



Kern Oil & Refining Co.

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October 14, 2013

VIA ELECTRONIC POSTING

Dr. Steve Cliff
Assistant Division Chief
California Air Resources Board
1001 I Street
Sacramento, CA 95814

Re: Comments on October 7 Workshop on Refineries and Related Industries

Dear Dr. Cliff:

Kern Oil & Refining Co. (Kern) is providing comments on the California Air Resources Board's (ARB) October 7, 2013, workshop regarding establishing a new refinery sector compliance approach and benchmark for the second and third compliance periods. Kern is encouraged and supportive of ARB's proposal to: (1) Adopt the Complexity Weighted Barrel (CWB) Allocation Methodology, including Solomon's Process Unit Factors and Off-Sites Adjustment; and (2) Establish a Separate Benchmark for Atypical Refineries. Kern believes that ARB's current proposal largely address' Kern's previous concerns regarding competitive disadvantages and inequalities in refinery allocations.

Complexity Weighted Barrel (CWB) Allocation Methodology

Kern strongly supports Staff's proposal to utilize Solomon's CWB allocation methodology for the refinery sector. The CWB is preferable to the previously considered Carbon Weighted Tonne (CWT) methodology because California refineries are more akin to worldwide refineries as opposed to European refineries, as illustrated by the methodologies' correlation factors.¹ Staff is also proposing to utilize the Solomon Process Unit Factors – abandoning a previous proposal to group certain process units for alleged efficiency purposes. Staff's presentation at the recent workshop acknowledged that product variations make the previously proposed factor groupings problematic.² Staff's recent proposal also includes Solomon's factors for "off-sites and non-

¹ Workshop on Refinery Allocation under Cap-and-Trade, October 7, 2013, Staff Presentation ("October 7, 2013, Staff Presentation), pp. 8-12; Cap and Trade Workshop on Refineries and Related Industries, August 13, 2013, Staff Presentation ("August 13, 2013, Staff Presentation), p. 20.

² October 7, 2013, Staff Presentation, p. 19.

energy utilities” and “non-crude sensible heat,” which were excluded under Staff’s previous proposal. Staff noted that the inclusion of those factors was supported by refineries of all levels of complexity.³ As noted in Solomon’s August 2013 workshop presentation, calculated GHG emissions must be consistent with the capacity and throughput of process units and supporting facilities defined to calculate the appropriate CWB in any intensity metric. Failure to include these sources would result in an inaccurate reflection of true facility operation – especially for smaller, less-complex facilities like Kern because a larger percentage of its emissions are attributable to those factors. Kern believes that utilizing the Solomon factors as proposed strikes the appropriate balance between accuracy and simplicity.

Atypical Refinery Benchmarking

Staff is proposing to benchmark “atypical” refineries separately under CWB. Kern strongly supports Staff’s proposal and the acknowledgement that the efficiency limitations imposed by refinery size and complexity are critical for benchmarking purposes. At the August 2013 workshop, Solomon expressly stated that small refineries lack opportunities for heat integration and to advantage themselves of the economies of scale, which benefit large, complex refineries. Solomon further stated that a smaller refinery cannot fairly be compared to the efficiency of a super refinery. Kern appreciates Staff’s analysis of California refineries to determine those “atypical” refineries whose structural constraints justify the proposed separate benchmark. Staff proposes to define “atypical” facilities as those having less than 12 process units and less than 20 million barrels crude through the atmospheric distiller per allocation year.⁴ Although without the benefit of the actual regulatory language, Kern is supportive of the atypical definition proposed by staff. Truly, one size does not fit all and Kern applauds Staff’s proposal.

In conclusion, Kern appreciates CARB’s consideration of Kern’s comments. This matter is far too critical, its impacts far too significant to not get it right. As always, we are committed to working with Staff throughout this regulatory process.

Sincerely,



Melinda L. Hicks
Manager, Environmental Health and Safety
Kern Oil & Refining Co.

cc. Rajinder Sahota
Elizabeth Scheehle
Eileen Hlvaka

³ October 7, 2013, Staff Presentation, p. 19.

⁴ *Id.* at pp. 25-29.