



Kern Oil & Refining Co.

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LCFS PRESENTATION BEFORE THE CALIFORNIA AIR RESOURCES BOARD

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INTRODUCTION

MY NAME IS ROBERT RICHARDS OF KERN OIL AND REFINING CO. [THANK YOU FOR THE OPPORTUNITY TO PRESENT COMMENTS AS RELATES TO THE PROPOSED CALIFORNIA LOW CARBON FUEL STANDARD. I WOULD ALSO LIKE TO THANK STAFF FOR THEIR TIME AND ACCESS THROUGHOUT THE RULEMAKING PROCESS.]

POINT 1: WHO IS KERN OIL?

THESE COMMENTS ARE PRESENTED FROM THE PERSPECTIVE OF A SMALL, PRIVATELY-HELD COMPANY WHICH HAS MADE A MASSIVE FINANCIAL INVESTMENT AND COMMERCIAL COMMITMENT TO ENABLE IT TO COMPLY WITH GOVERNMENT MANDATES TO PRODUCE CLEANER-BURNING GASOLINE AND DIESEL FUEL. KERN OIL IS A SMALL INDEPENDENT PETROLEUM REFINERY LOCATED IN BAKERSFIELD, CALIFORNIA. SMALL REFINERS ARE RECOGNIZED BY USEPA, CARB AND CEC. IN 1981 THERE WERE 13 SMALL REFINERS SUPPLYING MOTOR VEHICLE FUEL IN CALIFORNIA, TODAY THERE ARE TWO. **IN FACT, KERN IS THE ONLY SMALL REFINER IN CALIFORNIA PRODUCING CALIFORNIA REFORMULATED GASOLINE.** SMALL REFINERS ARE LIMITED IN CAPACITY, LAND-LOCKED WITHOUT PORT ACCESS, AND DO NOT POSSESS UPSTREAM OIL & GAS PRODUCTION OR DOWNSTREAM RETAIL MARKETING ASSETS. SMALL REFINERS ARE ALSO NOT AS COMPLEX OR ENERGY INTENSIVE AS MAJOR REFINERIES.

POINT 2: KERN MAKES A DIFFERENCE

KERN SUPPLIES A SIGNIFICANT PORTION OF ITS GASOLINE AND DIESEL TO THE INDEPENDENT MARKETING SECTOR IN THE SOUTHERN SAN JOAQUIN VALLEY, HIGH DESERT, AND CENTRAL COAST. AND AS A SUPPLIER TO THIS INDEPENDENT MARKETING GROUP AND AS THE ONLY SMALL PRIVATELY-HELD INDEPENDENT GASOLINE SUPPLIER IN CALIFORNIA, KERN PLAYS A SIGNIFICANT ROLE IN LEVELING THE MARKET'S ECONOMIC AND SUPPLY PLAYING FIELDS.

POINT 3: SUPPLY AND DEMAND

SMALL REFINERS PRODUCED ABOUT 0.8% OF THE STATE GASOLINE SUPPLY AND ABOUT 2% OF THE ULSD SUPPLY FOR CALIFORNIA IN 2008. THIS IS A VERY SMALL FRACTION OF THE MOTOR VEHICLE FUEL SUPPLIED IN CALIFORNIA, HOWEVER IT IS THE MAJOR PORTION OF KERN OIL'S BUSINESS.

IT IS DIFFICULT TO CONSIDER THE ECONOMIC IMPACTS SINCE THERE IS NO DATA ON WHAT NEW BIOFUELS OR LCFS CREDITS WILL COST, HOWEVER, WE HAVE EVALUATED THE SIGNIFICANCE TO OUR SUPPLY. USING THE LOWEST PUBLISHED PROPOSED CARBON INTENSITY BIOFUEL, REGULATED PARTIES WILL NEED TO SUBSTITUTE MORE THAN 12% OF THEIR SUPPLY BY 2020. KERN OIL IS CONCERNED THAT ACCESS TO THE SUPPLY OF NEWER BIOFUELS WILL BE CONTROLLED BY ENTITIES WITH ACCESS TO TECHNOLOGY AND ACCESS TO CAPITAL. SMALL REFINERS ARE SIGNIFICANTLY DISADVANTAGED IN THIS REGARD.

POINT 4: INHERENT LOWER CARBON INTENSITY FOR SMALL REFINERS

KERN OIL AGREES WITH THE BOARD THAT "THE CARBON INTENSITY VALUES REPRESENT THE CURRENCY UPON WHICH THE LCFS IS BASED". KERN CAN DEMONSTRATE THAT THE COMPLEXITY, LOCATION AND SUPPLY TO ITS SMALL REFINERY, YIELDS AN INHERENTLY LOWER CARBON INTENSITY THAN THE AVERAGE REFINERY UTILIZING THE AVERAGE CRUDE OIL. A STRAIGHTFORWARD REVIEW OF THE GREET MODEL AND SIMPLE

CALCULATIONS FROM TRANSPORTATION AND CRUDE REFINING ENERGY MIX AT SMALL REFINERS YIELDS A REDUCTION OF MORE THAN 2 GRAMS OF CO2 EQUIVALENTS PER MEGAJOULE FOR BOTH GASOLINE AND ULSD.

THE SMALL REFINER IS COMMONLY DISADVANTAGED BY ECONOMIES OF SCALE IN ITS OPERATION, AND BY LESS ACCESS TO CAPITAL AND CREDIT. NOW WE ARE DISADVANTAGED IN THE LCFS "CURRENCY", BY UTILIZING A HIGHER CARBON INTENSITY THAN WHICH IS APPROPRIATE.

POINT 5: SMALL REFINER CONSIDERATIONS

KERN RESPECTFULLY PROPOSES THE FOLLOWING CONSIDERATION FOR SMALL REFINERS:

1. REDUCE THE CARBON INTENSITY REDUCTION GOAL PERCENTAGE FROM 10% TO 8% FOR SMALL REFINERS.
2. INCREASE THE "SIGNIFICANT SHORTFALL" FOR SMALL REFINERS FROM THE PROPOSED 10% TO 20%.
3. EXEMPT SMALL REFINERS FROM THE LCFS COMPLIANCE SCHEDULE FOR FOUR YEARS; THAT IS UNTIL JANUARY 1, 2014.
4. ALLOW SMALL REFINERS TO GENERATE LCFS CREDITS DURING THE FIRST FOUR YEARS (2010-2013).
5. [IN 2020, EPA SHALL REVIEW AND EVALUATE THE LCFS PROGRAM WITH SMALL REFINERS TO DETERMINE IF CHANGES ARE APPROPRIATE.]

POINT 6: CLOSING

KERN OIL IS EXTREMELY CONCERNED WITH THE DISAPPEARANCE OF SMALL REFINERS IN CALIFORNIA. WE CERTAINLY ARE WORKING HARD TO OVERCOME OUR DISADVANTAGES IN THE MARKETPLACE. KERN OIL IS IN FOR THE LONG HAUL, AND WILL CONTINUE TO BE AN EFFECTIVE AND ENGAGED STAKEHOLDER IN CALIFORNIA'S AB-32 PROGRAM. KERN OIL URGES A STRONG CONSIDERATION OF OUR PROPOSED SMALL REFINER ALTERNATIVES.

THANK YOU.