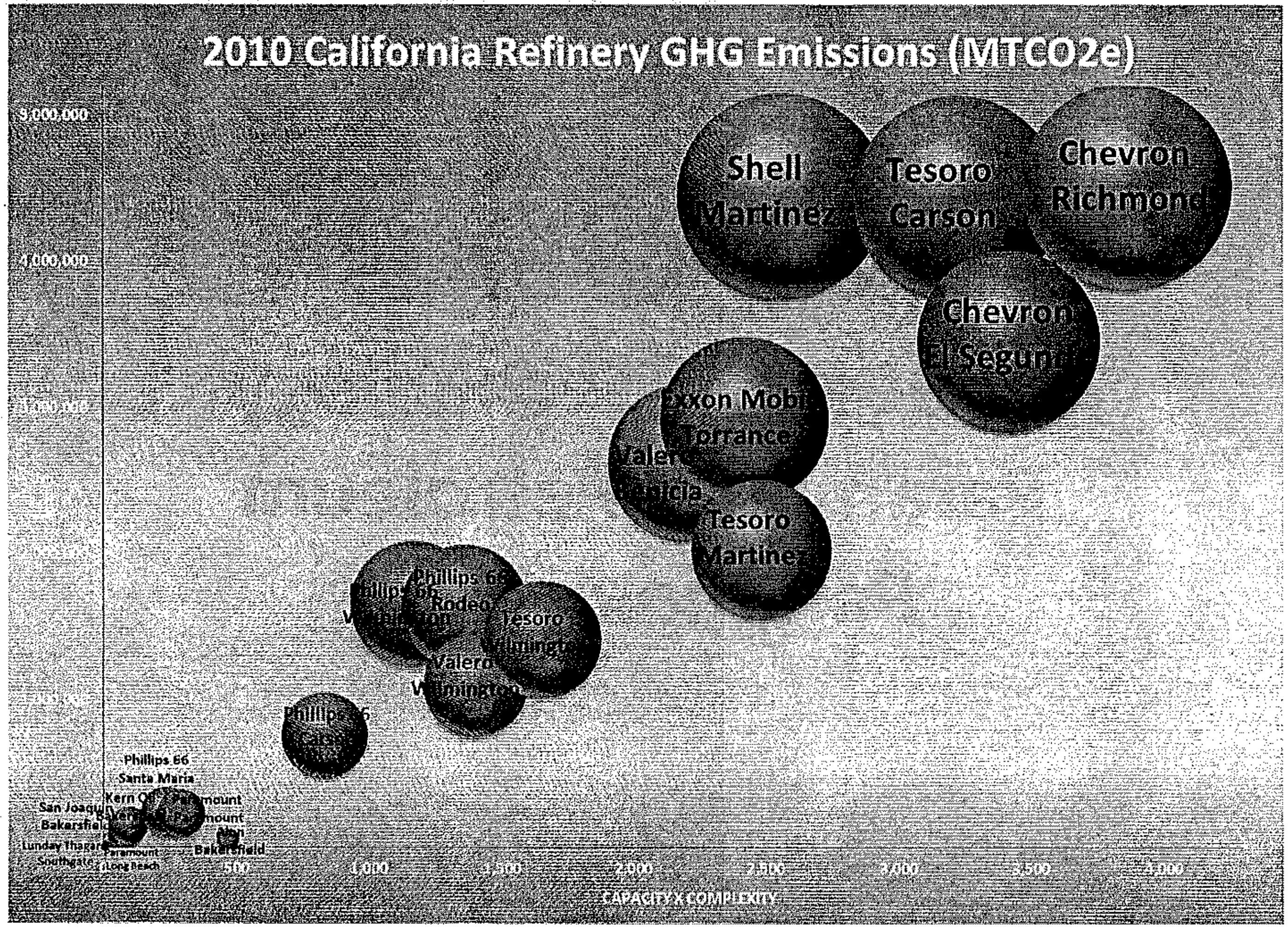
Gary Grimes
13-9-9

Gary Grimes

Director of Technology

Paramount Petroleum

Paramount, CA


2010 California Refinery GHG Emissions (MTCO2e)
5,000,000
4,000,000
Shell Martinez
Tesoro Carson
Chevron Richmond
Chevron El Segundo
Exxon Mobil Torrance
Tesoro Martinez
Phillips 66 Rodeo
Tesoro
Valero Wilmington
Phillips 66
Phillips 66 Santa Maria
San Joaquin Bakersfield
Kern Oil
Paramount
Lunday Thagard Southgate
Paramount
Long Beach
Alon Bakersfield
500
1,000
1,500
2,000
2,500
3,000
3,500
4,000
CAPACITY X COMPLEXITY

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PARAMOUNT PETROLEUM

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October 25, 2013

Client-Matter: 23662-037

Comment List: CAPANDTRADE13

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

Subject: Alon USA and Paramount Petroleum Comments on Proposed Cap and Trade amendments

Chairman Nichols and Board Members:

Paramount Petroleum Corporation and its parent, Alon USA Energy, Inc. (collectively, Alon), appreciates the time that CARB staff have devoted to the issues associated with refinery benchmarking and facility shutdown in this latest rulemaking. We have come a long way in a relatively short time near the end of the rulemaking process in understanding the diverse and unique issues associated with California's refining industry.

Alon owns and operates three smaller refineries in California-one in Kern County (Bakersfield) and two in Los Angeles County (Paramount and Edgington). These facilities are currently operating in a curtailed mode, but are actively pursuing opportunities to directly provide California with lower carbon fuels. At both the Bakersfield and Paramount locations permitting requests are in-process to reconfigure site operations to allow for these exciting changes; including the construction of California's first renewal diesel plant co-located within our facilities. In the interim, Alon has continued to operate at both facilities. These operations include environmental compliance activities, facility stability activities and value added product production, including: finished asphalt production and asphalt blowing operations.

It is critical that the Cap-and-Trade program continue to recognize that not all refineries were created equal, nor do they operate in similar steady-state conditions. The fact that these differences exist has been recognized historically in the development of California's clean fuel regulations, as well as in the currently proposed version of the Cap-and-Trade Regulation. Ensuring that new competitive imbalances are not introduced into California's transportation fuel market is an important outcome of these amendments. Any regulatory changes that affect these remaining market participants will have noticeable effects on California consumers.

In the end, the staff proposal package recognizes that California's refinery sector is not homogeneous and, we believe, provides adequate flexibility to for refiners with unique operational characteristics, such as Alon. That being said Alon is concerned that the CARB staff is proposing to make last minute changes to the true-up language and not give Alon sufficient time to analyze the proposal and its impact. It is with this focus that we respectfully submit these comments.

Summary of Comments

1) Alon supports the extension of the First Compliance Period's industrial assistance factor through the end of the Second Compliance Period.
2) Alon supports the establishment of the "atypical" refinery category, the proposed benchmark and the category criteria. This is a key recommendation because not all refineries were built the same, nor do they operate the same.
3) Alon supports the use of the CWB methodology and inclusion of the "off-sites" factors. Alon additionally requests that CARB continue to work through the issue of refinery emissions that are not generated with a comparable CWB allocation sufficient to appropriately cover offsite operational emissions. This scenario can arise though a scheduled curtailment and/or a non-scheduled emergency.
4) Alon recognizes and supports the need for the new provisions related to facility closure, as they provide clarity on an important issue.
5) Alon understands that additional leakage analysis is being conducted by the Board, and seeks recognition that Asphalt refineries are unique and therefore should be addressed accordingly in the future. We note that much of the leakage in the asphalt production sub-sector has already occurred.
6) Alon is concerned that staff is proposing to make unidentified changes to the current true-up language where there has been a decrease in production. These changes could have a significant impact on Alon and we believe that any such changes, under the Administrative Procedures Act (APA), must go through a full comment period since they were never mentioned or discussed in any of the staff's previous notices on this rulemaking package.

Comment Details

1) Alon supports the staff recommendation to extend the First Compliance Period's industrial assistance factor through the Second Compliance Period while additional leakage analysis is completed. Leakage protection is an important and fundamental component of the Cap-and-Trade program as required by AB 32. Therefore, when research is still ongoing, it is entirely appropriate for the Board to take the conservative regulatory approach shown with this recommendation.

2) Refinery benchmarking is a complicated and contentious undertaking.' Alon respects the fact that there may not be a perfect solution to this issue, but has always sought to ensure the final regulations reflect as best they can the realities of a diverse industry and that the program doesn't permanently disadvantage California's remaining smaller, less-complex refineries.

   The current Cap-and-Trade Regulation contains a bifurcated methodology for the free allocation of allowances to the refining sector. This is a recognition that not all refineries can be compared against each other. Alon supports the current staff proposal to continue this split using an "atypical" refinery concept. Additionally, Alon supports the proposed benchmark level. The numeric criteria for atypical eligibility is reasonable, but Alon does not support the concept of "jointly operated" facilities. Especially as this yet-to-be-defined concept could have negative implications to an otherwise "atypical" refinery, potentially including Paramount.

3) Alon supports staff's proposal to adopt the CWB allocation methodology utilizing the Solomon Process Unit Factors and including Solomon's factors for "off-sites," non-energy utilities and "non-crude sensible heat."[1] These factors can play a very significant role in the operation of smaller, less-complex facilities and accordingly their allocation determinations. Likewise, Alon supports the staff proposal to not pursue additional CWB groupings.

   Asphalt refineries are directly subject to the seasonal needs associated the transportation construction industry. These seasonal variations, coupled with larger economy wide cycles require regular curtailment of operations. The current "off-site" factors do not adequately reflect the emissions profile associated with a curtained asphalt refinery. Alon requests that additional consideration be given to this issue, even if it is in a subsequent rulemaking. The emissions associated with keeping a facility in such a mode are not insignificant and should be adequately addressed in the allocation methodology.

4) The staff proposal related to facility closure was not available in the July discussion draft, and therefore this is stakeholders first opportunity to comment on our understanding of its implications. Alon supports the staffs proposal as it is straightforward and provides needed structure around this issue.

5) The issue of asphalt refiners and their potential emission leakage has been on the table and a point of discussion for several years but CARB has done little to address the issue directly. The proposed amendments take a small step to address this problem with the addition of a new activity category in Table 8-1 focused on asphalt batch plants. Alon is disappointed that CARB missed an opportunity to finally address

[1] Though the Simple Barrel approach was not an option proposed during this rulemaking, Alon notes that it was a more representative methodology that reflected the benefit of smaller, less-complex refineries' lower GHG/gallon product slate.

this issue. Batch plants need to be located in the areas they serve, whereas refined asphalt product can be shipped in from faraway locations—with an increase in GHG transportation emissions. The true leakage risk is at the refinery level.

We understand that CARB currently is studying leakage risks for various sectors and activities with the goal of further amending Table 8-1 at a later date. Alon recommends adding a new specific activity categorization for Asphalt Refineries in Table 8-1 as well as, a review of a potential new asphalt benchmark. This result would be consistent with other industries that have product specific benchmarks, such as cement manufacturing. Without individual recognition, Asphalt refiners will otherwise be unfairly competing in the marketplace against BOTH dedicated petroleum refiners and cement manufactures.

Leakage in this sector has already occurred. Whereas Alon used to be the largest manufacturer of asphalt in California, it is now one of the largest importers of bitumen which we convert to a variety of value added products, including asphalt. This issue needs to be addressed in future rulemakings.

6) Alon is concerned that staff is proposing to make unidentified changes to the current true-up language where there has been a decrease in production. Alon believes that any new changes in the true-up provisions must be coupled with recognition that facilities may have emissions without having proportional CWB production. As we discussed in our introduction Alon is in the process of reconfiguring its West Coast assets, these unspecified changes could have a significant impact on Alon and similar situated entities. These "clarifications" have never mentioned or discussed in any of the staff's previous notices on this rulemaking package. Alon believes that fundamental fairness requires businesses be given a full comment period to review and comment on any staff proposals. Moreover, Alon believes that under the APA any such changes must go through a full comment period since they were never mentioned or discussed in any of the staff's previous notices on this rulemaking package.

California has actively worked to keep the smaller refiners operational based on its accurate belief that the consumer is best served by active competition between refiners and that even small refiners can impact prices and can be a counter to aggressive pricing by major oil companies. The belief that small refineries are important to maintain competition has been historically accepted by CARB as evidenced by new fuel regulations adopted over the last twenty years. The proposed amendments provide that flexibility and recognition.

Even though Alon's facilities are currently operating in a reduced capacity, we must stress that they are still in operation. This is key fact is highlighted by the following operations:

- The production of road quality asphalt for sale in California by blending of non

specification bitumen;
- The production of value-added asphalt products at the refinery (even without crude throughput), including blowing asphalt (as a recognized operation under section 95852.2(b)(6)), polymer asphalt production and the manufacture of ground rubber tire asphalt;
- Operation of flare gas recovery systems, and;
- The production of finished gasoline by blending of gasoline components.

Additionally, Alon is actively pursuing plans to produce cleaner, low-carbon fuels such as renewable diesel. Any regulatory provisions that negatively affect these plans would be a critical obstacle to overcome and should be avoided.

If you have any questions on these comments, or wish to discuss our understanding of the proposal, please contact Jon Costantino at 916-552-2365 (jcostantino@manatt.com) or Gary Grimes at 562-531-2060 (ggrimes@ppcla.com).

Respectfully submitted,

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Gary Grimes, Paramount
Steve Piatek, Paramount