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July 25, 2014

VIA E-MAIL (ksideco@arb.ca.gov)

Katrina Sideco
California Air Resources Board
1001 I Street
Sacramento, CA 95814

Subject: Alon USA and Paramount Petroleum Comments on July 10, 2014, Proposed Language for Low Complexity – Low Energy Use Refinery Provision Within California's Low Carbon Fuel Standard Regulation

Dear Ms. Sideco:

Paramount Petroleum Corporation and its parent, Alon USA Energy (collectively, Alon), appreciate the opportunity to comment on the staff proposed language to California's Low Carbon Fuel Standard (LCFS or Regulation) for Low Complexity – Low Energy Use Refiners (LC-LE Refiners). The California Air Resources Board's (CARB or Board) continued recognition that not all refineries were built or operate the same, nor do they produce fuels with the same refinery component Carbon Intensity (CI) is an important policy component to the state's continued GHG reduction efforts.[1] It is also the foundation for including LC-LE Refinery provisions in the LCFS Regulation.

Achieving the Board-directed policy objective of recognizing the lower CI's of the narrow population of California's refineries will not be accomplished with the current proposed language. Therefore, Alon recommends changing the LC-LE Refinery definition listed in Section 95481(a)(41) to the following:

(41) "Low Complexity – Low Energy Use Refinery" means a refinery that meets both of the following criteria:

(A) A Modified Nelson Complexity Score equal to or less than 7 as calculated in section 95489(e)(1)(A).

(B) Total annual energy use equal to or less than 7 million MMBtu as calculated in section 95489(e)(1)(B).

The remaining draft language for LC-LE Refiners is acceptable to Alon, and we congratulate staff on putting together a framework for recognizing and crediting these lower-carbon intensity production methods. But the continued "5/5 proposal" of having both a modified Nelson

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[1] http://www.arb.ca.gov/regact/2011/lcfs2011/res%202011-39.pdf.

Complexity Score and a total energy input below, in million MMBTU, be below 5 is problematic. The data available to the Board, and shared with Alon on numerous occasions, indicates that at a "7/7" level, only a very limited number of California refiners would meet the eligibility criteria. Stated another way, establishing the "7/7" criteria accomplishes exactly what the Board has asked staff to accomplish—recognize the lower CI facilities, while excluding the more complex, more energy intensive refiners.

Alon has actively participated in this regulatory process for well over two years. Attachment 1 provides Alon's previous comments on this provision.

It is understood that in the future CARB will collect additional data on both hydrogen and intermediate products that will further enhance the Board's ability to understand the differences between LC-LE Refiners and the rest of the California refinery population. But no matter what the actual numeric values of this data, they will be positive values that will only serve to increase the gap between the two categories of facilities.

The LC-LE Refiner provisions are a significant issue for Alon. Both our Paramount and Bakersfield facilities produce lower-carbon intensity fuels for California. The LCFS regulation should recognize this fact, but the current definition in Section 95484(a)(41) would not be inclusive. The LC-LE regulations and their applicability to all of Alon's small California refineries are of critical importance to Alon. Alon respectfully asks the following questions of staff:

1. "Would revising the draft language to a 7/7 standard expand the LC-LE eligibility to the state's larger more complex refiners?"
2. "At a 5/5 standard, are all of the state's lower-complexity refiners eligible for this provision?"

The answer to both of these questions is "no." Therefore, Alon requests that the eligibility criteria be changed as drafted above.

Ensuring the future 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 due to the beneficial market impacts associated with small, independent refinery operation. It is with this focus that we respectfully submit these comments and recommendations.

As the owners of three smaller refineries in California—one in Kern County (Bakersfield) and two smaller ones in Los Angeles County (Paramount and Edgington) — Alon has worked with CARB staff 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, such as the LC-LE provision. ***Therefore, Alon supports the LC-LE Refinery provision and its inclusion into the pending amendment package (with revisions).***

If you have any questions on these comments, please contact Gary Grimes at 562-531-2060 (ggrimes@ppcla.com).

Respectfully submitted,

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Vice President, Refining
Paramount Petroleum

enc: Attachment 1-Previous Comments

cc: Edie Chang, CARB
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Matthew Jalali, Paramount Petroleum
Gary Grimes, Paramount Petroleum
Jon Costantino, Manatt Phelps & Phillips, LLP

Attachment 1

Previous Alon Comments on the LC-LE Refinery Provision

Inclusion of the LC-LE Refiner provision recognizes that the carbon intensity (CI) associated with the refining portion of 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.[2] The impacts of the LCFS and LC-LE Refiner provisions are key financial considerations for the facility.

Recently completed calculations have shown that the CI of the facility is very low for gasoline and diesel production.[3] 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 Complexity Index 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 LC-LE 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 hydrogen from across the fence line, that major energy input (and emissions) is not attached to the facility. 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 than the Bakersfield refinery. Thus, the bright policy line between LC-LE Refiners and others is clearly in place, even with the higher proposal.

Alon believes that the proposed 5/5 levels for Modified Nelson Complexity Index and million MMBTU/year 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.

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[2] 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 ensure an adequate fuel supply for the state.
[3] Recent calculations and data have recently been provided electronically to CARB.

Setting the correct eligibility metrics for the LC-LE category is key to placing all of California's facilities on the correct side of that bright line.