



Tesoro Companies, Inc.
19100 Ridgewood Parkway
San Antonio, TX 78259

October 23, 2013

Clerk of the Board
1001 I Street
<http://www.arb.ca.gov/lispub/comm/bclist.php>
Sacramento, California 95814

Electronic Submittal:

RE: Proposed Amendments to California Cap and Trade Regulation

Dear Clerk of the Board:

Tesoro Corporation, a Fortune 100 company, is an independent refiner and marketer of petroleum products. Tesoro, through its subsidiaries, operates six refineries in the western United States with a combined capacity of over 845,000 barrels per day. Tesoro's retail-marketing system includes more than 2,200 retail stations, under the Tesoro®, Shell® ARCO® and USA Gasoline™ brands, of which more than 570 are company operated. Tesoro closed on the purchase of BP's southern California business in June 2013; we now supply approximately 25% of the state's transportation needs through our Martinez refinery in the Bay Area and our Los Angeles refinery in southern California. We employ 3900 Californians through our refineries, logistics assets and retail network.

Tesoro is also a member of the Western States Petroleum Association (WSPA) and has participated in the development of comments submitted to CARB regarding the Cap and Trade Regulation. Tesoro concurs with and hereby incorporates by reference comments submitted by WSPA.

Tesoro would like to comment on two specific areas. First, we commend the Air Resources Board (ARB) and the California Public Utility Commission (CPUC) for their well-coordinated efforts to develop ARB's methodologies for power allocation and CPUC's methodologies for auction revenue sharing to provide equity among EITE entities. We believe, however, that disparities exist between EITE entities serviced by the Publicly Owned Utilities (POU) depending on the extent of self-generation. We encourage ARB to work with the POU's towards equitable treatment of EITE entities within their service areas.

Second, we would like to request recognition of the early reduction projects such as the Tesoro Golden Eagle Coker Modification Project within the Complexity Weighted Barrel (CWB) benchmark method. In 2008 Tesoro implemented its Coker Modification Project (CMP) at the Golden Eagle Refinery near Martinez, California, that resulted in early

reductions of greenhouse gases and other pollutants. GHG emission reductions from the project were 462,000 tonnes/yr based on the third party verified emission reports. The project was the largest single emission reduction measure reported for the refining sector in the Energy Efficiency and Co-Benefits Assessments and resulted in reductions of overall energy use, criteria pollutants and air toxic emissions. The project did not change production at the Golden Eagle Refinery. The emission reductions are real, permanent and verifiable.

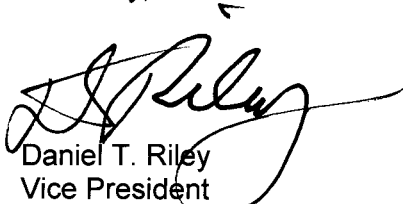
Tesoro presented information to ARB staff demonstrating that as a result of project implementation, CWB, the proxy adopted for refinery sector output, is disproportionately reduced relative to refinery production. The Tesoro's CMP project replaced the existing fluid coking process with a delayed coking process which is a less carbon intensive process. Consequently, the CWB factor for delayed coking, which is lower than the factor for fluid coking, would be used in calculating allowance allocation for the second and third compliance period. This regulatory approach stifles innovation and reduces incentives to implement an alternate process to reduce multiple pollutants. Instead, the proposed regulation only serves to encourage an entity to continue to operate the same inefficient unit and to either purchase credits or install control equipment (if technology exists) for a single pollutant.

We recognize that the development of a refinery benchmarking method has been a difficult task. In many instances, changes in refinery operations may result in corresponding changes to refinery production. However, this is not the case for Tesoro's CMP project for which the refinery has continued to retain its capacity to produce clean California fuels. To ensure equitable treatment, we request that ARB allows the use of a CWB factor for fluid coking in determining allocation for Tesoro's Golden Eagle refinery coking process.

The current regulatory approach that results in a reduction in allocations to a facility because it adopts a less carbon intensive process resulting in multiple pollutant reductions is contrary to the objectives of AB32. In fact, ARB recognized the need to provide incentives in choosing an allocation methodology for the first compliance period by considering an allowance allocation based on the operation of the fluid coking process. Therefore, we are requesting that the same treatment continues into the second and third compliance period. To accomplish this, we suggest that ARB provide a mechanism for Executive Officer review of projects that adopt less carbon intensive operations and ensure that allocations are not inequitably reduced as a result of the proxy chosen to represent refinery output. We would expect such review to be supported by a thorough analysis of emissions, unit operations, and production. We believe this proposal is consistent with the objectives of AB-32.

Tesoro appreciates the opportunity to submit comments on the Cap and Trade Program Regulations.

Sincerely,

A handwritten signature in black ink, appearing to read "D. Riley", with a stylized flourish extending from the end.

Daniel T. Riley
Vice President
State & Local Government Affairs