PARAMOUNT PETROLEUM
a subsidiary of ALON USA
14700 Downey Avenue
Paramount, CA 90723
P.O. Box 1418
(562) 531-2060

May 15, 2014

VIA E-MAIL

Stephanie Detwiler
California Air Resources Board
1001 I Street
Sacramento, CA 95814

Subject: Alon USA and Paramount Petroleum Comments on April 2014, Workshop Proposal to add a Low Complexity – Low Energy Use Refinery Provision to California's Low Carbon Fuel Standard Regulation

Ms. Detwiler:

The Paramount Petroleum Corporation and its parent, Alon USA Energy (collectively, Alon), appreciate the opportunity to comment on the proposal presented to California's Low Carbon Fuel Standard (LCFS or regulation) for Low Complexity – Low Energy Use Refiners (LCLE Refiners). The discussions about a LCLE refiner provision have been occurring for quite some time, and they once again confirm CARB's understanding that not all refineries were built or operate the same. This recognition is an important point that has been repeatedly included in CARB's previous fuel regulations. Ensuring that future fuel supplies and the competitive balance of California's transportation fuel market remain intact, which requires the operation of the state's remaining small refineries, should be a priority in the pending LCFS revisions. Regulatory changes that affect these remaining market participants will have dramatic effects on California consumers. It is with this focus that we respectfully submit these comments and recommendations.

Alon owns and operates three refineries in California--one in Kern County (Bakersfield) and two smaller ones in Los Angeles County (Paramount and Edgington). Through the years, Alon and CARB staff have worked through various issues that accompany a program this complex. Alon believes that in-state production of lower-carbon transportation fuels, and protecting smaller refinery operations, can be accomplished with the correct regulatory mechanisms in place, like the LCLE provision. ***Therefore, Alon supports the LCLE refinery provision and its inclusion into the pending amendment package.***

Summary of Comments

- Alon supports inclusion of a Low Complexity – Low Energy Use Refinery provision;
- Alon supports the staff proposal of a 5 gCO2e/MJ adjustment, for both gasoline and diesel, at the reporting tool level;

- Alon understands that the issue of intermediate feedstocks (including transmix) is still being looked at by CARB staff, and we are willing to assist in understanding this aspect of the industry if necessary;
- Alon supports the change in methodology, to include all products, when determining the CI of a refinery;
- Alon would like to further discuss the use of the eligibility metrics for the LCLE refinery category as the Bakersfield facility is a clear candidate for inclusion based on its refinery CI, but is slightly outside the range of the "5/5" metrics proposed;
- Alon believes CARB staff should account for all energy inputs, including over-the-fence hydrogen production and out-of-state intermediates, in determining the CI of California refineries.

Comment Details

Inclusion of the LCLE Refiner provision recognizes that the carbon intensity (CI) associated with the refining portion of a California's fuels is not uniform, but rather can be separated into two distinct groups-higher CI refiners and lower CI refiners. The challenge over these past few years has been to find a way to separate these groups in a manner that is publicly transparent, technically defensible, and provides the necessary "bright line" between the two.

Though Alon's Bakersfield refinery is currently operating in a very limited mode, and hasn't been in full operation since January 2009 due to the statewide economic downturn, Alon is actively working to bring production back to 2008 levels[1]. The impacts of the LCFS and the LCLE Refiner provisions are key considerations for the facility.

Recently completed calculations have shown that the CI of the Bakersfield facility is very low for gasoline and diesel production.[2] The currently proposed eligibility metrics are Total Annual Energy Use and a Modified Nelson Complexity Index. Alon supports the use of these metrics, but believes the currently proposed levels of 5 million MMBTU/year and a modified Nelson Index complexity below 5 are overly conservative. Alon recommends setting the eligibility criteria at "7/7" values. Even at these slightly higher levels, CARB is assured of both a distinguishing bright line, and the inclusion of all refineries that produce transportation fuels at substantially lower carbon intensity levels. Alon understands CARB's concern about making the LCLE category too large, but it would be a far worse outcome to make it too small.

The only other refinery that would be near the higher energy consumption metric clearly would not qualify under the complexity side of the rule. Also, as this facility derives its

[1] The previous owner, Shell (Equilon) was planning to close the refinery, but the State of California and its U.S. Senators intervened in 2004 leading to the sale of the facility in 2005 to Flying J to insure an adequate fuel supply for the state.

[2] Recent calculations and data have recently been provided electronically to CARB.

hydrogen from across the fence line and is a major importer of out of state gas oil (intermediate product), currently these major energy inputs (and their associated emissions) are not included in that facility's total. The addition of this energy would add at least 20% to the refinery's energy consumption, which would make it at least 50% higher annual energy usage than the Bakersfield refinery. Thus the bright policy line between LCLE refiners and others remains clearly in place, even with the higher proposal.

Alon believes that the 5/5 levels for modified Nelson Index and million MMBTU/year proposed are inconsistent with the goals of including California's truly less complex and lower energy using refineries. Since these metrics need to be met independently, setting eligibility at these higher levels will still provide a divider between California's two classes of refineries. We look forward to further discussions with you on this topic.

At an earlier LCFS workshop, CARB management noted that having a single playing field within the LCFS may not be possible, or appropriate. Alon agrees that there is a definitive line between California's larger, more complex refiners and its remaining smaller, less complex operations. Setting the correct eligibility metrics for the LCLE category is key to placing all of California's facilities on the correct side of that bright line.

If you have any questions on these comments please contact Jon Costantino at 916-552-2365 (jcostantino@manatt.com) or Gary Grimes at 562-531-2060 (ggrimes@ppcla.com) .

Respectfully submitted,

/s/

Glenn Clausen
Vice President, Refining
Paramount Petroleum

cc: Mike Waugh
Elizabeth Scheehle
Jim Nyarady
George Stutzmann, Alon
Steve Piatek, Paramount Petroleum
Gary Grimes, Paramount Petroleum