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Valero says biofuels blending costs could double in 2016

NEW YORK | BY [CHRIS PRENTICE](#)

A sign is seen at a Valero gas station in Hoboken, New Jersey, U.S., May 2, 2016.
REUTERS/MIKE SEGAR

Valero Energy Corp ([VLO.N](#)), the largest U.S. refiner, expects to get hit with a half-billion-dollar bill in the second half of the year thanks to the rising cost of meeting government mandates to blend biofuels.

For the full year, the company's cost to blend renewable fuels like ethanol will swell to between \$750 million to \$850 million, mainly to pay for the paper credits used to meet the U.S. biofuels program, the Renewable Fuel Standard (RFS), the San Antonio, Texas-based refiner said on Tuesday as it reported second-quarter results.

The RFS program requires oil refiners and importers to blend more renewable fuel or buy paper credits in an opaque, sometimes volatile market. Compliance credits to meet the standards, known as Renewable Identification Numbers (RINs), were about 25 percent higher in the second quarter than a year earlier.

It is another blow for the company, which is already dealing with weak refining margins.

The price tag would be up from the \$440 million Valero paid for biofuels compliance in 2015, the most it has paid to meet RFS requirements since at least 2009, according to U.S. Securities and Exchange Commission filings.

Valero spent about \$334 million in the first six months of 2016 on biofuels compliance, the company said.

Elevated costs for RINs credits are one of the headwinds the company faces, said John Locke, Valero's vice president of investor relations, on a call with investors.

The biofuels program was launched more than a decade ago to boost the use of renewables to cut greenhouse gas emissions and promote energy independence. This year's more ambitious requirements could hurt U.S. refiners, already facing what could be their worst year since the shale boom began.

That puts expected second-half costs at as much as \$516 million, nearly matching the \$517 million it spent for all of 2013, when RIN prices surpassed a record of \$1.40 apiece. The current price is around 96 cents.

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Prices of RINs have been rising since regulators set annual targets in May for the amount of biofuels including ethanol required to blend with gasoline and diesel and as worries have mounted of tightening inventories.

"If I'm a refiner with a lot of gasoline and distillate production, why wouldn't I be concerned about rising RIN prices? The conditions are there for them to (rise)," said Timothy Cheung, vice president at ClearView Energy Partners in Washington. He estimated that RIN prices could rise another 25 percent by year-end.

Valero and companies such as Delta Air Lines Inc ([DAL.N](#)), which owns a refinery, are stepping up their push to get regulators to tweak the program to shift onus to comply further downstream.

(Reporting by Chris Prentice; Editing by Richard Chang)



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