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Via refinerybenchmark-ws and Electronic Mail

March 13, 2014

Rajinder Sahota
California Air Resources Board
1001 I Street
Sacramento Ca, 95814

Dear Rajinder :

Following up on our recent conversations, Paramount Petroleum Corporation and its parent, Alon USA Energy, Inc. (collectively, Alon) hereby submits comments regarding the Refinery Benchmark Discussion Document released on February 26, 2014. Additionally, we are submitting additional items of consideration based on these discussions. Alon understands the window is closing on this regulatory package, but also believes there is still some important work to be done to finalize this regulatory package along with continued post-adoption discussion and work. These comments are intended to assist staff in the final work.

Summary of Comments

- Strong support for retaining the separate Atypical refinery category and the retention of a separate benchmark;
- Support for the current size and complexity metrics in the draft Atypical definition;
- Recommend removing, or severely limiting, the concept of "jointly operated" from the Atypical refinery proposal.
- Recommend excluding the newly introduced concept of "negative true-up" or "negative allocation".
- Need for continued discussions concerning the unique issues associated with Alon's past, existing and future California operations.

Alon and CARB have worked together continuously for more than a year on these issues. Amending the refinery benchmarking and associated industrial allocation methodology is a very significant policy and technical exercise because it establishes the foundation of the Cap and Trade Program (Program) and determines the baseline competitive position (both intrastate and interstate) for California refiners. Its impact on Alon cannot be understated. According to the Benchmark Document, there is still additional language to be developed relating to the "Jointly Operated" component of the Atypical definition. This is concerning to Alon, as we understand the formal 15-day regulatory amendment package is due out very soon, it is very likely that the language contained in that document will be the final version, and depending on how it is written, could impact Alon negatively.

With a tentative April Board meeting on the calendar to finalize this and other policy issues associated with the Cap and Trade program, Alon stands ready to provide feedback and engage in constructive dialogue so that we can avoid a last minute deadline process. Further explanation of these summary comments are provided below.

Detailed Comments—"Atypical" and "Jointly Operated"

Formal recognition and separate benchmarking of "atypical" refineries in the Cap and Trade Program is a key policy recommendation Alon supports. Not all refineries in California are large and complex, and not all of them are of a simple single site configuration; the atypical category appropriately recognizes this reality. What defines a refinery as being "atypical" is certainly regional in nature; therefore it is entirely appropriate to establish criteria for an atypical California refinery based on the state's existing inventory of refineries. Alon supports the proposed California-specific atypical criteria metrics of less than 12 process units and 20 million barrels of crude throughput per year. Recent conversations with staff have implied that these metrics are being reconsidered. This would be a very significant change at the end of a long process. Alon would not support changes to these metrics at this point in the process without a full and complete ability to review and analyze their impacts on our operations followed by an opportunity to provide meaningful comment.

This concern extends to the proposed, but not yet finalized concept, of "jointly-operated". As Alon has multiple facilities within California, the potential for this concept to impact our operations is real. And with additional clarifications still to be provided, it has limited our ability to fully understand if we are actually impacted. One potential concern was highlighted in our recent discussions, the scenario where a facility imports intermediates and operates without an atmospheric distiller. Under the current draft definition, that facility would be considered with the refinery from which it receives it inputs, regardless of its location (in-state or out-of-state) even though it met the Atypical metrics for size and complexity.

As we have commented before, the "jointly-operated" concept was a very late addition to an otherwise year-long process of stakeholder involvement as it was introduced within two-weeks of initial Board approval in October. As a facility potentially subject to this provision, we have significant concerns on this issue. The 15-day process is intended to be a smoothing and shaping exercise of firmly established, stakeholder- vetted, and Board approved policies. A "finalization" of concepts. This regulatory package could be considered 99% complete, yet it is the final 1% that impacts Alon directly. Alon firmly believes the policy basis of "jointly operated" is flawed, and has not been supported through a leakage analysis.

In addition, how these concepts will impact the new "Renewable Diesel Refinery", collocated at the Paramount facility are unknown. To further complicate the issues, our long-term planning could include using our Long Beach facility in this new activity. Loss of the Atypical status for any of these facilities could have serious economic impacts. Recent conversations with your staff have confirmed that additional discussion and evaluation of the myriad of impacts is necessary. Alon will be working to fully describe its potential operating scenarios for staff discussion.

According to the Benchmark Document and recent discussions, "Jointly-Operated" is still a work in progress. Having to respond, and trying to analyze, such concept in the 15-day process is not appropriate. ***Alon respectfully asks that the concept be abandoned in the final regulatory package.***

Detailed Comments—"Negative True-Up" or "Negative Allocation"

This concept could have significant implications to Alon's California operations, including the aforementioned Renewable Diesel Refinery. We understand that staff discovered a potential problem with the allocation methodology late in the regulatory development process, after the ISOR to the October amendments was completed. Alon only learned about the desire to add this language on the day of the October Board hearing as the first public disclosure by CARB of such a concept was in Attachment A to Board Resolution 13-44, and there has not been any additional information provided by staff. Alon has many questions about how this new provision will be implemented and requests a full vetting and analysis of it impacts, including economic and any potential environmental analysis before it is included in the final regulatory language. As with the Jointly Operated concept, Alon will provide additional information for staff review and discussion, but it was communicated by staff that due to the timing of the regulatory adoption process, it was very unlikely that issue can be addressed at this time. Alon looks forward to CARB revisiting and working on this issue in the future.

Lastly, Alon has continually raised the issue of the uniqueness of Asphalt refineries and how they could be addressed under the Cap and Trade regulation in general, and specifically under the CWB methodology. These issues have been discussed, but were "left off the table" due to limited staff resources, regulatory timing and other higher priority considerations. Alon accepted that only so much could be squeezed into this regulatory package, but we are concerned when stakeholder issues are pushed to future packages yet significant CARB-proposed late revisions are allowed to be introduced. Alon looks forward to continuing the discussion about how the Cap and Trade Regulation impacts in-state asphalt production facilities.

Because some important portions of the actual language of the proposals have yet to be provided to stakeholders, we request that any new amendments, not yet provided be struck from the final package, and any amendments formally proposed under a 15-day package be drafted with the utmost of deference to the need of stakeholders to understand and analyze Staff's proposal and its underlying support data.

Thank you for your attention to this important matter. Any questions or follow-up comments can be directed to Gary Grimes GGrimes@ppcla.com. Additionally, Alon is available to help CARB work through these important issues.

Sincerely,

Glenn Clausen
Vice President – West Coast Refining

cc: Mary Nichols
Virgil Welch
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Holly Stout
Steve Cliff
Mary Jane Coombs
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