



Kern Oil & Refining Co.

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VIA ELECTRONIC MAIL AND CTOCT122017WKSHP-WS

October 27, 2017

Rajinder Sahota
Assistant Division Chief
Industrial Strategies Division
California Air Resources Board
1001 I Street
Sacramento Ca, 95814

Re: Comments on Cap and Trade Regulation Workshop October 12, 2017

Dear Ms. Sahota:

Kern Oil & Refining Co. (Kern) is providing comments on the California Air Resources Board's (ARB) October 12, 2017, workshop regarding proposed changes to the Cap and Trade Regulation in response to ARB Resolution 17-21 and Assembly Bill 398 (AB 398). Kern is specifically providing comments on the following: (1) Support for increasing assistance factors beginning in compliance year 2018; and (2) Urging ARB to revisit refinery sector benchmarking.

Kern is a small, privately owned petroleum refiner located in Bakersfield, California, in the southern San Joaquin Valley. Kern has operated for over 70 years and employs approximately 130 employees. With a refining capacity of 27,000 barrels per stream day, Kern is one of only two remaining small refiners in California producing transportation fuels, and the only small refiner in California producing CARB Reformulated Gasoline and Ultra Low Sulfur Diesel.

Support for Adjusting Industry Assistance Factors to 100 Percent

Kern strongly recommends that ARB set assistance factors at 100 percent (%) for all leakage classifications beginning in 2018. Kern understands that Resolution 17-21 and AB 398 provide instructions for addressing assistance factors used in determining the number of allowances a facility is granted each year for application toward their compliance obligation. Kern is encouraged that the need for additional protection against leakage is seen as sufficiently imperative to warrant retroactive allocation of allowances for compliance years 2018 through 2010.

Need for an Atypical Refinery Sector Benchmark

ARB must reassess the need to separately benchmark “atypical” refineries in response to the inequalities embedded in the current single benchmark. Kern urges ARB to dedicate adequate resources to review refinery sector benchmarking. Kern has been intimately engaged with ARB Staff on refinery benchmarking since the inception of the regulation. Specifically, Kern’s involvement was quite considerable between 2012 and 2014 during the development of amendments to adopt the Complexity Weighted Barrel method and analyses to determine appropriate benchmarks for the entire sector.

As a small, less-complex California refinery, Kern has experienced the uneven playing field of the California refinery sector for the past three years the single benchmark has been in place. Kern is one in a small subset of refineries who contribute only 2% toward total refinery sector emissions but are currently responsible for one of the highest reduction requirements of any sector under the entire Cap and Trade regulation. Slide 11 of the October 12, 2017, Staff presentation indicates that most benchmarks are reflective of 90% of the sector average. But this generalization is simply not the case in the refining sector, where the current single benchmark requires small, less-complex transportation fuel refiners to reduce emissions by over 40% just to meet the benchmark. This reduction significantly deepens as the lower cap adjustment factor is applied each year. Slide 12 further indicates that by 2030, most sectors will be receiving less than 50% of allowances needed to meet compliance. Again, the disparity is striking between this generalization and Kern’s anticipated reality of receiving as little as 20% of allowances needed for compliance by 2030.

Kern would also like to reiterate how important the establishment of the atypical benchmark is to our company and our employees. As a smaller company, Kern is less able to absorb regulatory costs and ensuring fair treatment of our facility is critical. Kern welcomes the opportunity to once again work with Staff on a proposal that appropriately acknowledges the structural constraints imposed by size and complexity and recognizes the unfair competitive disadvantage imposed up smaller, less-complex refineries by the single benchmark previously codified.

Thank you for your consideration of these comments. If you have any questions, or if we can provide any additional detail, please do not hesitate to get in touch. As always, Kern is committed to working with Staff throughout this regulatory process.

Sincerely,



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