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via Electronic Posting

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

RE: Phillips 66 comments on ARB's March 21, 2014 – Proposed 15-day Amendments to the Cap and Trade Regulation

Phillips 66 submits our formal comments on the proposed 15-day amendments to the Cap-and-Trade regulation issued on March 21, 2014 ("15-Day Package"). Phillips 66 is a significant employer in California with over 1,200 employees. Our operations covered by the rule include oil refineries, a coke calciner, petroleum product pipelines and terminals.

We remain opposed to certain elements of the new 15-day package. Specifically, 1) the cap adjustment factor for coke calcining is incorrect, 2) hydrogen plants efficiency benchmarks are incomplete and 3) the use of a single one-product benchmark for the refining sector is arbitrary and inconsistent with other sectors.

1. Coke Calcining – Cap Adjustment Factor

Phillips 66 has provided supporting information on this issue to ARB in written comments on August 2, 2013, August 26, 2013, October 25, 2013 and March 12, 2014, which written comments are incorporated here by reference and in multiple meetings with CARB staff. The justification for use of the slower declining cap factor for coke calcining is supported by existing CARB documentation which includes:

- Process emissions greater than 50%: The annual emission reports (MRR) to ARB for our calciner operation (Phillips 66, San Francisco Carbon Plant, ARB Reporting ID 100351) demonstrate that process emissions are consistently greater than 50%, and in fact are >90%.

- High Leakage Risk: Cap-and-Trade regulation Table 8-1 assigns a "High Leakage Risk" designation to coke calcining (NAICS 324199), satisfying the second criteria.

- High Emissions Intensity: Coke calcining has high emissions intensity. ARB's Appendix K, Table K-10 lists NAICS Code 324199 as having an Emissions Intensity (EI) value of 9,754. The threshold for designation as a high emissions intensity sector is 5,000 EI. Coke calcining therefore meets all three of CARB's criteria.

CARB has determined the criteria to be granted the slower cap decline factor: (1) process emissions greater than 50%; (2) high leakage risk; and, (3) high emissions intensity. These conditions have all been satisfied and CARB staff has failed to provide verbal or written justification of the decision to retain the incorrect cap adjustment factor. CARB is moving forward in silence.

Initial discussions on whether the more general NAICS Code 324 or the more specific Code 324199 should be assigned to coke Calcining were productive. CARB has correctly assigned Code 324199 as is recommended by the U.S. Department of Commerce. In fact, the Department explicitly warns businesses to not use the more general code (e.g. NAICS Code 324) that contains more subcategories.

We note that, CARB in Table K-10, did identify both cement and lime manufacturing as high emissions intensity (with EI exceeding 5000) and does list them in Table 9-2, yet coke calcining is specifically excluded from the correct designation.

Coke calcining clearly meets all criteria for designation as a sector in Table 9-2 where the slower cap decline factor is applicable. We respectfully request that CARB place coke calcining in Table 9-2 where it belongs and the correct slower cap decline factor be applied. Please provide these changes in an additional 15-Day Package modification that reflects the proper designation.

2. Hydrogen Plants – Efficiency Benchmark

In the fall of 2013, CARB proposed that a single efficiency benchmark be established for both merchant hydrogen plants and refinery plants. This required significant communication and data exchange between refineries and CARB staff over the last few months to "extract" refinery hydrogen plant emissions and hydrogen production data from refinery data. We are concerned with the appropriateness of the data that was provided by all companies involved in crafting the benchmark. We respectfully request that CARB continue to work with companies in the coming months regarding data reporting and benchmark development. Please provide a 15 day package that revisits the benchmark for hydrogen plants.

Additionally, we support the comments of the Western States Petroleum Association (WSPA).

3. CARB's use of single one-product benchmark for the refining sector is arbitrary and inconsistent with other sectors within the Cap and Trade Program

Phillips 66 opposes the methodology that CARB has selected for refinery benchmarking and believes such methodology conflicts with the goals stated in the initial legislation AB 32 and the goals stated in the Scoping Plan. The benchmark is punitive and not designed to reward energy efficiency or innovation.

If you have any questions or need further clarification, please don't hesitate to call me at 916-447-5572.

Sincerely,

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