TESORO

January 20, 2017

Clerk of the Board
Air Resources Board
1001 I Street
Sacramento, CA 95814

Electronic Submittal

RE: CARB Cap & Trade Amendments, 15-day package release 12-21-2016

Dear Clerk of the Board

Tesoro appreciates the opportunity to comment on the modified text and associated documents published for comment on December 21st, 2016.

We understand that the Western States Petroleum Association has provided comments on this 15-day package as well. Tesoro supports those comments, but wishes to provide additional focus on a couple of the subjects because our operations are somewhat unique in regards to these two aspects of the regulation. First, our refinery in southern California falls into both an Investor Owned Utility (IOU) service territory and in a Publically Owned Utility (POU) service territory, but also generates power. Secondly, Tesoro operates one of only two coke calcining facilities in the state of California and is concerned about the substantial decrease in industry assistance proposed for this facility post-2020; and the cap adjustment factor applied to calciners. Additional detail on these subjects is provided below.

2021-2030 Allowance Allocation to Electrical Distribution Utilities

In attachment C released with the 15-day changes, CARB continues to propose that allocation for electricity consumed by covered entities will be changed to a direct allocation method following the end of the 3rd-compliance period.

Tesoro supports ARB's proposal to include emissions associated with electricity use by covered industrial entities in calculated industry-specific benchmarks and thereby provide allocation for electricity consumed directly to these industrial entities. Tesoro believes the proposal provides the opportunity for more equitable allocation, significantly reduces ARB's and the California Public Utilities Commission's (CPUC's) administrative burden, and improves transparency of the allocation process.

Within the refining sector, some facilities self-generate all or a portion of their power, some purchase all or a portion of their power from IOUs, POUs, third parties, or from more than one source. Currently, benchmarks are based on adjusted emissions per unit of production. Adjusted emissions include direct emissions plus emissions associated with steam purchases, minus emissions associated with steam and power sales. Emissions associated with power purchases have not been included in the adjusted emissions used to calculate ARB's industry specific benchmarks. Instead, allocations have been provided to the Electrical Distribution Utilities with the intent that the EDU's distribute the benefits of these allocations to energy intensive trade exposed entities (EITE's) or their rate payers. Though the CPUC has established a revenue sharing rule that closely parallels and compliments ARB's allocation methodologies, the CPUC rule does not apply to facilities or portions of facilities outside CPUC's jurisdiction. Though the POU's have been directed to utilize EDU allocation for the benefit of rate payers, the benefits do not extend to self-generators or purchasers of electricity from third parties. Thus, for facilities outside of CPUC jurisdiction inequitable or perverse situations are likely to occur, particularly for facilities that self-generate and/or purchase power from third parties. ARB's proposal to include emissions associated with power purchases in the adjusted emissions used to calculate benchmarks affords ARB the opportunity to improve allocation equity within each industrial sector regardless of differences between facilities and their respective with power supply.

Additionally, direct allocation to industrial entities (for emissions associated with purchased power), will reduce the significant administrative burden associated with implementation of the CPUC rule; as well as, any necessity to evaluate the methodologies implemented by POU's to insure that such methods are consistent with ARB's objectives. In the case of the CPUC, the current approach requires exchange of data between ARB and CPUC, calculation of a dollar conversion factor to convert tonnes of allocation to rate credits, communication from CPUC to each IOU, and distribution of credits from the IOU's to their industrial customers; as well as checking the results to insure that the credits actually received by industrial entities are consistent with facility data and the CPUC rule. This process is both cumbersome and opaque. Inclusion of emissions associated with purchased power in ARB's direct allocation will reduce the number of steps in the process and improve transparency.

Coke Calcining

95871 Table 8-3 – Assistance Factors (AF) by Industrial Activity

Tesoro believes that there are fundamental flaws in the new methodology that CARB is applying to determine industry assistance across all sectors and agrees with WSPA's comments on this subject. Notwithstanding this fundamental methodological concern, Tesoro believes that important data has been overlooked within the method CARB has proposed as follows:

We believe that ARB has significantly understated trade exposure risk for coke calcining (NAICS code 324199). The domestic AF component is understated because of the energy intensity of calcining, the high percentage of self-produced fuel, and the high emission factor associated with self-produced fuel. In 2013, BP sold the calcining facility to Tesoro, but had provided information to CARB about its operation. We ask that you review Tesoro's letter to ARB dated January 29, 2014 relative to the parameters used to calculate the domestic AF component (provided directly to staff for business confidentiality reasons).

Because the census data utilized by ARB failed to capture the high level of exports for petroleum coke, the international AF component is also understated. A 2013 report titled *Petroleum Coke: Industry and Environmental Issues* by the Congressional Research Service (http://www.nam.org/CRSreport/) documents that about 80% of US petroleum coke is exported. As a point of reference, Tesoro exports virtually all of its calcined coke.

Tesoro would be pleased to work closely with ARB to supply additional information to insure that the assistance factor for calcining is maintained at the current level of 100% beyond 2020.

Section 95891 and Table 9-2 - Cap Adjustment Factors

The cap adjustment factors proposed for certain industries with 50 percent or more process emissions and high trade exposure (e.g., nitric acid production, cement, etc.) should also be applied to coke calcining. This sector fits a similar process profile. As noted in February 27th, 2013 BP's letter to ARB (provided directly to staff for business confidentiality reasons), approximately 95% of calciner's emissions are process emissions.

Tesoro appreciates the opportunity to submit comments on the cap & trade 15-day amendment package. Please contact me at (916) 462-5062 if you have any questions.

Sincerely,

Miles Heller
Director, CA Fuels and Regulatory Affairs

Cc: Rajinder Sohota - CARB
Mary Jane Coombs – CARB
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