June 19, 2015

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

Electronic Submittal

RE: CARB Low Carbon Fuel Standard Re-Adoption, 15-day package release 6-4-2015

Dear Chairwoman Nichols and Honorable Board Members:

Tesoro appreciates the opportunity to comment on the proposed re-adoption of the Low Carbon fuel Standard (LCFS) and specifically on the 15-day regulatory amendments released on June 4, 2015.

We understand that the Western States Petroleum Association has provided comments on this 15-day package as well. Tesoro generally supports those comments, but wishes to focus comments on some specific implementation issues in Section 95489 (f) – Refinery Investment Credit.

Tesoro appreciates the inclusion of Section 95489 (f) – Refinery Investment Credit which may help companies justify projects to reduce the carbon intensity of transportation fuel production and greenhouse gas (GHG) emissions from the refineries. We raised concerns in our comments on the 45-day amendment package and at the hearing on the restrictive nature of the language originally proposed.

After the 45 day amendment was introduced, we met with staff to discuss specific implementation issues and have found staff to be responsive to some of our concerns and suggestions in the 15-day package. However, we are requesting clarifications on some remaining issues as outlined below.

Eligibility Criteria

95489 (f)(1)(E) precludes projects whose "primary objectives" are refinery equipment shutdowns, reductions in refinery or equipment throughput and refinery maintenance from eligibility. Under the simplest scenario, we understand that shutting down the refinery, reducing crude throughput, or a temporary shutdown of equipment for turnaround maintenance does not qualify as a refinery investment credit project. However, a refinery is a large complex operation comprised of a multitude of complex process units that facilitate complex chemical reactions to convert crude oil to transportation fuels. Consequently, a refinery may find a more efficient means to produce a similar overall volume of transportation fuels in a manner that enables shut

down or reduced throughput at a process unit in favor of operating other units more efficiently. The term "primary objective" in this section appears subjective, to ensure correct interpretation during the implementation phase, we seek additional clarification regarding this requirement as discussed below.

- Replacement Project: A refinery may replace an old piece of equipment with newer equipment that performs the same function but more efficiently. This may not be identical replacement, but functionally equivalent. Examples include replacing old inefficient boilers used for steam generation with new turbines that generate steam and electricity, and replacing unit heaters or furnaces with newer, more energy efficient units or improved heat integration with exchangers. It is our understanding that although the old equipment is shutdown, the credits created based on the difference between the old and the new unit emissions are qualified for refinery investment credits under CARB's proposal. Please clarify the regulatory intent with respect to this type of project.

- Many projects must be executed when equipment is shutdown during turnarounds. The fact that the project is executed during a maintenance turnaround should not exclude it from eligibility. Please confirm.

- Process Efficiency Improvement Project: There may be instances for which a process unit is shut down due to process efficiency optimization. For example, a refinery found a more efficient means to produce CARBOB or diesel utilizing five instead of six process units integral to the production. Although one of the process units may be shutdown, it is our understanding that this type of project would still be eligible to generate refinery investment credits based on the difference in emissions between the production process with six process units and five process units. Please clarify the regulatory intent with respect to this type of project.

- Similar to the scenario describe above, a refinery may choose to optimize the volume of each transportation fuels produced (CARBOB and diesel.) In doing so, process unit feed volume or output volume may decrease in one process unit (perhaps the less carbon efficient unit) and increase in the other (the more carbon efficient) process unit. Although this project involves reducing throughput in one or more process units, it should qualify for the refinery investment credits. Please confirm that this type of project is still eligible for credit.

<u>Clarification on the Refinery Investment Credit Calculation</u>

1. Additional clarification is needed regarding the definitions of $Volume_i^{XD}$, $Volume_i^{Total}$ and V^{XD} as follows:

a. Does $Volume_i^{XD}$ as expressed in subsections 95489 (f)(2)(B) and (C) represents the annual volume of CARBOB or diesel produced at the refinery including the volume exported, but excluding imported volume?

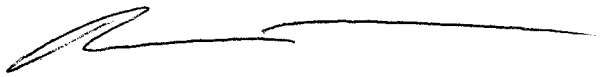
b. $Volume_i^{Total}$ is defined in subsection 95489 (f)(2)(B) as "the total volume of CARBOB and diesel for data year i in bbl." Although the definition did not specifically refer to refinery product output, is it correct to assume that it is the total annual volume of CARBOB and diesel produced at the refinery (including volume exported, but excluding imported volume)?

c. V^{XD} is defined in subsection 95489 (f)(2)(F) as "the volume of either CARBOB or diesel in gallons." Since this is the volume used to determine the amount of refinery investment credits received, is it the intent of the regulation that V^{XD} only include fuel volumes sold, supplied, exchanged, transfer or offered for sale in California? Tesoro would appreciate clarification regarding the treatment of import and export CARBOB and diesel in the determination of V^{XD}.

2. As we understand, the value of $Volume_i^{XD}$, $Volume_i^{Total}$ and V^{XD} are to be derived from LCFS Reporting Tool (LRT). However, it is unclear from the proposed regulation which data elements or activities in the LRT are to be extracted from the LRT for determining $Volume_i^{XD}$, $Volume_i^{Total}$ and V^{XD}. We would appreciate a more detail explanation regarding application of data in the LRT.

Tesoro appreciates the opportunity to submit comments on the LCFS regulation 15-day amendments. Please contact me at (916) 462-5062 if you have any questions.

Sincerely,



Miles Heller
Director, CA Fuels and Regulatory Affairs