235834

ENTERED
Office of Proceedings
April 8, 2014
Part of
Public Record

April 4, 2014

The Honorable Daniel R. Elliott III
Chairman

The Honorable Ann D. Begeman
Vice-Chairman

Surface Transportation Board
395 E Street, S.W.
Washington, D.C. 20423-0111

Re: *STB Public Hearing: Railway Service Issues*

Docket No. EP 724

Dear Chairman Elliott and Vice-Chairman Begeman:

Valero Energy Corporation, through its subsidiaries (together herein, "Valero") is deeply concerned with the impacts of recent rail service failures on its ability to operate its ethanol production facilities and provide ethanol to markets across the United States. We are very concerned that improvement in rail service is not imminent and that continuing service failures preventing the timely transportation of ethanol to key blending hubs could result in higher gasoline costs to U.S. consumers, compounding increases that have already been experienced in 2014.

Valero subsidiaries own 11 corn ethanol plants with a total capacity of 1.3 billion gallons per year making Valero the third largest ethanol producer in the United States. Valero subsidiaries also own 16 fuel refineries with a total throughput capacity of 3 million barrels per day making Valero the world's largest independent refiner.

Valero's ethanol plants are concentrated in the Midwestern United States within the "Corn Belt." Valero is highly reliant on rail transportation to move its ethanol production from these plants to U.S. markets and utilizes virtually all the major Class I railroads to do so. Valero moves the majority of its production via unit trains of 80 to 85 rail cars to U.S. East Coast markets, which must transit through the key Chicago corridor that has been a huge problem in 2014.

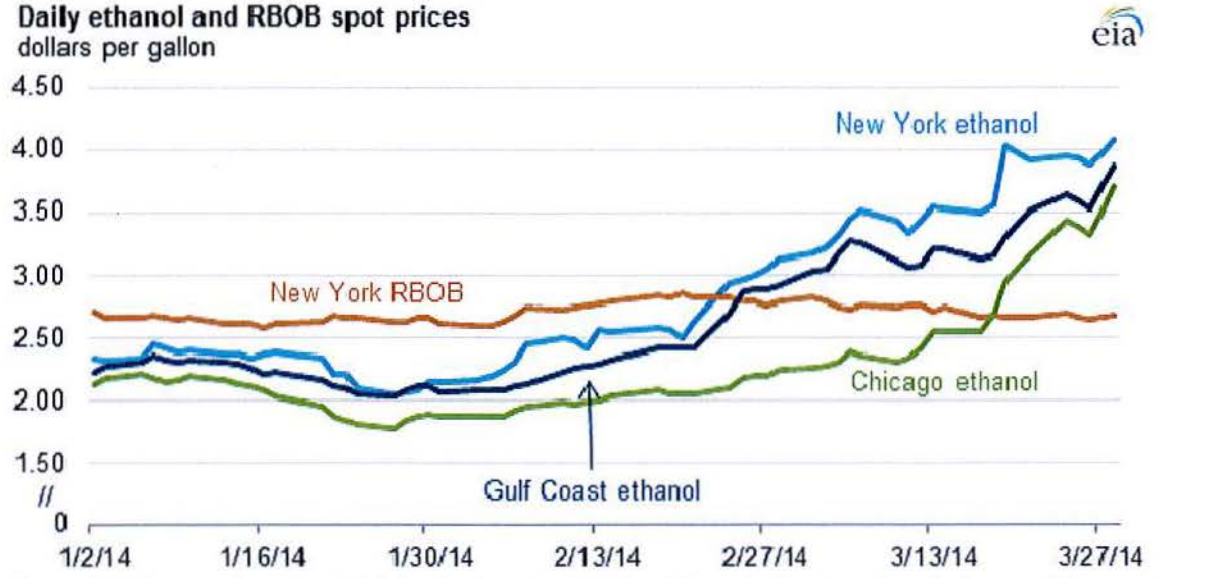
Valero has experienced significant rail service failures in 2014 which have resulted in significant impacts to its ethanol operations. The 2014 year-to-date round-trip transit times to our markets in

Post Office Box 696000 • San Antonio, Texas 78269-6000 • Telephone (210) 345-2000

the U.S. East Coast have increased from 12 days to as much as 20 days in some cases, or 67% longer than the transit times experienced in 2013. Through March 2014, rail service failures have resulted in our plants operating at about 85% of our normal operating levels. We continue to experience significant rail service failures in April and are not optimistic that a service recovery is imminent.

Valero has worked closely with its rail carriers during this period but their ability to provide accurate service projections and service has been sorely lacking in 2014. We fully appreciate the difficult weather conditions that have contributed to this situation and the hard work of the rail carriers during this period. However, the lack of transparency as it relates to rail assets (crews and locomotive power) and continued poor rail service make it very difficult to operate our business and help meet U.S. demand for ethanol.

The impact of the loss of Valero's and other Midwestern U.S. ethanol production is apparent in the marketplace. U.S. fuel ethanol inventories as reported by the U.S. Department of Energy on March 28, 2014 show ethanol inventories are 10% lower than the same period in 2013. In PADD 1 (the East Coast), average March 2014 ethanol inventories are 27% lower than average March 2013 ethanol inventories. Because of this shortage as reported by the EIA at http://www.eia.gov/todayinenergy/detail.cfm?id=15691, ethanol prices in the key New York Harbor market have soared to record levels well above $4.00 per gallon, exceeding prices for RBOB (the petroleum component of gasoline). Ethanol spot prices in Chicago and Gulf Coast markets also rose above NYH RBOB prices.



Source: U.S. Energy Information Administration based on Oil Price Information Service (ethanol prices) and Thomson Reuters (RBOB prices), reported April 3, 2014.

The EIA reported that logistical constraints in and around ethanol production centers in the Midwest, mainly involving railroads on which approximately 70% of ethanol is shipped, appear to be a key factor driving recent prices. These price increases are directly impacting gasoline prices and U.S. consumers as the price increases are passed through the U.S. supply chain. The ominous element is that these low inventories and price impacts are occurring during the historically low winter period of gasoline demand with the upcoming higher demand of summer on the horizon. With a 1.4% nationwide ethanol inventory build from March 21, 2014 to March 28, 2014, ethanol prices dropped significantly on April 2nd and April 3rd. This price drop shows the instability of the market. Continuing rail transportation issues pose the threat of ongoing price instability.

We at Valero appreciate the Surface Transportation Board's interest in this matter as evidenced by its decision to hold a hearing on the issue of rail service. We stand ready to work with the Board and its staff on this issue as needed.

Sincerely,

Kenneth A. Applegate
Senior Vice President, Transportation
Valero Companies

Martin J. Parrish
Senior Vice President, Alternative Energy
and Project Development
Valero Companies