VALERO

VIA E-MAIL

August 5, 2011

Floyd Vergara
Chief, Alternative Fuels Branch
California Air Resources Board
1001 I Street, Sacramento
California 95814

Electronic submittal:

Re: **Proposed Changes to the LCFS Regulations**

Floyd:

Valero Refining Company – California and Ultramar Inc (collectively "Valero") appreciate this opportunity to provide comments regarding the California Air Resources Board ("ARB") Proposed Changes to the LCFS Regulations, and other issued discussed at the July 22 workshop. Valero owns and operates two refineries in the state of California, with a combined throughput capacity of over 305,000 barrels per day. Valero refines and markets products on a retail and wholesale basis through an extensive bulk storage and pipeline distribution system. Additionally, Valero's affiliates own and operate one of the nation's largest retail operations, which have a significant presence in California, as well as 37 other states. Valero, on behalf of itself and its affiliates, is providing comments because of the significant impact the Low Carbon Fuel Standard regulation will have not only on its California operations but on the people and economy of the State.

We have listed below several issues and concerns that we wish to expand upon further to lessen the impact and improve upon your efforts.

1. **Valero is supportive of the proposed regulatory language changes.**
In general, the changes and additions ARB is proposing should make the regulations more workable and fill in some of the gaps that existed. We take note that the proposed section 9488(d) Public Disclosure of Credit and Deficit Balances and Credit Transfer Information uses the word "summary" and "total" when identifying specific data to be disclosed. It is important that this data only be released in a summary fashion.

2. **Valero urges ARB to be very cautious in its "consideration of provisions to address low-energy-use refining processes" per Resolution 10-49.**
ARB needs to make sure that it does not pick winners and losers and treats all companies equally. ARB needs to share the submitted proposal that was mentioned in the July 22 workshop. While it is true that simple refineries use less energy to produce transportation

fuels, it is also true that the yield of transportation fuels from simple refineries lower than from complex refineries. It would be infeasible and uneconomical for all of California's transportation fuels to be produced from simple refineries.

3. **Valero urges ARB to drop the HCICO provisions of the regulations as they are only resulting in crude shuffling and increased CO2 emissions.**

However, if ARB elects to keep the HCICO provisions, the following is Valero's comments on the five options proposed at the July 22 workshop.

- Approach 5: Worldwide Average – This is Valero's first choice. This approach will result is the least amount of crude shuffling. If this approach is selected, ARB would have to use default values for many crudes to make it workable.
- Approach 3: Hybrid – This is Valero's second choice as it treats each company equally and allows flexibility in changes in crude slate.
- Approach 1: Amendments – This is Valero's third choice. It treats each company equally but does not have as much crude slate flexibility.
- Approach 4: Company Specific – Valero does not support this approach. This approach is potentially unworkable and could result in an unlevel playing field among refiners. Having different CI targets for different obligated parties could be destabilizing to the market.
- Approach 2: California Average – Valero does not support this approach. This approach could result in some refiners having a HCICO deficit even if they do not run any HCICO. Obviously, that would not be fair.

4. **Some of the enhanced biofuel producer registration concepts for proposed information seem excessive.**

Valero is one of the largest ethanol producers and has ten plants registered with ARB under the LCFS program. Valero understands the reason and need for the documentation of wet distillers grain production and sale. However, identification of the purchasers seems excessive and redundant with little additional value.

Valero strongly urges ARB to consider these comments when developing the changes to the LCFS regulations. If you have any questions, please contact me at (210) 345-2922.

Sincerely,

John R. Braeutigam

John R. Braeutigam
V.P. Strategic & Regulatory Development