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

July 11, 2008

VIA E-MAIL AND FACISIMLE

Clerk of the Board
Air Resources Board
1001 I Street, 23rd Floor
Sacramento, California 95814
E-mail: http://www.arb.ca.gov/lispub/comm/bclist.php
Facsimile: (916) 322-3928

Re: ***Comments On The Modified Text And Additional Documents ("Second 15-Day Package") Related To Resolution No. 07-6-3 – Amendments To The Phase 3 California Reformulated Gasoline Regulations ("CaRFG3 Amendments")***

To Whom It May Concern,

Valero Energy Corporation ("Valero") is providing to the California Air Resources Board ("CARB") its comments relative to the Second 15-Day Package (posted June 26, 2008). Valero owns and operates through its subsidiaries the Valero Benicia and Valero Wilmington Refineries. The Benicia Refinery produces approximately 25% of the clean-burning transportation fuels for the Bay Area market and the Wilmington Refinery produces approximately 14% of the clean-burning transportation fuels for the Southern California market. Statewide Valero produces approximately 17% of the clean-burning transportation fuels for California.

Through the many public workshops, expert groups, and individual stakeholder meetings both before and after the adoption of the CaRFG3 Amendments on June 14, 2007, Valero has worked cooperatively both individually and through the Western States Petroleum Association ("WSPA") with CARB staff to identify and address its many concerns with the CaRFG3 Amendments. Despite these efforts, Valero was disappointed to see that the First 15-Day Package (posted March 7, 2008) and now the Second 15-Day Package did not resolve Valero's previously expressed concerns. As noted in its First 15-Day Package comments dated March 24, 2008, these concerns are still related to the following issues:

- The CaRFG3 Amendments significantly underestimate the time needed and the cost of complying with the proposed amendments. To reiterate what Valero has previously told the CARB Board, CARB staff, and the California Energy Commission ("CEC"), it is critical to provide refiners adequate time to install necessary equipment to meet the new standard (i.e., fuel blends). The proposed two-year compliance schedule, now only approximately 17 months, is very tight. Although Valero is taking steps to try and meet this extremely tight deadline, any project delays associated with permitting, CEQA analysis, design/engineering, materials/equipment procurement and delivery, labor and staffing, and construction and turnaround schedules, will jeorpardize its ability to complete the necessary modifications to make compliant fuel blends mandated by the

CaRFG3 Amendments. As Valero and others have indicated on numerous occasions, based on our collective experience, this process usually takes four to five years to accomplish. CARB has yet to justify its arbitrary selection of a compliance deadline that may not reasonably be achieved, particularly now with only 17 months left to meet the deadline.

- Regarding the proposed Alternative Emission Reduction Plan ("AERP") for refiners that cannot meet the new standard within the first two years (now only approximately 17 months) they are forced to use the AERP in order to stay in compliance. As a result, not only do refiners have to pay the costs and provide the resources associated with making the refining modifications to be in compliance, but they will also have to pay the AERP penalty and oversee the complex AERP program development, CARB approval, and execution for their facilities. Accordingly, the AERP has the potential to punitively impact refiners for fuel blend deficiencies (permeation) not of their making and beyond their control.

- As emphasized to CARB staff, a large majority of the California fuel distribution is based on a common carrier fungible system, where all contributors blend to a common fuel blend specification. As such, differences between refiners and their abilities to modify operations to meet the new compliant fuel blends must be carefully studied, and adequate time and means provided to protect the fungible nature of the distribution system. CARB staff has not adequately addressed the issue of pipeline fungibility post 2009 in the proposed changes contained in the 15-day package.

In sum, as highlighted above and throughout the rulemaking process, the failure to provide necessary lead time to comply with this significant change to the current California fuel blend formulation, the significant underestimation of the cost to comply, and the potential punitive nature of the AERP has the distinct possibility to impact the market in a negative way. Given these potential significant ramifications to Valero and other refiners, fuel suppliers, terminaling operations, etc., Valero strongly urges CARB to make changes to the CaRFG3 Amendments consistent with comments offered by Valero and WSPA, before CARB finalizes the CaRFG3 Amendments and they become effective. Valero would also respectfully request that CARB delay any final action on the CaRFG3 Amendments until the CEC fungibility study is completed.

In submitting these comments, Valero incorporates by reference all of its previous correspondences and comments to CARB, verbal and written, concerning the CaRFG3 Amendments and the rulemaking process. In addition, Valero supports and adopts as its own the written correspondences and comments submitted by WSPA to CARB.

Please contact me at (210) 345-2871 or Scott Folwarkow at (916) 503-1639 if you should have any questions or need clarifications concerning Valero's comments.

Sincerely yours,

Darren W. Stroud

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DWS:sf

cc: Scott Folwarkow, Valero
Mary Nichols, California Air Resources Board, Chair
Mike Scheible, California Air Resources Board, Deputy Executive Officer
Bob Fletcher, California Air Resources Board, Chief, Stationary Source Division