



Western States Petroleum Association
Credible Solutions • Responsive Service • Since 1907

Catherine H. Reheis-Boyd

Executive Vice-President and Chief Operating Officer

September 2, 2009

Edie Chang
California Air Resources Board
1001 I Street
Sacramento, CA 95812

Re: Western States Petroleum Association Comments on the Air Resources Board February 25, 2009 Draft Regulatory Language Workshop on the Proposed AB 32 Administrative Fee Regulation:

Dear Ms. Chang:

On August 25, 2009, the California Air Resources Board (CARB) held the 4th workshop to discuss changes to the proposed AB 32 Cost of Implementation Fee Regulation. This workshop discussed changes to the regulation that are being considered in response to the June 25, 2008 Board hearing and stakeholder input to CARB.

This letter provides comments from the Western States Petroleum Association (WSPA) on the draft regulatory language for the Administrative Fee Regulation as presented at the workshop.

WSPA is a non-profit trade organization representing twenty-eight companies that explore for, produce, refine, transport and market petroleum, petroleum products, natural gas and other energy products in California and five other western states.

Our organization is dedicated to working toward ensuring that Californians continue to have reliable access to petroleum and petroleum products through policies that are socially, economically and environmentally responsible.

WSPA recognizes that AB 32 authorizes CARB to establish “a schedule of fees to be paid by the sources of greenhouse gases regulated pursuant to [AB 32].”

However, we contend that the draft regulation language as presented needs changes on many fronts. WSPA is dedicated to continue working with CARB to develop a legally sound AB 32 Administrative Fee Regulation and to define how this would be applied to transportation fuels and electricity.

Transportation Fuels – Gasoline and Diesel Fuel

The workshop materials included a one page discussion document on how the fees would be applied to gasoline and diesel fuel. WSPA endorses the change to measuring the quantity of fuel removed from terminal racks with California delivery destinations as a practical solution to a number of problems WSPA has previously identified.

This approach avoids the need to expand the proposed regulations dramatically to address exemptions and exceptions from the fees if they were to be imposed upon the in-state refineries as well as imports.

There were comments made by some participants of the workshop about additional parties needing to file reports with CARB. However, the number of such parties should be modest.

Since the data is already compiled by these same commentators for mandatory reporting to the Board of Equalization, this burden should be both limited and narrow in scope. Accordingly, WSPA urges the CARB to adopt the “at the rack” point of measurement for AB 32 fees on transportation fuels.

Similarly, some of the comments and discussion around this point of imposition of the AB 32 fees illustrated some confusion about terminals versus terminal inventory position holders. WSPA contends that it would be the inventory position holders at the terminals, not the terminals themselves, whom would be responsible for the fee.

In some cases the terminal operator and the inventory position holder are the same legal entity, but that is not universally true. Yet again, verifying terminal rack removals from the Board of Equalization data would be through the terminal inventory position holders, also know as “licensed suppliers.”

WSPA continues to share concerns also expressed by others at the workshop about the billing “years in arrears” nature of the proposed fee program. These concerns are further aggravated by the strong likelihood of an additional deferral of fee billings under this reimbursement regime.

The clear solution would be for CARB to adopt a prospective rate per gallon of gasoline and diesel fuel, therm, and kilowatt hour to be billed and collected for transportation fuels and utility services on a forward basis with periodic remittance. This would address the deep concerns expressed about the delayed billing, commercial issues and CARB’s revenue issues as discussed at length near the end of the workshop.

This analysis has apparently already been undertaken by CARB staff as it is presented on page 29 of the workshop Powerpoint materials where there is a forecast of “Costs per Unit Product Preliminary (FY 10-11).” The analysis shows gasoline and diesel fuel at \$0.0018 per gallon and natural gas at \$0.00088 per therm, for example.

WSPA proposes that, for transportation fuels, CARB should look at 2009 BOE data on fuels and refine its analysis consistent with the current economic environment. Using this information on the volumes, CARB should then issue a rate per gallon that can be collected currently.

If the collection or volumes begins to markedly shift away from anticipated revenue allocations for this sector, CARB may modify the rate to correct the revenues. The Los Angeles Department of

Water and Power (LADWP) had made a similar comment regarding utilities when LADWP proposed a “preliminary” rate for current collections for anticipated future billings.

This is a traditional and pragmatic approach to billing fees and accruing current cash receipts for a state agency. WSPA strongly encourages CARB to explore this option as it would address the funding issues for the AB32 Administrative Fee as well as legitimate concerns of the future fee payers.

WSPA understands that it is the intention of CARB to perform and post these calculations for at least transportation fuels as part of the proposed annual billing cycle. At a minimum, this information will be presented on the annual billings as well as on the CARB website.

Electricity

Many of WSPA’s members operate cogeneration facilities in California. WSPA members believe that these operations should not be disadvantaged, relative to other forms of electricity generation, due to the differences in the method of assessing the administrative fee.

In addition, WSPA members have three concerns regarding the revised regulation: (1) the method of assessment lacks clarity; (2) the regulation could expose industrial facilities to duplicative regulation; and (3) the method for allocating administrative costs should not prejudice the allocation method for GHG allowances under a cap-and-trade program.

Each issue is discussed below.

Comparable Treatment.

As a general matter, CARB should make certain that efficient cogeneration operations are not penalized financially relative to other forms of electricity generation. All generation except cogeneration will pay the fee based on MWh delivered to the grid, regardless of the fuel they use or the heat rate of their facility.

Cogeneration, however, will pay its fees based on fuel input or emissions, as discussed below. To prevent a disadvantage, CARB should cap the effective charge per MWh for a cogeneration facility at the charge imposed on other electricity generators.

Clarifying the Cogeneration Regulation

In its electricity sector concept paper, CARB notes that:

Cogeneration facilities would be treated as industrial facilities, with fees assessed through their fuels or on their emissions, but not on their electricity.

As a preliminary matter, it is not clear under which circumstances each approach would apply. Would the facility choose which method to employ, or would CARB make the choice? Clarity is required to avoid duplicative fees.

If, for example, CARB decided that fees would be based on emissions, it would be necessary to ensure that the pipeline delivering natural gas to the cogenerator did not also include a charge in its transportation rate under the Electric Generation schedule.

In addition, the relative impact of applying the fee to the “fuel” combusted by a cogenerator versus its “emissions” is unclear. This ambiguity is due, in part, to a lack of clarity regarding the method of allocation of CARB’s administrative costs between the fuel-based and emissions-based fees it has estimated.

Avoiding Duplication for Multiple Fuel Inputs

Beyond clarifying the regulation, CARB should consider carefully the types of fuel inputs to cogeneration to avoid duplicative fee assessment. A cogeneration facility may operate on a combination of natural gas and refinery gas.

Under the proposed regulation, although it is not entirely clear, it appears that a cogeneration facility would pay part of its administrative fees through a surcharge on its natural gas transportation rate. The treatment of the refinery gas portion of its fuel input is not clear.

The concept paper states:

Fees would still be charged on fuels (emissions from combusting fuel) from coal, natural gas, coke, and refinery gas, when the fuels are used for cogeneration or any use other than electricity generation.

The June regulations for refineries, however, also contemplate placing the fee on emissions from refinery fuel consumption. It is thus important that CARB establish a methodology to avoid recovering the fee twice for the use of refinery gas in cogeneration.

Moreover, the revised regulation does not make clear how the fee for refinery gas would be calculated. WSPA submits that the fee should be the same as for natural gas, since the fee for other generation is not based on carbon intensity of the fuel.

Limited Application of Fee Methodology

WSPA also notes that CARB should not use the AB 32 administrative cost allocation methodology to shape or prejudge the greenhouse gas (GHG) allowance allocation protocol. The methodology for allocating administrative costs is limited and is geared to promote administrative efficiency.

The heavy involvement of stakeholders in the rulemaking used to develop the CPUC’s electricity sector GHG recommendations reveals that there are many more factors that need to be considered when CARB develops its GHG allowance allocation method.

Consequently, as with the GHG reporting regulations for cogeneration, the administrative fee allocation methodology should be limited to this purpose.

Collection Dates and Funding

WSPA is aware of the difficulties CARB is having in developing its fee program and in understanding and documenting its permissible reimbursable costs. WSPA and other workshop commentators have suggest the fee structure for non-stationary sources could be modified in order to commence the collection of the fees more currently through a forward collection regime rather than a nearly three year in arrears lump sum billing regime.

This would be a practical solution to current fiscal year funding issues and would allow for the repayment of various loans from other state “cookie jar funds” such as the Beverage Container Recycling Fund. It would reduce the overall cost of the program by some proposed \$40 million resulting in a more efficient and rational fee program (see page 26 of the workshop PowerPoint materials).

While this forward-looking fee regime on non-stationary sectors of the fee program is a significant paradigm shift for the staff, the benefits identified by the feepayers are obvious and were discussed to some degree during the workshop.

There are numerous examples within other state agencies of fee programs that should be reviewed. The underground storage tank fees are just one example of fees collected on a current basis.

If CARB were to embrace a change to the existing regulation proposal, the agency’s current funding difficulties could be reduced. This would be accomplished by collecting a significant portion of the fees on a current basis while data on stationary sources and non-stationary sources is collected, verified and analyzed for a reconciliation of amounts paid versus amounts due to the agency.

WSPA once again requests that CARB look to these examples as a way of making the fee program more manageable and to address the climate change program’s current difficult financial situation.

This would also address the workshop concerns of the American Lung Association and the Natural Resources Defense Council about the continued delay in implementing a fee program that would lead toward shifts in consumer behavior away from products that create carbon emission.

WSPA urges CARB to look at adopting a more current fee structure to avoid the risk of litigation over such a fee program that may now be several years in arrears. The Sinclair Paint case and other more recent cases illustrate the need to keep some rationale nexus between the imposition of fees and those feepayers whom are engaged in commerce in the regulated area.

CARB faces the real problem of having feepayers cease operations or enter bankruptcy during what would be the two or three year period over which it is collecting data and with the equity of “reallocating” the program costs over a smaller emissions base of the remaining feepayers.

Clearly, this risk and associated financial problem would be mitigated through a more current collection regime for non-stationary sources. A number of the workshop attendees addressed similar concerns about the structure of the fee programs and the proposal for an even later billing period.

Finally, WSPA continues to have concerns with CARB's proposed administrative fee regulation as a whole, to the extent that our objections have not been addressed in the proposed changes.

In WSPA's view, the state's AB 32 administrative fee program should have the following key characteristics:

- the fee program must be broad-based and economy-wide;
- the fee program must be equitable;
- the fee should be emissions-based;
- program costs to be recovered by the fee must be reasonable, direct and prospective, with the actual costs accurately determined and documented, and transparent; and,
- the fee must be transparent to the ultimate GHG emitter.

To further elucidate on WSPA's concerns, attached is our comment letter dated June 22, 2009.

WSPA appreciates the opportunity to comment on the AB 32 Administrative Fee Regulation 4th Workshop. Please feel free to contact me at this office or Michaelleen Mason of my staff at (916) 498-7753.

Sincerely,

A handwritten signature in blue ink that reads "Catherine A. Boyd". The signature is fluid and cursive, with the first name "Catherine" being the most prominent.

cc: Mary Nichols
James Goldstene
Ellen Peter
Jon Costantino
Bruce Tutor
Jennie Blakeslee
Michaelleen Mason



Western States Petroleum Association

Credible Solutions • Responsive Service • Since 1907

Catherine H. Reheis-Boyd

Executive Vice-President and Chief Operating Officer

June 22, 2009

Ms. Mary Nichols
Chairman
California Air Resources Board
1001 I Street
Sacramento, CA 95812

Re: Western States Petroleum Association Comments on the Air Resources Board's Proposed AB 32 Administrative Fee Regulation

Dear Ms. Nichols:

On May 8, 2009, the California Air Resources Board ("CARB") released its proposed AB 32 Administrative Fee Regulation and Initial Statement of Reasons in support of the proposed regulation. This letter provides the comments of the Western States Petroleum Association ("WSPA") on the proposed Administrative Fee Regulation.

WSPA is a non-profit trade organization representing twenty-eight companies that explore for, produce, refine, transport and market petroleum, petroleum products, natural gas and other energy products in California and five other western states.

Our organization is dedicated to ensuring that Americans, including Californians, continue to have reliable access to petroleum and petroleum products through policies that are socially, economically and environmentally responsible.

California's groundbreaking climate change legislation – the California Global Warming Solutions Act of 2006 (AB 32) – and other state activities have given California a leadership role on climate change issues. As a result, California's climate change regulatory activities are being closely watched in Washington D.C. and in other states, with regard to their own potential legislation and regulation.

As leaders in this area, we must make sure that California's regulatory program for greenhouse gas (GHG) emissions, including administrative fees, is done right the first time, since California is likely establishing the model for programs regionally as well as nationally.

WSPA supports the concept of a fair, economy-wide, prospective and transparent AB 32 Administrative Fee imposed to recover the reasonable costs of the state's AB 32 administrative activities related to the fee-paying entities. However, we believe the approach taken by CARB in developing the administrative fee regulation concept and the proposed regulatory language is fundamentally flawed.

In WSPA's view, the state's AB 32 administrative fee program should have the following key characteristics:

- the fee program must be broad-based and economy-wide;
- the fee program must be equitable;
- the fee should be emissions-based;
- program costs to be recovered by the fee must be reasonable, direct and prospective, with the actual costs accurately determined and documented, and transparent; and,
- the fee must be transparent to the ultimate GHG emitter.

CARB's proposed regulation has none of these characteristics.

Not only is the proposed Administrative Fee Regulation flawed from a policy approach, CARB has failed to satisfy minimum requirements for documentation and support of the costs it seeks to recover through imposition of the AB 32 Administrative Fee.

These issues are addressed in more detail below.

CARB's Rulemaking Process Is Flawed

Since CARB's first workshop on the draft Administrative Fee Regulation, WSPA and other commenters have repeatedly remarked on the need for justification and documentation of the AB 32 implementation costs that CARB seeks to recover through the fee. Requests for information have been made.

Despite these requests, CARB failed to provide any documentation of its costs. Consequently, numerous organizations formed a coalition to seek specific information from CARB related to its estimates of AB 32 implementation expenses.

As part of that effort, the coalition filed a Public Records Act request with CARB, seeking specific records related to the costs and other aspects of AB 32 implementation by CARB and other state agencies whose expenses are proposed to be covered by the Administrative Fee. To date, CARB has not provided a full response to the records request.

CARB's failure to provide a timely and complete response to the coalition's Public Records Act request regarding cost data and background on the regulatory design has prejudiced parties commenting on the rule proposal. Their ability to meaningfully evaluate and comment on all aspects of the costs proposed to be recovered by the proposed fee, as well as on the background and rationale for CARB's design of the fee program has been severely compromised.

Decisions from California courts and the Office of Administrative Law have invalidated agency rulemakings that were based on information not made available to the public. Accordingly, the Public Records Act violations and inadequate data availability violate Administrative Procedure

Act requirements for information availability and public participation in rulemakings, and violate commenters' due process rights to meaningful participation in agency actions.

CARB should take immediate steps to assure that all relevant materials are available for meaningful review and comments before the agency takes action on the rule proposal.

Policy and AB 32 Consistency Issues

The AB 32 Administrative Fee Regulation Must Be Broad-Based and Economy-Wide

AB 32 authorizes CARB to establish "a schedule of fees to be paid by the sources of greenhouse gases regulated pursuant to [AB 32]." Health and Safety Code § 38597. This language contemplates that the administrative fee regulation should cover all sources regulated under AB 32.

Such an approach would include sources subject to the mandatory GHG reporting regulation adopted in 2007 as well as sources in industry sectors that are identified in CARB's AB 32 Scoping Plan as slated for GHG emissions regulation. CARB has stated that its objectives for the AB 32 Administrative Fee Program include establishment of a program that is fair, equitable, broad-based, transparent and simple.

The proposed regulation significantly misses achieving these objectives. CARB's regulatory concept and the regulatory text propose to assess fees only from manufacturers and importers of four fuels (gasoline, diesel, coal and natural gas), electricity imports, and on process emissions from petroleum refineries and cement plants.

As indicated by CARB staff, this approach was taken in part for "administrative simplicity." In addition, CARB indicates that the proposed fee would cover only about 85% of the state's greenhouse emissions.

WSPA believes the proposed administrative fee does not meet the legislative intent of AB 32 or CARB's stated objectives. The small number of industries subject to the fee requirement still can hardly be considered "broad-based" or "economy-wide." Similarly, while CARB asserts that the proposed regulation applies to 85% of the state's greenhouse emissions, this is still not an economy-wide approach.

The AB 32 Administrative Fee Regulation must be Equitable

The text of AB 32 directs that all parts of the AB 32 program be equitable. For example, the mandatory GHG emissions reporting regulations must include emissions reporting from "sources or categories of sources that contribute the most to statewide emissions." CARB's AB 32 Scoping Plan must "take into account the relative contribution of each source or source category to statewide greenhouse gas emissions..."

And when it adopts emission reduction measures under AB 32, CARB must "consider the significance of the contribution of each source or category of sources to statewide emissions of greenhouse gases." Thus, the most significant GHG emission source categories are likely to be covered by the reporting regulation, the Scoping Plan, and/or the eventual GHG emission control requirements, providing numerous sources for inclusion in a broad-based fee schedule.

Inclusion of all AB 32-regulated sources in the fee schedule would be the first step to an equitable administrative fee program.

Court decisions on regulatory fees and various provisions of AB 32 support the concept that any regulatory fee must be equitable. For example, in *Sinclair Paint Co. v. State Bd. of Equalization* (1997) 15 Cal.4th 866, the California Supreme Court reviewed and upheld a fee that was based on paint manufacturers' market shares.

In contrast, in *California Farm Bureau Federation v. California State Water Resources Control Board* (Jan. 17, 2007, Third Appellate Dist., C050289; Petition for Review pending), the Court of Appeals rejected a fee program that applied to only 40% of the facilities regulated under a program of the State Water Resources Control Board ("State Board").

In this case, the court determined that the State Board had failed to demonstrate "the basis for determining the manner in which costs are apportioned, so that charges allocated to a payor bear a fair or reasonable relationship to the payor's burden on or benefits from the regulatory activity." *Id.*, at 40. Consequently, imposing a fee on only one category or a few categories of GHG sources does not result in a regulation that is "equitable."

As we have stated in our comments on the drafts of the fee rule and in conversations with CARB staff, CARB's approach to the proposed Administrative Fee Regulation is not equitable, even with the inclusion of imported electricity and other changes from the draft regulation.

The Administrative Fee Regulation would apply to only six of the many source categories that are or will be regulated under AB 32, and covers only about 85% of the state's GHG emissions. Applying fee requirements to only a few source categories means that sources in those categories will bear all the implementation costs of CARB's AB 32 program, while other non-paying sectors of the economy are not burdened with such costs.

CARB apparently believes that the entities subject to the fee regulation (i.e., refineries that produce transportation fuel) will be able to pass their costs on to their customers, so that the person or entity who ultimately combusts the fuel and is the actual GHG emitter will indirectly pay the fee as part of the price of its fuel. CARB apparently believes that in this indirect manner the fee becomes equitable and broad-based. However, in competitive markets for commodities such as transportation fuels, the presumption that costs such as the AB 32 administrative fee can simply be passed along to customers is false.

Unless CARB establishes a specific mechanism for passing the fee along the chain of commerce to the ultimate customer, as both a legal and a practical matter the fee is being paid by the entities specified in the draft rule, and so cannot be considered equitable.

One specific example of inequity in the administrative fee proposal is the situation related to transportation fuels. CARB's workshop presentation on the proposed administrative fee indicated that about 50 to 60% of the total fee revenue would be paid by manufacturers and importers of transportation fuels. However, combustion of transportation fuels results in only about 40% of California's GHG emissions inventory.

Also, the only Scoping Plan measure related to transportation fuels is the Low Carbon Fuel Standard ("LCFS"), on which CARB has spent only 12.7 % of its reported direct staff expenditures for 2008-2009. Thus, there is little or no nexus between the majority of the costs

that ARB seeks to recover and the amount of the fee to be imposed on transportation fuels. By any standard, transportation fuels bear an inequitable portion of the fee burden under the rule as proposed.

We also note that at least 10.5% of the reported administrative costs result from work pertaining to regulation of High GWP gases. These costs clearly should not be paid for by fees on transportation fuels, for which there is no nexus whatsoever. Three other items – inventory, reporting, and cap and trade – account for 18.7 % of the identified regulatory costs. These costs should be spread (either on an emissions basis or per capita) among all of the mandatory reporting parties that will be subject to the cap and trade rule.

Another aspect of equity is the ability of facilities and companies located in California to remain competitive in the global market. Imposition of emission fees on California entities but not on their competitors will reduce the competitiveness of California business, particularly for those in commodity markets, like transportation fuels, where these new costs are unlikely to be able to be passed on to customers.

Job losses resulting from reduced competitiveness will only add to the existing record 11.5% unemployment level in our state.

The AB 32 Administrative Fee Regulation Must Be Emissions-Based

AB 32's language requiring that any adopted schedule of fees is "to be paid by the sources of greenhouse gases regulated pursuant to this division..." requires that CARB's administrative fee schedule apply to sources of greenhouse gas emissions.

Clearly, process GHG emissions from refineries and cement plants would meet this criterion. However, manufacturing or importing the four fuels covered by the proposed fee regulation (gasoline, diesel, coal and natural gas) does not represent a source of greenhouse gas emissions.

Fuels in and of themselves are not "sources of greenhouse gases." The "source" of GHG emissions related to use of these fuels is the facility or equipment in which the fuel is combusted. Combustion clearly does not occur at the producer/importer level as used by CARB in the proposed regulation, so fuel producers and importers cannot be considered "sources of greenhouse gas emissions."

In order for CARB to deliver a fee regulation that meets the stated objectives of fairness, equity, broad-base, transparency and simplicity, and that meets the legislative intent, the regulation must begin with the presumption that the fee should be levied as directly as possible on those responsible for the emissions – in other words, as close as possible to the point of actual GHG emissions.

If CARB reasonably determines that it would be administratively difficult to levy a fee directly on emitters who combust transportation fuels (which it has not demonstrated), then instead of attempting to assess the fee at the point of manufacture or import (which is well upstream of the ultimate consumer), CARB must consider other fee collection methods.

In this regard, WSPA proposes that CARB adopt a fee structure that parallels the current federal and state collection points for motor fuel excise taxes. This proposed structure would reduce compliance costs and avoid the need for expansive and successive new regulations to address a novel point of collection at the refinery gate.

The Federation of Tax Administrators, the Internal Revenue Service, the American Petroleum Institute and WSPA have endorsed “tax at the rack” as the most efficient and uniform point for tax and fee collection on distributed motor fuels. This point of taxation has been widely adopted to reduce the risk of evasion and to streamline administration of motor fuel taxes and fees.

This established approach would also minimize the risk of litigation from consumers in other states or countries who receive gasoline and diesel through production or importation of gasoline and diesel fuel originating in or passing through the state by excluding from the fee calculations exports from California.

Finally, collection at the terminal rack or where the product “breaks bulk” for distribution within California strikes a balance between reasonable administrative practicalities and imposing the fee as close as possible to the end consumer of these products.

To be more specific about the proposal, the inventory position holders at distribution terminals and refineries would be responsible for the AB 32 fees when the product is removed for distribution within the state. The terminal operators already file reports with the Board of Equalization regarding position holder inventories and distributions as a check for tax remittances by the inventory position holders at these locations.

In some cases, the inventory position holder and the terminal operator may be the same party. Today that party files reports with both the Internal Revenue Service and the Board of Equalization in its dual capacity as a terminal operator and as taxpayer.

In the event gasoline or diesel fuel is distributed within the state in a non-bulk manner directly from a refinery that would be subject to the AB 32 fees, the fees would be separately identified and invoiced to in-state purchasers of gasoline and diesel fuel.

This proposal builds upon a longstanding and highly efficient tax administrative regime developed and used both by the federal government and California relying upon existing business records and actual inventory data. Also, the IRS and the Board of Equalization audit both the taxpayers and terminal operators to ensure accurate reporting and tax calculation and remittance, thereby providing assurance of the reliability of AB 32 fee remittances from this point of collection.

CARB’s proposed approach, to assess fees on transportation fuels at the point of manufacture or import, is both novel and non-conforming with existing points of collection at both the federal and state level for motor fuel taxes. CARB’s approach has numerous significant flaws.

1. It incorrectly assumes that all gasoline and diesel fuel produced in California refineries is distributed in California. There are both imports of gasoline and diesel fuel and significant exports of gasoline and diesel fuel from the state. This situation will require a complex set of regulations to provide for credits and refunds for exports as well as a significantly more complex fee return document tracing the “ins and outs” of products unnecessarily.

Tax at the rack would avoid this needless complexity by significantly sorting out exports from the state based upon bill of lading generation at the terminal level. All imports would be captured at the rack where distribution to California consumers commences.

2. Some CARB staff believes that imposing the fee upon refinery removals reduces the number of fee payers as compared to all other options. This is incorrect since CARB would have to also identify both bulk and non-bulk importers into the state as well as track exporters who would be entitled to credits and refunds. The Board of Equalization and the Internal Revenue Service have already identified and licensed fuel importers, and the Board's list of actual importers into California is limited.

WSPA has previously provided a list to the staff of the companies registered for gasoline distribution in the state and the active number of companies is approximately forty (40). The top dozen licensed suppliers represent over 95% of distributed gallons. There is no material benefit in administration of a new fee regime at a novel collection point versus the terminal rack.

3. The cost and lead time necessary to develop a fee collection regime at the refinery and import level will be significant and will face many practical challenges which could easily be avoided if the fee is imposed in parallel with the states' existing taxes on gasoline and diesel fuel. In this case, the lack of experience of CARB staff in effective and efficient motor fuel tax administration is a substantial hurdle that would need to be overcome.

The state's leadership has called upon all state agencies to do whatever is reasonable to reduce costs and to leverage existing resources. Clearly, creating a new and non-conforming point of fee collection will be both more time consuming and costly than modeling a fee collection process after the current successful and efficient excise tax collection process, with or without administration of the new fee by the Board of Equalization. The intentional rejection of a successful model for an agency specific fee program will draw attention to intentional waste of state resources at tax and fee payer expense.

4. The CARB proposal relies upon projections of calculations related to ethanol blending that could be done subsequently at a California terminal in order to calculate the fee liability at the refinery gate. This is unnecessary when the fee could be calculated upon the actual measured volumes of ethanol blended product distributed within California as captured at the terminal level. The projection and the reality will never match volumetrically and there will be a permanent variance the CARB staff will continuously struggle to overcome due to the adoption of a system that is not based upon business inventory records and long established inventory control processes.
5. If the fee regime is implemented in parallel with the current Board administered fuel taxes, the CARB fee regime would benefit from any administrative or legislative improvement to those long-established tax programs. Also, CARB may be able to utilize the Board audit results in its own administration of the fee program or to contract with the Board or obtain legislative authority for the Board to administer the fee program on the same basis as it does for fuel excise taxes. If CARB's staff create a new and non-conforming fee regime, CARB's management would irrationally throw away the opportunity for reduced administrative burdens and costs for the fee payers and the agency.
6. Finally, the development of fee program that is different from the current excise tax system imposed upon the exact same products will naturally require an analysis of why there is a difference and what the difference is in terms of collections. The Board's

process is the benchmark for any such comparison thereby driving ongoing analysis by CARB's staff of the differences in volumes and collections in comparison to the Board's published data. Clearly, CARB, in an effort to efficiently administer a fee collection program on gasoline and diesel fuel could avoid such diversions through the adoption of a parallel fee regime.

WSPA urges CARB to reconsider its proposal to create a novel point for the imposition of the AB 32 fees on gasoline and diesel fuel and to look to established and long tested points of motor fuel tax collection to reduce burdens and costs for all concerned.

CARB Must Identify the Reasonable, Direct Program Costs to be Recovered by the Fee

In its first workshop presentation on the proposed administrative fee regulation, CARB indicated that the AB 32 "revenue requirement" (i.e., the amount of state costs that the fee is intended to recoup) will be determined from "AB 32 expenditures budgeted for Fiscal Year for all State agencies based on approved State budget." In WSPA's view, this top-down budget approach is an inadequate and inappropriate methodology for determining the revenue needs for the fee program. CARB must instead identify the direct costs incurred in administering the reporting and emission reduction and compliance programs established by AB 32. In the Staff Report, CARB asserts that its staff have "reviewed the person years and other expenditures" to confirm that funds "loaned" to ARB were spent on AB 32 related activities. However, the Staff Report does not include information to support the assertion that the costs incurred were AB 32 related.

Despite repeated requests for AB 32 implementation cost information, no substantial information or documentation has been provided by CARB.

Following are examples of the many unanswered questions regarding CARB's AB 32 costs:

- How are activities of CARB and other state agencies determined to be AB 32 related?
- Is any effort made to identify costs that are related to "sources of greenhouse gas emissions regulated" under AB 32? If so, how?
- Do the identified agency costs include the costs of any agency activities that are not related to the proposed affected entities (i.e., emissions from combustion of the fuels or refinery and cement plant process emissions)?
- How do CARB and other agencies assure that their AB 32-related costs are "reasonable?"

There is ample precedent for a cost-based approach. For example, air pollution control and air quality management districts carefully identify and calculate stationary source-related program costs in the process of identifying the district costs to be recovered through stationary source permit fees.

Due to the scope of AB 32, and of California's climate change activities generally, the budget-based approach proposed by CARB could easily result in CARB's imposition of fees to recover the costs of agency activities that are not directly related to "the sources of greenhouse gas emissions" regulated under AB 32.

In addition to CARB's anticipated future costs, the draft administrative fee regulation would include in the administrative fee an amount intended to provide funds for repayment of AB 32 program startup loans made to CARB and CalEPA from the Motor Vehicle Account, the Air

Pollution Control Fund, and other state accounts. These loans are estimated by CARB to total approximately \$57 million, and their repayment is proposed to occur over three years.

A regulation allowing collection of funds in excess of current program needs, such as the proposal to collect fees for past agency activities that were otherwise funded, raises serious concerns that the charge is in reality a tax rather than a fee. Apportionment of the costs of the regulation in a manner unrelated to the burden of the regulation also makes the charge more like a tax.

When some regulated parties are asked to pay for regulation of others who are not subject to the charge (as is the case here), the charge becomes a pure revenue measure rather than a means of paying for a self-contained regulatory program. Where the charge is apportioned on the ability to pay, ease of collection, or likelihood of compliance, its purpose is to raise revenue rather than regulate.

The regulated entity is not paying for the burden it creates or the cost of regulating its own activities. Instead, it is serving a more general governmental purpose of subsidizing a program for the general welfare. In short, the regulated entity is paying a tax.

WSPA's position is that if for any year CARB sets the AB 32 administrative fee at a level to repay the purported "loan" from the Motor Vehicle Account or to replenish previous Air Pollution Control Fund monies, this charge is a tax, not a fee.

Similarly, any program fee request for the current fiscal year that is not imposed on all who are subject to the Scoping Plan violates AB 32 mandates, is under-inclusive and is an improper tax, not a fee.

AB 32 Fees Must be Transparent to Emitters

CARB's approach to the AB 32 Administrative Fee Regulation would impose the administrative fee in a manner that in many cases is far upstream of the actual point of GHG emissions. If the fee payer then simply includes the fee as part of the cost of fuel sold to those downstream in the supply chain, the administrative costs of AB 32 implementation will never be clear to the ultimate GHG emitter – the source or individual that actually combusts the fuel and thereby releases CO₂ to the atmosphere.

This is in direct contrast to most, if not all, other environmental fee programs, under which the fee is imposed directly on the actual emitter/discharger, who can then see directly the costs for which it is responsible.

If CARB is assuming that administrative fee costs imposed upstream on fuel manufacturers and importers will be passed on to the ultimate fuel user in a way that clearly identifies the administrative fee component of the fuel price to the consumer, we would appreciate an explanation as to how such a process would work.

WSPA believes that all AB 32 fees and charges should be transparent to the ultimate fee payer (i.e., the entity responsible for release of the GHG emissions which were subject to the fee). This transparency is needed to help assure accountability and to send clear price signals to the regulated community. A fuel-based fee imposed far upstream of the ultimate consumer cannot be transparent and so is the wrong approach to take in this regulation.

Other Issues

- **Inconsistent Handling of Renewables**

As specified in the proposed regulation, the AB 32 fee would apply to oxygenate but not to biodiesel and renewable diesel. WSPA has consistently advocated that all fuels should be treated equally.

For this reason, we believe that biodiesel and renewable diesel should be subject to the fees, along with ethanol. All fuels, including renewable fuels, should be subject to fees based on the carbon intensity of the fuel, excluding those portions of the carbon intensity already covered by portions of the cap and trade program. For example, for California produced gasoline, the carbon intensity includes carbon from the well production, refining process, transportation, and the actual carbon content of the fuel.

Since all but the actual carbon content of the fuel would already be accounted in portions of the cap and trade program, only the carbon content of the fuel should be subject to the fee. Similarly, for California produced biofuel, since the refining, transportation process and carbon content of the biofuel are already accounted for elsewhere in the cap and trade program, consistent with the LCFS carbon intensity, only the indirect land use portion of the carbon intensity should be subject to the fee.

- **Revise Fuel Gas Definition and Reporting Tool Upgrade for Fee Reporting**

Under CARB's GHG Mandatory Reporting Rule, refinery GHG emissions are determined from (among other things) the total quantity of gas (refinery fuel gas) coming out of a refinery's blend drum(s). However, natural gas is frequently added to a refinery's fuel gas system, and is mixed in through the blend drums to assure a consistent fuel supply to refinery combustion devices.

Propane is a common constituent of refinery process gases, and may also be added to a refinery's fuel gas system, yet is exempt from the fee. To account for these issues, CARB should revise the definition of refinery fuel gas to specifically exclude propane, and should also amend the mandatory reporting rule and/or the reporting tool to assure that refineries have the ability to eliminate propane and natural gas from the total refinery fuel gas combusted.

- **Agency Costs for Defense of the Fee Regulation**

CARB has included in the scope of "Total Required Revenue" "any amounts required to be expended by ARB in defense of this article in court." §95203(a)(3). WSPA believes it is both inappropriate and unlawful for CARB to include in a fee the costs of the agency's defense of that fee, particularly since this provision, as written, apparently would allow CARB to recover litigation costs through the fee even if some or all of the fee regulation was rejected by a court. The statutes and court rules governing litigation provide ample opportunity for CARB to seek to recover its costs, and in some cases, attorneys' fees, if it prevails on a challenge to the fee regulation. This provision should be removed from the proposed rule.

- **Other Agency GHG Emission Fees**

CARB should specify that once the AB 32 fee is in effect, it supersedes any GHG emission fees of other agencies for duplicative work (such as inventories, regulatory development, etc.). To the extent that CARB requests assistance from air districts or

other agencies on AB 32 implementation, the costs of that assistance should be reimbursed by CARB and included in the AB 32 fee.

- **Petroleum Coke**

As with transportation fuels, much of the petroleum coke produced in California is exported to other states or countries. As proposed, the AB 32 fee appears to apply to all petroleum coke produced in the state. The fee should be clarified to apply only to petroleum coke that will be consumed in California.

- **Catalyst Coke**

To avoid double counting, specific information on a refinery's combustion of catalyst coke should be submitted via the reporting tool only to the extent that combustion of catalyst coke was not included in a refinery's total reported emissions.

- **Enforcement**

The enforcement provisions must be consistent with those in the emissions reporting rule, without creating a second potential penalty for a single violation. As this is a state-level fee, enforcement authority may not be delegated to air districts or other agencies.

For all the reasons described above, WSPA strongly objects to CARB's proposed administrative fee regulation. Most importantly, though, WSPA expressly reserves the right to comment further once CARB has taken steps to assure that all relevant materials are available for meaningful review.

As always, WSPA stands prepared to provide further assistance in this matter. Please feel free to contact me at this office or Michaelleen Mason of my staff at (916) 498-7753 if you have any questions.

Sincerely,



cc: Daniel Sperling, Member, Air Resources Board
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