Mr. Steven D. Smith
Director, Environment, Fuels
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July 5, 2018

Ms. Rajinder Sahota
California Air Resources Board
1001 I Street
Sacramento, CA 95814

RE: Phillips 66 comments on CARB's June 21, 2018 workshop regarding Amendments to the Cap- and Trade Regulation

Dear Ms. Sahota,

Phillips 66 submits comments on the materials provided by the California Air Resources Board (CARB) in its June 21, 2018 workshop relating to potential amendments to the Cap-and-Trade Regulation (Regulation).

Phillips 66 has significant operations in California covered by the Regulation, including petroleum refining, coke calcining, and supplying of petroleum products. Other business units include pipelines, terminals and lubricants manufacturing. Over 1,400 Phillips 66 California employees in 15 locations produce and deliver products to our California customers every day. We provide revenue to California government including $13 million of State tax and over $34 million in property tax annually.

With this letter, we reiterate our previous comments dated May 16, 2018. Following are further clarifications and amplifications. As a member of WSPA, Phillips 66 supports WSPA's comments.

Cost Containment Should be Top Priority for Rule Amendments

Phillips 66 supports AB 398's recognition of the importance of adding cost containment features to the Cap-and-Trade program. CARB must preserve stable allowance pricing, using effective price speedbumps and the price ceiling, to protect California consumers and the State economy from price shocks and unintended consequences such as loss of jobs and family income. Maintaining liquidity of allowances is essential to price stability and the long-term viability of the program.

Clarification on June 21 Workshop – Reserve Stocking

In our May 16 comments we acknowledged that CARB must divert some allowances away from auction to the future Reserve tiers as directed by AB 398. We noted that any additional stocking of the Reserve beyond what AB 398 requires is excessive and would work to artificially drive up allowance prices. CARB's June 21 workshop slide 11 asserts that P66 supports an additional diversion of 52.4M allowances to the future Reserve when it states: "P66 - 52.4M allowances allocated to cost containment should be allocated to new post-2020 reserve tiers rather than price ceiling". Just to be clear, our May letter states, and we reiterate here, "Phillips 66 opposes the supplemental reserve stocking of 52.4M of allowances from the cap to the Reserve". If CARB were to proceed with this 52.4M diversion, which we do not recommend or support, volume should be placed in the first Reserve tier versus in the price ceiling.

If you have any questions or need further clarification, please call me at 832-765-1779.

Sincerely,

Steven D. Smith

Director, Environment, Fuels and Regulatory Affairs