SELECTED QUOTES AND ACCOMPANYING FACTS FROM DOUG PARKER REPORT

- "Focused regulatory changes, including redefining the point of obligation within the RFS, can help re-balance the risks and incentives within this program. This change, along with improving transparency within the renewable fuels sector and ensuring adequate oversight resources and capabilities by the EPA, can significantly diminish future fraud risk in the RFS."

FACT: The RFS is a "buyer beware" program with no EPA oversight. Far from "re-balancing" risks, shifting the RFS point of obligation – which would likely create ***more than a thousand additional*** individual points of obligation within the program – would **dramatically increase the number of situations in which error could creep into compliance efforts, creating invalid RINs**.

- "The structure of the RINs market, which was designed to create a more efficient trading system, ultimately opened the door for misconduct. The regulatory configuration of the RFS essentially created an extended chain of custody for RINs: from the point where renewable fuel was created, through the point where it was blended, and then stretching to petroleum refiners or importers, the obligated parties where the ultimate responsibility for compliance occurs, while often passing through RIN brokers…At the same time, the EPA has lacked adequate resources to inspect facilities and oversee the sector. This combination, along with the inherent lack of transparency of this market, laid the groundwork for large-scale fraud in the RFS."

FACT: The trend in instances of RIN fraud – seen most frequently in the biodiesel sector – is in fact **lower today**. However, a large percentage of currently obligated parties would ***still be obligated*** if the point of obligation were moved, so a **change in point of obligation would likely have limited to no effect on fraud**. In fact, one could argue that adding new obligated parties **could actually lead to *more* fraud** because of those parties' lack of knowledge, experience, and expertise with the program.

- "RINs have essentially become commodities like any other that are traded on a daily basis for millions of dollars. But unlike traditional commodity markets with market oversight and participant limits, the RINs market is opaque and was enacted without appropriate safeguards"

FACT: Moving the point of obligation does nothing to resolve this issue.

- "It is nearly unmanageable for the currently designated obligated parties to conduct appropriate oversight, and they simply do not have the investigative expertise or the leverage to conduct such oversight based on where they sit in the production chain."

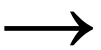
FACT: Moving the point of obligation does nothing to resolve this issue, and in fact would likely exacerbate it by placing compliance burdens on parties with no prior RFS compliance experience.

- "To date, there has already been evidence in a recent prosecution that the QAP program has not been successful in preventing fraud, and there are initial indications that there may even be collusion by auditors to conceal fraud in this sector."

FACT: Moving the point of obligation does nothing to resolve this issue. In fact, new, inexperienced market participants may depend more heavily on the QAP program than current obligated parties – so shifting the point of obligation could actually ***increase*** exposure if the author's claims of fraud in the QAP program are true.

- "Incentives and risk play a central role in any market-based system, and when these principles are misaligned, as they are in the RFS, opportunities for fraud and market disruption flourish."

FACT: Moving the point of obligation does nothing to change this. In fact, **the entire RFS program is an exercise in market disruption**, which is precisely why it should be repealed.



- "The regulatory risk falls on refiners and importers, the obligated parties who have to obtain adequate RINs to meet their RVO, but who have no decision making authority at the point of blending – the point at which decisions are made on where renewable fuel is procured, analyzed, and blended. This combination of misaligned incentives created by the regulations, the opaqueness of the market, and diminishing inspection and oversight resources, leaves the RFS persistently open to large-scale continuing misconduct."

FACT: Aside from the fact that the statement regarding current obligated parties having "no decision making authority at the point of blending" is not entirely accurate (it's **only those who have chosen not to invest in blending infrastructure** who aren't involved in the blending process), the rest of this pronouncement is dubious as well. If there is "large-scale continuing misconduct" on the part of obligated parties (i.e. refiners), **where are the corresponding EPA notices of violation and Department of Justice indictments**?

- "Expecting a different level of compliance in the RFS without altering the structure and incentives within the program is an exercise in wishful thinking. But this does not have to be the way forward. With appropriate and non-disruptive changes in the regulations, fraud risk can be reduced, taxpayers can be better protected, and the important goals of the program can be strengthened."

FACT: Moving the point of obligation does nothing to change the current barriers to increased biofuel use beyond today's already robust levels: 1) The incompatibility of the current vehicle fleet with higher-level ethanol blends, 2) the incompatibility of ethanol with current transportation and (in the case of blends higher than E-10) retail infrastructure, and 3) perhaps most significant, the ***demonstrable continued lack of consumer demand for higher-level ethanol blends***, including in areas where such blends are readily available. **Expecting that moving the point of obligation will result in higher levels of biofuel consumption is an exercise in wishful thinking**.

- "In my experience, the appropriate alignment of incentive and risk is foundational to the effective operation of environmental regulatory programs and that is missing in the current structure of the RFS where the parties who are situated in the supply chain to undertake the act of blending, and are similarly situated to perform effective due diligence, are not designated as the legally obligated parties."

FACT: **Blenders** – who would become obligated parties if the point of obligation were moved – **do not have the wherewithal to perform effective due diligence.** In most cases, newly obligated parties would have ***fewer compliance resources*** than existing obligated parties.

- "Moving the point of obligation to the blenders can also dramatically reduce prices in the RINs market by reducing demand. Quite simply, the more direct the relationship is between the party responsible for compliance and the ability to comply, the lesser the chance for fraud and misconduct in the marketplace. The longer and more indirect that chain of custody of the RIN is, the greater the opportunity for criminal conduct and market disruption as illustrated in the current RPS structure."

FACT: **It is the ever-increasing requirements to blend biofuels** – which push the volumes beyond what the vehicle fleet and infrastructure can absorb – **that are directly responsible for increased RIN prices.** This is simply a classic case of demand exceeding supply. And as noted above, ***moving the point of obligation does nothing to resolve these issues***.

Because the RFS program itself is fatally flawed, unintended consequences will continue to plague the American transportation fuels market until the RFS is brought to an end. **Shifting the point of obligation will do nothing to resolve the fundamental problems inherent to the RFS, and American consumers will ultimately pay the price as long as this infeasible policy remains in place.**