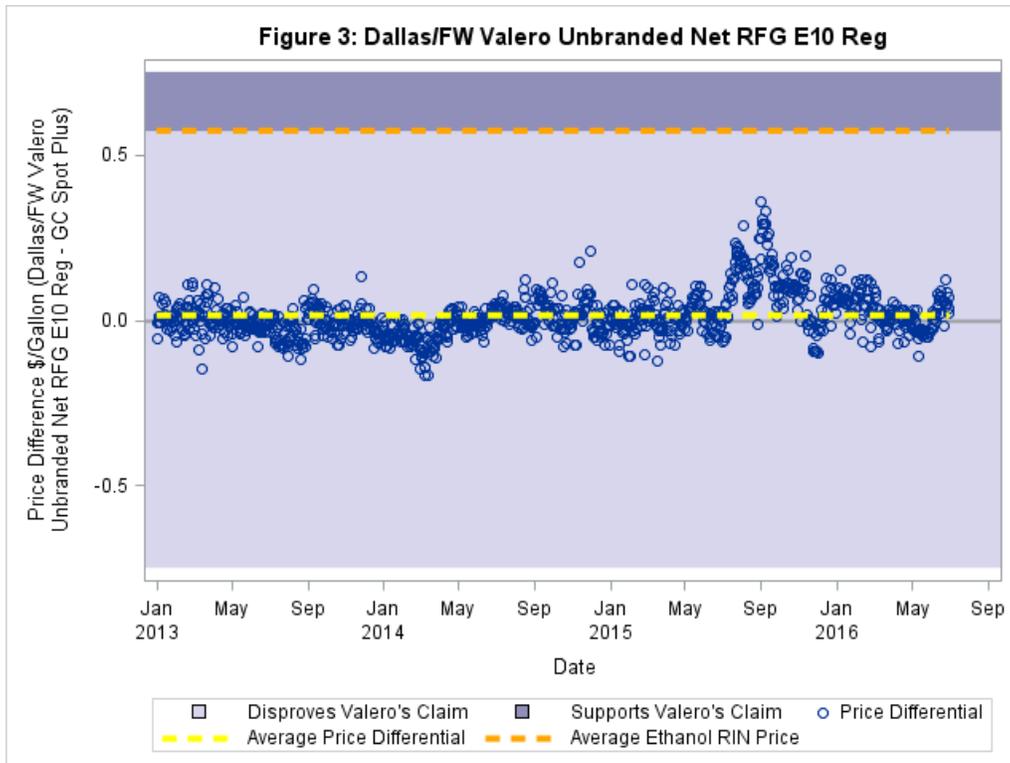


For Figure 1, the data ranges from October 2010 to June 2016 and is collected at the daily level for the branded CBG E10 regular grade. The **blue circles** are the price differential between Valero's rack price and the LA spot plus price. The **yellow dashed line** represents the average price differential over time from 2010 to 2016 (average = \$ -0.0643 per gallon). The **orange dashed line** represents the average ethanol RIN price from 2010 to 2016 (average = \$ 0.3590 per RIN). *Since the price differential average is less than the average ethanol RIN price, it would appear for this grade that Valero's claim does not hold true.*

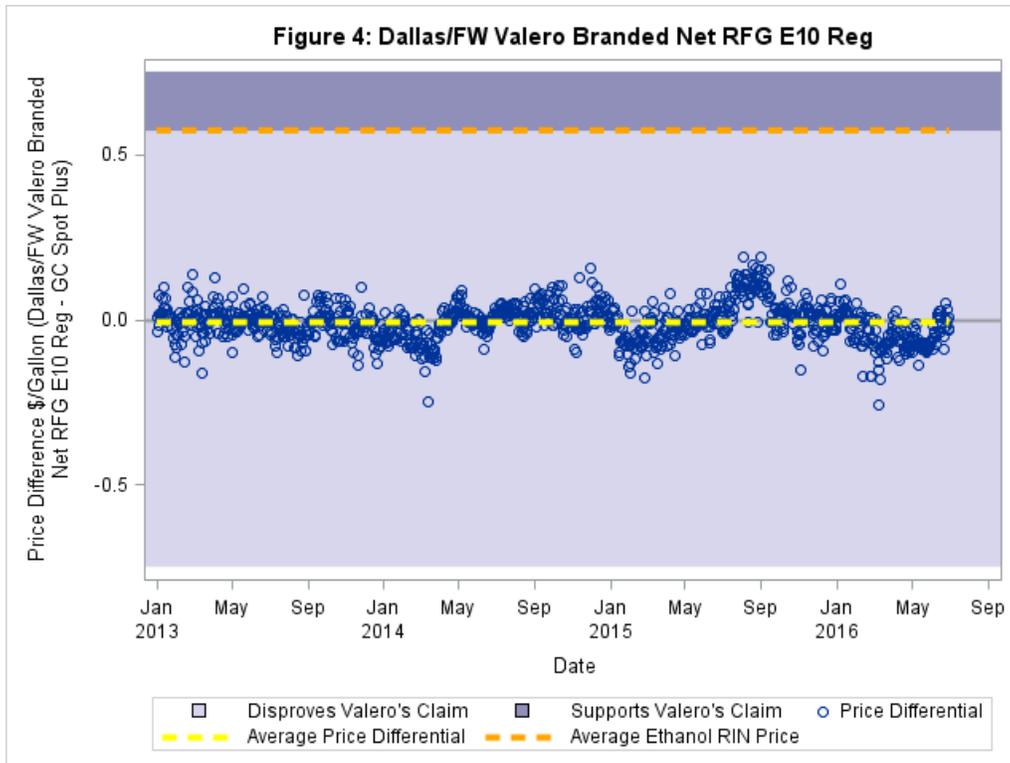


For Figure 2, the data ranges from October 2010 to June 2016 and is collected at the daily level for the CBG E10 regular grade. The **blue circles** are the price differential between the contract low average price and the LA spot plus price. The **yellow dashed line** represents the average price differential over time from 2010 to 2016 (average = \$ -0.0237 per gallon). The **orange dashed line** represents the average ethanol RIN price from 2010 to 2016 (average = \$ 0.3590 per RIN). *Since the price differential average is less than the average ethanol RIN price, it would appear for this grade that Valero's claim does not hold true.*

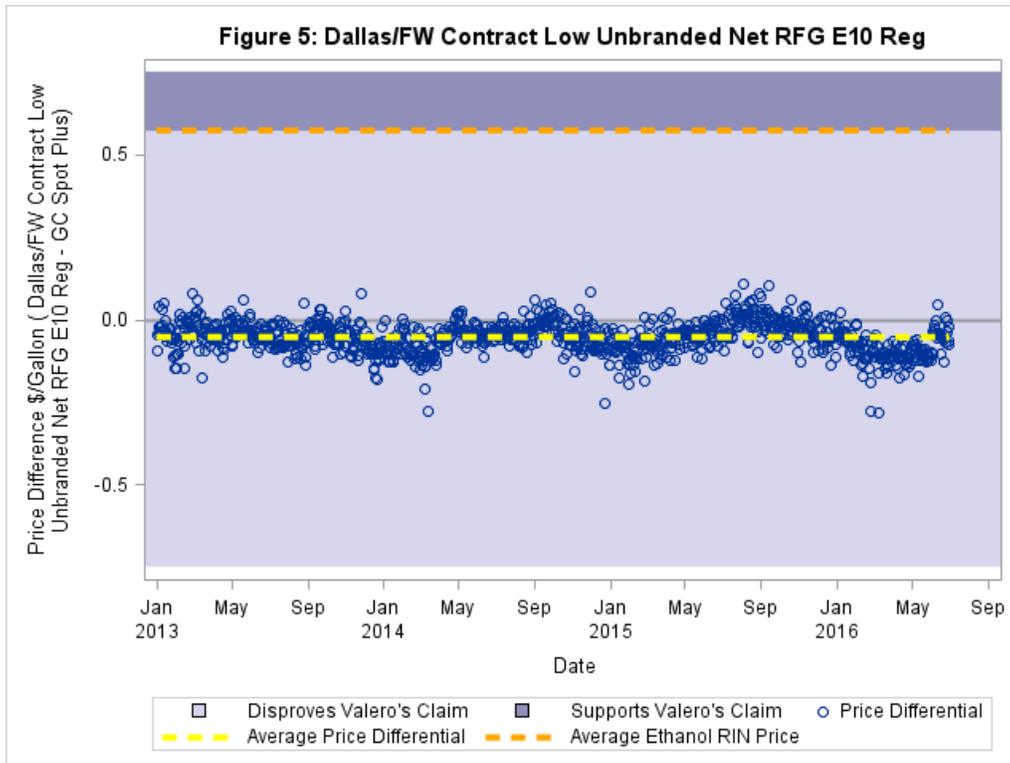
Dallas-Fort Worth Valero and Contract Low Rack Pricing



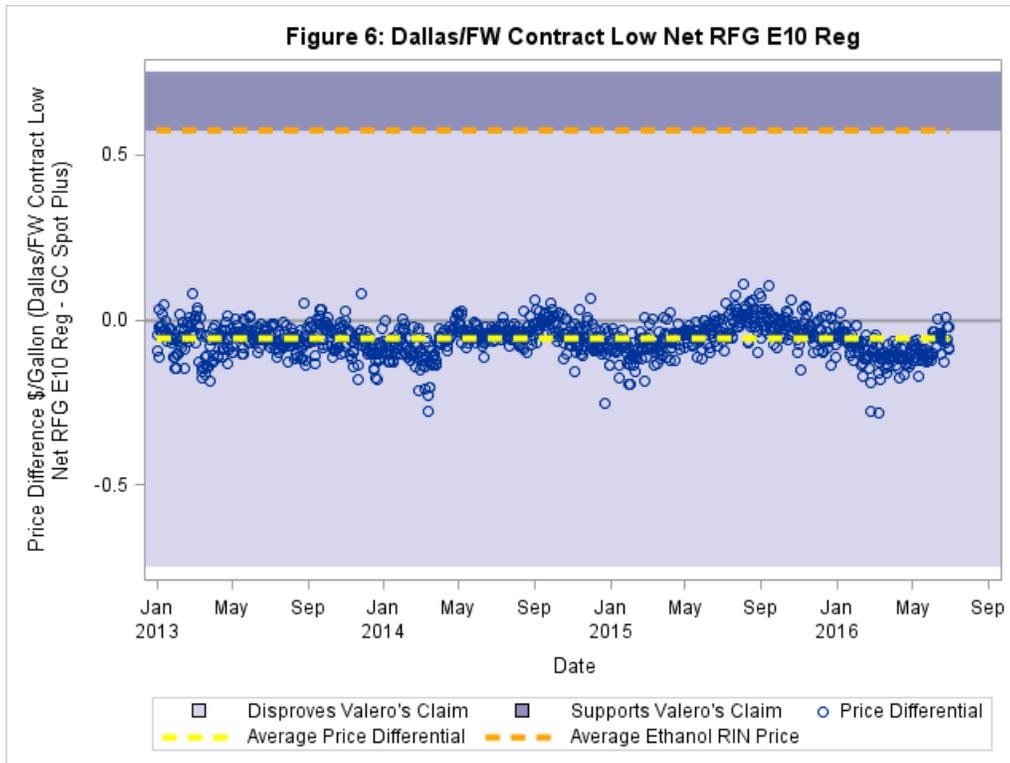
For Figure 3, the data ranges from 2013 to 2016 and is collected at the daily level for the unbranded net RFG E10 regular grade. The **blue circles** are the price differential between Valero's rack price and the Gulf Coast spot plus price. The **yellow dashed line** represents the average price differential over time from 2013 to 2016 (average = \$ 0.01367 per gallon). The **orange dashed line** represents the average ethanol RIN price from 2013 to 2016 (average = \$ 0.5719 per RIN). *Since the price differential average is less than the average ethanol RIN price, it would appear for this grade that Valero's claim does not hold true.*



For Figure 4, the data ranges from January 2013 to June 2016 and is collected at the daily level for the branded net RFG E10 regular grade. The **blue circles** are the price differential between Valero’s rack price and the Gulf Coast spot plus price. The **yellow dashed line** represents the average of the price differential over time from 2013 to 2016 (average = \$ -0.0090 per gallon). The **orange dashed line** represents the average ethanol RIN price from 2013 to 2016 (average = \$ 0.5719 per RIN). *Since the price differential average is less than the average ethanol RIN price, it would appear for this grade that Valero’s claim does not hold true.*



For Figure 5, the data ranges from January 2013 to June 2016 and is collected at the daily level for the unbranded net RFG E10 regular grade. The **blue circles** are the price differential between the contract low rack price and the Gulf Coast spot plus price. The **yellow dashed line** represents the average price differential over time from 2013 to 2016 (average = \$ -0.0536 per gallon). The **orange dashed line** represents the average ethanol RIN price from 2013 to 2016 (average = \$ 0.5719 per RIN). *Since the price differential average is less than the average ethanol RIN price, it would appear for this grade that Valero's claim does not hold true.*



For Figure 6, the data ranges from January 2013 to June 2016 and is collected at the daily level for the net RFG E10 regular grade. The **blue circles** are the price differential between the contact low rack price and the Gulf Coast spot plus price. The **yellow dashed line** represents the average price differential over time from 2013 to 2016 (average = \$ -0.0580 per gallon). The **orange dashed line** represents the average ethanol RIN price from 2013 to 2016 (average = \$ 0.5719 per RIN). *Since the price differential average is less than the average ethanol RIN price, it would appear for this grade that Valero's claim does not hold true.*

Appendix B

Appendix B: RIN Values and USGC Spot Market Prices

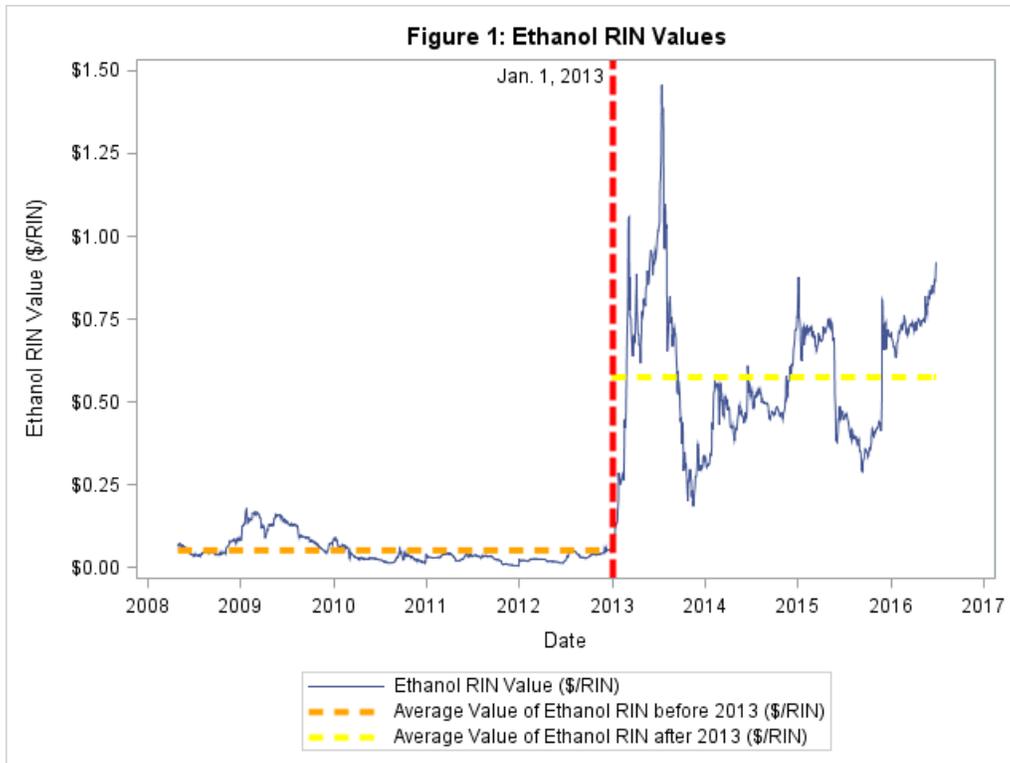
Executive Summary

Petitioner claims that fluctuations in RIN values are not reflected in spot market prices of refined fuels. To test this hypothesis, we have tracked and analyzed the price differential between U.S. Gulf Coast (“USGC”) domestic jet fuel (which is not subject to the RFS) and USGC domestic ULSD (which is subject to the RFS) over time with respect to key periods in ethanol RIN value changes.

Figure 1 shows how the value of ethanol RINs has changed over time. The value stays relatively low prior to 2013 with an average value of approximately \$0.05/RIN. Thereafter, ethanol RIN values increase to an average value of \$0.57/RIN.

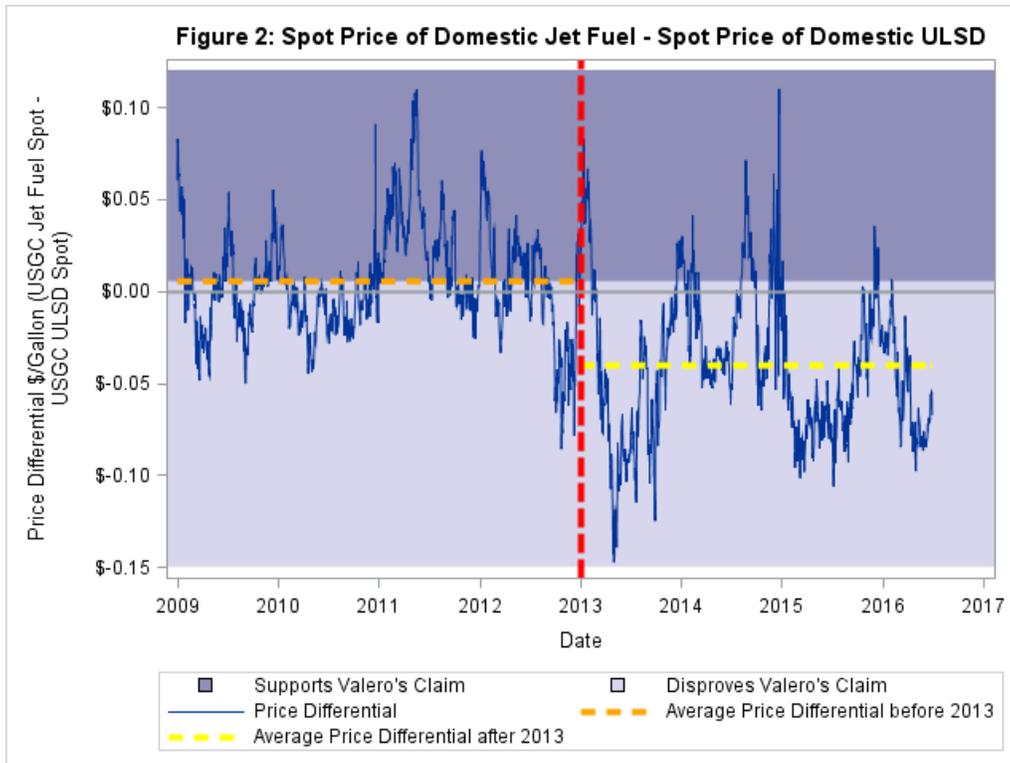
Figure 2 maps out the price differential between USGC domestic jet fuel and USGC domestic ULSD that corresponds to the changes in ethanol RIN value. Prior to 2013, jet fuel carried a premium on the spot market of \$0.01. After the value of ethanol RINs increased, the average value of the price differential reversed itself to a \$0.04 discount on jet fuel. This significant change in the price differential implies that USGC spot prices do reflect fluctuation in RIN values.

The results show that the USGC spot price of domestic ULSD does reflect the fluctuations in RIN values on average. The result **directly contradicts** the claims made in the petition that spot market prices do not reflect RIN values.



In Figure 1, the blue line maps the value of ethanol RINs in USD/RIN from May 1, 2008 through June 30, 2016. The vertical red line represents January 1, 2013.

Before this pivotal date, the orange line shows the average value of ethanol RINs at \$0.05/RIN. After the red line, the yellow line shows the average value of ethanol RINs at \$0.57/RIN.



In Figure 2, the blue line shows the price difference between the USGC spot price for domestic jet fuel and the USGC spot price for domestic ULSD. Domestic jet fuel is not subject to the RFS,²⁴ whereas domestic ULSD is. Further, traditionally jet fuel is more expensive than ULSD. This is seen in the \$0.01 average price premium that it carried over ULSD from January 1, 2009 until December 31, 2012 (the orange line). After the large increase in the value of ethanol RINs around January 1, 2013 (the vertical red line) until June 30, 2016, this premium reversed itself until domestic jet fuel was selling at a \$0.04 discount to domestic ULSD on average (the yellow line).

If Petitioner's claim that spot prices do not reflect RIN values were true, we would expect the average price differential to remain stable (i.e. the orange line and yellow line would remain on the same, or close to the same, level and the blue line would have primarily been contained within the dark purple region).

Since this is not the case (i.e. the orange line and yellow line are on different levels and the blue line is primarily contained within the light purple region) and the primary difference between these two fuels is the inclusion of RINs in ULSD, we can conclude that the results contradict the claim made by Petitioner that spot prices do not reflect the value of RINs.

²⁴ No RVO attaches when it is introduced into commerce.