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CALIFORNIA'S REFINING INDUSTRY
DIESEL OUTLOOK

Presentation by
Susan Brown, Deputy Division Chief
Energy Forecasting and Planning Division
California Energy Commission

Air Resources Board Hearing
July 29, 1994

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My name is Susan Brown. I am the Deputy Chief of the Energy Forecasting and Planning Division of the California Energy Commission. The Energy Commission is responsible for publishing the state's official forecasts of the supply, demand and price of electricity, natural gas, petroleum and other fuels, including diesel fuel. The Commission also maintains a confidential data base on refinery activity under the state Petroleum Industry Information Reporting Act (PIIRA).

I've been asked to provide a brief presentation on the current capability of the state's refiners to provide low-sulfur, low-aromatic diesel fuel. The information I will present was compiled from PIIRA data on actual historical refinery output, review of compliance plans filed by the refiners with the Air Resources Board staff, meetings with the individual refiners, and a recent telephone survey.

The state's refinery outlook has changed since the early 1980s:

- The state's refining capacity has been reduced, in part as a result of small refinery closures. At least ten refineries in California have closed since 1982.
- The demand for petroleum and petroleum products has increased over the last ten years, largely due to population gains and economic growth.
- Production capability at the state's refineries has increased due to higher refinery utilization rates and greater operating efficiencies. Utilization rates during this same period have increased from an average of 71 percent in 1982 to 95 percent in 1993.
- Distillation capacity for processing crude oil into petroleum products has decreased 23 percent between 1982 and 1993, due to refinery closures and other factors. During this period, distillation capacity has gone from 2.5 million barrels per calendar day in 1982 to 1.9 million barrels in 1993. (See Figure 1.)

The diesel supply outlook has also changed since the 1980s:

- Of the 24 operating refineries in California, 13 are producing diesel fuel to meet the ARB's fuel specifications. The state's refineries are capable of producing an average of 167,000 barrels per day of complying diesel fuel. (See Figure 2.)
- The demand for diesel fuel is forecasted to grow in the future at roughly twice the rate of growth in motor gasoline consumption. Our forecast shows a 46 percent increase in diesel use in trucks, rail and transit by the year 2010 (to over 208,000 barrels per day).
- Today, our best estimate of the current state production of complying diesel approaches 167,000 barrels per day, which satisfies an average statewide diesel demand. (See Figure 3.)
- Lastly, the state's refineries have the flexibility to produce an estimated 204,000 barrels per day of complying diesel during high seasonal demand periods. This point was demonstrated during the fourth quarter of 1993, after the ARB's diesel requirements took effect, when the industry produced distillates (95 percent of which is diesel) at a rate eighteen percent higher than the average yearly production.

FIGURE 1

DISTILLATION CAPACITY AND UTILIZATION RATE OF CALIFORNIA REFINERIES

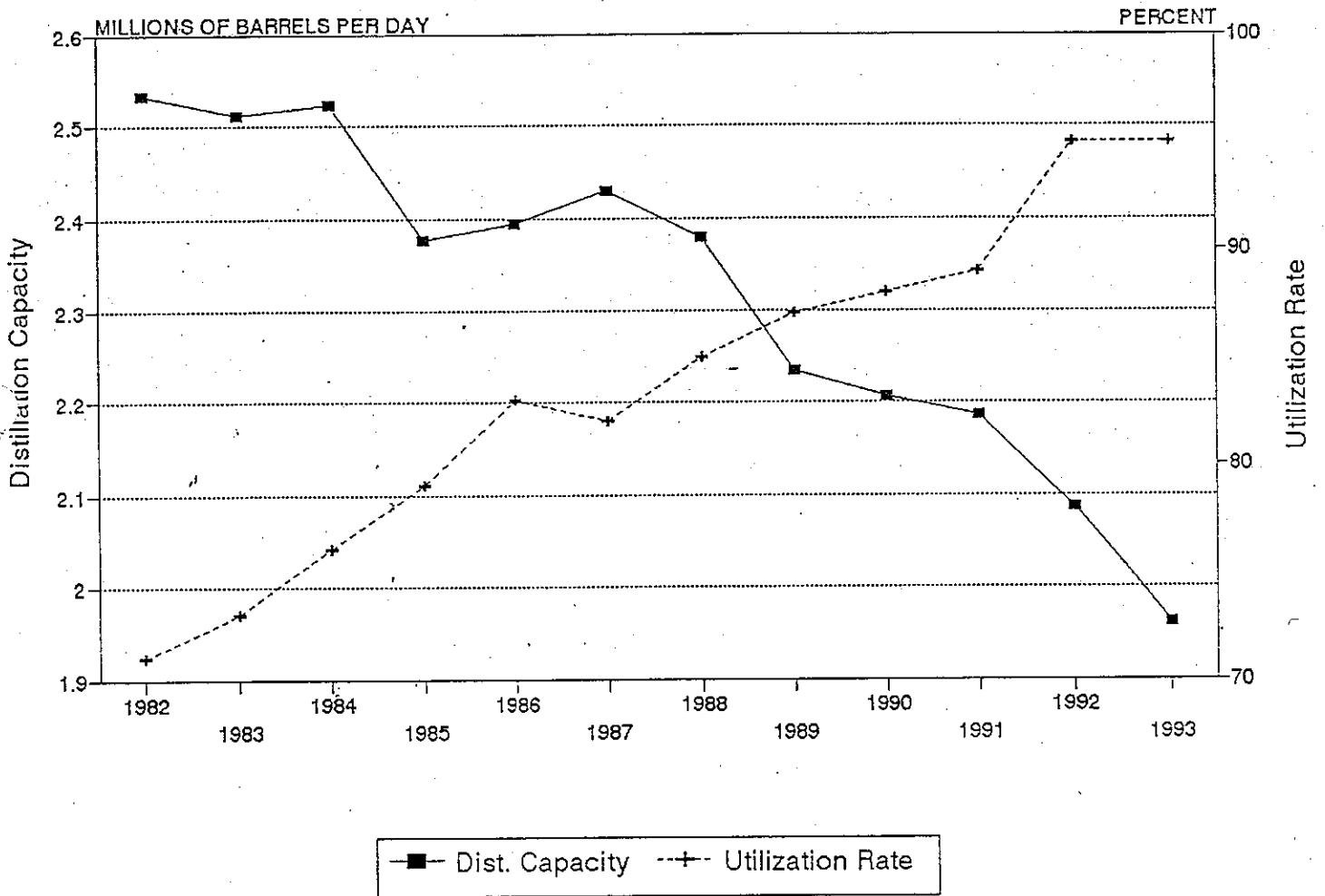


Figure 2

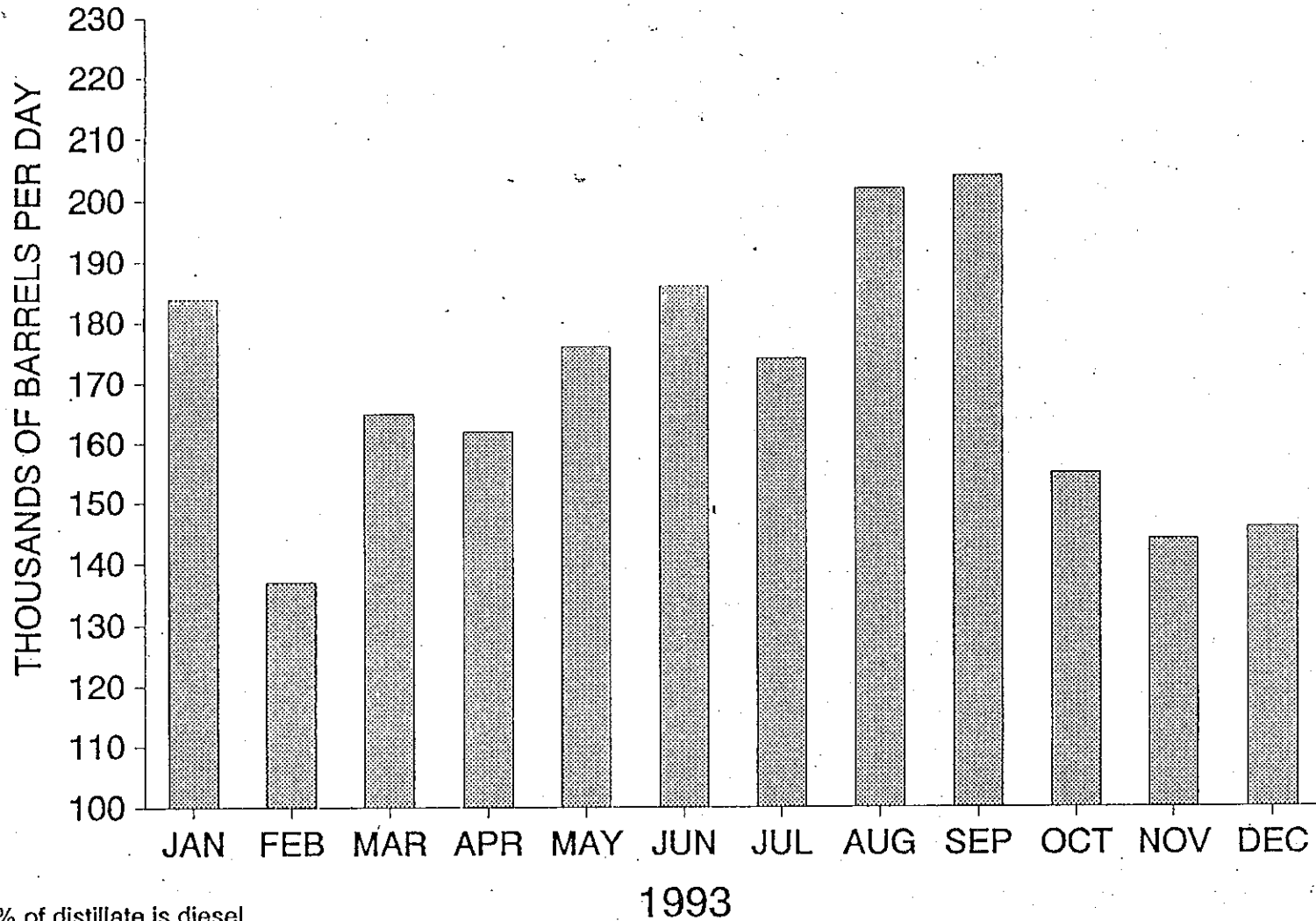
CALIFORNIA OPERATING REFINERIES

Company/Location	Classification	CARB/Method*
Northern Refining Area:		
Chevron/Richmond	Large	Yes/AF
Exxon/Benicia	Large	No
Unocal/Rodeo	Large	Yes/AF
Shell/Martinez	Large	No
Huntway/Benicia	Small	No
Pacific Refining/Hercules	Small	No
Tosco/Martinez	Indep.	Yes/AF
Southern Refining Area:		
Arco/Carson	Large	Yes/FS
Chevron/El Segundo	Large	Yes/AF/FS
Mobil/Torrance	Large	No
Texaco/Bakersfield	Large	Yes/AF
Texaco/Wilmington ³	Large	Yes/AF
Unocal/Wilmington	Large	Yes/AF
Chemoil/Signal Hill ¹	Small	No
Huntway/Wilmington	Small	No
Lunday-Thagard/South Gate	Small	No
Kern Oil/Bakersfield	Small	Yes/RV
Paramount/Paramount	Small	Yes/RV
Powerine/Santa Fe Springs	Small	Yes/RV
San Joaquin/Bakersfield	Small	No
Sunland/Bakersfield	Small	No
Tenby/Oxnard	Small	No
Witco/Oildale	Small	Yes/FS
Ultramar/Wilmington	Indep.	Yes/RV

*CARB diesel production can be achieved by producing a fuel under the CARB fuel specifications (FS), development of an alternative formula (AF), or under the small refinery/independent refinery variance (RV).

FIGURE 3

STATE MOTOR VEHICLE DISTILLATE CONSUMPTION*



*95% of distillate is diesel

Source: California Energy Commission, PIIRA Data Base

(2)

WESTERN INDEPENDENT REFINERS ASSOCIATION

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Western Independent Refiners Association Position Paper on Air Resources Board Staff Report Proposing Amendments to the Small Refiner Volume Provisions in the Regulation Limiting the Aromatic Hydrocarbon Content of California Motor Vehicle Diesel Fuel.

The Western Independent Refiners Association ("WIRA") is a trade association representing most of the small, independent refiners operating in California. The June 10, 1994 Staff Proposal increases the amount of diesel fuel that small refiners may sell subject to a 20 percent aromatic hydrocarbon content limit but does not raise the volumes enough to allow the remaining small refiners representing almost 98 percent of the proposed 20 percent small refiner diesel production to function as viable entities. WIRA urges that this amount be increased to approximately 25,000 barrels per day ("bpd").

Revisiting the calculation associated with 20 percent small refiner diesel fuel requires a balancing among three elements: (1) The air quality impacts of an increase; (2) The needs of small refiners; and (3) Fairness to all parties concerned, including the major oil companies. Each of these will be discussed in turn.

In 1988, when the Air Resources Board passed the regulations limiting the sulfur and aromatic content of diesel fuel, the potential volume of small refiners' motor vehicle diesel fuel that would be subject to the 20 percent limit was more than 27,000 bpd¹. Accordingly, when the Board adopted the diesel regulations, the air quality benefits were estimated on the assumption that in excess of 27,000 bpd of motor vehicle diesel fuel could be produced up to the 20 percent aromatic hydrocarbon content limit. Since the WIRA proposal is less than the volume estimated in 1988, the originally anticipated overall air quality benefits of the regulation should not be affected.

The current Staff Proposal, although recommending an increase, continues to tie the amount of small refiner diesel fuel to historical production referencing 1983 to 1987 or, for Powerine Oil Company ("Powerine"), 1989 and 1990. Any proposal constraining future operations to such a period of historical production locks small refiners into operating uneconomically. During all but one of the ten years before 1993, Paramount Petroleum Corporation ("Paramount") operated in bankruptcy and with inadequate capital to fund operations. Powerine did not operate between 1983 and 1987 and then operated only one crude unit for several years thereafter. Moreover, for a five-month period covering 1992 and 1993, Powerine was shut down and reopened only after an

¹ This 27,000 bpd number is arrived at by increasing the 19,000 bpd referenced on page 22 of the June 10, 1994 Staff Report to reflect the change from 55 percent of distillate production assumed in the 1988 Staff Report to 65 percent of distillate production approved in 1988 by the Board and then adding Powerine's volume which was anticipated by the Board but not included in the 1988 Staff Report. Calculations based upon California Energy Commission data for the applicable time frame indicate that, at 55 percent of distillate production, the volume of diesel fuel subject to the 20 percent aromatic hydrocarbon limitation would be approximately 33,000 bpd.

ownership change. During this historical period, Kern Oil & Refining Company ("Kern") also operated at less than capacity for economic reasons and sold into a military jet fuel market that no longer exists. Accordingly, any limitation to historical production during the period in the rule would be inappropriate and untenable for these three small refiners.

So many things have changed in the refining industry as a whole, however, that a limitation to historical production would not be appropriate for any refiner in the California marketplace. The attached chart shows crude unit capacity utilization for California refineries from 1982 to 1992. This chart dramatically demonstrates the increasing utilization that every refiner has found necessary in order to survive. Increased utilization is necessary because of increased operating costs. The costs of environmental regulations, process safety management and reformulated gasoline must be allowed to be spread over a refinery's entire processing capacity. To limit small refiners to historical diesel production will necessarily limit crude throughput. Limiting crude throughput unfairly disadvantages small refiners vis-a-vis major oil companies.

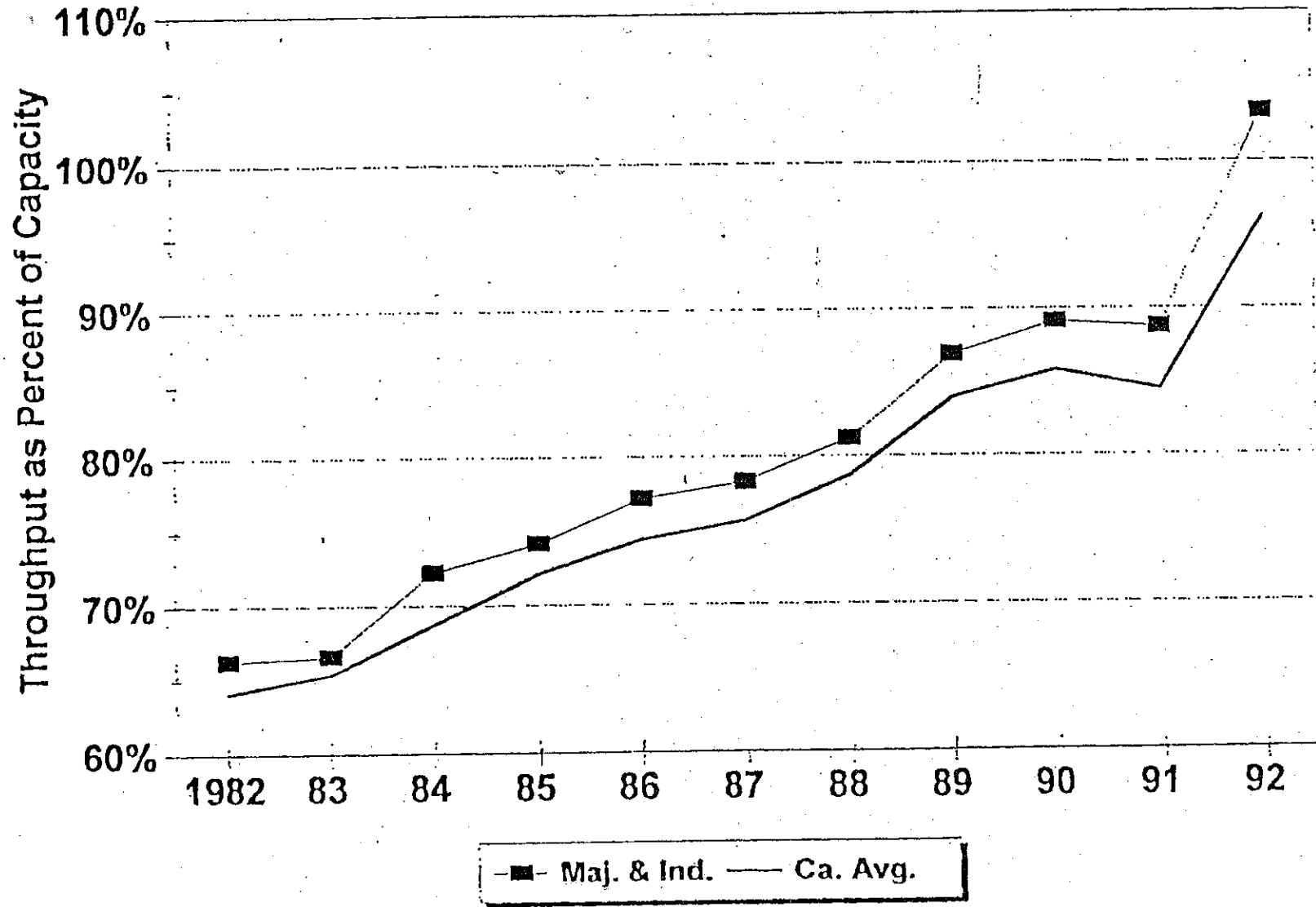
The reformulated gasoline regulations will have another dramatic impact on the diesel fuel market. Reducing the T90 of gasoline will necessarily move substantial volumes of hydrocarbons from gasoline into diesel fuel. If small refiners are limited to historical production, not only would they be unfairly limited to historical crude throughput but also they would have no ability to deal with this impact of the reformulated gasoline regulations, an impact which was not anticipated during the 1988 rulemaking.

Turning finally to the fairness issue, it is critical to remember that in the 1988 rulemaking it was anticipated that the per-gallon cost to small refiners to produce diesel fuel that would meet the low sulfur and 20 percent aromatic limit would be the same as the cost to major oil companies to produce low sulfur and 10 percent aromatic diesel fuel (approximately 11¢ to 12¢ per gallon). Staff now estimates an average of 6¢ per gallon to produce complying 10 percent equivalent diesel fuel. The costs for Kern, Paramount and Powerine to produce 20 percent equivalent diesel fuel are each well in excess of 6¢ per gallon. This rule, then, provides no price advantage to small refiners, but instead rather significant cost disadvantages. Accordingly, changing the allocation of small refiners will not guarantee any small refiner any particular market share. Clearly, the California refining industry, and in particular the California diesel fuel market, has changed over the last several years. Any reduction from the current suspension volumes inures only to the benefit of the major oil companies. No one can view this issue as though small refiners are taking barrels away from major oil companies. The only legitimate question is how many barrels this regulation will take away from small refiners.

The fairness issue also requires consideration of the fact that small refiners provide price stability to the petroleum product marketplace. Congress and myriad regulatory agencies, including the California Air Resources Board, have acknowledged the procompetitive impact of the small and independent refining sector. In the diesel fuel market in particular, small refiners are a critical supplier for the independent, unbranded marketers that distribute a majority of California motor vehicle diesel fuel.

Crude Unit Capacity Utilization

California Refineries



(2)

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July 27, 1994

VIA FACSIMILE AND FEDERAL EXPRESS
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California Air Resources Board Members
Board Hearing Room
2020 L Street, 5th Floor
Sacramento, California 95814

Re: Proposed Amendments to Small Refiner Volume Provisions
in the Regulation Limiting the Aromatic Hydrocarbon
Content of California Motor Vehicle Diesel Fuel

Dear Board Members:

The Western Independent Refiners' Association (WIRA) is pleased to submit comments in response to the California Air Resources Board (CARB or the Board) staff report on the "Proposed Amendments to the Small Refiner Volume Provisions in the Regulation Limiting the Aromatic Hydrocarbon Content of California Motor Vehicle Diesel Fuel" released on June 10, 1994. For ease of reference, unless otherwise specified, the report will be referred to as the "Proposed Amendments."

WIRA is a trade association composed of small and independent refiners throughout the West Coast. WIRA has actively participated in regulatory negotiations at the local, state and federal level regarding such issues as reformulated gasolines, oxygenated fuels and emission controls. Participation in these negotiations is vital to our members because the small and independent sector of the refining industry is integral to supply and competition in the petroleum products market at the local, state and federal level. Of particular concern in regard to the Proposed Amendments are the few remaining California small, independent refiners who are critical to the state's users and independent marketers of motor vehicle diesel fuel. Of the 13 small refiners who produced diesel fuel in California in 1988 when the aromatic hydrocarbon limitations were adopted, only four are left to supply California users and marketers with motor vehicle diesel fuel. (Proposed Amendments at 12.) If passed, the

Proposed Amendments will likely cause these last small refiners to terminate motor vehicle diesel fuel production or cease their operations altogether; either option would cause more unemployment and higher diesel prices without any improvement in air quality. In addition, small, independent refiners are a substantial source of gasoline, asphalt and other petroleum-related products in many regions of the state and to lose them would cause severe supply problems. As an example, small refiners supply 100 percent of the asphalt for southern Californians and more than 50 percent of the asphalt in the northern part of the state.

Congress and many agencies, including CARB, previously have recognized the importance of small and independent refiners to a competitive marketplace for petroleum products. These agencies also have noted the particular vulnerability of the small, independent refiner to the burdens of additional regulation because of limited processing flexibility, economies of scale and limited availability of capital. These realities are detailed in written comments made to CARB and staff members over the last several months by Kern Oil & Refining (Kern), Paramount Petroleum Corp. (Paramount) and Powerine Oil Company (Powerine). It is clear from the public record in 1988, the Proposed Amendments, and comments made at various recent meetings with CARB staff that the importance of the small, independent refiner to California's motor vehicle diesel fuel production and distribution has not been forgotten. However, the staff report does not adequately reflect the dire consequences that adoption of the Proposed Amendments will have on these refiners. WIRA, in its comments, will illustrate how a compromise can be achieved that will benefit all involved and resolve Board and staff concern.

I. Introduction

First, WIRA thanks CARB for revisiting its aromatic hydrocarbon limitations and recognizing that the exempt volumes based on 65 percent of historical production volumes was not a realistic option for California's small, independent refiners. However, continuing to tie the exempt volume to historical production during the time period specified in the rule does not represent an economically viable alternative. Any calculation based on historical production during the 1980s would result in an exempt volume that is too low because during that time the three refiners at issue were operating well below capacity for a variety of reasons, including bankruptcy, changes in ownership,

lack of financing for capital improvements and a poor economy for refiners.

CARB is able to review its action and alter it in the way WIRA proposes because WIRA's suggestions, if adopted, will not upset the balance of competing interests which the Board enunciated in 1988, including; (1) preserving the regulation's air quality benefits, (2) treating small, large and independent refiners fairly, and (3) ensuring that small, independent refiners remain viable business entities.

For the reasons outlined in these comments, WIRA recommends that small refiners be allowed to produce a total of 25,000 barrels per day (bpd) of motor vehicle diesel fuel with a 20 percent aromatic hydrocarbon content. To allow this volume will permit small refiners to operate economically, be fair to small, large and independent refiners and users of motor vehicle diesel fuel and not unnecessarily degrade air quality. As an alternative, WIRA is aware that staff will offer a "revised staff proposal" at the public hearing. That proposal calls for the exempt volume to be calculated using crude oil capacity multiplied times the industry average utilization factor from 1991-1992 multiplied times the individual small refiner's percent of conversion of crude oil to distillate. WIRA thinks this alternative is better than that in the Proposed Amendments, but believes its proposal for 25,000 bpd still represents the most fair approach to all concerned.

II. WIRA's Proposal Will Preserve All the Air Quality Benefits Anticipated by the 1988 Rule Because the Board Based Its Adoption of that Rule on Air Quality Impacts of 27,000 bpd of 20 Percent Aromatic Hydrocarbon Which is More Than the 25,000 bpd Proposed by WIRA.

No further analysis or justification will be needed by CARB should it adopt a small refiner exempt volume of 27,000 bpd or less for the following reasons. In 1988 the Board adopted its aromatic hydrocarbon emission reduction program for small, independent refiners based on an evaluation of the air quality impacts of at least 27,000 bpd of motor vehicle diesel fuel containing 20 percent aromatic hydrocarbons. The 27,000 bpd number was arrived at by increasing the 19,000 bpd referenced on page 22 of the Proposed Amendments to reflect the change from 55 percent of distillate production assumed in the 1988 Staff Report to 65 percent of distillate production approved in 1988 by the

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Board and then adding Powerine's volume which was anticipated by the Board but not included in the 1988 Staff report. CARB staff has confirmed that the 27,000 bpd figure is an accurate reflection of the 1988 assumptions and actions. WIRA, however, submitted calculations based upon California Energy Commission data for the applicable time frame indicating that at 55 percent of small refiner distillate production, the volume of diesel fuel subject to the 20 percent aromatic hydrocarbon limitation would be approximately 33,000 bpd. (Exhibit A.) CARB staff has not disputed those calculations, but has stated it believes there may have been problems with some of the underlying data.

Not only is WIRA, with its proposal of a 25,000 bpd, suggesting a lesser amount than that which the Board deemed acceptable in 1988, but the withdrawal of other small refiners from the California diesel market adds assurance that the regulation's air quality goals will be met. Having determined in 1988 that the diesel fuel regulations were effective in improving air quality assuming the production of at least 27,000 bpd of 20 percent aromatic hydrocarbon motor vehicle diesel fuel, the Board will not stray one iota from its original intent if it adopts an exempt volume of, 27,000 bpd or less.

III. WIRA's Proposal is Fair to Small, Independent and Large Refiners as Opposed to the Proposed Amendments Because It Does Not Provide Any Price Advantages to Small Refiners.

CARB staff has emphasized that it wants to be fair to all sectors of the refining industry by preserving balance among small, independent and large refiners and by not allowing any one sector to have a production cost advantage in meeting the sulfur and aromatic hydrocarbon limits. Unfortunately, the Proposed Amendments will do precisely what the staff says it seeks to avoid. The Proposed Amendments will allow large refiners to produce diesel fuel which complies with the aromatic hydrocarbon regulation more cheaply than small refiners and will lock small refiners into a production limit that is economically infeasible; one which will allow the large refiners to gain a much greater market share than they historically enjoyed and at a lower per gallon cost than the small refiners.

Staff in 1988 estimated that the per-gallon cost to small refiners to produce diesel fuel that would meet the low sulfur and 20 percent aromatic hydrocarbon limit would be the same as the cost to major oil companies to produce low sulfur and 10

percent aromatic diesel fuel (approximately 11 to 12 cents per gallon). Staff now estimates an average of 6 cents per gallon to produce complying 10 percent equivalent diesel fuel for the large refiners. Staff cites two main reasons for the cost reduction: (1) refiners are taking advantage of the alternative compliance option and are certifying equivalent diesel fuel formulas that are less expensive to produce, and (2) emerging technologies are allow for the production of cleaner burning diesel fuels. (Proposed Amendment at 15.) The costs for Kern, Paramount and Powerine to produce 20 percent equivalent diesel fuel are estimated by staff's methodology to be 7.5 cents per gallon. The Proposed Amendments, therefore, provide no price advantage to small refiners, but rather cause significant cost disadvantages.

In addition, as has been amply demonstrated in comments from individual small and independent refiners and as documented in the Proposed Amendments, large refiners already have filled much of the void left by the small and independent refiners that no longer market motor vehicle diesel fuel in California. This is especially apparent in particular regions. For example, in 1988 Texaco supplied the southern San Joaquin Valley with 25.9 percent of the motor vehicle diesel supply with small refiners providing the rest; by 1994 Texaco had increased it share to 57.6 percent. (Kern Oil & Refining Co., Comments, July 7, 1994.) Staff acknowledges this trend will continue if the Proposed Amendments are adopted. Staff notes that by limiting small refiner production CARB essentially will deny them the ability to satisfy their traditional, regional customers. These customers, many of which have been getting their diesel from the same small refiner for decades, will have to find other sources: large refiners.

Independent marketers have historical ties to small refiners that have allowed them to develop strong, yet casual, business relationships that often need little more than a handshake or a phone call to make or confirm a deal. The small refiner and independent marketer depend on each other making each immediately responsive to the other's needs. In contrast, large refiners have strict contract and credit terms and because they must sell to their branded representatives first, often find themselves with little or no product left for the independent marketer. Dealings with large refiners involve a much greater level of uncertainty for independent marketers and it is for these types of reasons that the California Trucking Association and the California Independent Oil Marketers Association have submitted comments in support of increasing the exempt volume for small refiners as they need a stable supply of motor vehicle diesel fuel. It is their lifeblood.

The large refiners, of course, support current restrictions on small refiner exempt volumes because they know they will take customers that the small refiners no longer are able to serve because of volume limits in the current regulation and the Proposed Amendments. Changing the allocation of small refiners will not guarantee a small refiner any new or even particular market share; it will however, give another boost to large refiners. No one can view this issue as though small refiners are taking barrels away from major oil companies. The only legitimate question is how many barrels the this regulation will take away from small refiners.

IV. Small Refiners Must Be Allowed to Produce an Increased Volume of 20 Percent Aromatic Hydrocarbon Motor Vehicle Diesel Fuel Because Their Economic Viability is Dependent on Achieving Increased Crude Oil Utilization

WIRA appreciates the acknowledgement by CARB and its staff that there are special challenges inherent in running a small, independent refinery with their proposal of the 100 percent exempt volume and compliance extension to January 1, 1995. However, with more information from WIRA, its members and supporters, it is hoped that CARB and its staff will see that the Proposed Amendments do not serve the needs of the small, independent refiners or the customers they serve. The only interests the Proposed Amendments serve are those of the large refiners.

It must be stressed that the total number of gallons a particular refiner is allowed to produce is key to the overall production costs; the more a refinery produces, the less per gallon it costs because all related expenses can be spread over a much larger base. The costs associated with refinery production include such tangible things as labor, equipment, storage tanks and inventory and other factors such as myriad regulations, inflation and "downtime" caused by equipment failures or servicing. Many of these costs are the same no matter how large the refinery and therefore cost small refiners more per barrel than large refiners. For example, environmental regulations require that all refiners have certain types of emission monitoring equipment. This equipment costs the same amount for small refiners as it does large refiners, yet a large refiner can spread the costs over more barrels per day than can the small refiner. It is therefore even more critical that the needs of

the small refiner be evaluated carefully before imposing additional burdens.

CARB and its staff recognized that small refiners could not possibly meet a 10 percent aromatic hydrocarbon limit and remain in business resulting in the regulation's 20 percent volume limit. While the idea may have seemed sound at the time, limiting the amount of diesel fuel containing 20 percent aromatic hydrocarbons based on production from a particular group of years has turned out to be quite a catastrophe for a number of reasons and not what WIRA believes, was intended by CARB. Comments and documents submitted to the Board and staff by Kern, Paramount and Powerine, amply demonstrate that the time frame used to determine their exempt volumes was one of the worst periods in their production history. During all but one of the ten years before 1993, Paramount operated in bankruptcy and was without adequate capital to fund operations. Powerine did not operate between 1983 and 1987 and then operated only one crude unit for several years thereafter. Moreover, for a five-month period in 1992 and 1993, Powerine was shut down and reopened only after a change in ownership. During this time period, Kern also operated at less than capacity for economic reasons and sold into a military jet fuel market that no longer exists. Accordingly, any limitation to historical production based on this period would be inappropriate and untenable for these three small refiners.

As the small refiners have demonstrated in their submittals to the Board and staff, it is only in the past few years that they have begun to recover from the 1980s. And, it is only by increasing their utilization that they have been able to make this recovery and bring their overall production costs down to what could be considered historical levels.

The same trend has been seen among the large refiners. As illustrated in the attached chart (Exhibit B), all refiners have steadily had to increase their crude oil utilization in order to stay in business. This trend is required largely because of increased costs associated with environmental regulations, many of which were not even contemplated at the time CARB adopted the aromatic hydrocarbon regulations and chose to limit a small refiner's production volume. These costs associated with, for example, environmental regulations, process safety management and reformulated gasoline must be allowed to be spread over a refinery's entire processing capacity. Yet CARB, by limiting small refiners to historical diesel production, necessarily limits their crude oil throughput. Limiting crude oil throughput unfairly disadvantages small refiners vis-a-vis the large

refiners because the large refiners can continue to increase their throughput and thus have more barrels over which to spread their costs. Under the Proposed Amendments, small refiners will be prevented from increasing crude throughput because to do so would create more diesel fuel than allowed under the regulation.

To illustrate this point, imagine that a refiner is allowed to produce only 33 gallons of 20 percent diesel. To achieve that 33 gallons, however, the refiner must refine 100 gallons of crude oil because several different types of petroleum products are generated during the refining process; i.e., the refiner cannot produce all diesel fuel from that 100 gallons of crude oil. If the refiner can sell all these products and keep its production costs low, then it can operate economically. However, as is seen in Exhibit B, all refiners, large and small, have had to increase their crude oil throughput to maintain their production costs and operate economically. Yet, if it adopts the Proposed Amendments, the Board will limit the small refiner to a historically low utilization because it has limited its final volume of 20 percent aromatic hydrocarbon diesel. This puts small refiners at an economic disadvantage as compared to large refiners who have no limit on the amount of throughput and therefore no limit on the amount of petroleum products they can produce.

Restricting the amount of throughput as the result of limiting the amount of resulting 20 percent diesel fuel will be further exacerbated when CARB's reformulated gasoline regulations take effect. Reducing the T90 of gasoline will necessarily move substantial volumes of hydrocarbons from gasoline into diesel fuel. If small refiners are limited to historical production, not only would they be unfairly limited to historical crude throughput but also they would have no ability to deal with this impact of the reformulated gasoline regulations, an impact that was not anticipated during the 1988 rulemaking.

As documented by Kern, Paramount and Powerine, costs associated with meeting local, state and federal regulations skyrocketed in the late 1980s and early 1990s causing most small refiners to go out of business or stop producing diesel fuel altogether. Thirteen small refiners produced California motor vehicle diesel fuel in 1988. Today there are only four. Like all the refiners, these remaining small, independent refiners have been able to survive by increasing their crude oil throughputs. If the Proposed Amendments are adopted they will lose the ability to operate at what has become optimum capacity and as operating costs continue to grow they will be required to spread them over a historically low production volume. In

contrast, the large refiners with no volume limits will continue to increase their crude oil throughput.

In addition, the large refiners' decisions to make 10 percent equivalent diesel, rather than true 10 percent aromatic hydrocarbon diesel, will make it even more costly for small refiners to meet the 20 percent mandate because many small refiners had planned to buy 10 percent diesel from the large refiners and then mix it with their own 30 percent. This is just another example of how the larger refiners have been able to take advantage of the situation; in fact, at least one large refiner publicly has stated that these state and federal regulations will finally achieve what they have not been able to do: force small, independent oil refiners out of business. WIRA and its members are determined not to let this happen.

Staff recommends in the Proposed Amendments that small refiners make products other than California motor vehicle diesel fuel. However, since 1988 the fuel market has changed significantly; there are no more stationary sources using diesel and the market for military jet fuel has all but dried up. Exporting the diesel fuel out-of-state is another option but as illustrated by our members' comments, the costs are exorbitant to ship any non-conforming diesel out-of-state and therefore not a viable option. This leaves California motor vehicle diesel fuel as the main product for small refiners to produce from distillate. As has been shown, this is uneconomical without the ability to increase production beyond what was produced in the 1980s.

An interesting testament to the need for small refiners to produce at 1993 optimum levels comes from the agricultural industry. According to the Proposed Amendments, increasing ozone levels have caused significant loss of agricultural crops throughout California with some of the most severe losses in the San Joaquin Valley (Proposed Amendments at page 7), yet farmers and other off-road motor vehicle diesel fuel users staunchly support the small refiners' proposal. Their support stems from the knowledge that if the small and independent refiners are regulated out of business they will have only the large refiner oligopoly with which to deal and that means higher prices and less efficient distribution.

V. Although We May Not Be Able to Avail Ourselves of This Option, Small Refiners Need to be Able to Produce Motor Vehicle Diesel Fuel with an Aromatic Hydrocarbon Content of 20 Percent and 10 Percent Simultaneously.

WIRA respectfully requests that the Proposed Amendments be revised to include a provision that allows small refiners to enter into a protocol with CARB's executive officer to allow them to make motor vehicle diesel fuel meeting the 20 percent and 10 percent aromatic hydrocarbon standards simultaneously. CARB staff members have confirmed that this is not a problem because the Proposed Amendments were not intended to exclude such simultaneous production. Small refiners need this provision because it is not possible to operate to produce only 20 percent aromatic hydrocarbon diesel fuel and then turn the refinery into an operation producing 10 percent diesel fuel; instead, streams may be able to be segregated to produce some 20 percent and some 10 percent diesel fuel simultaneously. Although small refiners may not be able to take advantage of such a provision they would like the flexibility to do so should the problems of costly new equipment and potential to jeopardize their 20 percent certification streams be overcome.

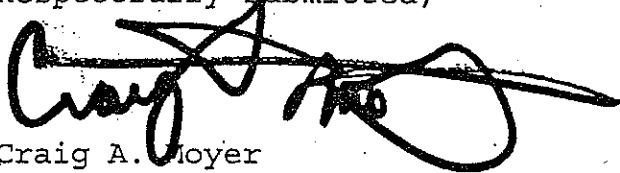
VI. Conclusion

For the foregoing reasons, WIRA believes an exempt volume of 25,000 bpd for small refiners is not only appropriate, but necessary. While this amount does not represent optimum capacity, it is a compromise that allows these small refiners to operate at a level sufficient to keep them in business, provide most of their traditional customers with the products they have come to depend on, maintain a level playing field for small, independent and large refiners and protect air quality.

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Thank you for allowing WIRA to submit these comments. We remain available to answer any questions you may have and look forward to our continued participation in the rulemaking process.

Respectfully submitted,

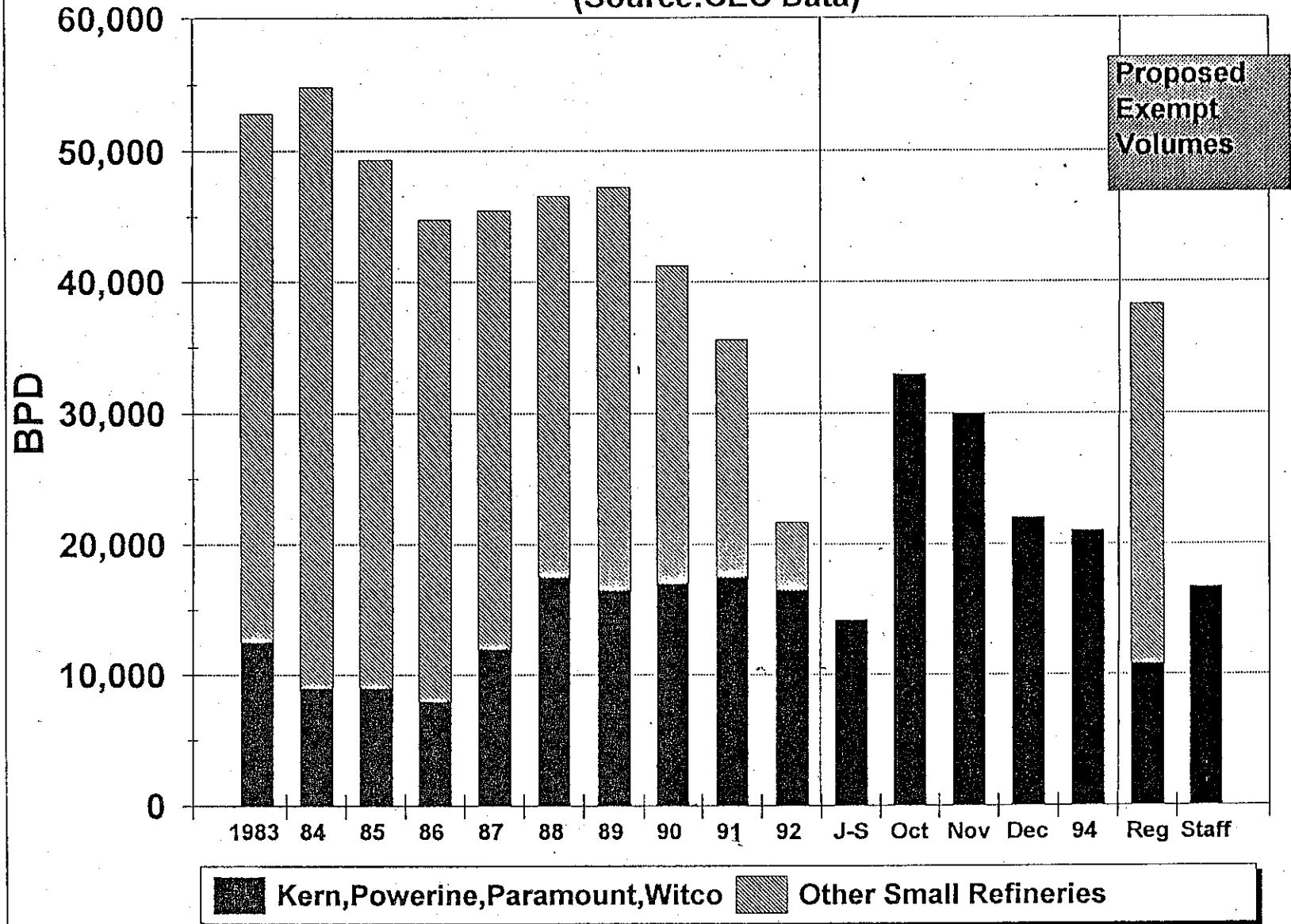
A handwritten signature in black ink, appearing to read "Craig A. Moyer". The signature is stylized and somewhat cursive, with a long horizontal stroke extending to the right.

Craig A. Moyer

CAM:kas
Enclosures

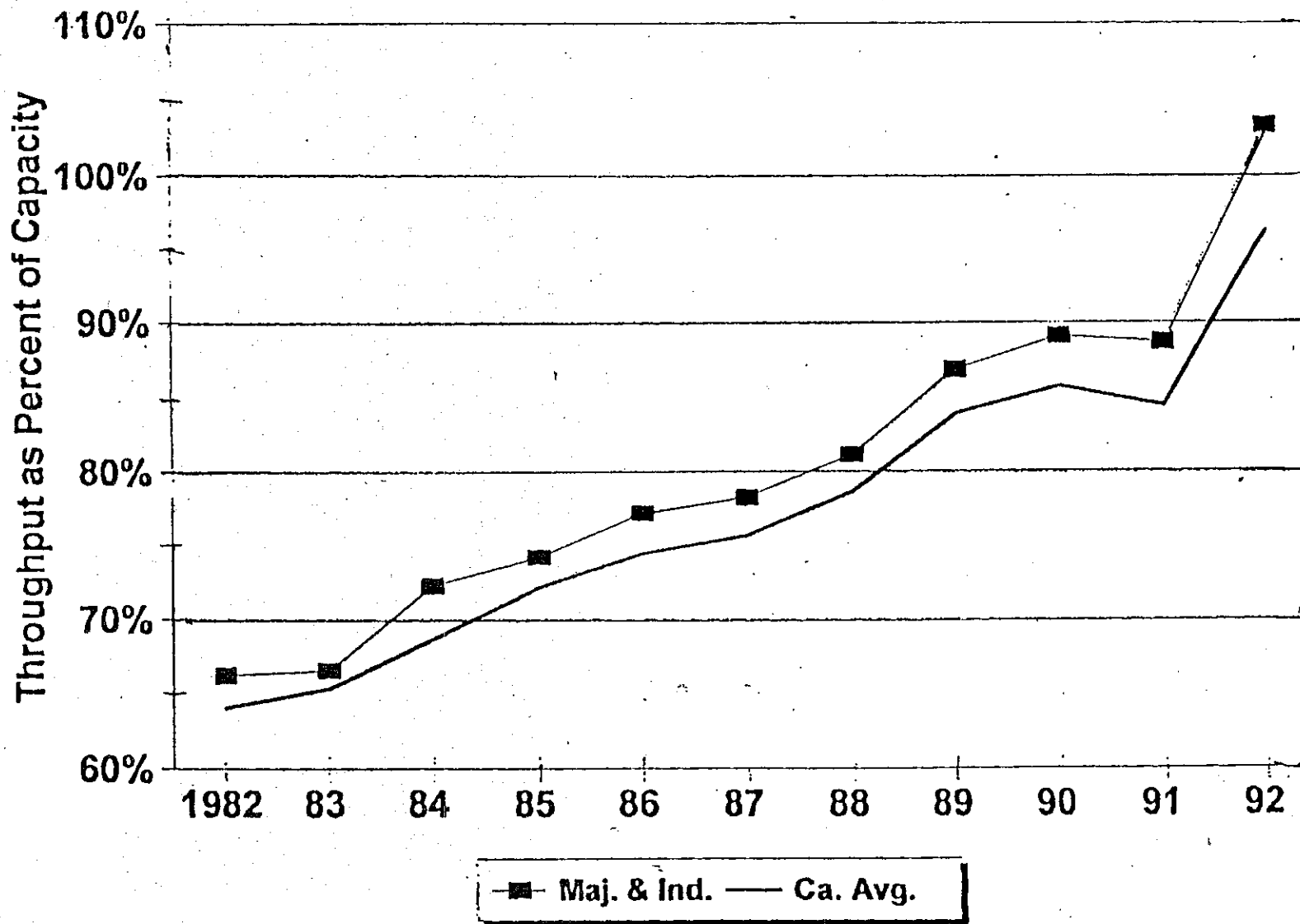
Small Refinery Distillate Production

(Source:CEC Data)



Crude Unit Capacity Utilization

California Refineries



PRESENTATION BY C. T. WALZ
TEXACO REFINING AND MARKETING INC.

CARB LOW AROMATICS DIESEL HEARING
JULY 29, 1994

PROPOSED REVISIONS TO TITLE 13, CCR, 2282
SMALL REFINER ISSUES

CARB DIESEL SUPPLY/DEMAND BALANCE

AVERAGE DEMAND

(Source: CARB Staff Report, 6/10/94)

BPD
155,000

PRODUCTION CAPABILITY

	<u>A</u>	<u>B</u>
MAJOR AND INDEPENDENT	215,000	215,000
SMALL (current rule)	11,100	--
SMALL (proposed rule)	--	<u>16,700</u>
TOTAL	226,100	231,700

CONCLUSION:

PRODUCTION CAPACITY OF MAJOR AND INDEPENDENT
REFINERS IS 40% GREATER THAN DEMAND AND IS MORE
THAN ADEQUATE TO SUPPLY CALIFORNIA MARKET

IMPACT OF PROPOSED REVISIONS ON CARB DIESEL SUPPLY

ESTIMATED CARB DIESEL PRODUCTION (THOUSANDS OF BARRELS PER DAY)

	<u>CURRENT</u>	<u>POTENTIAL</u>	
		<u>10/01/94</u>	<u>PROPOSED</u>
MAJOR & IND	142	215	215
SMALL	<u>21</u>	<u>11</u>	<u>17</u>
TOTAL	163 (1)	226	232

IDLE CAPACITY (2) 73

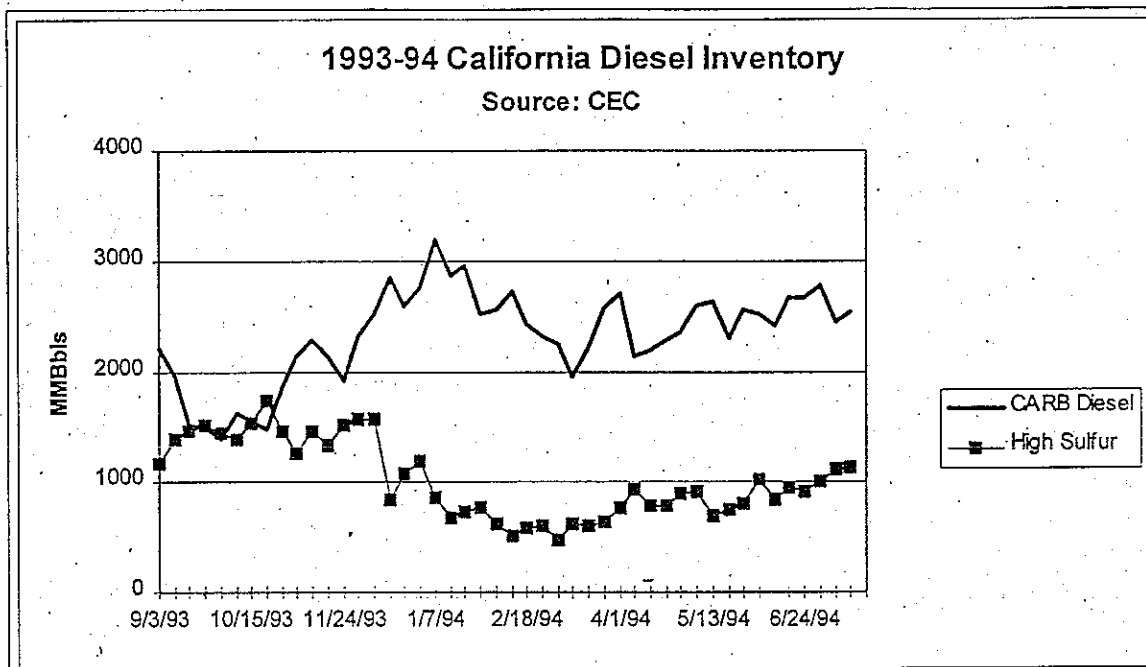
(1) REFLECTS INCREASE IN INVENTORY DURING 2nd QUARTER, 1994

(2) BASED ON 215 MBPD MAJOR & INDEPENDENT DIESEL CAPACITY

CONCLUSIONS:

- 1) AVERAGE MARKET DEMAND IS OVERSUPPLIED AT CURRENT PRODUCTION LEVEL
- 2) DEMONSTRATED IDLE CARB DIESEL PRODUCTION CAPACITY FOR MAJORS/INDEPENDENTS FAR EXCEEDS SMALL REFINER CAPABILITY
- 3) PROPOSED REVISIONS ARE UNNECESSARY TO ASSURE ADEQUATE MARKET SUPPLY

CALIFORNIA DIESEL INVENTORY



CARB DIESEL INVENTORY (THOUSANDS OF BARRELS)

	<u>9/93 - 11/93</u>	<u>12/93 - 7/94</u>
MAXIMUM	2,300	3,200
MINIMUM	1,400 (1)	2,000 (2)
AVERAGE	1,800	2,500

(1) OCCURRED 10/01/93 DURING HEIGHT OF MARKET CONFUSION

(2) OCCURRED 3/11/94 DURING MAJOR REFINER PROBLEM; BUT NO MARKET DISRUPTION RESULTED

CARB DIESEL INVENTORY CAPABILITY

CURRENT INVENTORY = 2.7 MILLION BARRELS

<u>CARB DIESEL DEMAND</u>	<u>BPD</u>
ESTIMATED ANNUAL AVERAGE	155,000
ESTIMATED PEAK EXCURSION	180,000

EFFECT OF PEAK DEMAND ON INVENTORY

(Assume 50% of incremental demand met from inventory)

POTENTIAL INVENTORY DRAWDOWN :

three week peak excursion = $(180 - 155) \times 21 \times 0.5 = 262,000$ Bbls (a)

(a) REPRESENTS LESS THAN 10% OF AVERAGE INVENTORY. IN COMPARISON, SEPTEMBER 1993 DRAWDOWN WAS ABOUT 37% OF AVAILABLE INVENTORY.

CONCLUSIONS:

- 1) CURRENT INVENTORY IS ABOUT ONE MILLION BARRELS HIGHER TODAY THAN DURING OCTOBER 1993 CRISIS
- 2) INDUSTRY IS IN MUCH BETTER POSITION TO HANDLE PEAK DEMAND THROUGH INVENTORY DRAWDOWN THIS YEAR THAN IN 1993
- 3) NORMAL INVENTORY CAN EASILY HANDLE PEAK DEMAND

ARCO Products Company
1055 West Seventh Street
Post Office Box 2570
Los Angeles, California 90051-0570
Telephone 213 486 2740

James E. Richey
Manager
Environmental, Health & Safety

(4)



July 29, 1994

Mr. James D. Boyd
Executive Officer
Air Resources Board
2020 L Street
Sacramento, CA 95812

Dear Mr. Boyd:

ARCO Products Company is pleased to offer the attached testimony on proposed amendments to the Small Refiner Volume Provisions in the Regulation Limiting Aromatic Hydrocarbon Content of California Motor Diesel Fuel.

As we have previously stated, we need to have confidence that, once passed, a regulation adopted by the Board will not lightly be modified. The Board's primary consideration in amending regulations is to reduce emissions. Approving these proposed amendments would, clearly, have the opposite effect. Further, we believe that there have been no compelling reasons given for amending the regulation and we, therefore, oppose approval of the amendments.

Sincerely,

Jim Richey
James E. Richey

**ARCO PRODUCTS COMPANY TESTIMONY
BY JAMES E. RICHEY
BEFORE THE CALIFORNIA AIR RESOURCES BOARD
JULY 29, 1994**

**MODIFIED PROPOSED AMENDMENTS FOR SMALL REFINERS
DIESEL FUEL PRODUCTION**

GOOD MORNING. MY NAME IS JIM RICHEY AND I AM THE EH&S MANAGER FOR ARCO PRODUCTS COMPANY. I AM HERE TO OFFER OUR COMMENTS AND OBSERVATION ON THE ARB'S PROPOSED AMENDMENTS UNDER CONSIDERATION TODAY.

WE BELIEVE THAT THE REGULATIONS, AS ORIGINALLY WRITTEN, HAVE BEEN MORE THAN FAIR TO SMALL REFINERS. THEY ALLOW THEM UNTIL OCTOBER 1 OF THIS YEAR TO REDUCE AROMATICS LEVELS IN THEIR MOTOR VEHICLE DIESEL FUELS AND THEN PERMIT THEM TO MEET A 20%, RATHER THAN A 10%, AROMATICS STANDARD AS HAS BEEN REQUIRED FOR THE REST OF THE CALIFORNIA REFINERS SINCE OCTOBER OF LAST YEAR. MANY REFINERS IN CALIFORNIA HAVE INVESTED MILLIONS OF DOLLARS IN EQUIPMENT TO PRODUCE DIESEL FUEL CONTAINING 10% AROMATICS OR ITS EQUIVALENT. WE, THEREFORE, SUPPORT THE ARB'S REAFFIRMATION OF THE OCTOBER 1 COMPLIANCE DATE FOR SMALL REFINERS TO PRODUCE 20% AROMATICS CONTENT MOTOR VEHICLE DIESEL FUEL.

WE ARE PLEASED TO SEE THAT WHAT HAD MOST DISTRESSED US ABOUT THE PROPOSED AMENDMENTS, THE COUPLING OF AN INCREASE IN THE EXEMPT VOLUME OF 20% AROMATICS DIESEL WITH A LIMIT ON TOTAL DISTILLATE PRODUCTION, HAS NOW BEEN DROPPED IN THE STAFF'S MODIFIED PROPOSAL WHICH WE WERE INFORMED OF ON JULY 27. WE BELIEVE THAT PROVISION REPRESENTED A POTENTIALLY PRECEDENT-SETTING INTERFERENCE INTO THE FREE WORKINGS OF THE MARKETPLACE WHICH COULD HAVE

BEEN USED BY THE ARB IN THE FUTURE AS A PRETEXT TO REGULATE THE VOLUMETRICS OF OTHER REFINED PRODUCTS SUCH AS CARB PHASE 2 GASOLINE.

HOWEVER, ARCO IS GREATLY CONCERNED ABOUT, AND OPPOSES, PROPOSED AMENDMENTS WHICH WOULD ALLOW SMALL REFINERS TO INCREASE THE EXEMPT VOLUME OF 20% AROMATICS FUEL WHICH THEY ARE PERMITTED TO PRODUCE ABOVE THAT STATED IN THE ARB'S CURRENT REGULATIONS. NOT ONLY IS THE BOARD PROPOSING TO INCREASE THEIR EXEMPT VOLUME ABOVE THE 65% OF TOTAL DISTILLATE SPECIFIED IN THE REGULATION, THE STAFF'S MODIFIED PROPOSAL, IN EFFECT, INCREASES IT TO ABOVE 100%! THE ARITHMETIC IS SIMPLE: THE REGULATION AS WRITTEN LIMITS THE SMALL REFINERS, IN AGGREGATE, TO ABOUT 11,000 B/D OF 20% AROMATIC DIESEL PRODUCTION. THE FIRST PROPOSAL WOULD HAVE PERMITTED THEM CLOSE TO 17,000 B/D AND THE MODIFIED PROPOSAL WOULD ALLOW THEM TO PRODUCE ABOUT 24,000 B/D. APPROVING EITHER OF THESE PROPOSALS WOULD BE GOING IN THE WRONG DIRECTION IF THE AIM IS TO CLEAN UP THE AIR! IN FASHIONING THE SMALL REFINER PROVISIONS FOR THIS RULE, THE ARB STATED IN ITS FINAL STATEMENT OF REASONS THAT IT HAD "SOUGHT TO LIMIT EMISSIONS FROM SMALL REFINER DIESEL FUEL TO THE EXTENT FEASIBLE. THESE LIMITS INCLUDE(D) IMPOSING A SIGNIFICANT CAP ON SMALL REFINER DIESEL FUEL SUBJECT TO THE LESS STRINGENT 20 PERCENT STANDARD." THE PROPOSALS BEING CONSIDERED TODAY OBVIOUSLY GO CONTRARY TO LIMITING THESE EMISSIONS.

AS THIS BOARD HAS ACKNOWLEDGED WHEN IT ORIGINALLY PASSED THIS RULE AND HAS SUBSEQUENTLY REAFFIRMED AS PART OF THE STIPULATED JUDGMENT IN A SUIT BROUGHT BY ARCO LAST YEAR, "...PRIMARY CONSIDERATION IN THE MODIFICATION OF ITS REGULATIONS IS TO BE GIVEN TO THE MANDATE TO ATTAIN AND MAINTAIN AMBIENT AIR QUALITY BY ACHIEVING THE MAXIMUM DEGREE OF EMISSION REDUCTION POSSIBLE FROM MOBILE SOURCES ...".

AMENDING THE RULE TO PERMIT MORE HIGHER POLLUTING 20% AROMATICS DIESEL FUEL TO BE MARKETED AT THE EXPENSE OF 10% EQUIVALENT AROMATICS FUEL IS IN CLEAR CONTRADICTION OF THAT STIPULATION.

WITH REGARD TO THE PROPOSAL, DELAYING THE IMPOSITION OF THE EXEMPT VOLUME LIMITS UNTIL JANUARY 1, 1995; THIS PROPOSAL WOULD ALLOW THE SMALL REFINERS TO PRODUCE DIESEL VOLUMES SIGNIFICANTLY ABOVE THEIR CURRENT PRODUCTION FOR THREE ADDITIONAL MONTHS. THIS DELAY IS WHOLLY UNJUSTIFIED. THE REASON CITED IN THE STAFF REPORT IS THE CONCERN OVER POTENTIAL SHORTAGES THAT MIGHT OCCUR DURING THE HIGH DEMAND PERIOD OF OCTOBER. STAFF IS APPARENTLY CONCERNED THAT A REPEAT OF LAST YEAR'S SPOT SHORTAGES MIGHT OCCUR. WE BELIEVE THAT THE SITUATION IS COMPLETELY DIFFERENT THIS YEAR THAN LAST. LAST YEAR, A SURGE IN DIESEL PURCHASES WAS FUELED BY THE INCREASE IN FEDERAL TAXES, ANTICIPATED INCREASE IN DIESEL PRICE WITH THE INTRODUCTION OF CARB DIESEL FUEL, UNANTICIPATED OPERATING PROBLEMS, AND UNCERTAINTY RESULTING FROM GRANTING OF VARIANCES FOR OVER 50% OF THE DIESEL SUPPLY CLOSE TO THE OCTOBER 1ST DEADLINE. THIS YEAR, ACCORDING TO THE ARB STAFF REPORT, IF THE CURRENT RULES STAY IN EFFECT, THE SMALL REFINERS WILL NEED TO REDUCE THEIR PRODUCTION OF MOTOR DIESEL BY ABOUT 10 MBD FROM CURRENT PRODUCTION ON OCTOBER 1, 1994. THIS AMOUNTS TO ONLY 6-7% OF CALIFORNIA'S DIESEL SUPPLY AND SHOULD POSE NO MAJOR SUPPLY OBSTACLES, ESPECIALLY IF THE ARB ACTS NOW TO REJECT THIS PROPOSAL, ALLOWING THE INDUSTRY TO KNOW WELL IN ADVANCE AND PROPERLY PLAN.

IN SUMMARY THEN:

1. WHILE ARCO SUPPORTS THE ARB'S AFFIRMATION OF THE 10/1/94 IMPLEMENTATION OF THE 20% AROMATICS DIESEL RULE FOR SMALL REFINERS, WE STRONGLY

OPPOSE THE OPTION WHICH WOULD ALLOW SMALL REFINERS TO INCREASE PRODUCTION OF HIGHER POLLUTING 20% AROMATIC CONTENT DIESEL ABOVE THE EXEMPT VOLUMES SPECIFIED IN THE RULE.

2. WE ALSO OPPOSE DELAYING THE IMPLEMENTATION OF EXISTING EXEMPT VOLUME LIMITS FOR MOTOR VEHICLE DIESEL FUELS UNTIL 1/1/95 FOR SMALL REFINERS.
3. THERE HAS BEEN NO COMPELLING REASON GIVEN FOR AMENDING THE REGULATION. FURTHER, THE CHANGES PROPOSED HAVE NOTHING TO DO WITH IMPROVING AIR QUALITY AND, IN FACT, IN THE STAFF'S WORDS, "...WOULD CONSTITUTE A SIGNIFICANT ADVERSE ENVIRONMENTAL IMPACT". THEREFORE, WE BELIEVE THAT THE BOARD SHOULD REJECT THESE AMENDMENTS.

ONE FINAL POINT - I MUST SHARE WITH YOU OUR CONCERN THAT THIS WILL NOT BE THE LAST TIME THIS YEAR THAT THE ARB WILL BE ASKED TO ADDRESS THE SMALL REFINER DIESEL ISSUE. WE ARE CONCERNED THAT THESE REFINERS MAY NOT BE ABLE TO MEET THE 20% AROMATICS STANDARD BY OCTOBER 1ST, OR BY JANUARY 1ST OF NEXT YEAR. WILL THEY BE APPROACHING THE BOARD INDIRECTLY, THROUGH AN ADMINISTRATIVE PROCESS, REQUESTING VARIANCES FROM MEETING THE 20% AROMATICS RULE? WE HAVE BOTH BEEN DOWN THIS ROAD BEFORE AND WE BELIEVE NOW IS THE TIME FOR THIS BOARD TO DETERMINE WHETHER YOU CAN EXPECT THESE REFINERS TO BE ABLE TO COMPLY WITH THE 20% STANDARD. AND WE THINK THE APPROPRIATE FORUM FOR THE DISCUSSION IS TODAY, BEFORE THE BOARD MEMBERS, AND NOT IN AN ADMINISTRATIVE HEARING.

THAT CONCLUDES MY REMARKS AND I WOULD WELCOME YOUR QUESTIONS OR COMMENTS.

Mobil Oil Corporation

3800 WEST ALAMEDA
BURBANK, CALIFORNIA 91505

C. R. MORGAN, MANAGER
ENVIRONMENTAL AFFAIRS — WEST COAST
U.S. MARKETING & REFINING DIVISION

July 22, 1994

Board Secretary
California Air Resources Board
P.O. Box 2815
Sacramento, CA 95812

94-8-1
7/29/94

STATE OF CALIFORNIA
AIR RESOURCES BOARD
7/26/94
BY BOARD SECRETARY
XC: Board members
JQS MHS
AS Legal
JB SSD

Re: Proposed Amendment to Title 13,
CCR Section 2282 (Diesel Fuel)

Dear Sir / Madam:

The purpose of this letter is to comment on the proposed amendments to the diesel fuel regulations. The amendments would enable small refiners to produce and sell significantly greater quantities of motor vehicle diesel fuel meeting the less stringent 20% aromatics limit than allowed under the current regulations.

Mobil is strongly opposed to the amendments because they would further increase the economic advantage extended to small refiners, further compromise the air quality benefits of the diesel regulations, and are not justified from a supply standpoint. In addition, adoption of the proposed amendments would increase our concerns that CARB is also willing to tamper with the Phase 2 gasoline regulations and create additional competitive dislocations. These uncertainties could interfere with a smooth transition to Phase 2 gasoline.

The first of the two proposed amendments would allow small refiners to permanently increase their exempt volume (i.e. the allowable production of 20% aromatic content diesel) by about 6,000 barrels per day beginning January 1, 1995. The Air Resources Board (ARB) staff justifies this amendment on the basis it was intended that small refiners be allowed to produce 20% aromatic content diesel at their historical motor vehicle diesel production levels. Since the current exempt volume limitation for small refiners is less than their historical diesel production level, an adjustment is appropriate.

We do not believe there is sufficient justification for this amendment. The fact that the current exempt volume is somewhat less than the historical diesel production level was known at the time the regulation was adopted in 1988. When adopting the regulation, the the Air Resources Board decided to provide the small refiners with a less stringent aromatics limit versus that required of major refiners to lessen the capital investment

Mobil

requirements. They believed this "break" for the small refiners was justified because of their limited production capacity and smaller financial base compared to the major refiners. However, the Board had to balance the small refiner concern with competing concerns: the need to maintain fairness to the larger refiners, and the need to preserve the air quality benefits of the regulation. To achieve this balance, exempt volume limitations were established. In 1988, the Board decided that the current method for determining exempt volume was a good balance of all these concerns. Nothing has changed since then. There is no reason at this time to increase the economic advantage afforded small refiners at the expense of the environment and the larger refiners.

The other proposed amendment would increase the small refiner exempt volumes during the period from October 1, 1994 to January 1, 1995 for those small refiners previously granted a 1 year suspension of the sulfur and aromatic content requirements. The exempt volume increase would be from about 11,000 barrels per day under the current regulations to about 35,000 barrels per day; an increase of 24,000 barrels per day. The stated rationale for this amendment is to prevent a disruption or shortage of diesel fuel supply during the typically high demand harvest season.

Again, we do not believe this amendment is justified. There is no evidence of an impending shortage of diesel fuel this fall. In fact, investigations of the shortage last fall clearly show that the shortage resulted from logistical factors associated with the implementation of the new regulations. The supply and distribution system has since adjusted to the new requirements making a recurrence of last fall's problems unlikely.

It appears there is a concern by ARB that there could be a recurrence of the diesel fuel shortage that occurred last fall and that the supply of ARB quality diesel should be increased to insure against that possibility. This may be the real motivation behind both of the proposed amendments. While this concern may deserve consideration, we believe it to be without merit and unsupported by facts. As stated above, there is insufficient evidence of an impending shortage of diesel fuel to justify such a drastic and unfair means of supplementing the production capacity of ARB quality diesel.

Adoption of the proposed amendments would be unfair to the larger refiners. Since ARB diesel continues to be valued above EPA diesel in the marketplace, the proposed increases in the small refiner exempt volumes would provide a potentially large economic windfall to the small refiners. This windfall would come at the expense of air quality and the refiners producing

Mobil

cleaner diesel fuel. If the ARB wishes to increase the supply capability for insurance purposes by relaxing the regulatory requirements, it should do so in a manner that is fair and equitable for all refiners. In conclusion, Mobil believes that the proposed amendments should not be adopted on the grounds that a supply need has not been demonstrated, air quality benefits would be compromised, and the amendments are not fair and equitable to all refiners. In addition, adoption of the proposed amendments would create uncertainties as to whether refiners will be operating on a level playing field when the Phase 2 gasoline regulations become effective.

C. R. Morgan
by *Lay*

C. R. Morgan

CRM:srh
crmdiesel

(6)

Comments of Chevron USA Products Company
Before the California Air Resources Board
on July 29, 1994
Delivered by Al Jessel, Planning Consultant
Strategic Planning and Business Evaluation

Chevron objects to the proposed changes to the low aromatics diesel rule that are before you today. The proposed changes would allow an inequitable and unintended situation to continue; a situation that is affecting the marketplace today and in a way that is hurting the ability of refiners such as Chevron--refiners that have invested substantially and in good faith--to recoup those investments. The proposed changes continue an alarming trend begun last fall--a trend that leaves Chevron wondering how committed the ARB is to their rules and how much of this trend will spill over later into the Phase 2 gasoline rules where required investments are an order of magnitude higher.

I'd like to review this trend of what we consider inappropriate market interference with you.

On October 15, 1993, the Board relaxed the low aromatics diesel rule to allow low-cost, high emissions high sulfur diesel to be sold to off-road users for a period of 45 days and used for 120 days in direct competition to true low aromatics diesel or fee paid variance fuel. This action came even after it had been clearly demonstrated that the market system was working to bring to an end the unfortunate situation we had last October. On

February 14, 1994, the Executive officer without public input summarily relaxed the rule and allowed this high sulfur fuel to be used until supplies were exhausted.

Continuing the trend, on Feb. 7, 1994 the Executive Officer granted TOSCO a variance from the low aromatics rule that allowed enormous volumes of lower cost, environmentally inferior fuel to reach the market with scant justification and without the compensating variance fee that Chevron and others had to pay as a condition of all other variances granted to date. This, as you know, resulted in litigation that, unfortunately, never had a chance to even be heard in court let alone be resolved there. But, I hope, the fact that this matter was litigated conveyed to the Board our deepest concern.

We consider these foregoing actions to have been an invasion into territory that a regulatory agency should, in fairness, stay out of. As we have argued over and over, in this country tradition has it that when the government requires private industry to invest for the public good, government shoulders little if any of the burden for recovering those costs. This is unlike many other countries where government shares in the costs through incentives such as tax breaks. While we have become used to this form of buck passing, we may never get used to government interference in the only mechanism we have to recover investment costs: the open market.

In requiring industry to recover the costs of government mandates on its own, government takes an implicit vow not to interfere with the only available mechanism. To be certain, we do not ask that our investment return be guaranteed; we only ask for a fair opportunity to try to recover them. The ARB actions I just mentioned are examples of just the sort of interference we find grossly unfair to those of use who have made good faith investments in response to demands from the public. We do not think it too much for us to ask that government stick to its rules and resist the temptation to manipulate the market through selective relaxations of the rules.

Now let's talk about the latest attempt to manipulate the market--the subject at hand today.

As you have heard, on August 20, 1993, your staff, without public input, issued Executive Orders that suspended ARB's low-sulfur rule for three California small refiners. As you have heard, this automatically exempted these suspension volumes from the low-aromatics rule, in effect, allowing lower cost, higher emissions, low sulfur diesel fuel to compete directly with higher cost lower-emissions low aromatics diesel.

Let me digress for a moment: Your staff is justifying today's proposal in large part upon the Board's intent. Chevron has some

sympathy with actions that will rectify a situation where the intent of the Board is not being fulfilled. But the Board's intent must be crystal clear and the policies derived from this intent must be applied uniformly.

In the August 20, 1993 ARB letters that initially granted exemptions to the small refiners, the Executive Officer said that the Board intended that the amount of noncomplying diesel fuel allowed to be sold under suspension should be limited to historical production so that refiners could not increase market share at the expense of the environment or of their non-exempted competition.

However, in letters to the same small refiners dated October 8, 1993, the Executive Officer, apparently in response to objections from the small refiners, dramatically increased the suspension volumes to the full capacity of the desulfurization units installed regardless of historical production rates and regardless of how much diesel was historically sold in the vehicular market. Then on November 1, he made it possible for small refiners to take full advantage of this dramatic increase by allowing them to purchase intermediate feedstocks to fill out the desulfurization equipment. Thus, the small refiners were in no way limited in production. They were given the opportunity to install any amount of desulfurization equipment they wanted to, use it to its maximum capacity, and sell the resultant lower

cost, higher emissions fuel in direct competition to fully complying low aromatics diesel or fee-paid variance fuel. The Staff Report makes it quite clear that these small refiners have been taking full advantage of this opportunity that we look upon as more than an exemption: it is nothing short of a loophole abetted by your staff.

The staff report indicates that the small refiners were producing as much as 32,000 barrels per day of "suspension" fuel in October of last year, fully 20% of California demand. What isn't clear--but what is implied--is that fuel was complying, low sulfur fuel. Thus, we may have witnessed the bizarre spectacle of small refiners being given a one year exemption from the low sulfur rule--a rule they were, in fact, in compliance with! Certainly the Board did not intend this. The Board might find it of interest to determine when the small refiners actually came into compliance with the low-sulfur rule. The net impact of the granting of suspensions seems to have been to give them more time to comply with the low aromatics rule by a mechanism never contemplated by the Board. Did the Board intend to reward small refiners that made low sulfur fuel with a year's delay in having to comply with the low aromatics rule?

We doubt it.

The small refiners were also allowed to sell this higher

emissions, lower cost fuel well in excess of historical production--more than double judging from the staff report--allowing them to dramatically increase market share at the expense of air quality and at the expense of those refiners who made substantial investments and, as in our case, paid six cents per gallon for the right to sell the very same low-sulfur product under variance.

This could not have been the Board's intent with respect to relief for small refiners under the low aromatics rule--I quote from the Staff Report Page 2, Paragraph 2:

"First, the Board intended to preserve the air quality benefits of the regulation by limiting the volume of diesel fuel meeting the less stringent limits. Second, the Board intended to prevent small refiners from expanding production as a result of the less stringent standard and gaining additional market share from other refiners, particularly those refiners producing a higher quality cleaner burning fuel."

Similar sentiment can be found in both the October 1988 Technical Support Document and in the August 22, 1989 Final Statement of Reasons for the low aromatics diesel rule.

The relief in the low aromatics rule that was intended for small

refiners was very clearly the higher aromatics limit (20% instead of 10%) to meet for the life of the rule. Clearly, there was no intent to exempt an entire year's maximum production from compliance. But that's what the small refiners got and, apparently, took full advantage of.

The Executive Officer granted the suspension volumes with, in effect, no volume limit, allowed a dramatic increase in small refiner market share of low aromatics diesel fuel even though they never made a drop of it, and did this years after the Board made it abundantly clear that their preference was to limit the volume of exempted fuel. We think this action was improper and gave the small refiners a windfall that the Board did not intend and that no one else expected or planned for. And windfall it was! Recall that at the time staff says the small refiners were producing at nearly their maximum capacity, i.e., last October, prices were the highest in recent history.

This action has had a significant effect on the market-- representing yet another major intrusion, and, because it came at a time of feared shortages, smacks of the intent to manipulate.

Today your staff is proposing that you change the exempt volume limits in the low aromatics rule to conform, as they say, with the Board's intent. However, the Staff Report does even begin to

explain what was wrong with the original "65 percent" rule which had already been increased from 55% in the 1988 proposed rule presumably at the request of the small refiners. Was a mistake made? Nor does the Report make understandable the rationale of the new proposal. How does the proposed formula fulfill the intent of the Board? It appears to be designed to give a favorable outcome for these small refiners under current circumstances. Would it provide a reasonable outcome in all cases? After all, rule changes are intended to be permanent. Would it produce the desired result in the future? The Staff Proposal is seriously flawed in that it appears totally arbitrary and without foundation save for the outcome.

Staff's Modified Proposal dated last Wednesday seems more rational except that the equation doesn't work! The new proposal would actually allow an increase in production beyond any historical level except for that reached under the sulfur rule suspension! Clearly this violates the Board's original intent and even staff's intent as stated on Page 24 of the Report. It would also increase the "significant adverse environmental impact" (Page 22 of the Staff Report) already identified as a consequence of the original proposal. The Modified Proposal only becomes understandable when new intent is invented such as "recognizes the role played by small refiners in the diesel marketplace". These words are the smoking gun that proves that Staff's intent is to help small refiners influence the marketplace at the

expense of the environment and at the expense of complying refiners. We must cry foul.

In addition, your staff recommends you delay the imposition of the exempt volume limits--whatever they turn out to be. This would allow the small refiners another three months of production at the outrageous current rate allowed under suspension, albeit at the 20% aromatics level. The rationale is, once again, the time worn threat of shortage. You have heard no substantive evidence today that a shortage exists now or will in the future. Chevron, for one, has found ways of increasing production capacity beyond earlier commitments. We also note that West Coast diesel inventories are higher than at this time last year, prices are very soft--an indicator of more than adequate supply, and that the difference between ARB low-aromatics diesel and EPA low sulfur diesel is at an all time low. This differential is what we must recover our investments from. The shrinkage of this differential has been, at least, aided and, perhaps, driven by the significant quantities of low cost small refiner suspension diesel now being sold.

These Staff proposals while inappropriate in any context are especially so in light of the windfall these same small refiners have received during the past 10 months. We cannot support handing them another gift right on the heels of the enormous gift they received serendipitously last year. They deserve to remain

constrained under the original rule if for no other reason than to reimburse the state's air quality for the damage already done.

It might also be worthwhile to reflect on the U.S. EPA's threat contained in the proposed California Federal Implementation Plan to tighten the state's NOx controls elsewhere if the low aromatics diesel rule were relaxed. This could cause Chevron to pay once more for the Board's largesse toward small refiners.

In summary, we see absolutely no need to further mitigate the small refiners' economic challenges of complying with the low aromatics diesel fuel rule and, once again, request that the Board resist the temptation to make yet one more foray into the market. We strongly urge the Board to reject all of the staff proposals and leave the rule as is. A rejection on your part would be looked upon by Chevron as a signal that the Board will adhere to its rules after all and as a reversal of this dangerous trend of weakness and overt market manipulation so far exhibited.

The small refiners and other small business people you've heard from today are trying to invoke your sympathy. They want you to adopt the attitude that the big guys will take care of themselves. Anyone who has paid the least amount of attention to our industry in the past few years knows that it is in the process of a major restructuring forced by an interaction between government regulations and the intensely competitive nature of our business. The thousands of jobs lost to this restructuring makes the pleadings of the small businesses here look insignificant. Chevron is now investing about a billion dollars in our two West Coast refineries to make CARB gasoline. The price we paid to get this capital from our Corporate financiers was the sale or closure of two other refineries that together employ about 1800 people. The loss of this investment would spell disaster for Chevron's entire Refining and Marketing unit. Thousands of Chevron employees could be affected by the ARB's disposition to "smooth" the market for a few vocal special interests at our expense. We hope you think as much of Chevron people as much as you think of others when you consider the effects of your actions today.

Testimony of Thomas L. Eveland
Vice President, Government Affairs
Kern Oil & Refining Co.
July 29, 1994

Regarding Proposed Amendments to the Small Refiner Provisions
in the Regulation Limiting the Aromatic Hydrocarbon Content of
California Motor Vehicle Diesel Fuel

Chairwoman Schafer and Board members, my name is Tom Eveland and I am Vice President, Government Affairs of Kern Oil & Refining Co. I will be brief because Kern's position is stated in our written comments which were faxed to you on Wednesday.

I first want to acknowledge and commend the open-door policy that your staff has maintained. I don't remember exactly how many meetings we have had with your staff on this one issue over at least the last year and a half, but it has been more than a few. It's refreshing to have an agency that genuinely wants to know and consider our unique circumstances, rather than ignoring the critical differences between huge international corporations and local small businesses like Kern Oil.

I believe Kern to be unique among California refiners in that our largest product from a revenue standpoint is diesel fuel. We also produce gasoline and other products, but diesel fuel is our biggest revenue generator by a large margin. Kern is located in the heart of California's most dynamic agricultural and trucking area, and diesel fuel is what we are all about, so to speak.

Kern has had to build a new diesel hydrotreater unit and a sulfur recovery unit from scratch to comply with just the CARB and EPA sulfur limits. Kern is working on a formula to be certified to meet the 20 percent aromatics limit by October 1. The cost per gallon will exceed the average cost that the large refiners have spent to make 10 percent equivalent fuel. Your staff has reviewed our actual cost figures to build and operate the new equipment and our estimated cost to make a certified 20 percent aromatic diesel.

With our increased capital and operating costs, it is essential for our survival that we run the refinery as efficiently as possible. We are now making nearly the volume to which we're currently limited by a CARB Executive Order - called the "suspension volume". This limit is 7,826 barrels per day. Since we don't have hydrocracking capacity, our percent diesel yield is pretty well fixed by the type of crudes that we can run. Although Kern can make at least 7,826 bpd of diesel and probably more, there is a minimum production rate below which Kern will have to reduce crude runs and production of other products as well as diesel. That minimum diesel production rate is 7,000 bpd. Once we are curtailed below that amount, our ability to make any profit or even recover the cost of our operation diminishes rapidly.

Kern does not sell at retail. It supplies its diesel primarily to independent marketers and direct consumers such as farmers, fleet operators and truck stops - a total of over 70 customers. Some of our diesel is sold through independents to municipal bus companies and other public agencies. Our gasoline and diesel is also used by emergency services in our area.

If Kern is limited to diesel production below 7,000 bpd, at a minimum we will have to curtail sales of diesel to our independent marketers and direct users, and gasoline to those customers and the major oil companies who lift gasoline at our refinery. More likely we will be put out of business. If the Board chooses not to amend the regulation at all, we would be left with a diesel limit of only 3,595 bpd which would make continued operation at any level impossible. We can't run the refinery at half capacity, and even if we could, we couldn't cover our fixed costs. Either way, we'd be dead.

As Mr. Moyer of the Western Independent Refiners Association mentioned, the small refiners are not asking for an increase in our collective diesel fuel market share over historical levels. We produced 27,000 to 33,000 bpd in 1988 depending on how it's determined, and are not asking for any more than our historical level. In our own Southern San Joaquin Valley area, the reduction of the small refiner diesel market is dramatic, as we have shared with your Staff. In 1983, small refiners held 83 percent of the local market with majors and large independents holding 17 percent. By 1988 the large refiners' share had increased to 26 percent. We estimate that at this time small refiners, Kern and Witco, market 42 percent of the motor vehicle diesel with Texaco the other 58 percent. If the Staff's recently revised proposal is adopted, Texaco's share would jump to 64 percent of the local market, assuming that we stay in business which may not be a very good assumption. Even if our limit is the 7000 bpd that we need, Texaco would have 60 percent of the local market, up from 26 percent in 1988. And any additional market growth would go to Texaco because Kern and Witco would be forever limited to what you set today.

Although Kern directly employs only about 100 people in the Bakersfield area, the fact that we are operating keeps several hundred more people employed supplying goods and services to our company, doing engineering, consulting and construction for us, and marketing our products. The Office of Economic Research of the California Commerce Department has determined that the refineries in Kern County have a job multiplier of 6.36, meaning our plant keeps 636 people employed locally, not 100. And Kern's employees are relatively well paid, skilled workers who contribute more to the economy than their mere numbers would indicate. They might be able to get another job if Kern went down, but probably not as good a job, and the whole local economy will suffer. Also, since health care is currently an issue on everyone's mind, Kern provides its employees with an excellent health care plan and retirement benefits which probably would not be available elsewhere in the job market.

The Staff's recently revised proposal would limit our CARB 20 percent diesel fuel to 6,400 bpd, according to the Staff's estimate. This is obviously better than the 5,531 bpd in the June 10 proposal and a whole lot better than 3,595 bpd. It is not what we need to remain viable however. And we must remain viable to address reformulated gasoline. The Staff proposes essentially to limit our capacity utilization to the 1991-92 industry average of 90 percent while our larger competitors can operate at 100 percent. We agree with the Staff proposal except for that. If the 90 percent utilization factor were removed, we could produce 7,000 bpd of diesel and utilize our full rated refinery capacity. We then would have a chance of remaining profitable going into our reformulated gasoline project. This is what we request - the revised Staff proposal without the 1991-92 utilization factor of 90 percent.

Thank you.

CARB DIESEL HEARING

SMALL REFINER ISSUES

7/29/94

TESTIMONY PRESENTED BY UNOCAL 76 PRODUCTS
COMPANY

Good Afternoon. My name is Melissa Chapman. I am a Fuels Planning Engineer for Union Oil Company of California, also known as Unocal.

Before I comment on the proposed revisions to the small refiners' diesel requirements, I want to first express our deep concern that CARB is proposing changes to the existing diesel regulation almost a year after its implementation date. If adopted, this action may have significant implications for the implementation of CARB's Phase 2 Reformulated Gasoline regulation. California refiners are currently spending hundreds of millions of dollars to re-configure their refineries to comply with the Phase 2 regulation. No doubt, many are extremely nervous that the California gasoline market may not allow them to recover the large capital investments required to comply with the regulation. By continuing to make last minute revisions to existing fuel regulations, CARB is sending a clear message to California refiners that the regulation on which they are basing their multi-hundred million dollar investments is subject to changes that would endanger those investments. Concern and uncertainty increase as CARB continues to deviate from

a consistent application of the regulation. CARB must allow the diesel regulation to work in its present form and refrain from upsetting the California fuels market by continuing to propose revisions.

Unocal opposes both of the proposed revisions to the small refiner diesel provisions.

CARB's proposal to allow small refiners to produce 20 volume percent aromatic diesel fuel up to their "exempt volume" based on the period from 1988 to 1992 is unwarranted from an equity standpoint. This proposal is also contrary to CARB's stated intent, in adopting the small refiner provisions, to preclude a small refiner from using the less stringent 20 percent standard to increase its market share, over that experienced in the period from 1983 to 1987, at the expense of increased emissions.

CARB notes throughout the Staff Report that small refiners' production of California vehicular diesel fuel in the base years was substantially greater than the industry average of sixty-five percent of total California distillate fuel production. Moreover, CARB states in the Staff Report that "...the current volume limits for small refiners are substantially less than their base year production of motor vehicle diesel fuel and may actually prevent them from marketing diesel fuel at their historic levels." It is clear from this statement, and the recent summary of proposed amendments, that Staff knows the actual volume of motor vehicle diesel fuel produced by each small refiner during the 1983 to 1987 base years. We have asked

Staff to provide the data used to substantiate this claim; however we were told that the information was either confidential or not covered by the Public Records Act. If the small refiners production of motor vehicle diesel fuel is actually greater than the 65% industry average, it may be appropriate to increase their exempt volume to more accurately reflect their 1983 to 1987 base year production. However, changing the period on which the exempt volume is based in order to reflect a period of higher production, is completely unwarranted. The original regulation already addresses the potential problem of low production periods during the 1983 to 1987 base years by allowing the exempt volume to be based on the average of the three highest annual production volumes during the five year time period. Basing exempt volumes on a period of overall higher production clearly allows small refiners to use the less stringent 20% standard to increase their market share with a dirtier fuel. It also fails to maintain the fairness and equity of the original regulation relative to the large refiners who invested large amounts of capital and other resources to comply with the stricter standards, backed by the understanding that small refiners would not be able to use their less stringent standards to increase their market share over the 1983 to 1987 base period.

The existing low aromatic diesel regulation already gives small refiners an economic advantage, because it allows them to produce high aromatic diesel fuel up to their suspension volume, and sell this dirtier fuel at the higher price that CARB diesel affords over EPA diesel until October 1st of this year. The existing regulation provides even more economic advantage to small refiners by allowing them to

produce exempt volumes of 20% aromatic diesel fuel after October 1st of this year, and again, sell it at the higher CARB diesel price. With this proposal, CARB tilts the playing field even more to the advantage of the small refiners by increasing their exempt volume limit. Large California refiners have had to scrutinize their investments and upgrades in order to ensure a reasonable return on their investment, despite the ever changing myriad of state and federal fuel regulations. Small refiners should be expected to do the same. If small refiners have made investments to upgrade their refineries in order to produce volumes of California diesel fuel in excess of their production rates during the 1983 to 1987 base years, they should have done so knowing they would have to produce either 10% aromatic fuel or a certified alternative formula beyond their exempt volume. Small refiners' exempt volumes should not be increased at the expense of increased emissions.

CARB also proposes to postpone the effective date of the exempt volume limitation requirement, three months to January 1st of 1995, in order to prevent shortages of diesel fuel during a period of peak demand. Apparently, CARB has determined that there is a risk of supply shortages if the small refiners are held to their exempt volume limitations beginning October 1 of 1994. Again, we have requested data to substantiate this claim, but have been told that they are either confidential or not covered by the Public Records Act. It is highly unlikely that there will be a supply shortage of diesel fuel in the California market if the three small refiners currently under suspension are held to their current exempt volumes on October 1, 1994. Excluding small refiners' production, California refiners can produce over 200

thousand barrels per day of complying diesel fuel. This is more than enough diesel fuel to satisfy the California market, even during a high demand period. In addition, the October 1, 1994 compliance date neither requires the additional demands of new federal low sulfur regulations nor includes a federal fuel tax increase as did the October 1, 1993 compliance date. The diesel market is not under the supply pressures experienced in the fall of 1993, and will not be affected by the small refiners' October 1st, 1994 compliance date.

CARB also states in the Staff Report that the extension of the exempt volume limitation effective date is necessary to allow time for market adjustments, as distributors and end-users find new fuel suppliers. Distributors and end-users have known since the adoption of CARB's original diesel regulation that small refiner's 20% aromatic diesel production will be limited to their historic levels beginning October 1 of 1994. They have had more than sufficient time to make marketing adjustments and secure fuel from other suppliers. An effective date extension allowing an additional three months to respond to a regulation that has been on the books for over five years is unwarranted.

There is no need to extend the effective date of the small refiners exempt volume limitations.

In summary, Unocal opposes any revision to the existing low aromatics diesel regulation. The California diesel market can be adequately supplied without extending the effective date of the small refiners exempt volume limitations. Also, any move to allow a small refiner to increase its production of 20% aromatic diesel, and therefore its market share, relative to the 1983 to 1987 base period, with this dirtier fuel, is clearly outside the intent of the original regulation. It is also unfair to those refiners who invested capital and other resources to fully comply with the environmental intent of the California regulation without the benefit of less stringent fuel provisions.

Thank you.



Kern Oil & Refining Co.

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(805) 845-0761 FAX (805) 845-0330

44-~~8~~-1
7/29/94

STATE OF CALIFORNIA
AIR RESOURCES BOARD
7/29/94
SECRETARY
XC Board Members
JUS MHS
AS Legal
JB SSD

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July 7, 1994

**CONFIDENTIAL MATERIAL
DELETED**

Mr. Mike Scheible
Deputy Executive Officer
California Air Resources Board
P.O. Box 2815
Sacramento, CA 95812

Re: Proposed Amendments to Small Refiner Diesel Rule

Dear Mr. Scheible:

Kern Oil & Refining Co. (Kern) is subject to the small refiner provisions of Title 13, California Code of Regulations, Section 2282, the regulation limiting aromatic hydrocarbon content of diesel fuel sold in California. Over the last 1 1/2 years, Kern has had numerous meetings and telephone conversations with Peter Venturini and his staff regarding the "exempt volume" of diesel fuel that Kern will be allowed to produce after October 1, 1994, subject to the 20% aromatic limit. In addition, Kern has submitted several letters to Mr. Venturini on the subject and testified at the April 21, 1994 workshop regarding the minimum volume of diesel fuel that Kern must produce to remain in business.

In response to the expressed concerns of Kern and other California small refiners, as well as the concerns of diesel fuel distributors and consumers, the CARB staff has proposed a modification of the exempt volume limit. The modification would allow each small refiner to choose either a limit on motor vehicle diesel fuel production equal to 65 percent of its historical (1983-87) distillate fuel production, or a limit on total distillate fuel production equal to 100 percent of its historical distillate fuel production. In Kern's case, this allows us to choose either 3,595 barrels per day (bpd) of motor vehicle diesel fuel production or 5,531 bpd of total distillate fuel production (See Table 6, Page 19 of the June 10, 1994, Staff Report on Proposed Amendments to the Small Refiner Volume Provisions in the Regulation Limiting the Aromatic Hydrocarbon Content of California Motor Vehicle Diesel Fuel).

The Staff Report references the Board's intent back in 1988 to balance the unique position of small refiners with the need to maintain fairness to all parties and to preserve the air quality benefits of the regulation. In attempting to preserve the Board's original intent, the staff has proposed modifications to the small refiner provisions that hold each small refiner's maximum

Mr. Mike Scheible
July 7, 1994
Page 2 of 5

distillate production to its 1983-87 level. In doing so, the staff fails to recognize several factors that must be considered in achieving fairness to all parties and preserving the air quality benefits of the regulation.

Small Refiners Need To Be Able to Operate At Optimum Levels

Small refiners need to retain the potential to operate near their optimum capacity utilization in order to defray the additional costs of the diesel fuel sulfur and aromatics reduction mandated by CARB and U.S. EPA regulations. The proposed modification, while referencing the historical diesel or distillate production of each small refiner, does not meet even the bare minimum diesel fuel volume now needed for Kern to remain viable. Kern's refinery has remained viable throughout its 60 year history despite its small size because Kern has been able to adapt quickly to market changes and because Kern has kept its operating costs very low compared to the industry average. As recently as late 1992 and early 1993, Kern's total fixed and variable operating costs averaged _____ per barrel. See Table 1 enclosed. One year later, despite _____ percent higher crude runs which should have reduced the per-barrel operating costs, total operating costs had increased _____ per barrel to _____, a _____ percent increase. The primary reason for that increase was the additional cost of operating the new diesel hydrotreater and sulfur recovery unit to make low sulfur diesel fuel.

Unfortunately for Kern, the operating cost increases have just begun. A limit on distillate fuel production of 5,531 bpd will effectively reduce Kern's refinery capacity to _____ bpd because Kern's distillate fuel yield on the crudes that it runs is approximately _____ percent ($5531 \div \text{_____} = \text{_____}$). Kern does not have processing equipment to convert distillate-range components into gasoline or other lighter products. If Kern's crude runs have to be reduced to comply with the diesel rule, Kern's per-barrel operating costs will increase by an additional _____ per barrel due to the fact that the fixed costs will be spread over fewer barrels. Also, beginning in October 1994, our diesel fuel will be required to achieve the emissions equivalent of a 20 percent aromatic hydrocarbon content. Because the capital cost of making a true 20 percent aromatic diesel from the low quality San Joaquin Valley crude oil that we run would be prohibitive when added to the capital cost of diesel desulfurization and gasoline reformulation, Kern plans to achieve equivalent low emissions with diesel additives. The cost of additives is estimated to be _____ per gallon of diesel fuel. With 5531 bpd of diesel fuel production and _____ bpd of crude runs, the diesel additives will increase Kern's operating costs by an additional _____ per barrel [$(\text{_____})(42)(5531) / \text{_____} = \text{_____}$]. The combination of diesel desulfurization costs, diesel additives to achieve the 20 percent aromatics equivalent, and lower throughput, will bring Kern's total operating costs up to approximately _____ per barrel, as compared to _____ in early 1993.

Mr. Mike Scheible
July 7, 1994
Page 3 of 5

The per barrel increase in Kern's operating costs () required to make low sulfur 20% aromatic equivalent diesel is considerably greater than Kern's pre-tax profit per barrel in its latest fiscal year. Therefore, the reduction of sulfur and aromatics is expected to put Kern into a substantial loss position if Kern is limited to 5,531 bpd of distillate fuel.

The only way for Kern to avoid being placed in a substantial loss position is for it to recover its costs on larger crude runs and larger volumes of diesel fuel and other products. Although Kern was able to demonstrate for purposes of the current "suspension volume" a low sulfur diesel capacity of 7,826 bpd and has operated as high as bpd, Kern's higher operating cost due to the CARB diesel sulfur and aromatic rules will require diesel fuel production of at least 7,000 bpd to retain Kern's viability. The 7,000 bpd diesel rate allows Kern to balance its crude runs and other operations near the optimum level required to remain viable. At percent distillate yield, a distillate volume of 7,000 bpd would allow Kern to operate at bpd ($7,000 \div =$), or percent of its 21,400 bpd capacity. The percent capacity utilization would be in line with the current national average for all U.S. refiners.

Small Refiners Need To Retain Their Historical Collective Market Share

A second factor that must be considered in equitably determining the exempt volumes of small refiners is the reduction in the number of small refiners producing motor vehicle diesel fuel for the California market. Table 2 on Page 12 of the Staff Report shows 13 California small refiners operating in 1988 with a combined crude oil capacity of 322,020 bpd. In 1994, only four of those refiners with a combined crude oil capacity of 124,120 bpd are producing motor vehicle diesel fuel. Last month Kern requested from of the California Energy Commission (CEC) the California crude input and distillate production of major refiners, large independent refiners, and small refiners for the period 1982 to the present. The enclosed CEC response shows that small refiners produced from 45,000 to 55,000 bpd of distillate fuel in the 1982-89 period, which was 15-20 percent of the state total. In recent years, as shown in the CEC data and in Figure 1 enclosed, small refiner distillate output has declined substantially.

Based upon our knowledge of California distillate markets and conversations with other small refiner representatives, we know that small refiners have historically sold a higher percentage of their distillate fuel as motor vehicle diesel than have major refiners and large independents. In Kern's case, practically all of our distillate has gone into motor vehicle diesel. See Table 1 enclosed. Therefore, to maintain their historical market position and to supply their historical customers, today's remaining small refiners would need to satisfy more than 15-20 percent of

Mr. Mike Scheible

July 7, 1994

Page 4 of 5

the 155,000 bpd⁽¹⁾ of motor vehicle diesel demand in California, or more than 23,250 - 31,000 bpd. The proposal by CARB staff would allow optional exempt volume limits for all small refiners making motor vehicle diesel of only 16,718 bpd total distillate. This represents less than 11 percent of the motor vehicle diesel market and an even smaller percentage of the total distillate market in California. Even if the exempt volumes of the four refiners were increased to the 23,510 bpd⁽²⁾ needed to retain their viability, their collective share would be barely 15 percent of the total California motor vehicle diesel market. This volume, which is much less than the amount of motor vehicle diesel supplied by all small refiners in 1988 and earlier, does not appear to be inconsistent with the intent of the Board in 1988 in their balancing of the small refiners' needs with the air quality benefits of the regulation.

The Board's intent of insuring fairness to all parties, including larger refiners, would be preserved if the California small refiners were assigned exempt volumes totalling 23,510 bpd because rather than taking over any market share formerly enjoyed by larger refiners, the remaining small refiners would be retaining only a portion of the market share of the small refiners who either have ceased operating or have departed from the California motor vehicle diesel market. By restricting the distillate output of each remaining small refiner to its own historical level, CARB will be increasing the cost disparity between small and large refiners. Only the large refiners will be able to spread their fixed costs over the additional barrels previously produced by large and small refiners who have left the market. As a telling example, in Kern's marketing area, Texaco has already increased its percentage of total diesel production from approximately 25.9 percent in 1988 to 57.6 percent in 1994, as shown in Figure 2 enclosed. Texaco, the only large refiner with which Kern directly competes in the southern San Joaquin Valley diesel market, can hardly complain of market share loss.

Kern has received numerous contacts from its approximately 70 diesel fuel customers including farmers, independent truck stop operators, and fleet owners. They are justifiably concerned about their own future if Kern is forced out of business or forced to reduce its diesel fuel production substantially. Although the majors have claimed in public forums such

(1) CARB's estimate of California motor vehicle diesel demand. See note at bottom of Table 6 of the Staff Report.

(2) This assumes Kern at 7,000 bpd, Paramount at 7,500 bpd, Powerine at 8,400 bpd, and Witco at 610 bpd.

Mr. Mike Scheible
July 7, 1994
Page 5 of 5

as CARB workshops and hearings that they will provide diesel fuel at equitable prices for all comers, history has shown otherwise. The supply from small refiners who have no branded outlets to protect is essential to the efficient economical distribution of diesel fuel in California, especially in times of short supply or high demand. The proposed limit of 5,531 bpd of total distillate would prevent Kern from supplying the independent market sector that it has historically supplied.

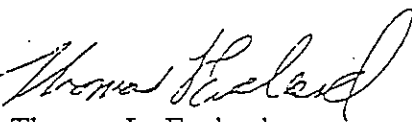
Kern Is Uniquely Impacted By The Volume Restriction

As a company, Kern will be impacted to a greater extent than any other California refiner by the exempt volume restriction, since Kern is located in the midst of California's most active distillate market, which is almost exclusively motor vehicle diesel fuel. There is virtually no market for jet fuel in the southern San Joaquin Valley, so Kern cannot make the product shift that may be available to small refiners in the Los Angeles area. In addition, there are no product pipelines to move diesel out of the area, so incremental barrels could only be exported out of California by truck, which is uneconomical. Although the additional 1,469 bpd of additional exempt volume that we are seeking is insignificant to the environmental objective of the rule, it is absolutely critical to Kern's continued viability.

This letter contains confidential trade secret information, the release of which to the public or to Kern's competitors would be very damaging to Kern. A copy of this letter with that information deleted is enclosed for the public file.

We sincerely appreciate the opportunity to express our concerns with the regulation and the proposed modifications. If you have any questions, please give me a call at (805) 845-0761.

Sincerely,



Thomas L. Eveland
Vice President, Government Affairs

:dr

cc: Peter Venturini
Deán Simeroth
John Courtis
Thomas Jennings

Table 1

Kern Oil & Refining Co.

Crude Oil Runs, Operating Cost, and Distillate Production

Dec. 92 – April 93 vs. Dec. 93 – April 94

	Dec 92	Jan 93	Feb 93	March 93	April 93	Average BPD
Crude Runs, Bbls.						
Total operating cost \$/Bbl.						
#1 & 2 Diesel, Bbls.						
Other distillates						
Total distillates						
	Dec 93	Jan 94	Feb 94	March 94	April 94	Average BPD
Crude Runs, Bbls.						
Total operating cost \$/Bbl.						
#1 & 2 Diesel, Bbls.						
Other distillates						
Total distillates						

CALIFORNIA ENERGY COMMISSION

516 NINTH STREET
CRAMENTO, CA 95814-5512



June 23, 1994.

George S. Sturges, Jr.
Kern Oil & Refining Company
Refinery Marketing and Supply Coordinator
7724 E. Panama Lane
Bakersfield, California 93307-9210

Subject: Information Request

Dear Mr. Sturges;

Enclosed is information you have requested per your letter dated June sixteenth. There are some gaps, but I believe these are minor in nature.

The yearly volumes of Crude Oil Input and Refinery Distillates Output covers the period from 1982 to 1992, but the data for 1981 was not available.

The Quarterly Oil Reports (QOR) for fourth quarter 1981 and 1979 are missing. You will also find that some of the tables you specifically asked for are also missing. This is due to the fact that some of these tables were not used in the earlier QORs.

As to the pricing information you requested, I have included a copy of a staff report listing the historical prices of petroleum products in California.

Thank you, if you have any more questions, please feel free to contact me at (916) 654-4881. The FAX number for this office is (916) 654-4753.

A handwritten signature in black ink, appearing to read "Tracy C. Fong".

TRACY C. FONG
Associate Energy Analyst
Fuels Planning Office

Listing of annual Crude Oil Input and Refinery Distillate Output from 1982 to 1992 (Thousand of Barrels)

CRUDE INPUT

	<u>Major</u>	<u>Independent</u>	<u>Minor</u>
1982	421,639	71,709	85,635
1983	431,098	80,878	94,706
1984	453,051	81,703	93,253
1985	474,007	71,614	81,956
1986	505,490	70,324	79,029
1987	501,275	87,999	81,262
1988	523,290	91,512	81,207
1989	528,708	86,369	83,505
1990	525,127	94,000	77,332
1991	525,087	88,153	71,406
1992	518,530	92,075	49,316

DISTILLATE OUTPUT

	<u>Major</u>	<u>Independent</u>	<u>Minor</u>
1982	59,376	12,261	17,228
1983	62,820	13,971	19,276
1984	66,705	19,205	19,997
1985	70,680	18,121	18,003
1986	75,927	18,292	16,327
1987	66,209	20,274	16,592
1988	71,404	21,848	16,994
1989	72,808	20,638	17,242
1990	70,618	22,998	15,040
1991	69,611	21,699	12,994
1992	69,752	24,134	7,904

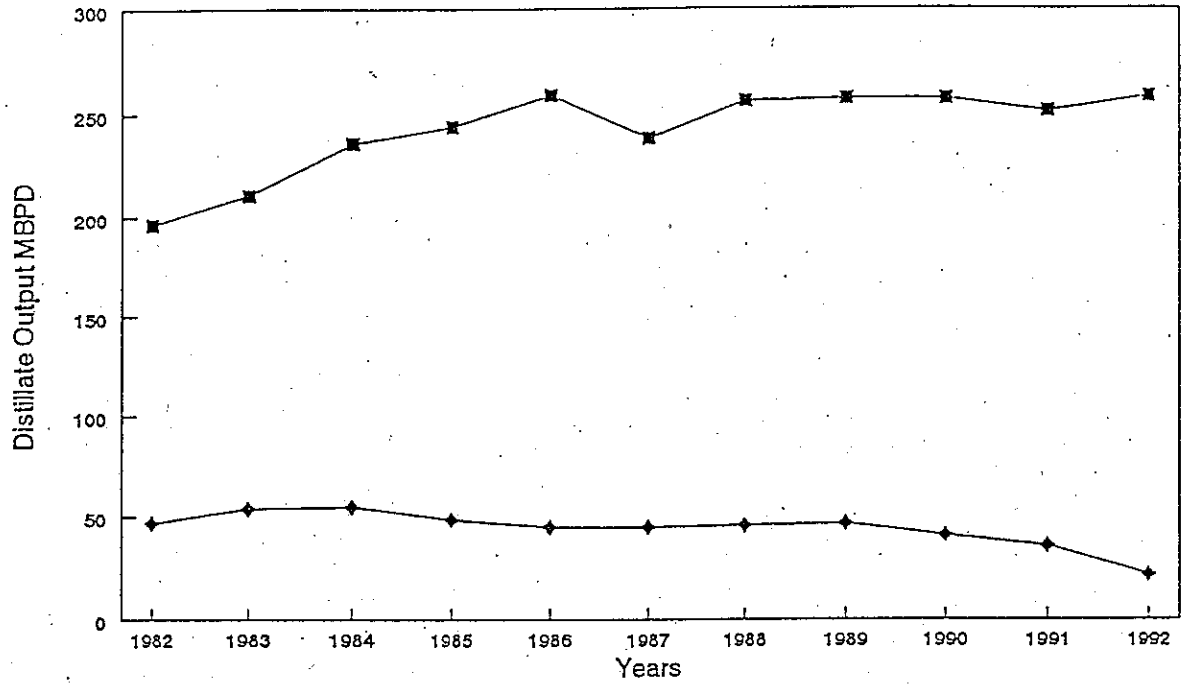
Major refiners total consisted of: ARCO, CHEVRON, EXXON, GULF, MOBIL, SHELL, TEXACO and UNOCAL.

Independent refiners total consisted of: CHAMPLIN, GETTY, PACIFIC ~~and~~ ULTRAMAR, AND TOSCO.

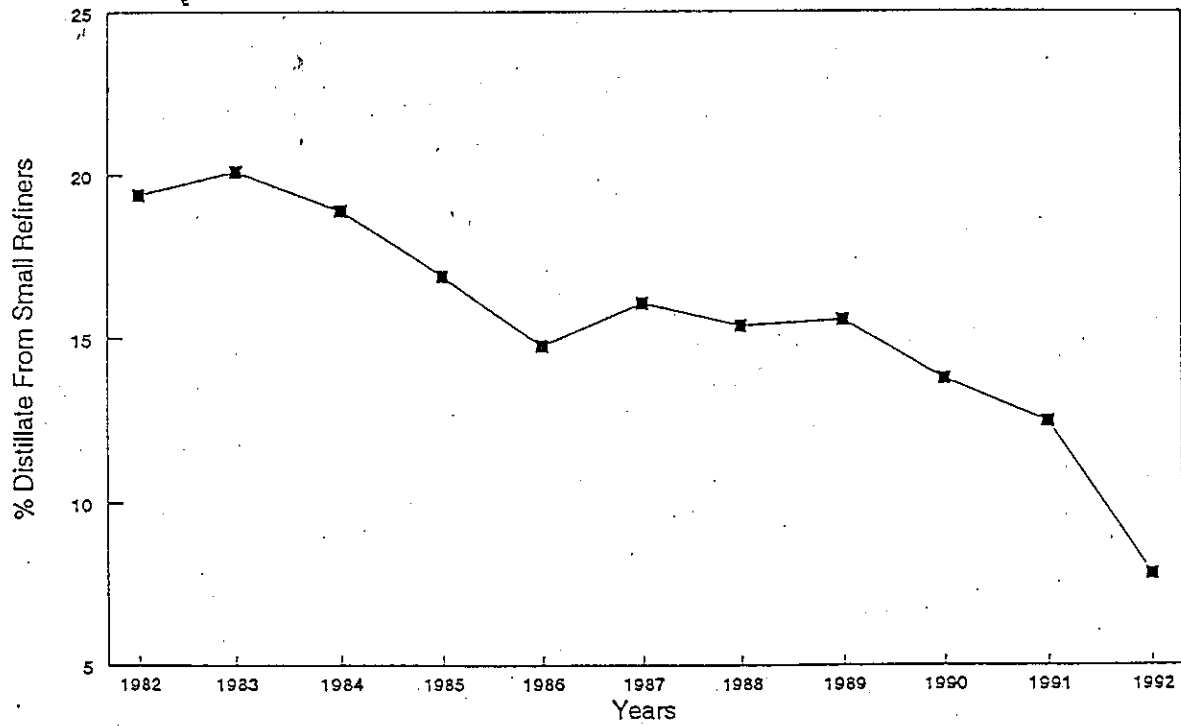
Minor refiners total consisted of: BEACON, CHEMOIL, CONOCO, DEMENNO/KERDOON, ECO, EDGINGTON, FLETCHER, GASCO/ANCHOR, GIBSON, GOLDEN EAGLE, GOLDEN WEST, HUNTWAY, KERN CO., LUNDAY-THAGARD, MACMILLAN, MARLEX, NEWHALL, OXNARD, PARAMOUNT, PETRO-DIAMOND, POWERINE, SAN JOAQUIN, SUNLAND, USA PETROCHEM, WEST COAST OIL, and WITCO CHEMICAL.

Figure 1 California Refinery Distillate Output-

(By Refinery Type)



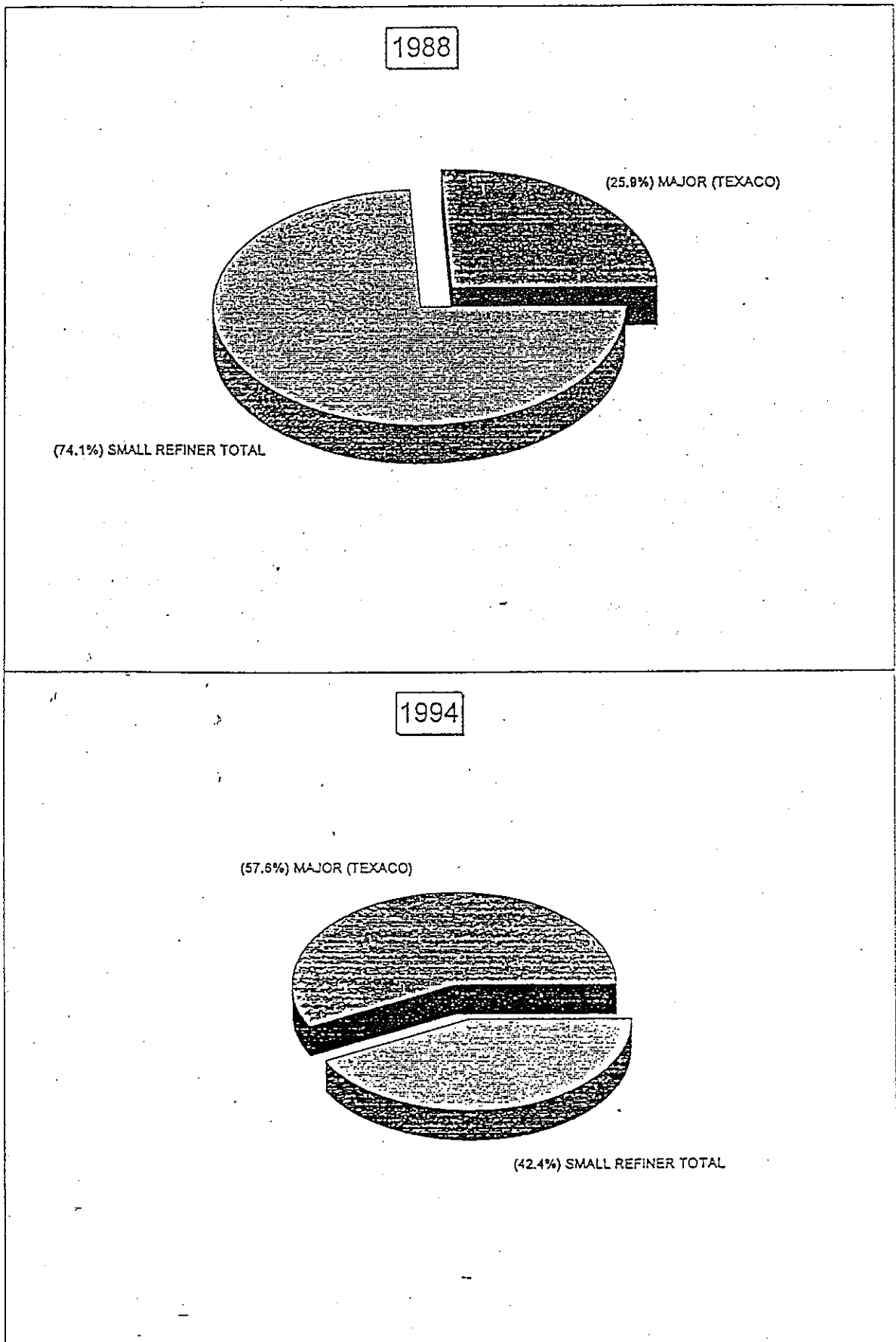
■ Large Refiners (Major & Independent)
◆ Small Refiners



■ Small Refiner Percentage

Figure 2

SOUTHERN SAN JOAQUIN VALLEY MOTOR VEHICLE DIESEL SUPPLY





Kern Oil & Refining Co.

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BAKERSFIELD, CALIFORNIA 93307-9210
(805) 845-0761 FAX (805) 845-0330

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STATE OF CALIFORNIA
7/27/94
XC: Board member
JCS MHS
HS Legal
JB SSD

July 25, 1994

Mr. Peter D. Venturini
Chief, Stationary Source Division
California Air Resources Board
P.O. Box 2815
2020 L Street
Sacramento, CA 95812

Re: Kern Oil & Refining Co. Diesel Market Share

Dear Mr. Venturini:

In the July 12 and 13 meetings with Kern Oil & Refining Co. (Kern), you requested that we compare Kern's current share of the motor vehicle diesel fuel market in the Southern San Joaquin Valley (which is the only diesel market that Kern supplies) with its historical market share. Enclosed Figure 1, Figure 2, and Table 3 show the relative market shares of Kern as well as major refiners, Witco, and other independent refiners since 1983.

As can be seen from the enclosed figures, there has been a substantial, yet natural, shift in the market since 1983. As some refiners have left the market, those who remain or move into the area fill the void. Over that same period there was nearly a total elimination of the kerosene jet fuel market. Because there are no viable alternatives for the jet fuel cut, Kern, who was the only kerosene jet fuel producer/marketer in the southern San Joaquin Valley, has therefore been forced to shift almost its entire kerosene jet fuel production over to diesel fuel. This shift obviously increased Kern's production of diesel fuel and the company thereby increased its diesel fuel market share accordingly.

Since the diesel sulfur regulation was put into effect in October, 1993, Kern has had to optimize its operation to a greater degree than previously to recover the increased capital and operating costs. As detailed in my July 7, 1994, letter to Mr. Mike Scheible and as further discussed in Kern's meetings with CARB on July 12 and 13, this requires that Kern be able to operate at or near the refinery capacity. In other words, Kern has had to increase its refinery crude runs to remain viable and a corresponding increase in diesel fuel production and market share has followed.

Mr. Peter D. Venturini
July 25, 1994
Page Two

A close look at Figure 1, Figure 2, and Table 3 shows that Kern's market share has increased at a substantially lower rate than that of the major oil companies in the Southern San Joaquin Valley. From 1983 through 1994, Kern's market share increased by 19 percent while the majors' share of the market increased by 50.5 percent. During this same time period, the total small refiners' share of this market decreased from 83.2 percent to 42.4 percent, or by 40.8 percent.

As Figure 2 discloses, Kern projects a loss of market share in 1995 as a result of the "exempt volume" limitation, even if that limit is 7,000 bpd as requested by Kern. That market share will be taken over by Texaco, who will then have over 60 percent of the Southern San Joaquin Valley market. If Kern were limited to 5,531 bpd as the June staff proposal would require, Texaco's share of the local market would grow to 68 percent. Again, by indefinitely fixing Kern's "exempt volume" at 7,000 bpd, Kern is actually giving up a share of its current market to Texaco, is automatically giving any future market growth to Texaco, and is forfeiting forever Kern's participation in any future diesel fuel market expansion --- all in an effort to remain viable today.

In closing, it should again be noted that the Southern San Joaquin Valley is Kern's only diesel fuel market. Major oil companies, and Texaco in particular in this case, market diesel fuel throughout the state of California and thus benefit from market share in other parts of the state also.,

If you have any questions regarding the foregoing, please give me a call at (805) 845-0761.

Sincerely,

Thomas L. Eveland

Thomas L. Eveland
Vice President, Government Affairs

cc: Dean Simeroth
John Courtis ✓

Figure 1

SOUTHERN SAN JOAQUIN VALLEY MOTOR VEHICLE DIESEL SUPPLY

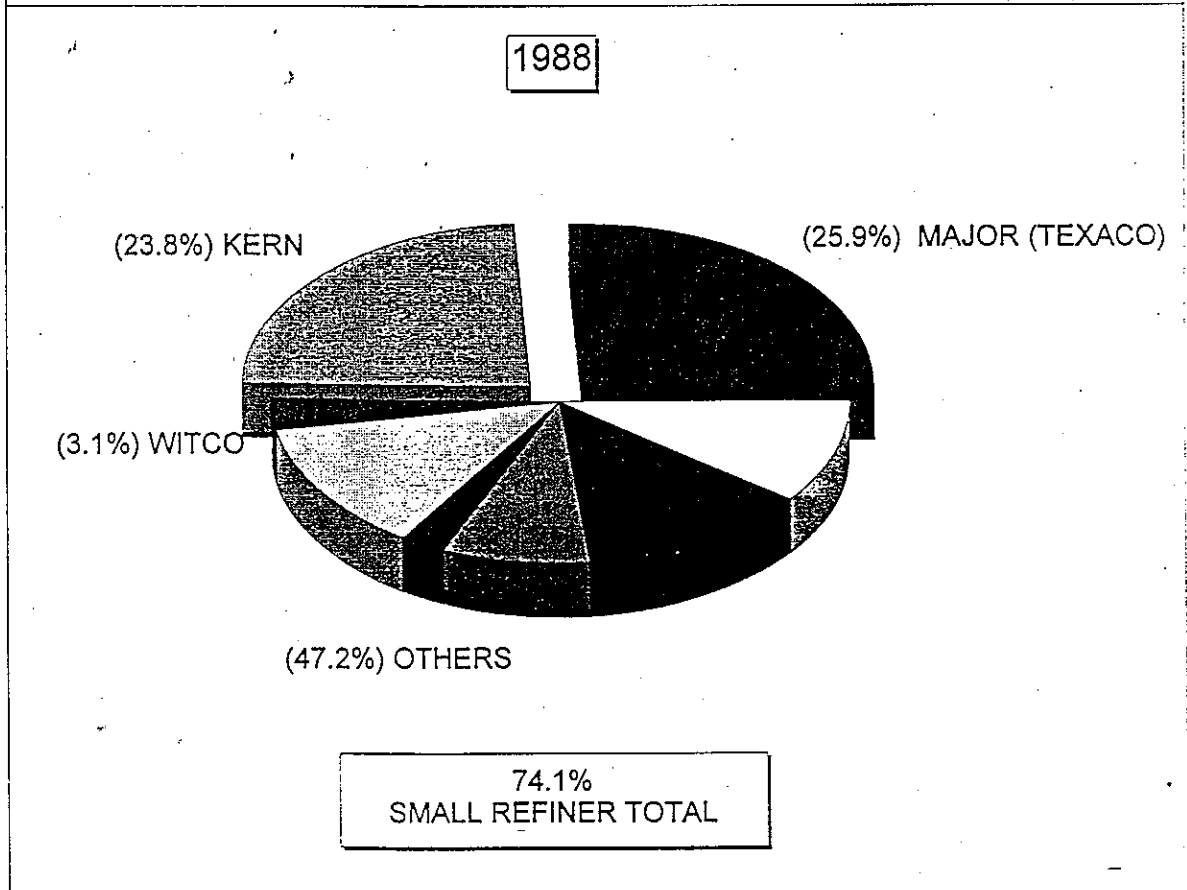
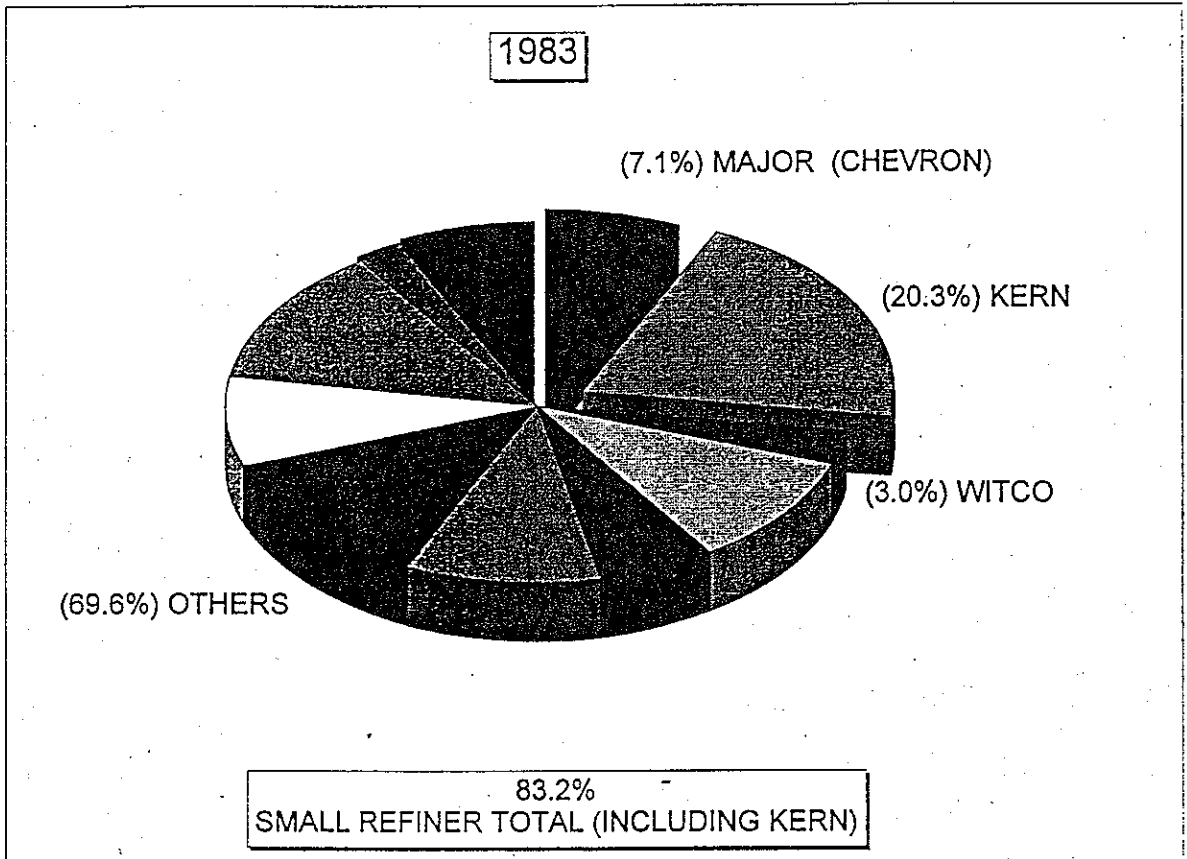
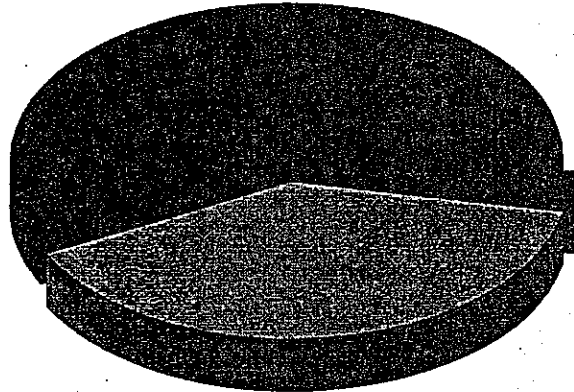


Figure 2

SOUTHERN SAN JOAQUIN VALLEY MOTOR VEHICLE DIESEL SUPPLY

1994

(57.6%) MAJOR (TEXACO)



(3.1%) WITCO

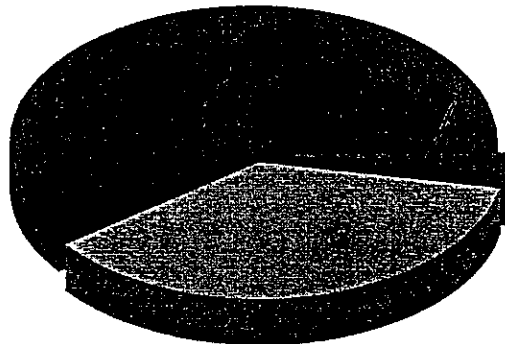
(39.3) KERN

42.4%
SMALL REFINER TOTAL

1995

(KERN LIMITED TO 7000 BPD CARB NO.2)

(60.3%) MAJOR (TEXACO)



(3.1%) WITCO

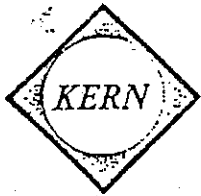
(36.6) KERN

39.8%
SMALL REFINER TOTAL

Table 3

SOUTHERN SAN JOAQUIN VALLEY MOTOR VEHICLE DIESEL SUPPLY

<u>YEAR</u>	<u>KERN</u>	<u>MAJOR OIL CO.</u>	<u>ALL SMALL REFINERS</u>
1983	20.3%	7.1%	83.2%
1988	23.8%	25.9%	74.1%
1994	39.3%	57.6%	42.4%
1995+	36.6%	60.3%	39.8%



94-8-1
7/29/94
Kern Oil & Refining Co.

7724 E. PANAMA LANE
BAKERSFIELD, CALIFORNIA 93307-9210
(805) 845-0761 FAX (805) 845-0330

STATE OF CALIFORNIA
A
7/27/94
SECRETARY

XC: Beard Member
JCS MHS
AS Legal
JB SSD

*Confidential
Material Deleted*

July 25, 1994

Mr. Mike Scheible
Deputy Executive Officer
California Air Resources Board
P.O. Box 2815
2020 L Street
Sacramento, California 95812

Re: Proposed Amendments to Small Refiner Diesel Rule

Dear Mr. Scheible:

Upon rereading my July 21, 1994, letter to you, I noticed a typographical error and omission that I want to be sure to clear up. The last paragraph on page 1 of my letter should read as follows:

The variation in distillate yield between percent in the December 1992 - April 1993 period and percent in the December 1993 - April 1994 period is typical of the variation from year to year as seen in Table 1. The main variable that affects distillate yield is the crude oil quality. Kern receives crude oil from to different fields each month. The distillate yields of the various crudes range from percent to percent. The mix of crudes received by Kern changes as production rates vary in the fields and as supply arrangements terminate and must be replaced and revised. This causes distillate yields to vary by several percentage points from month to month and year to year.

Mr. Mike Scheible
July 25, 1994
Page Two

I apologize for the confusion and hope that the above clarifies our explanation with regard to our refinery's percent distillate yield.

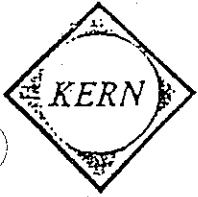
Sincerely,

Tom Eveland /s/

Tom Eveland
Vice President, Government Affairs

TLE:bj

cc: Peter D. Venturini
Dean C. Simeroth
John Courtis ✓



Kern Oil & Refining Co.

7724 E. PANAMA LANE
BAKERSFIELD, CALIFORNIA 93307-9210
(805) 845-0761 FAX (805) 845-0330

44-8-1

7/29/94

STATE OF CALIFORNIA
7/27/94

XC: Board Members
J&S MHS
AS Legal
JB SSD

(9)

July 21, 1994

**CONFIDENTIAL MATERIAL
DELETED**

Mr. Peter D. Venturini
Chief, Stationary Source Division
California Air Resources Board
P.O. Box 2815
Sacramento, CA 95812

Re: Diesel Aromatics Rule Small Refiner Provision

Dear Mr. Venturini:

Kern Oil & Refining Co. (Kern) has the following comments regarding items discussed during your July 13, 1994, meeting with Kern, Paramount, and Powerine.

COST OF COMPLIANCE WITH DIESEL RULE

During the meeting you requested estimates of the cost for each refiner to produce low sulfur, 20 percent aromatic diesel fuel. My July 7 letter to Mike Scheible gave the estimated impact on Kern's overall operating cost but did not present the estimated cost in cents per gallon of diesel fuel. Enclosed is a calculation of the estimated per-gallon cost for Kern to produce low sulfur, 20 percent aromatic diesel fuel under two scenarios. If production is limited by CARB regulation to 7,000 bpd, the net cost after adjusting for the effect of state and federal income tax would be _____ per gallon. If production is limited to 5,531 bpd, the cost would be _____ per gallon. Enclosed is a calculation of these amounts.

The difference in per-gallon cost of manufacturing 7,000 bpd of diesel fuel versus 5,531 bpd does not even begin to explain the impact that such a reduction in diesel volume and resultant reduction in crude runs would have on Kern and its customers. My July 7 letter to Mike Scheible thoroughly discussed a number of factors which, taken together, demonstrate that a limitation on distillate production of 5,531 bpd, added to the cost of compliance with the aromatics limit, would put Kern in a substantial loss position and seriously threaten its viability. Kern's continued viability depends upon maximizing its operating efficiency. As explained in my July 7 letter to Mr. Scheible, distillate production of approximately 7,000 bpd is essential to that efficient operation.

UL 2 199

Stationary Source

IMPACT ON LOCAL ECONOMY

Kern employs approximately 100 people in the Bakersfield area. Although at first glance, this would appear to be a relatively small number, a petroleum refinery adds many more people to the employment rolls than just the number that it directly employs. Enclosed is a list from the California Department of Commerce that summarizes the "multiplier" impact on employment of over 70 industries in Kern County. The petroleum industry has a job multiplier over twice that of any other industry on the list. The Department of Commerce estimates that due to the goods and services bought by the petroleum industry and the marketing of petroleum products, every job in our industry supports a total of 6.36 jobs in the county. Thus, Kern keeps not only its 100 people employed, but it supports another 536 jobs in the local area.

Because refinery employees are highly skilled workers, Kern's annual payroll of is significantly greater than the majority of companies of its size. Thus, our employees have a disproportionately large impact on the local economy due to their greater income.

Kern anticipates capital expenditures in excess of in the next two years on its reformulated gasoline project. As substantial portion of this amount will benefit the local engineering, fabrication and construction trades. Of course, Kern will only be able to go ahead with this project if it believes that it can remain viable.

IMPACT ON GOVERNMENT REVENUES

Kern's petroleum products generate sales tax and motor vehicle fuel tax revenues to the federal, state and local governments totalling approximately annually. In addition, Kern pays local property tax of approximately and miscellaneous fees in excess of to state and local agencies including the San Joaquin Valley Unified Air Pollution Control District, the State Fire Marshal's Office, and Kern County Fire Department. Kern also pays federal FICA taxes of over Thus, if Kern is unable to continue operation of its refinery, state and local government agencies stand to lose substantial funding at a time when their sources of income are becoming increasingly scarce.

KERN IS THE SOLE WEST COAST SOURCE OF SEVERAL PRODUCTS

Since 1983, Kern has produced a line of products that are used in the . These products, include Kern is the only West Coast manufacturer of these products. If Kern is unable to operate because of diesel volume limitations imposed by CARB, these products will have to be shipped in from the Gulf Coast at substantial additional cost to Kern's consumers.

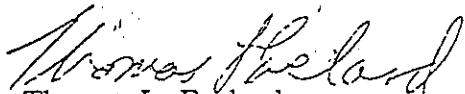
SUMMARY

In essence, Kern is a diesel refiner. Although it manufactures other products such as gasoline and _____ percent of Kern's refinery revenues are from the sale of diesel fuel. This is primarily because Kern is located in the midst of a very dynamic agricultural and trucking center. To remain viable, Kern needs to continue producing approximately 7,000 bpd of diesel fuel. The Southern San Joaquin Valley market, moreover, needs Kern's presence to maintain a competitive balance with Texaco, the only other significant diesel supplier to the area. The economic and pro-competitive influence of Kern to the local area far outweighs any possible environmental impact of allowing an additional 1,469 bpd of small refiner diesel fuel beyond the 5,531 bpd recommended by CARB staff in its June 1994 proposal.

This letter contains confidential trade secret information, the release of which to the public or to Kern's competitors would be very damaging to Kern. A copy of this letter with that information deleted is enclosed for the public file.

We sincerely appreciate the opportunity to express our concerns with the regulation and the proposed modifications. If you have any questions, please give me a call at (805) 845-0761.

Sincerely,



Thomas L. Eveland
Vice President, Government Affairs

:dr

cc: Dean Simeroth
John Curtis
Thomas Jennings

Enclosure

KERN OIL & REFINING CO.

Estimated Cost per Gallon to Manufacture
CARB Low Sulfur, 20% Aromatic Diesel Fuel

Case 1 with annual limit of 7,000 bpd.

Case 2 with annual limit of 5,531 bpd.

Assumptions

10 year capital recovery

34% federal tax rate

9.3% state tax rate

13% capital cost

 bpd diesel production (Case 1)*

 bpd diesel production (Case 2)*

$$ACC = 0.56919(OC) + 0.142897(K)**$$

Where ACC = Annualized capital cost \$/gal.
 OC = Operating costs, \$/gal.
 K = Total investment costs, \$/gal.

* Assumes actual annual diesel production yields of maximum allowed by regulation.

** Equation developed by CARB to determine cost for small refiner to produce reformulated gasoline.

California Department of Commerce

Kern County Job Multipliers

Industry	Job Multiplier from	
	Industry Spending	Industry and Consumer Spending
Dairy Farm Production	1.13	1.24
Livestock, Poultry Production	2.25	2.46
Cotton Crops	2.40	2.63
Grains	1.79	1.96
Hay and Pasture	2.02	2.21
Fruits and Nuts	1.13	1.24
Vegetables	1.24	1.36
Other Crops	1.27	1.39
Ag Services, Forestry, Fishing	1.14	1.25
Metal Mining	1.32	1.45
Fuel Mining	1.26	1.38
Nonmetal Mining	1.51	1.66
Building Construction	1.45	1.59
Heavy Construction	1.43	1.57
Meat Products	1.72	1.88
Dairy Products	2.07	2.27
Canned, Preserved, Frozen Food	2.51	2.75
Grain Mill Products	2.17	2.38
Bakery Products	1.39	1.52
Beverages	2.18	2.39
Fats and Oils	2.13	2.33
Miscellaneous Food Products	1.60	1.75
Apparel	1.11	1.22
Other Textile Products	1.14	1.25
Lumber and Wood Products	1.42	1.56
Furniture and Fixtures	1.23	1.35
Paper and Allied Products	1.21	1.33
Printing and Publishing	1.31	1.44
Chemicals and Allied Products	2.14	2.35
Petroleum and Coal Products	5.81	6.36
Rubber and Plastic Products	1.28	1.40
Stone, Clay, and Glass Products	1.45	1.59
Primary Metal Products	1.34	1.47
Fabricated Metal Products	1.25	1.37
Industrial, Commercial Machinery	1.24	1.36
Computers and Office Equipment	1.58	1.73
Electrical Equipment	1.20	1.32
Electronic Components	1.41	1.54

Industry	Job Multiplier from	
	Industry Spending	Industry and Consumer Spending
Electronic Equipment	1.42	1.55
Motor Vehicles, Ships	1.30	1.42
Aerospace	1.43	1.56
Medical Instruments, Optical Goods	1.23	1.35
Miscellaneous Manufacturing	1.24	1.36
Railroad Transportation	1.42	1.55
Local and Interurban Transit	1.17	1.25
Trucking and Warehousing	1.28	1.40
Water Transportation	1.70	1.86
Air Transportation	1.67	1.83
Pipelines, Except Natural Gas	2.57	2.82
Transportation Services	1.22	1.34
Communications	1.34	1.47
Utilities	2.14	2.34
Wholesale Trade	1.27	1.40
Retail Trade	1.19	1.30
Eating and Drinking Places	1.16	1.27
Finance	1.28	1.41
Insurance	1.54	1.69
Real Estate	1.25	1.37
Business Services	1.12	1.23
Hotels and Other Lodging	1.16	1.27
Computer Services	1.23	1.35
Personal Services	1.08	1.19
Miscellaneous Repair Services	1.06	1.16
Professional Services	1.22	1.33
Auto Repair, Services, Parking	1.39	1.52
Motion Pictures	1.37	1.50
Amusement, Recreation Services	1.27	1.39
Health Services	1.19	1.30
Educational Services	1.14	1.25
Membership Organizations	1.14	1.25
Social Services	1.09	1.20

The *industry spending multiplier* shows the jobs generated as an industry buys goods and services from other industries in the area.

The *industry and consumer spending multiplier* includes all jobs generated from industry spending, plus the jobs generated by employees' consumer spending.

All of the job multipliers already include the initial direct job. Therefore, the indirect job impact is the multiplier minus one.

The multipliers were produced by the California Department of Commerce using IMPLAN, a system developed by the University of Minnesota. The original source of data for this system was the U.S. Department of Commerce.

For more information on how to use job multipliers, please read the accompanying brochure, *Using County Job Multipliers*, available from the California Department of Commerce.



Kern Oil & Refining Co.

7724 E. PANAMA LANE
BAKERSFIELD, CALIFORNIA 93307-9210
(805) 845-0761 FAX (805) 845-0330

94-8-1
7/29/94

STATE OF CALIFORNIA
AT THE COUNTY OF KERN
OFFICE OF THE CLERK
7/27/94
XC Board Member
J&S MHS
AS Legal
JB SSD

9

**CONFIDENTIAL MATERIAL
DELETED**

July 21, 1994

Mr. Mike Scheible
Deputy Executive Officer
California Air Resources Board
P.O. Box 2815
2020 L Street
Sacramento, CA 95812

Re: Proposed Amendments to Small Refiner Diesel Rule

Dear Mr. Scheible:

During your July 13, 1994, meeting with Kern, Paramount, and Powerine, you requested further explanation of the statement in my letter to you of July 7 that Kern's distillate fuel yield is approximately $\frac{1}{2}$ percent of crude oil runs. You noted that in Table 1 of the July 7 letter, distillate yield varied from $\frac{1}{2}$ to $\frac{1}{4}$ percent.

My statement that distillate fuel yield is approximately $\frac{1}{2}$ percent was based upon a review of operations from 1983 through 1993. During that period, Kern's average yield of distillate fuel products including kerosene jet fuel was $\frac{1}{2}$ percent. See Table 1 enclosed. As we have discussed with your staff on several occasions, the jet fuel market in the Southern San Joaquin Valley has essentially disappeared over the last ten years. Therefore, Kern's jet fuel production has declined over that time from $\frac{1}{2}$ bpd to less than $\frac{1}{4}$ bpd. Although the majority of what was previously jet fuel yield is now in the distillate pool, we estimate that average distillate yield is now approximately $\frac{1}{4}$ percent rather than $\frac{1}{2}$ percent, excluding the small amount of jet fuel that we still produce.

The variation in distillate yield between $\frac{1}{2}$ percent in the December 1992 - April 1993 period and $\frac{1}{4}$ percent in the December 1993 - April 1994 period is typical of the variation from year to year as seen in Table 1. The main variable that affects distillate yield is the crude oil quality. Kern receives crude oil from $\frac{1}{2}$ to $\frac{1}{4}$ different fields each month. The distillate yields of the various crudes range from $\frac{1}{2}$ percent to $\frac{1}{4}$ percent. The mix of crudes received by Kern changes as production rates vary in the fields and as supply arrangements terminate and must be replaced distillate yields to vary by several percentage points from month to month and year to year.

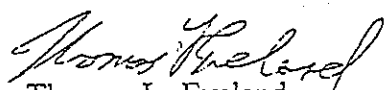
Another variable that can affect distillate yield is the purchase of supplemental feedstocks. Kern has purchased refinery feedstocks other than crude oil throughout its history. Transmix, which contains from to percent distillate, is purchased and processed in Kern's Rerun Unit. Other feedstocks which are purchased from time to time can also affect the distillate yield. Finally, even though Kern has no cracking units and therefore minimal ability to alter yields between distillates and gasoline, it can adjust operations to yield a slightly larger or smaller percentage of distillate relative to gasoline. This flexibility is very limited, however, accounting for a distillate yield variability of no more than one or two percent.

The overall impact of the foregoing factors is a variability in distillate yield from month to month anywhere from to percent, with an average of approximately percent as stated in my July 7 letter.

This letter contains confidential trade secret information, the release of which to the public or to Kern's competitors would be very damaging to Kern. A copy of this letter with that information deleted is enclosed for the public file.

If you have any additional questions, please do not hesitate to call me.

Sincerely,



Thomas L. Eveland
Vice President, Government Affairs

:dr

cc: Peter D. Venturini
Dean C. Simeroth
John Courtis

Table 1

Kern Oil & Refining Co.
Distillate Yield Including Kerosene Jet Fuel
1983-93

<u>Year</u>	<u>Percent Distillate Yield</u>
1983	
1984	
1985	
1986	
1987	
1988	
1989	
1990	
1991	
1992	
1993	

Average

13



14700 Downey Avenue
P.O. Box 1418
Paramount, CA 90723
(310) 531-2060

June 27, 1994

Mr. James D. Boyd
Executive Officer
California Air Resources Board
P.O. Box 2815
Sacramento, CA 95812

*Confidential Material
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RE: TITLE 13 CCR 2282

Paramount Petroleum Corporation (PPC) was completely surprised and disappointed by the recommendation of the staff as to the "Exempt Volume" proposed for PPC in the Staff's Report to the Board. It has been the understanding of PPC in all discussions with the staff of CARB that the exemptions provided for in Title 13 of CCR 2282 were to level the playing field between small independent and large Refiners. The spirit of the rule was to insure that small independent refiners did not spend on a per barrel basis a disproportionately high amount of capital. It was also understood that small independent refiners would not increase name plate capacities to take advantage of their exemptions. PPC personnel have had many meetings and conversations with CARB staff and have furnished to CARB numerous documents to prove that the name plate capacity of our refinery has not changed from early 1970. In these discussions with the staff of CARB, PPC was repeatedly advised that the final "Exempt Volumes" would closely match our design production of diesel fuel. In the rule, certain years were used to determine average production of small refiners. This would have been correct if we lived and worked in an unchanging world. PPC was operating under Chapter 11 Bankruptcy with a court appointed trustee during and after the averaging years. Under new owners PPC's refinery will finally overcome the years of bankruptcy operation and by January 1995 is expected to achieve it's name plate crude charge once again.

On Jan. 1, 1993 PPC was purchased by Mr. Jerrel Barto and Mr. Craig Barto. The Barto's brought to PPC new capital and banking arrangements with a long term processing contract [REDACTED]. Under the leadership of the new owners and by the financial strength they brought, the refinery will be totally repaired and refurbished by the end of this year. During the period prior to purchasing PPC, the management under Bankruptcy assured the Barto's that PPC would be able to meet all its future product specifications. The Barto's were informed that under Title 13 CCR 2282 that PPC would be able to market a 20 percent aromatic diesel or equivalent and had been assured by the staff of CARB, the final "Exempt Volume" would closely match our production. The management under Bankruptcy of PPC also informed the Barto's of expected capital expense necessary

to meet CARB Phase II gasoline and for modifications to the refinery's sulfur removal units and environmental controls. It was never anticipated that large sums of capital were to be spent to insure that PPC could sell its diesel product into California markets. If the "Exempt Volume" does not match closely PPC's diesel production, it will cause an undue hardship on PPC, its owners and employees and could be quote "the straw that broke the camel's back".

The Barto's have also purchased Fletcher Oil & Refining Co. another small Refinery. Before the Fletcher purchase, the Barto's and PPC contacted CARB to make sure that by obtaining Fletcher that PPC would not lose its small refinery status. CARB informed PPC that if the Crude Unit at Fletcher was disconnected that PPC would not lose its small refinery status and that the down stream operation of Fletcher could be incorporated into PPC's operation. With this understanding in place the Barto's purchased Fletcher. PPC is studying how to incorporate the Fletcher down stream units into one PPC operation. PPC has made a proposal to the staff of CARB that the "Exempt Volumes" of both Fletcher and PPC be assigned to PPC as surviving operator of both small refineries. This was offered to assist CARB staff in justification of final "Exempt Volume" for PPC. It should be noted that by combining the down stream units of both refineries that the name plate capacity of PPC will not change.

If PPC is not given an "Exempt Volume" that will closely match its diesel product make, PPC will be unable to sell its diesel into the California market and must look to markets outside of California to sell its product. To compound this problem when California starts marketing CARB Phase II Gasoline hundreds of thousands of barrels of jet fuel will be dumped into the middle distillate market making it even harder to market our jet and diesel fuel in or out of the State of California. The specifications for diesel fuel will allow a refiner to blend jet fuel into diesel fuel, but the specifications for jet fuel will not allow diesel fuel to be blended into jet fuel. The jet fuel quantities listed below are based on estimated maximum sales from PPC. Listed in the table below are PPC actual and estimated middle distillate make:

Time	Crude Unit Charge B/CD	[REDACTED]	[REDACTED]	Diesel B/CD
1. Now	40,644	[REDACTED]	[REDACTED]	8,174
2. Jan.1995	46,500	[REDACTED]	[REDACTED]	9,012
3. Feb.1998	46,500	[REDACTED]	[REDACTED]	11,313

If PPC were allocated the "Exempt Volume" as recommended by CARB staff the following table shows the expected dollar loss to PPC resulting from just transportation charges to our closest market.

1. Now - 8174 - 3646 = 4528 x 3.5¢/Gal. Transportation x 42 Gal. = \$6656.16/Day loss (\$6656 x 365 = \$2,429,440/year)
2. Jan.1995 - 9012 - 3646 = 5366 x 3.5¢/Gal Transportation x 42 Gal. = \$7888.02/Day loss (\$7888 x 365 = \$2,879,120/year)

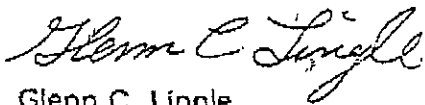
3. Feb.1998 - 11313 -3646= 7667 x 3.5¢/Gal Transportation x 42 Gal.
= \$11270.49/Day loss (\$11270 x 365 = \$4,113,550/year)

The above calculations are based on the most conservative losses to PPC.

As you can see not allowing PPC the "Exempt Volume" of diesel to closely match our diesel production will cost PPC millions of dollars per year. Small Independent Refiners depend on niche positions in the overall market and rely very heavily on being able to supply their normal product at a local market price. By not setting PPC's "Exempt Volume" to closely match its diesel production, you will place PPC at a disadvantage to other refiners and will not level the playing field as was intended in Title 13 CCR 2282 to assist small refiners to survive and recover its capital outlay. PPC has spent millions of dollars to comply with the small refiners section of Title 13 CCR 2281/2282 and is expecting CARB to set our "Exempt Volume" as intended by the spirit of the rule to protect small independent refiners survival. As you well know, there are only a few of us that have not given up and allowed ourselves to be forced out of business by the extraordinary costs associated with rules and regulations that have been implemented.

Without the flexibility of a proper "Exempt Volume" CARB will be dictating how PPC must run its business. We do not believe that is your intent or the intent of Title 13 CCR 2282. As you can see by the contents of this letter, PPC considers this subject to be extremely important to our future survival and would like to meet with you at the earliest possible time.

Best Regards.



Glenn C. Lingle
President

cc: Peter D. Venturini
Dean C. Simeroth
John Curtis
Thomas Jennings, Esq.



14700 Downey Avenue
 P.O. Box 1418
 Paramount, CA 90723
 (310) 531-2060

13

July 18, 1994

Mr. James D. Boyd
 Executive Officer
 California Air Resources Board
 P.O. Box 2815
 Sacramento, CA 95812

*Confidential Material
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Dear Mr. Boyd,

RE: TITLE 13 CCR 2282 PUBLIC HEARING

THE FOLLOWING INFORMATION IS A CONFIDENTIAL TRADE SECRET AS DEFINED BY STATE AND FEDERAL LAW, AND IT MAY NOT BE RELEASED TO ANY PERSON, PARTY OR ORGANIZATION WITHOUT THE PRIOR WRITTEN CONSENT OF PARAMOUNT PETROLEUM CORPORATION.

The purpose of this letter is to demonstrate good cause for increasing Paramount Petroleum Corporation (PPC) allocation of "Exempt Volume" of diesel fuel as defined in Title 13 CCR 2282 to 9,000 barrels per day.

Over the decades PPC has played an important role as a stable employer and in the development of roads and infrastructure in the state of California as a supplier of products to independent markets and today is still a major supplier of asphalt products in Southern California.

PPC began operations in the early 1930's as a small topping plant. PPC has undergone several expansions and modifications under different owners over the years until this date. PPC reached its nameplate capacity of 46,500 BBL in the early 1970's under the ownership of Conoco. In 1982 Conoco sold PPC to Pacific Oasis and since 1982 PPC has changed ownership several times. (See attachment #1).



Like many independent refiners, PPC then fell on hard times as a result of increased competition from major oil companies and increased costs to comply with government regulations. PPC is one of the few independent refiners that have survived. During the 1980's and early 1990's PPC was operated at a much reduced rate both in and out of Chapter 11 Bankruptcy due to the lack of proper financing. As stated in my letter to you of June 27, 1994 this situation began to improve when the Bartos became PPC's new owners on Jan. 1, 1993. With proper financial backing in place, PPC has operated at near nameplate capacity and is expected to achieve nameplate crude charge by early 1995. It is extremely important to the state of California that

California Air Resources Board
Page 2

small independent refiners are afforded an opportunity to continue to compete to supply products to the independent markets to lend stability to petroleum products price and distribution in the state of California.

For decades major oil companies have been unable to force small independent refiners out of business. However, with the passage of the Clean Air Act Amendment of 1990 and the Enactment of Title 13 CCR 2281/2282 and other laws and regulations, it has been publicly announced by an officer of a major oil company that the State and Federal governments are finally going to achieve what they have not been able to do; force small independent oil refiners out of business. PPC as a small independent refiner, is determined not to let this happen. PPC has hard working employees, who are innovative in their thinking and determined to succeed.

In our discussion with CARB staff on Tuesday, July 6, 1994 we presented a set of graphs that illustrated how the market share has changed to favor major oil companies at the expense of small independent refiners since the time set forth as the base year in this regulation. (See attachment #2). Also presented were graphs to show that refinery runs and utilization have gone up dramatically for the major oil companies, while total refinery runs have decreased for small independent refiners primarily due to companies going out of business or shutting down their refineries. (See attachment #3). In this letter we are demonstrating that additional cost from new laws and regulations adopted since the historical period used for this regulation are forcing all refiners to operate at nameplate capacities or above if they are to have any chance of surviving. PPC also needs to be able to operate at nameplate capacities to cover additional costs as shown in attachment #4. Listed below are examples of PPC's cost per barrel from 1988 through estimated 1994.

1. Throughput has gone from 10.4 millions barrels/year in 1988 to 14.7 millions barrels/year in 1994.
2. 
3. 

PPC is convinced that the only way we can survive is to operate at as high a crude rate as possible and to hold our operating costs at past levels. PPC asks its employees to bear the additional work loads and they have responded by holding the line on operating costs.


California Air Resources Board
Page 3

In attachment #5 are costs and calculations that show how much capital PPC has spent and how much additional cost is incurred to market one gallon equivalent of 20 percent aromatic diesel fuel. Statements made by major oil companies at CARB public hearings indicate that on a per gallon basis PPC has spent more than the majors to comply with Title 13 CCR 2281/2282. PPC does not believe that CCR 2282 was ever designed to force small independent refiners to spend a disproportionately higher amount of money to meet its goals.

PPC again asks that small independent refiners be given an "Exempt Volume" of at least 25,000 BBL/Day. This is only 74% of the volume CARB had anticipated when this regulation was adopted. PPC is asking for an "Exempt Volume" of at least 9000 barrels per day.

PPC has looked at its alternate market for supplying diesel fuel and found that in the least damaging case it will cost PPC in lost revenue \$692,916 per year for each 1000 barrels per day of diesel fuel sold out of the state of California. See attachment #6 for prices. By subtracting the exempt volume proposed by CARB staff in its report dated June 10, 1994 and the amount of diesel fuel PPC will be making based on the L.P. in attachment #7 the minimal loss calculated for PPC will be \$5,056,208 per year. This loss is our least damaging case and does not take into consideration what will happen to the diesel market when 10,000 to 15,000 additional barrels will be dumped into it. The total losses could be more than double under these conditions.

PPC as a small independent refiner contributes greatly to the local, State and Federal economies. Listed below are several illustrations of items contributed:

- I. Annual Operating Budget =
 - a) Salaries
 - b) Licenses & Permits
 - c) Capital Projects
 - d) Environmental Capital Projects
 - e) Process Safety Management Project
 - f) Utilities
 - g) Maintenance
 - h) Chemical and Spare Parts
 - i) Taxes, Insurance
 - j) Others
- 

California Air Resources Board
Page 4

- II. Annual Employment = 283
 a) With multiplier effect = $283 \times 4.77 = 1350$ jobs
 1) see California Trade & Commerce information attached #8
- III. Local Crude Oil Purchases - 16,000,000 Barrels Plus per year
 a) Crude upgrade to finished products of \$4 Per Barrel Minimum
 $16,000,000 \times \$4 = \$64,000,000$ per year
- IV. Taxes generated from PPC Operation = \$141,947,334/Year
- | | | |
|----|---------------------------|------------------|
| a) | Super Fund | \$ 2,240,000/Yr |
| b) | Sales Tax | \$ 34,000,000/Yr |
| c) | Excise & Vehicle fuel tax | \$104,707,334/Yr |
| d) | Misc. Tax | \$ 1,000,000/Yr |
- V. Annual
- | | | |
|----|----------------------------|----------------|
| | Local Economy contribution | = \$10,000,000 |
| a) | City Taxes | \$ 1,000,000 |
| b) | Local Purchases | \$ 2,000,000 |
| c) | Local Contracts | \$ 7,000,000 |
- VI. Future
- New Capital Projects to meet new and ongoing laws and regulations
 = \$40,000,000
- | | | |
|----|---------------------------|---------------|
| a) | Clean Air Act 1990 | \$ 25,000,000 |
| b) | Process Safety Management | \$ 4,000,000 |
| c) | RECLAIM & Voc's | \$ 6,000,000 |
| d) | Others | \$ 5,000,000 |

The list above only reflects the major known items at this time. As you can see PPC contributes very heavily to the Local, State & Federal economies.

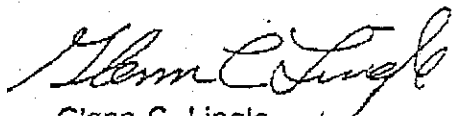
For the staff and Board's information PPC has been extremely environmentally proactive. PPC filed a ground water clean up plan and put the plan in action without any order from any Agency. PPC is now preparing and will put it in action next year a plan to clean up our soils. PPC has made all mandated reductions in air emissions and has placed in service additional equipment that places us ahead of the RECLAIM program. In meeting the Clean Air Act of 1990 and CARB Phase II gasoline requirement, PPC designed its equipment so that it will reduce air toxics and air emissions. By designing our system to meet these specifications, PPC was successful in convincing the City of Paramount to be Lead Agency for this project. PPC is the only refining company in the State of California to do this. In the past PPC became

California Air Resources Board
Page 5

a member of a consortium (at the request of California EPA and other state agencies) to clean up a hazardous waste site. We agreed to receive all liquid waste allowed under our permit and treat it at no cost. This action saved the State hundreds of thousands dollars in clean up costs. These are examples of PPC's commitment for a cleaner and safer environment.

In summary we have shown that PPC has been in operation for over half a century serving both local and state independent markets. We have also shown that by not being allowed to operate at nameplate capacities and sell our product as the market dictates, we will not be able to support additional costs imposed on us by agencies and government. This will result in additional refinery closures and a higher energy cost to the California public. Operating as a small refiner, PPC has provided approximately 1350 jobs and contributes over \$250,000,000 per year directly or indirectly to Local, State and Federal economies. We at PPC believe that the staff of CARB does not want to establish additional hardships on small independent refiners that could bring independent refining to an end in the State of California. We at PPC request the support of the CARB staff for our efforts to obtain a fair " Exempt Volume" of diesel fuel that will closely match our nameplate capacities and allow us to survive. PPC thanks you for your efforts in this matter.

Best Regards.



Glenn C. Lingle
President

- cc: Mike Scheible
- Peter D. Venturini
- Dean C. Simeroth
- John Curtis
- Thomas Jennings, Esq.

#1

PARAMOUNT PETROLEUM CORPORATION
INTEROFFICE MEMORANDUM

TO: Roy Hearn

FROM: Sam Bruno *LB*

DATE: September 10, 1992

SUBJECT: History of Paramount Refinery

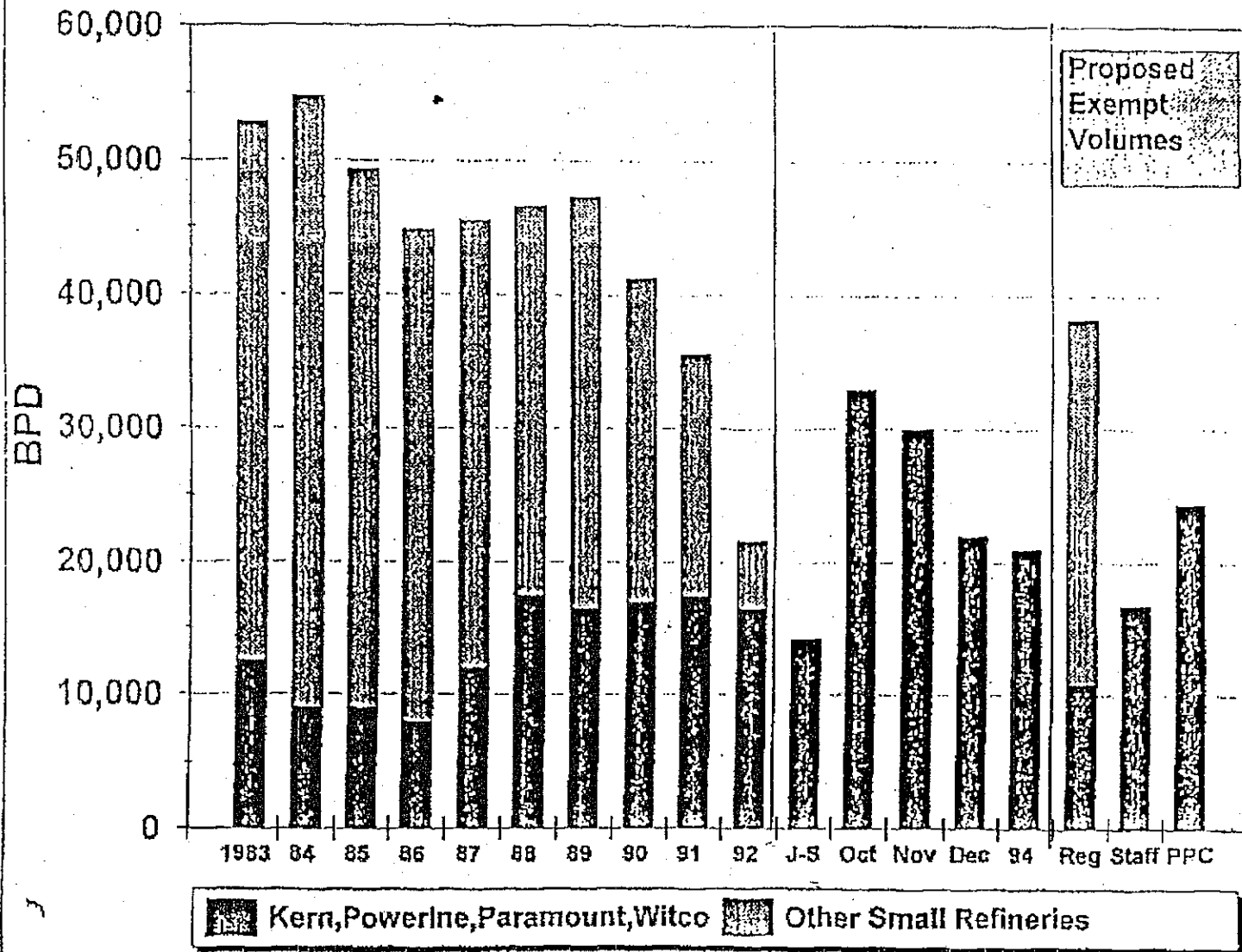
Following is the results of our research concerning the history of ownership of the Paramount Refinery.

- 1935 -- Ajax Refining opens small refinery on Compton Blvd. Somerset
- 1937 (approximately) -- Ajax Refining becomes a subsidiary of Krieger Oil Company
- 1946 -- Douglas Oil is formed by consolidating three Southern California petroleum Companies -- Krieger Oil Company, El Tejon Oil and Refining Company and W.G. Krieger, Inc.
- 1961 -- Douglas Oil becomes a wholly owned subsidiary of Continental Oil Company (CONOCO).
- Dec 1982 -- Conoco sells refinery to Pacific Oasis a joint venture of Oasis Petroleum, Culver City, Ca. and Pacific Resources Inc, Honolulu Hawaii.
- March 1984 -- Paramount Petroleum Corporation is formed by merger of Pacific Oasis and Independent Valley Energy Corporation (IVEC)
- July 19, 1984 -- Paramount Petroleum Corporation becomes debtor in possession under trustee in Chapter 11.
- December 19, 1988 -- Reorganized Paramount Petroleum is purchased by API out of Chapter 11
- January 22, 1990 -- Paramount Petroleum enters Chapter 11

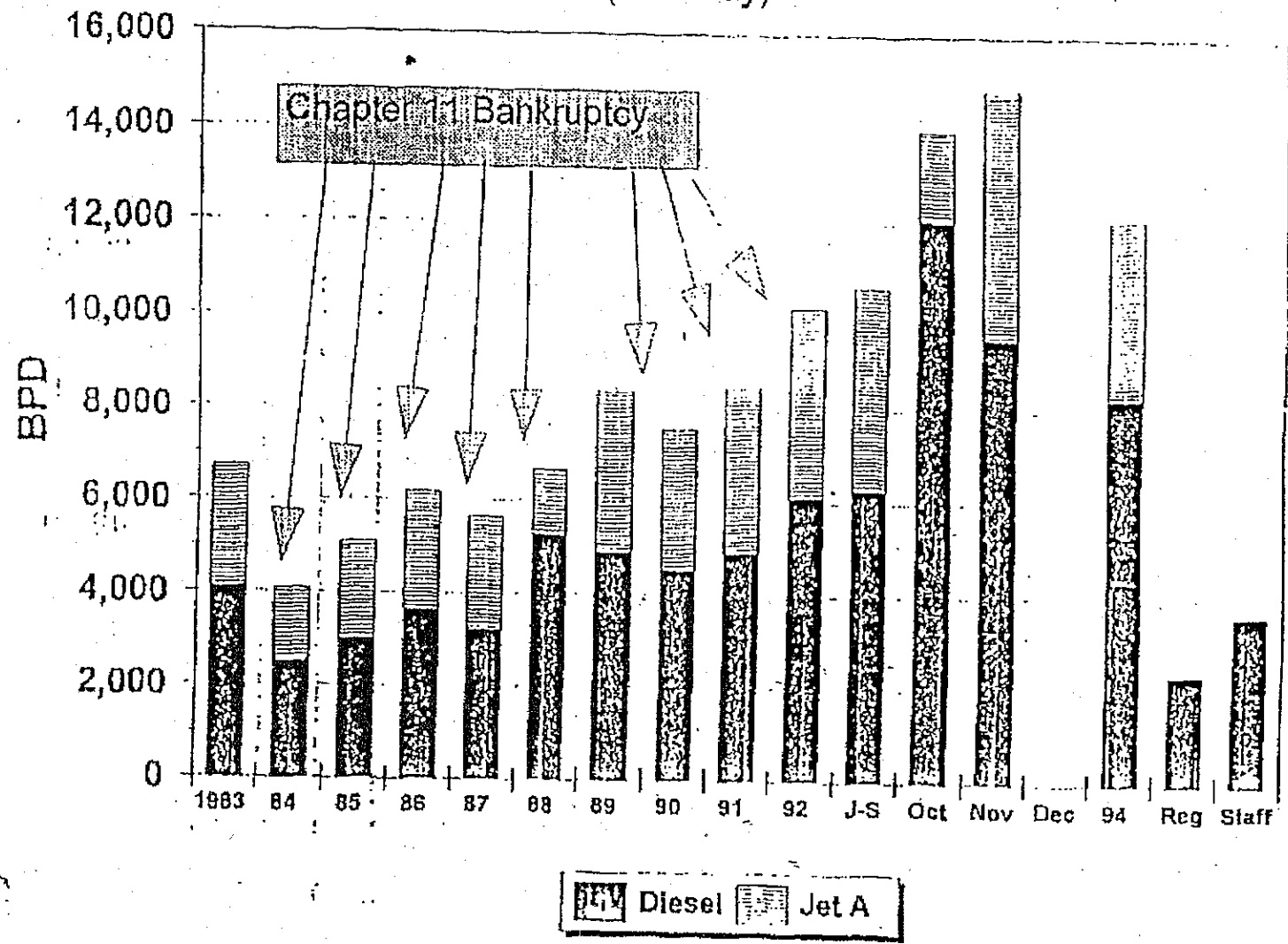
c.c.

Glenn Lingle
Community Relations File
Notice File

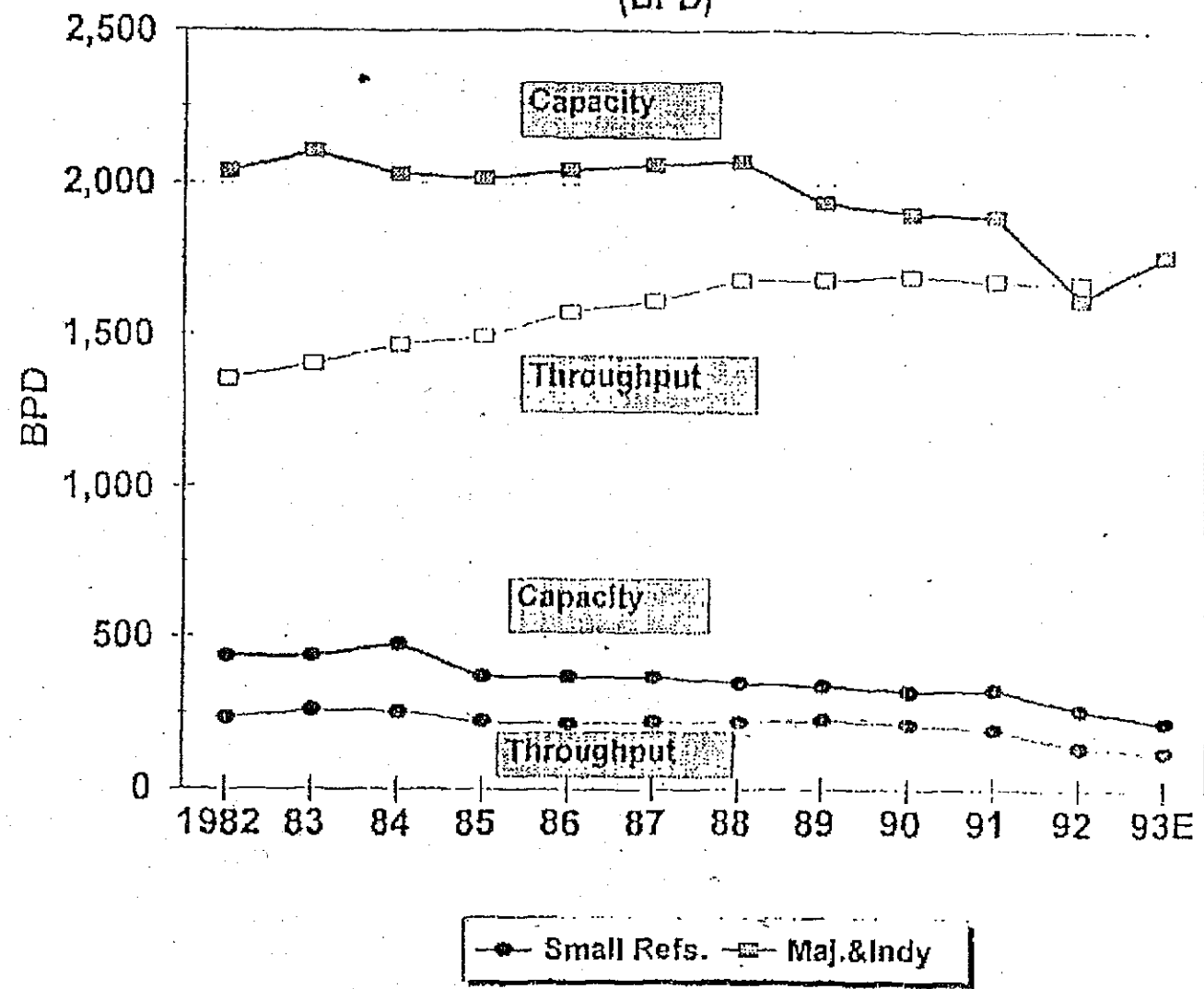
Small Refinery Distillate Production



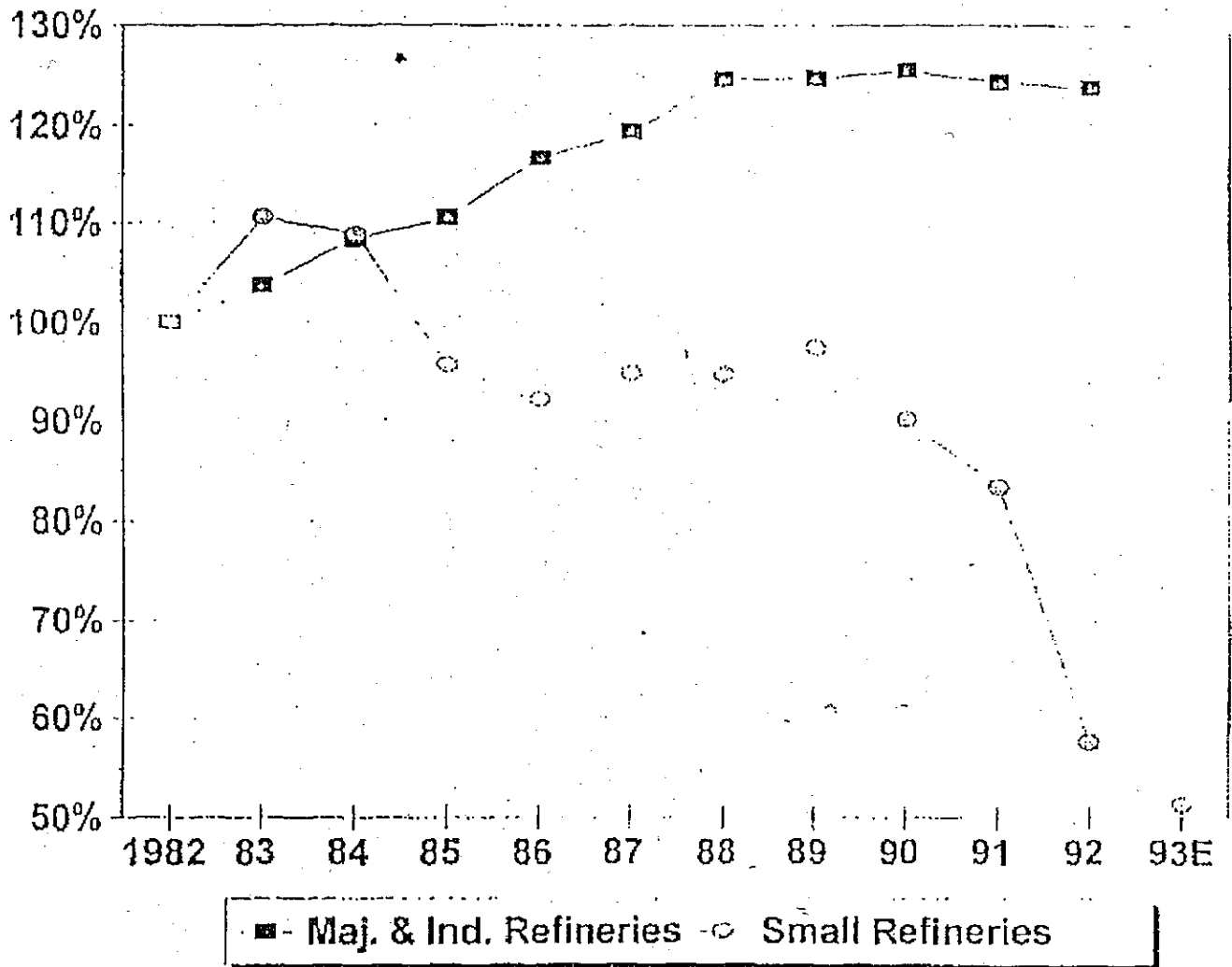
Paramount Pet. Distillate Production (bbls/day)



Ca. Crude Unit Capacity/Throughput (BPD)

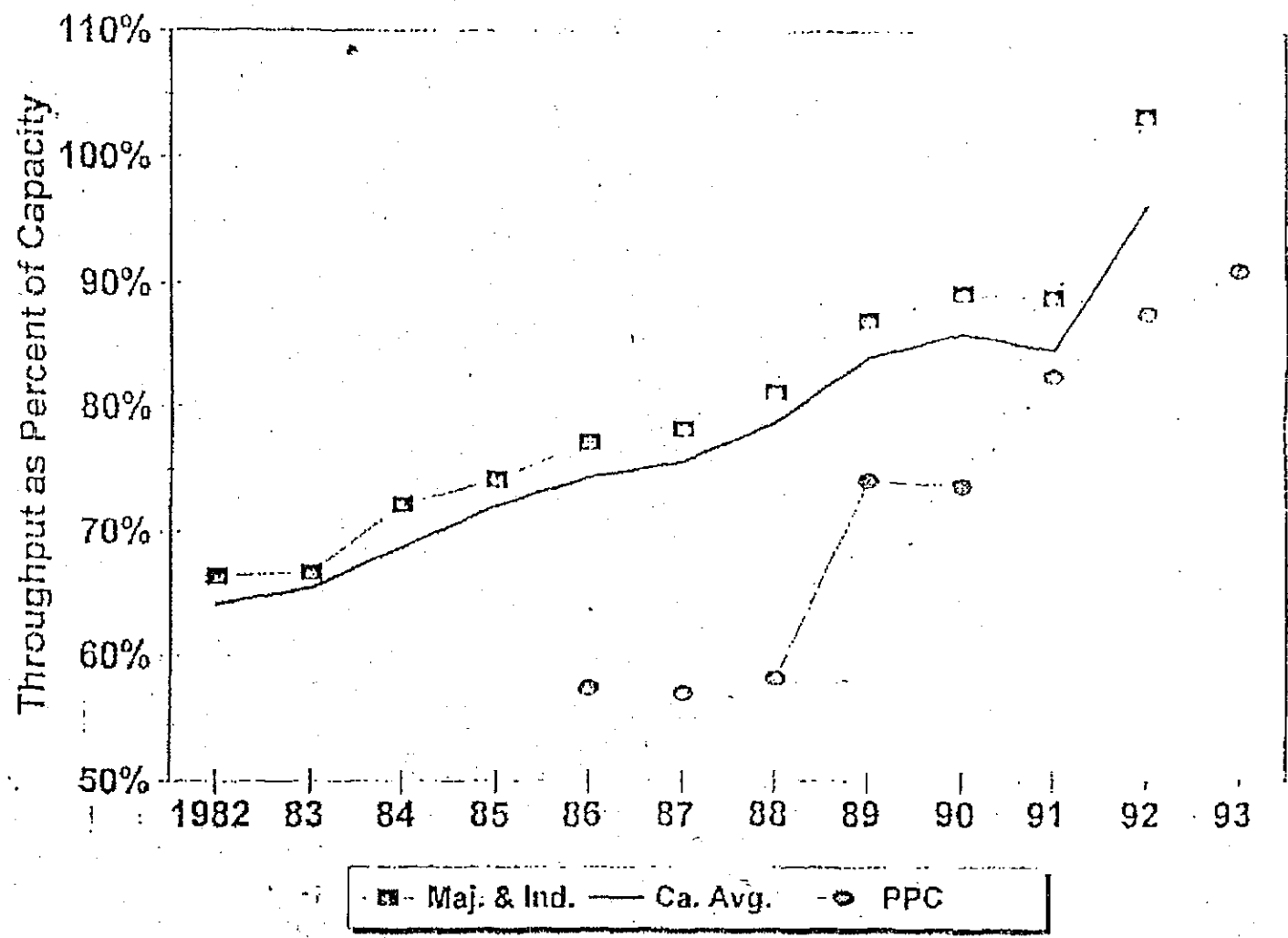


Ca. Refinery Crude Input (Percent of 1982 Throughput)



Crude Unit Capacity Utilization

California Refineries



#5

ECONOMIC ANALYSIS

COST OF DIESEL DESULFURIZING AND AROMATICS TREATING

<u>CAPITAL COSTS (SINCE 1990)</u>	<u>MMS</u>
Jet Fuel Treater	2.2
LPG Unit and Storage	1.6
Gas Oil/Distillate Treater Expansion	2.3
Reformer Pressure Reduction	2.2
Additive Research & Equipment	1.0
Total	9.32

Per BBL Capital Cost Calculation

Assumed daily throughput	8000 BPD
Amorization Period	5 Years
Cost of Capital/Opportunity Cost	15%
Operating Days per Year	330
Capital Cost per BBL Throughput	0.26

Per BBL Operating Cost

<u>Utilities</u>	<u>\$/BBL</u>
Electricity	0.21
Plant Fuel	0.36
Cat/Chem	0.01
Steam	0.00
Total Utilities	0.59

Hydrogen Cost @ \$4.30 per MSC 0.86

Operations/Supervision 0

Miscellaneous Costs/BBL

Maintenance @ 3% of cap. cost/yr	0.09
Insurance @ .1% of cap. cost/yr	0.00
Taxes @ 1% of cap. cost/yr	0.03
Total Miscellaneous Costs	0.13

Additives 2.10

Total Cost Per BBL (\$) 3.94

Total Cost Per Gallon (\$) 0.094

Using CARB Formula for Cost Determination

10 Year Return $ACC = .56919(OC) + .142897(K)$

OC = 9,706,643

K = 9,320,000

ACC = 6,856,724

Increased Cost per Gallon (\$) = 0.062

FD

California Trade & Commerce Agency

Los Angeles County Job Multipliers

Industry	Job Multiplier from	
	Industry Spending	Industry and Consumer Spending
Dairy Farm Production	1.11	1.23
Livestock, Poultry Production	1.77	1.56
Grains	1.71	1.60
Hay and Pasture	1.56	2.07
Fruits and Nuts	1.08	1.21
Vegetables	1.13	1.31
Other Crops	1.33	1.53
Ag Services, Forestry, Fishing	1.32	1.24
Metal Mining	1.32	1.47
Fuel Mining	1.22	1.43
Nonmetal Mining	1.32	1.48
Building Construction	1.43	1.59
Heavy Construction	1.44	1.60
Meat Products	1.51	1.53
Dairy Products	1.50	1.57
Canned, Preserved, Frozen Food	2.13	2.37
Grain Mill Products	2.24	2.49
Bakery Products	1.45	1.51
Sugar and Confectionery Products	1.22	1.50
Beverages	2.23	2.53
Fats and Oils	2.53	3.23
Miscellaneous Food Products	1.57	2.03
Texile Mill Products	1.37	1.52
Apparel	1.22	1.33
Other Textile Products	1.15	1.29
Lumber and Wood Products	1.24	1.45
Furniture and Fixtures	1.33	1.43
Paper and Allied Products	1.28	1.54
Printing and Publishing	1.33	1.51
Chemicals and Allied Products	2.04	2.27
Pharmaceutical Products	1.55	2.05
Petroleum and Coal Products	4.22	4.77
Rubber and Plastic Products	1.23	1.43
Leather and Related Products	1.25	1.29
Stone, Clay, and Glass Products	1.33	1.53
Primary Metal Products	1.46	1.52
Fabricated Metal Products	1.20	1.45
Industrial, Commercial Machinery	1.23	1.44

Industry	Job Multiplier from	
	Industry Spending	Industry and Consumer Spending
Computers and Office Equipment	2.18	2.43
Electrical Equipment	1.35	1.51
Electronic Equipment	1.02	2.02
Electronic Components	1.57	1.55
Motor Vehicles, Ships	1.59	1.77
Aerospace	1.55	1.73
Medical Instruments, Optical Goods	1.37	1.52
Miscellaneous Manufacturing	1.31	1.46
Railroad Transportation	1.32	1.54
Local and Interurban Transit	1.18	1.31
Trucking and Warehousing	1.28	1.42
Water Transportation	2.57	2.55
Air Transportation	1.73	1.82
Pipelines, Except Natural Gas	3.00	3.33
Transportation Services	1.29	1.43
Communications	1.44	1.50
Utilities	1.34	2.05
Wholesale Trade	1.23	1.45
Retail Trade	1.23	1.37
Eating and Drinking Places	1.19	1.32
France	1.34	1.49
Insurance	1.79	2.09
Real Estate	1.17	1.29
Business Services	1.13	1.25
Hotels and Other Lodging	1.09	1.23
Computer Services	1.23	1.43
Personal Services	1.02	1.22
Miscellaneous Repair Services	1.10	1.22
Professional Services	1.23	1.37
Auto Repair, Services, Parking	1.23	1.47
Motion Pictures	1.23	2.03
Amusement, Recreation Services	1.42	1.53
Health Services	1.24	1.33
Educational Services	1.13	1.23
Miscellaneous Organizations	1.19	1.22
Social Services	1.11	1.24

The industry economic multiplier shows the jobs generated as an industry buys goods and services from other industries in the area. The industry and consumer economic multiplier includes all jobs generated from industry spending, plus the jobs generated by employees' consumer spending. All of the job multipliers already include the initial direct jobs. Therefore, the indirect job multipliers are the multiplier minus one.

The multipliers were produced by the California Trade & Commerce Agency using IMPLAM, a system developed by the University of Minnesota. The original source of data for this system was the U.S. Department of Commerce. For more information on how to use job multipliers, please read the accompanying brochure, Using County Job Multipliers, available from the California Trade & Commerce Agency.

POWERINE Oil Company

12354 Lakeland Road, P.O. Box 2108
Santa Fe Springs, California 90670-3357

(310) 944-9881
(310) 944-6111



TLX No: 4720404
A/B Powerine
Telecopy No: 944-8522

94-8-1
7/29/94
14

July 15, 1994

Mr. Michael D. Scheible
Deputy Executive Officer
Environmental Protection Agency
California Air Resources Board
2020 "L" Street
Sacramento, California 95812

CONFIDENTIAL MATERIAL DELETED

Dear Mr. Scheible:

I appreciate the time and efforts of your staff evaluating the exempt volume of diesel fuel that California small refiners can manufacture at the 20% aromatics equivalent standard. As I indicated in my June 15, 1993 letter to you, staff's current proposed amendments to 13CCR2282 (the "Regulation") help our situation but do not provide enough exempt volume to allow any California small refiners to remain financially viable.

We have prepared the attachments listed below to address the comments, questions, and issues raised at meetings held on July 6 and 13, 1994 between Powerine and CARB staff. Enclosed please find:

- Attachment I - Corrections to the CARB Staff Report dated June 10, 1994
- Attachment II - Contribution to California Economy
- Attachment III - Determination of Production Cost for CARB Diesel Fuel
- Attachment IV - Analysis of Operating Costs and Capacity Utilization
- Attachment V - Evaluation of Breakeven Operation
- Attachment VI - Justification For Higher Exempt Diesel Volume

I am providing the enclosed information to justify an increased exempt volume for Powerine as well as the other small California refiners. Please feel free to contact me or June Christman, Powerine's Manager of Environmental Engineering if you have additional questions or comments.

Very truly yours,

A. L. Gualtieri
President

ALG:ls

cc: Peter D. Venturini

ATTACHMENT I

POWERINE OIL COMPANY

CORRECTIONS TO CARB

STAFF REPORT

NARRATIVE

We wish to update you on our recent production volumes of CARB diesel and make some minor corrections to the June 10, 1994 CARB staff report. Attached for your information are Powerine's total distillate less jet and CARB diesel production volumes for January through June 1994. As you can see, our production varies from 5860 to 19641 BCD of total distillate less jet and from 5404 to 14524 BCD of CARB diesel. Specifically CARB diesel production in March of 1994 was 8299 BCD versus the 6300 BPD estimated in CARB's staff report (Table 6, p.19).

We should point out that refinery activities impacted our ability to produce distillates in early 1994. In January of 1994 we had numerous problems lining out our newly modified Diesel Hydrotreater (DHT). In February and March of 1994 we completed a major turnaround on the Hydrogen/Hydrocracker units. Our true distillate production capability is reflected more accurately in our April thru June operation. Obviously June of 1994 was our maximum production month at 19641 BCD. Therefore we take exception to CARB staff's comments on p. 25 of the staff report:

"Under the proposed option, Powerine's limit on exempt volume would increase from 4,505 BPD to 6,931 BPD, which is very close to its current production. We expect that Powerine will only be marginally impacted and will probably market additional volumes out-of-state."

The impacts on Powerine of limiting our exempt volume to 6931 BPD would indeed have major impacts on our operation. These impacts are described in Attachment VI of this submittal.

One last correction of the June 10, 1994 staff report we need to make for the record is our crude capacity (Table 2, p. 12). Powerine's crude capacity is 49500 BSD versus 44,120 BPD listed in the report. (Reference attached "United States Refinery Capacity," January 11, 1994, National Petroleum Refiners Association.)

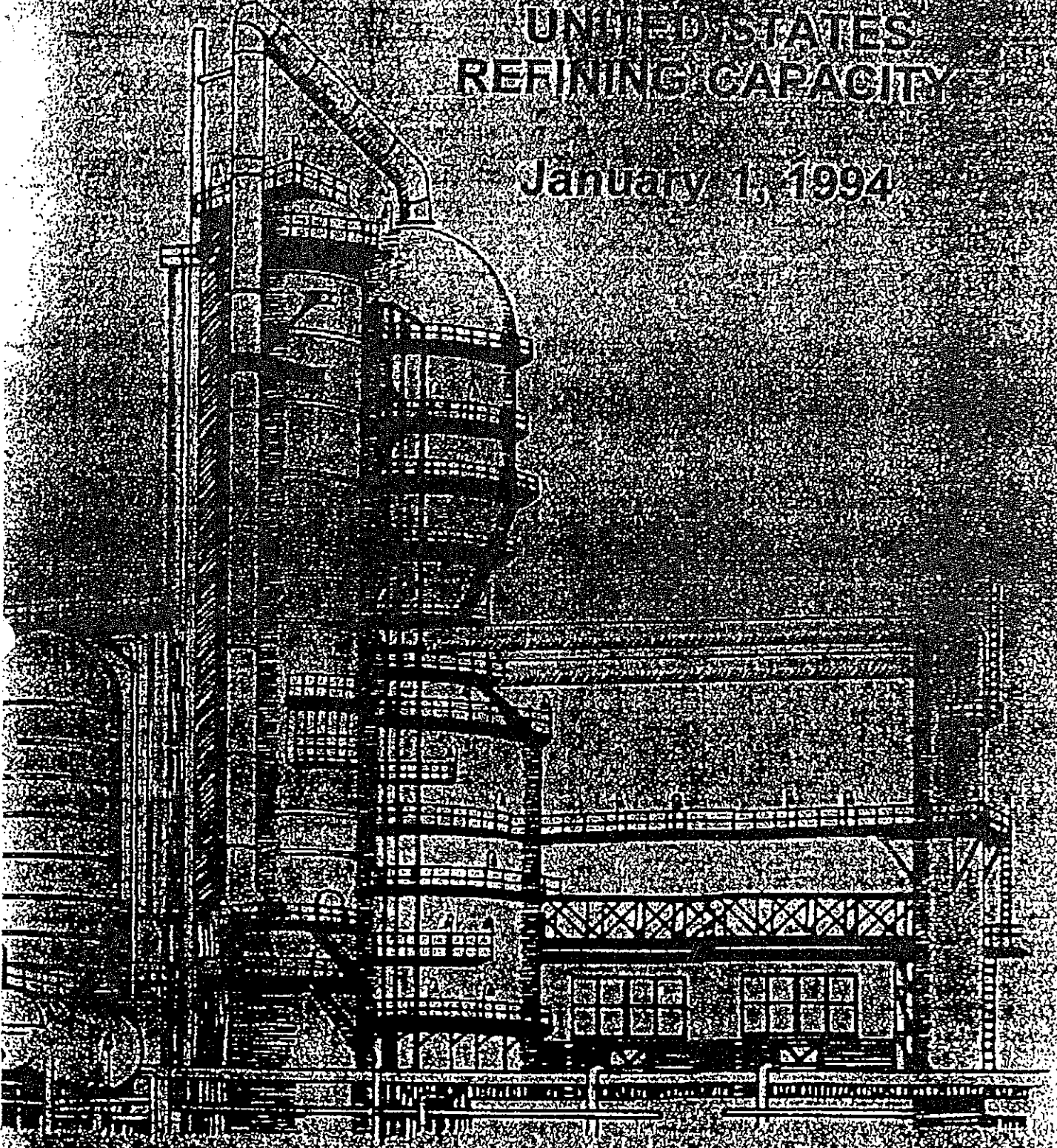
POWERINE OIL COMPANY

Barrels per Calendar Day

	<u>Total</u> <u>Distillate-Jet</u>	<u>CARB</u> <u>Diesel</u>
Jan 1994	7534	6979
Feb 1994	5860	5404
Mar 1994	8724	8299
Apr 1994	14695	14524
May 1994	14476	14063
Jun 1994	19641	12773

UNITED STATES REFINING CAPACITY

January 1, 1994



NATIONAL PETROLEUM REFINERS ASSOCIATION
SUITE 1000 ■ 1899 L STREET, N.W. ■ WASHINGTON, D.C. 20036

Table 3. Capacity of Operable Petroleum Refineries by State as of January 1, 1994 (Continued)
(Barrels per Stream Day, Except Where Noted)

State/Refiner/Location	Atmospheric Crude Oil Distillation Capacity				Vacuum Distillation	Downstream Charge Capacity			
	Barrels per Calendar Day		Barrels per Stream Day			Thermal Cracking			
	Operating	Idle	Operating	Idle		Delayed Coking	Fluid Coking	Visbreaking	Other Oil
Powerine Oil Co.									
Santa Fe Springs	48,500	0	49,500	0	26,000	10,000	0	0	0
San Joaquin Refining Co. Inc.									
Bakersfield	24,300	0	27,000	0	12,000	0	0	5,000	0
Shell Oil Co.									
Martinez	147,100	0	150,100	0	101,800	0	22,500	0	0
Sunland Refining Corp.									
Bakersfield	12,000	0	17,000	0	0	0	0	0	0
Tenby Inc.									
Oxnard	4,000	0	5,000	0	0	0	0	0	0
Texaco Refining & Marketing Inc.									
Bakersfield	54,000	0	58,000	0	34,000	21,000	0	0	0
Wilmington (Los Angeles)	64,000	0	70,000	0	54,000	75,000	0	0	0
Tosco Refining Co.									
Martinez (Avon)	148,000	0	160,000	0	102,000	0	48,000	0	0
Ultramar Inc.									
Wilmington	68,000	0	70,000	0	40,000	23,000	0	0	0
Unocal Corp.									
Arroyo Grande (Santa Maria)	40,745	0	44,000	0	32,000	23,200	0	0	0
Rodeo (San Francisco)	73,100	0	77,000	0	42,100	23,700	0	0	0
Wilmington (Los Angeles)	121,500	0	125,000	0	75,000	50,000	0	0	0
Witco Corp.									
Odessa	0	0	0	0	10,000	0	0	0	0
Colorado Refining Co.									
Commerce City	28,000	0	35,000	0	10,000	0	0	0	0
Conoco Inc.									
Commerce City	67,500	0	80,000	0	25,000	0	0	0	0
Enterprise									
Delaware City	140,000	0	152,000	0	95,000	0	46,000	0	0
Citgo Asphalt Refining Co. (Formerly Amoco Oil Co.)									
Savannah	0	28,000	0	32,000	0	0	0	0	0
Young Refining Corp.									
Douglasville	5,540	0	10,000	0	0	0	0	0	0
BHP Petroleum Americas Refining Inc. (Formerly Hawaiian Independent Refining Inc.)									
Ewa Beach	93,500	0	95,000	0	43,000	0	0	12,400	0
Chevron U.S.A. Inc.									
Honolulu	52,800	0	55,000	0	31,300	0	0	0	0
Clark Oil & Refining Corp.									
Blue Island	71,800	0	77,000	0	35,950	0	0	0	0
Hartford	67,000	0	60,000	0	30,000	15,000	0	0	0
Indian Refining									
Lawrenceville	73,000	0	77,000	0	23,000	0	0	0	0
Marathon Oil Co.									
Robinson	175,000	0	180,000	0	50,000	21,700	0	0	5,000
Mobil Oil Corp.									
Joliet	180,000	0	190,000	0	92,500	40,000	0	0	0
Shell Oil Co.									
Wood River	252,000	0	291,000	0	103,000	0	0	18,000	0

See footnotes at end of table.

ATTACHMENT II

POWERINE OIL COMPANY

CONTRIBUTION TO
CALIFORNIA ECONOMY

POWERINE OIL CO. ID: 510-946-1815 FILE 21 94 13-03 M01000 P.09

NARRATIVE

Powerine Oil Company is a small business engaged in petroleum refining in Southern California, and the company does not have any other business activities. Powerine's contribution to the local and state economy is significant, and the table of information following this narrative highlights some key information on the company.

It is a fair assessment that, if the Powerine refinery operation ceased to exist, the lost production of petroleum products would be made up by the other large independent and major oil company refineries in the Los Angeles area. However, product supply from small refiners who have no branded outlets is still essential to the efficient economical distribution of fuels to the independent market sector. In addition to the stabilizing effect on pricing there would be a real loss in jobs to the economy, since the other refineries would not have to hire any additional personnel to supply the lost production resulting from the Powerine refinery being shut down. The job loss related to a Powerine refinery shutdown is conservatively estimated to be 500 jobs. Furthermore, some of the fees paid to the various agencies, as well as some taxes, would probably be lost as a result of a shutdown of the Powerine refinery operation.

POWERINE OIL COMPANY

PROFILE

Personnel and Budget Information

Number of Employees in Work Force at Powerine	387
Annual Payroll Costs for Work Force at Powerine	\$27.6 Million
Average Number of Contractor Personnel Employed at Powerine (excludes contractor personnel working on major project activities)	80
Annual Cost of Contract Personnel at Powerine	\$3.2 Million
1994 Annual Operating Budget for Powerine (excludes depreciation and amortization, taxes and interest costs)	\$82.3 Million
1994 Capital Budget Program for Powerine	\$50.8 Million

Significant Expenditures in 1993/1994

Reformulated Gasoline Project for Federal CAAA Compliance	\$29.2 Million
State Income Taxes (quarterly payments made to date)	\$3.1 Million
Property Taxes Paid to Los Angeles County	\$900 Thousand
Fees Paid to South Coast Air Quality Management District	\$1.1 Million
Fees Paid to City of Santa Fe Springs	\$143 Thousand
Motor Fuel Taxes Paid to California	\$29.8 Million
Environmental Compliance Activities (includes modifications to comply with low sulfur/low aromatics diesel fuel)	\$11.5 Million
Other Capital Projects	\$8.6 Million

ATTACHMENT III

POWERINE OIL COMPANY

DETERMINATION OF PRODUCTION COSTS

FOR

CARB DIESEL FUEL

POWERINE Oil Company

CARB DIESEL PRODUCT COST

The LOMAX Unit was converted to a Diesel Hydrotreater in 1993 at a cost of 6.5 million dollars. Additional equipment has been purchased and either has been or will be installed at an additional cost of 0.5 million dollars. Total cost for the unit will be 7.0 million dollars.

Catalyst and operating cost have been calculated based on 6,900 BPD and 10,000 BPD of diesel production and one year catalyst life. Included in the operating cost is the cost of additional hydrogen to produce the lower aromatics requirement.

Additive cost has been estimated based on bench tests. Cetane improver, oxygenate, and ferrocene will be needed.

Operating costs are based on 100% of the costs because Powerine has not paid any taxes for the last five (5) years.

Unit Operating Cost Summary:

	<u>6,900 BPD</u>	<u>10,000 BPD</u>
■ Capital (10 yr Amortization)	\$0.010/gallon	0.007/gallon
■ Catalyst/Utilities	\$0.006	0.004
■ Hydrogen	\$0.015	0.010
■ Cetane Improver	<u>\$0.015</u>	<u>0.015</u>
■ Total	\$0.046/gallon	0.036/gallon
■ Oxygenate + Ferrocene	<u>\$0.035</u>	<u>0.035</u>
■ CARB Total	\$0.081/gallon	0.071/gallon

ATTACHMENT IV

POWERINE OIL COMPANY

ANALYSIS OF OPERATING
COSTS AND CAPACITY UTILIZATION

1987-1994

10-310-240-1015 JUL 21 1994 15:08 NO.006 P.14

NARRATIVE

This document analyzes the historical operating costs and capacity utilization of the Powerine refinery for the period 1987-1994. A tabulation of the capacity utilization figures and operating costs is included.

The Powerine refinery was shut down in early 1984 following a bankruptcy action that occurred early that year. The refinery remained inoperative for approximately three years, and following a change in ownership in late 1986, the refinery was partially restarted during the first half of 1987. The low capacity utilization in 1987 was a result of the refinery starting up that year and only one of two Powerine's crude units being in operation at that time. Furthermore, due to financial resource limitations we were not able to start up all of the process units in the refinery during that first year. In 1988, we were able to start up all of the remaining process units, with the exception of the second crude unit ("A" Crude Unit). However, the units that were restreamed in 1988 did not start up until the second half of the year.

The low operating costs on a per barrel basis (\$4.55) were the result of the Hydrogen Plant and Hydrocracker not starting up until July 1988. These two units are very expensive units to operate, and had they been fully operational for the entire year, it would have added over \$1/bbl to the operating cost for that year.

In 1989, the refinery was fully operational, except for the "A" Crude Unit which still remained down. The capacity utilization in 1989 was slightly below the previous year due to a three-week turnaround on the "B" Crude Unit.

In 1990, the capacity utilization increased and the operating costs came down as a result of the start-up of the "A" Crude Unit in June. The year 1991 was the best year since the refinery was restarted in 1987, since the plant was fully operational for the entire year. The operating costs were at their lowest level since the start-up of the refinery, except for 1988 when the plant was not fully operational. Powerine was not able to achieve a higher capacity utilization in 1991 due to a limitation on the financial resources available to the company at this time.

The refinery capacity utilization went down significantly in 1992, which resulted in a large increase in operating costs. This was due to the refinery being shut down in November as a result of the uncertainty of the ownership situation and Powerine's bank's unwillingness to finance the operation until the ownership situation was resolved.

An agreement was finally reached in March 1993 which ultimately resulted in a change in ownership of Powerine later that year. The refinery was started back up and fully operational in April, and the refinery was able to achieve an improved capacity utilization and a reduction in operating costs, even though most of the plant was down for almost three months that year.

During this five-month shutdown of the refinery, in late 1992 and early 1993, the company continued to incur significant expenses, since no employees were laid off and a lot of maintenance work was performed in the refinery during this shutdown period. The only reduction in expenses that occurred during this five-month shutdown was in the utility, catalyst and chemical area. These savings during this period were more than offset by the intensive

maintenance activities that were going on in the refinery at this time. If the refinery had been fully operational for the entire year in 1993, the capacity utilization rate would have approached 94% and the operating costs would have been reduced by approximately \$1/bbl.

Powerine has achieved its highest capacity utilization and lowest operating costs on a per barrel basis with the refinery in full operation during the first six months of 1994. The capacity utilization would have been even higher and the operating costs lower if the five-week turnaround on the "A" Crude Unit had not occurred in January-February.

The information in the Table clearly demonstrates that capacity utilization at Powerine's refinery has a very significant effect on the per barrel operating costs. It should be noted that operating costs were increasing 4%-5% per year due to inflation during the 1987-1994 period, yet Powerine was successful in lowering its per barrel operating costs by increasing its capacity utilization.

TABLE

HISTORICAL OPERATING COSTS
AND CAPACITY UTILIZATION

Calendar Year	Total Barrels of Crude Oil Processed (Barrels Per Calendar Day)	Capacity Utilization Percentage	Operating Costs \$/Barrel	Comments
1987	7,583,000 (20,775)	44.7	6.27	Low crude rates due to plant start-up in March-June period following emergence from bankruptcy in 1986. All process units <u>not</u> in operation by end of year.
1988	11,253,000 (30,745)	66.1	4.55	Low operating costs resulted from Hydrocracker, Hydrogen Plant and No. 2 reformer not in operation until second half of year. "A" Crude Unit not in operation.
1989	10,983,000 (30,090)	64.7	6.27	Refinery fully operational except for "A" Crude Unit. "B" Crude Unit down for three-week turnaround
1990	13,281,000 (36,386)	79.2	5.90	"A" Crude Unit started up in June.
1991	13,776,000 (37,742)	81.1	5.33	Refinery fully operational for entire year. Crude rates limited by financial resources.
1992	9,798,000 (26,770)	57.6	7.27	Refinery shut down in November due to uncertainty of ownership situation.
1993	13,287,000 (36,402)	78.3	6.22	Refinery started back up and fully operational in April following resolution of ownership situation.
1994 through June	7,274,000 (40,188)	86.4	5.28	"A" Crude Unit down for five weeks in January-February for turnaround

ATTACHMENT V

POWERINE OIL COMPANY

EVALUATION OF BREAKEVEN

OPERATION

POWERINE OIL CO. ID: 310-940-1613 JUL 21 94 15:10 NO.006 P.18

NARRATIVE

Powerine has completed an analysis on the "breakeven" point for its operation. This analysis was done by comparing the revenue from the operation at various capacity utilization levels with the operating costs. Three separate cases were evaluated for different "crack spreads." The "crack spread" is defined as the value of products made up of 50% gasoline, 33% diesel, and 17% jet fuel (3:2:1). This evaluation was done using Powerine's Linear Programming Model and used the current market prices in effect in Southern California at the present time. The current "crack spread" is \$7.17/bbl. and our evaluation looked at a "crack spread" of \$6.17, \$7.17, and \$8.17/bbl.

The operating costs that were used in this evaluation are Powerine's actual operating costs, excluding interest and capital investment requirements. The graph that is attached shows that the "breakeven" point occurs at a crude throughput of approximately 36,750 bbls/day, which is equivalent to a 79% capacity utilization factor for Powerine. This "breakeven" point only occurs for the \$8.17/bbl crack, and the Powerine refinery is unable to break even at the \$6.17 or \$7.17/bbl crack. Powerine is at 100% capacity utilization when the refinery is processing 46,500 bbls/calendar day of crude oil. (Note: 46,500 bpcd is equal to operating the refinery at a 49,500 bpsd level for 94% of the time.)

Powerine's interest costs on its working capital and term debt is approximately \$ million/year, and its sustaining capital program is averaging \$ million/year. Both of these costs have to be funded out of operating revenue from the operation. Large capital projects, such as the reformulated gasoline project, are being funded by additional borrowings under various term loan arrangements.

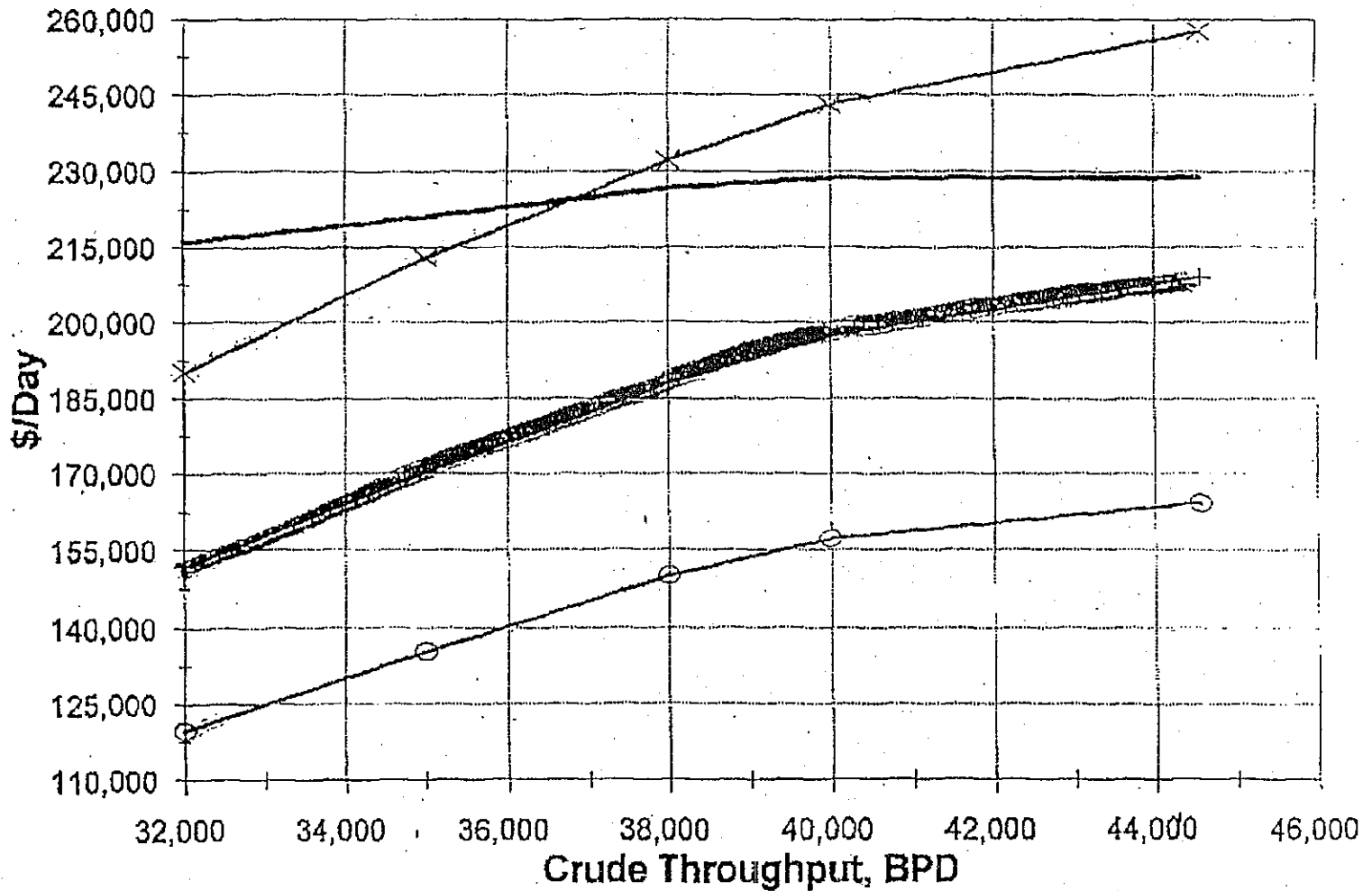
The additional \$ million/year revenue required to service interest and provide capital for the sustaining projects is equivalent to approximately \$ /day in revenue. Obviously, if the Powerine refinery operation is profitable, it will be paying state and federal income tax so that the improvement in the revenue stream above the "breakeven" point will have to be great enough to satisfy the tax obligations as well as the interest and capital project costs.

One final comment on the evaluation of the breakeven value is that no consideration was given in the above discussion to amortizing the term debt. The interest expense of \$ million/year did not include any payments to principal.

The conclusion from this evaluation is that the market for products in Southern California where Powerine operates will need to have a "crack spread" that averages over \$8/bbl, and the refinery will have to be operating at its optimal capacity utilization rate for Powerine to be economically viable.

Throughput vs Revenue

6,900 BPD CARB Diesel



— Operating Costs ● \$7.17 Crack ○ \$6.17 Crack × \$8.17 Crack

ATTACHMENT VI

POWERINE OIL COMPANY

JUSTIFICATION FOR HIGHER CARB

EXEMPT DIESEL VOLUME

POWERINE FILE NO. 10:310-946-1615 JUL 21 1994 15:11 No.006 P.21

NARRATIVE

What has changed since 1988 when the Regulation (13CCR2282) was adopted to justify an additional volume of exempt diesel fuel for Powerine?

- The refinery was not operating at its optimal capacity utilization during the base period selected for determining the exempt volume.
- The company had to invest \$7 million for facilities to produce low sulfur/low aromatic diesel fuel. (Previous estimate was approximately \$3 million.)
- The company has to invest over \$70 million to produce EPA and CARB reformulated gasoline.
- An additional 3,000 bbls/day of gasoline production will be shifted to distillates when CARB Phase 2 regulations become effective. The company does not have the ability to market additional jet fuel or EPA diesel fuel from a resource standpoint.
- Many small California refiners have shut down and will not produce CARB exempt diesel fuel.

What other changes have occurred which justify Powerine's request for a higher volume of exempt diesel fuel?

- Powerine currently sells its products to a third party and committed to deliver over 8,000 bbls/day of CARB diesel under this arrangement which was to continue until January 1, 1998.

Why does Powerine need an exempt volume greater than the 4,505 bbls/day in the current regulation and the 6,931 bbls/day in the proposed amendment to the regulation?

- The Powerine refinery has to operate at its optimal capacity utilization to be economically viable (see Attachment V).
- The Powerine refinery will produce over 23,000 bbls/day of distillate (jet and diesel fuel) in 1998 when reformulated gasoline production is reduced and distillate production is increased as a result of CARB gasoline specification changes.
- The lost revenue to Powerine is \$2.5-\$3.0 million per year if the exempt diesel fuel volume is capped at 6,905 bbls/day.

Why should Powerine be entitled to a higher exempt diesel fuel volume than the 6,905 bbls/day proposed by CARB?

- The base period used to determine the exempt volume was at a time when the refinery was only operating at less than 80% capacity utilization.

- CARB should approve an exempt volume of diesel fuel based on Powerine's refinery operating at its optimal level which it finally has achieved in the 1993-1994 period.

What is the exempt volume that Powerine is requesting CARB approve for its refinery?

- Powerine had earlier requested 8,400 bbls/day based on the continuation of an arrangement with a marketing company.

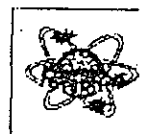
- The volume that Powerine now requires is 11,159 bbls/stream day and based on a 94% operating factor for the refinery, the volume is 10,489 bbls/calendar day (see attached analysis).

Attachments deemed confidential

94-8-1

(14)

7/29/94

POWERINE Oil Company12354 Lakeland Road, P.O. Box 2108
Santa Fe Springs, California 90670(310) 944-8061
(310) 844-6111TLX No: 8720404
A/R Powerine
Telecopy No: 944-8522

July 21, 1994

Mr. Michael D. Scheible, Deputy Executive Officer
Environmental Protection Agency
California Air Resources Board
2020 "L" Street
Sacramento, California 95812**CONFIDENTIAL MATERIAL DELETED**

Dear Mr. Scheible:

Based on discussions with your staff on July 20, we are providing the following clarifying information to our July 15, 1994 submittal to you:

<u>Clarification to July 15, 1994 Letter</u>	<u>Attachment to This July 21, 1994 Letter</u>	
Attachment I	Attachment I	(Additional information provided)
Attachment II	None	
Attachment III	Attachment III	(Original Attachment modified)
Attachment IV	Attachment IV	(Additional information provided)
Attachment V	Attachment V	(Original Attachment modified)
Attachment VI	Attachment VI	(Additional information provided)

Portions of Attachments III, V and VI contain confidential information which has been deleted in the copy made for distribution.

We are also providing a copy of our July 15, 1994 submittal with confidential information deleted. In order to provide as much information as possible, we have minimized our confidentiality request. Only the following attachments to our July 15 letter contain confidential information:

Attachment V	-	items in narrative "whited out."
Attachment VI	-	items in narrative "whited out" and LP data sheets (4 count) are confidential.

I hope this information is helpful to clarify our original submittal. Please feel free to contact me or June Christman with any questions you may have.

Very truly yours,

A. L. Gualtieri
PresidentALG:ls
Attach.

ATTACHMENT I

In our conference call we discussed the different crude capacity values that CARB and Powerine staff were reporting. CARB staff stated that they obtained their information from Energy Information Association (EIA) forms. Attached are our recently filed EIA 820 and the first page of an EIA 810 form. As you can see on page 2 of the EIA 820, our crude oil distillation capacity is 46,500 bpcd or 49,500 bpsd. Page one of EIA 810 for January 1994 is our personal computer simulation of the form. An original EIA 810 is also enclosed. The original form specifies that we are to list "Operable Capacity of Atmospheric Crude Oil Units on the First Day of the Month (Barrels per Calendar Day)."

Our Yield Analyst reviewed past EIA 820 forms submitted by Powerine. For unknown reasons there are a number of inconsistencies in the crude capacity we have reported in the past. The correct numbers are 46,500 bpcd or 49,500 bpsd. Our crude capacity has not changed since 1987. We will correct the improperly submitted EIA forms.

EIA-820 (REVISED 01/93)

Energy Information Administration
U.S. DEPARTMENT OF ENERGY
 Petroleum Supply Reporting System

Form Approved
 OMB No. 1905-0165
 Expiration Date: 01/31/96

ANNUAL REFINERY REPORT
FORM EIA-820

This report is mandatory under Public Law 93-275. For the provisions concerning the confidentiality of information and sanctions, see Sections VI and VII of the instructions. Public reporting burden for this collection of information is estimated to average 2 hours per response, including the time of reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden, to the Energy Information Administration, Office of Statistical Standards EI-73, 1000 Independence Ave. SW, Washington, DC 20543; and to the Office of Information and Regulatory Affairs, Office of Management and Budget, Washington, DC 20503. Survey forms can be submitted by either mail or facsimile following the steps in Section IV of the survey instructions.

RESPONDENT IDENTIFICATION

Reporting Company Name Powerine Oil Co. Enter the name of the reporting company.
 Street/RFD/PO Address 12354 Lakeland Rd P O Box 2108 Address information is required ONLY if you are reporting a change.
 City Santa Fe Springs State Ca Zip Code 90670-9883
 Refinery/Blending Plant Name Same EIA ID Number 0263000101
 Report Period: Year - 1994 If a resubmission, insert X in the block

REFINERY ACTIVITY

1 Fuel, Electricity, and Steam Consumed at the Refinery During 1993

Item (Thousand Barrels)	Code	Quantity Used as Fuel	Item	Code	Quantity Used as Fuel
Crude Oil Used as Fuel	050	0	Natural Gas (million cu. ft. MM cf)	105	1261
Fuel Oils:			Coal (thousand short tons)	109	0
Distillate-Type	411	0	Other (specify):		0
Residual-Type	511	0			
Liquefied Petroleum Gases	230	150			
Still Gas	045	580.4			
Petroleum Coke:					Quantity Consumed
Marketable	021	940	Purchased Electricity (million kWh)	114	124
Catalyst	022	133	Purchased Steam (million pounds)	113	0

2 Refinery Receipts of Crude Oil During 1993 by Method of Transportation (Thousand Barrels)

Source	Code	Pipeline	Tankers	Barges	Tank Cars	Trucks	Total
Domestic	010	2539	307		0	413	3259
Foreign	020			10028	0		10028

Comments: Identify any unusual aspects of your current year's operations.

Refinery Down Jan through Mar 1993

Name of person to contact regarding this report (please print) See below Check if new contact person or phone number
 Telephone Number(AC) (310) 944-6111 Ext. 204

CERTIFICATION: I certify that the information provided herein and appended hereto is true and accurate to the best of my knowledge.

Name (please print) Laura McCutcheon Title Yield Analyst
 Signature L. McCutcheon Date 3-18-94 Rev. 3-28-94

Title 18, U.S.C. 1001 makes it a crime for any person knowingly and willingly to make to any Agency or Department of the United States any false, fictitious or fraudulent statements as to any matter within its jurisdiction.

EIA-820 (REVISED 11/79)

3 Atmospheric Crude Oil Distillation Capacity as of January 1

Atmospheric Crude Oil Distillation Capacity	Code	Barrels per Calendar Day	Barrels per Stream Day
1994: Operating	399	46500	49500
Idle	400		
Total Operable	401	46500	49500
1995: Operable	501		49500

4. Downstream Charge Capacity as of January 1

Downstream Charge Capacity	Code	1994 Barrels per Calendar Day	1994 Barrels per Stream Day	1995 Barrels per Stream Day
Vacuum Distillation	402		26000	26000
Thermal Cracking:				
Visbreaking	403			
Fluid Coking (incl. Flexicoking)	404			
Delayed Coking	405	9500	10000	10000
Other (incl. Gas/Oil)	406			
Catalytic Cracking:				
Fresh Feed	407	11875	12500	12500
Recycled	408			
Catalytic Hydrocracking	436	7600	8000	8000
Catalytic Hydrotreating:				
Heavy Gas Oil	413		13500	13500
Naphthas/Reformer Feed	426		10000	10000
Distillate Fuel Oil	427		10000	10000
Other (incl. Residual)	429			
Catalytic Reforming:				
Low Pressure	430			
High Pressure	431		9800	9800
Fuels Solvent Deasphalting	432			

EIA-820 (Revised 01/94)

5 Production Capacity as of January 1

Production Capacity	Code	1994 Barrels per Stream Day	1995 Barrels per Stream Day
Alkylates	415	2700	2700
Aromatics	437		
Asphalt and Road Oil	931		
Isobutane (C4)	615	1500	1500
Isopentane (C5), Isohexane (C6)	438		
Lubricants	854		
Petroleum Coke-Marketable	021	2500	2500
Hydrogen (million cubic feet per day)	091	18.5	18.5
Sulfur (short tons/day)	435	45	45

6 Storage Capacity as of January 1

Storage Capacity as of January 1, 1994 (Thousand Barrels)	Code	Working	Shell
Crude Oil	050	274	603
Motor Gasoline:			
Reformulated	150		
Oxygenated	151	41	51
Other Finished	152	225	254
Gasoline Blending Components	136	85	138
Oxygenates:			
Fuel ethanol ¹	141		
Ethyl tertiary butyl ether (ETBE)	142		
Methanol	143		
Methyl tertiary butyl ether (MTBE)	144	9	17
Tertiary amyl methyl ether (TAME)	145		
Tertiary butyl alcohol (TBA)	146		
Other oxygenates*	444		
Kerosene	311		
Distillate Fuel Oil:			
0.05% sulfur and under	461	146	174
Greater than 0.05% sulfur	462	26	51
Residual Fuel Oil	511	19	38
Naphtha-Type Jet Fuel	211	0	0
Kerosene-Type Jet Fuel	213	69	184
Propane/Propylene	231	1.3	1.3
Normal Butane/Butylene	232	5	9
Lubricants	854		
Asphalt and Road Oil	931		
Other	333	341.7	867.7

* Includes other aliphatic alcohols and ethers intended for motor gasoline blending (e.g., Isopropyl ether (IPE) or n-propanol).

US DOE FORM #EIA-810

FROM:

EIA ID #0263000101
 POWERINE OIL CO.
 12354 LAKELAND RD, PO BOX 2108
 SANTA FE SPRINGS, CA 90670-9883

TO:

EIA FAX: 202/586-6323
 ATTENTION: CHERYL CARR
 EIA PHONE CONTACT: 202/586-6322

MONTH: JANUARY YEAR: 1994 PG. 1 OF 2

1 REFINERY INPUT & CAPACITY	CODE	1,000 BBLS
GROSS INPUT TO:		
CRUDE UNITS	990	1,276
FRESH FEED TO:		
CAT CRACKER	481	372
HYDROCRACKER	492	257
COKER	493	294
CRUDE UNITS:		ACT. BBLS
OPERATING	399	46,500
IDLE	400	0
TOT OPERABLE	401	46,500
RECEIPTS:	30	
SULFUR CONTENT %	30	0.97%
API GRAVITY	30	28.00

NOTES: REFERENCE POC APPLY PROGRAM YIELD
 ACCOUNTING MONTH-END FINALS TO
 SUPPORT FIGURES HEREIN.

ALL JET FUEL SHIPMENTS ARE COMMERCIAL.

SIGNATURE



LAURA MCCUTCHEON, YIELDS ANALYST
 SENIOR YIELDS ANALYST
 CORPORATE ECONOMIC PLANNING
 CONTACT: 310/944-6111 EXT. 204

DATE

REVISED 4/5/94

2 Refinery Operations (Thousand Barrels)

EIA ID Number

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Item Description	Product Code	Stocks Beginning of Month	Receipts During Month	Inputs During Month	Production During Month	Shipments During Month	Refinery Fuel Use and Losses During Month	Stocks End of Month
Crude Oil (incl. lease condensate), TOTAL	050							
Domestic (incl. Alaskan)	010							
Foreign	020							
Alaskan Crude Oil	011							
Products of Natural Gas Proc. Plants:								
Ethane	110							
Propane	231							
Normal Butane	232							
Isobutane	233							
Pentanes Plus	220							
Other Hydrocarbons, Hydrogen and Oxygenates, TOTAL	090							
Other Hydrocarbons and Hydrogen	094							
Fuel Ethanol	141							
Ethyl tertiary butyl ether (ETBE)	142							
Methanol	143							
Methyl tertiary butyl ether (MTBE)	144							
Tertiary amyl methyl ether (TAME)	145							
Tertiary butyl alcohol (TBA)	146							
Other Oxygenates	444							
Unfinished Oils, TOTAL	812							
Naphthas and Lighter	820							
Kerosene and Light Gas Oils	830							
Heavy Gas Oils	840							
Residuum	850							

3 Refinery Operations (Thousand Barrels)

EIA ID Number

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EIA-310 (Rev. 10/1994)

Item Description	Product Code	Stocks Beginning of Month	Receipts During Month	Inputs During Month	Production During Month	Shipments During Month	Refinery Fuel Use and Losses During Month	Stocks End of Month
Motor Gasoline:								
Reformulated	150							
Oxygenated	151							
Other Finished	152							
Blending Components	134							
Aviation Gasoline:								
Finished Aviation	111							
Blending Components	112							
Special Naphthas (solvents)	051							
Naphtha-Type Jet Fuel	211							
Kerosene-Type Jet Fuel, TOTAL	213							
Commercial	217							
Military	218							
Kerosene	311							
Distillate Fuel Oil, TOTAL	411							
0.05% sulfur and under	461							
Greater than 0.05% sulfur	462							
Residual Fuel Oil, TOTAL	511							
Under 0.31% sulfur	508							
0.31% to 1.00% sulfur (incl.)	509							
Over 1.00% sulfur	510							
Lubricants, TOTAL	854							
Naphthenic	852							
Paraffinic	853							
Asphalt and Road Oil	931							
Wax	070							

4 Refinery Operations (Thousand Barrels)

EIA ID Number

--	--	--	--	--	--	--	--	--	--

Item Description	Product Code	Stocks Beginning of Month	Receipts During Month	Inputs During Month	Production During Month	Shipments During Month	Refinery Fuel Use and Losses During Month	Stocks End of Month
Petroleum Coke, Marketable	021							
Petroleum Coke, Catalyst	022							
Still Gas	045							
Liquefied Refinery Gases (LRGs):								
Ethane (incl. Ethylene)	621							
Ethylene	631							
Propane (incl. Propylene)	622							
Propylene	632							
Normal Butane (incl. Butylene)	623							
Butylene	633							
Isobutane (incl. Isobutylene)	615							
Isobutylene	634							
Petrochemical Feedstocks:								
Naphtha < 401°F end-point	822							
Other Oils > 401°F end-point	824							
Miscellaneous Products:								
Non-Fuel Use	097							
Fuel Use	098							
Inputs (Gain) or Production (Loss)	911							
TOTAL	999							

ATTACHMENT III

POWERINE OIL COMPANY

CARB DIESEL PRODUCT COST

NARRATIVE

The LOMAX Unit was converted to a Diesel Hydrotreater in 1993 at a cost of \$6.5 million. Additional equipment has been purchased and either has been or will be installed at an additional cost of \$0.5 million. Total cost for the unit will be \$7.0 million.

Catalyst and operating cost have been calculated based on 6,900 bpd and 10,000 bpd of diesel production and one year catalyst life. Included in the operating cost is the cost of additional hydrogen to produce the lower aromatics requirement.

Additive cost has been estimated based on bench tests. Licensing of technology (to produce CARB diesel), cetane improver, and other additives has been estimated to be \$0.05/gallon.

Operating costs are based on 100% of the costs because Powerine has not been profitable, and therefore, has not paid any taxes for the last five (5) years. Powerine has been profitable this year due to favorable economics of an Offtake Agreement with another company. This agreement will conclude this year and the projection for future years is breakeven at best, or unprofitable for the operation.

Unit Operating Cost Summary:

	<u>6,900 BPD</u>	<u>10,000 BPD</u>
Capital (10 yr Amortization)	\$0.010/gal	\$0.007/gal
Catalyst/Utilities	\$0.006	\$0.004
Hydrogen	\$0.015	\$0.010
Licensing, Additives	<u>\$0.050</u>	<u>\$0.050</u>
CARB Total	\$0.081/gal	\$0.071/gal

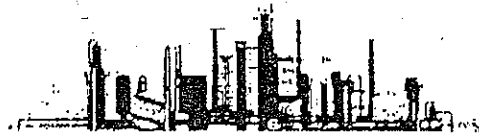
ATTACHMENT IV-A

POWERINE OIL COMPANY

CRUDE THROUGHPUT AND

DIESEL PRODUCTION

14



POWERINE Oil Company

12354 Lakeland Road, P.O. Box 2108
Santa Fe Springs, California 90670-3857

(310) 944-9861
(310) 944-6111



TLX No: 4720404
A/B Powerine
Facsimile (310) 944-2522

July 27, 1994

STATE OF CALIFORNIA
AIR RESOURCES BOARD
RECEIVED 7/27/94
BY BOARD SECRETARY

94-8-1
7/29/94

xc: Board members
JAS MAS
AS Legal
JB SSD

Members of the California Air Resources Board
Board Hearing Room
2020 "I." Street
Sacramento, California 95812

Dear Board Members:

I wish to express Powerine's support for CARB Staff's modified (July 27, 1994) Proposed Amendments to the Small Refiner's Volume Provisions in the Regulation Limiting the Aromatic Hydrocarbon Content of California Motor Vehicle Diesel Fuel. Powerine has had numerous communications with CARB Staff regarding this issue as outlined below. I believe Powerine has justified an even larger exempt volume than staff proposes in the July 27, 1994 modifications "Modifications." Restricting our exempt volume of 20% aromatics equivalent CARB diesel will negatively impact our ability to optimize our refinery's operation and our earning capacity. However, CARB Staff's Modifications are conceptually appropriate, move us closer to optimal refinery operation and are certainly an improvement over Staff's interpretation of the current regulation. Therefore, we support Staff's Modifications and urge the Board to adopt the Modifications.

The Modifications will have less negative impact on air quality than the Board anticipated in 1988, when they passed the regulation. Only four of thirteen California small refiners continue operating in the motor vehicle diesel fuel market. The combined volume of exempt diesel proposed in the Modifications is less the potential exempt volume anticipated when the regulation was adopted in 1988. Hence, air quality benefits to be realized through adoption of the Modifications are greater the Board anticipated when it adopted the regulation in 1988.

Many options for calculating an appropriate exempt volume were explored with the small refiners and CARB Staff. Staff's approach in the Modifications is sound and appropriate. The approach allows small refiners to calculate an exempt volume based on their individual crude capacities and an average historic conversion of crude to distillate. The result is then discounted by an industry-wide utilization factor and the small refiners' percent of distillate sold as motor vehicle diesel fuel. The approach does not tie small refiners to a specific historic distillate production. There have been many changes in the refining industry as a whole since adoption of the regulation in 1988. It is not appropriate to limit any refinery to historic production if they are to survive the burden of increasing operating costs. These increased operating costs are a direct result of the many regulations that have been adopted since 1988. These regulations include reformulated gasoline requirements and other

POWERINE Oil Company

Members of the California Air Resources Board

July 27, 1994

Page 2

environmental and process safety regulations. The cost of implementing these requirements must be spread over a refinery's entire processing capacity if the refinery is to remain financially viable.

As indicated above, we provided CARB Staff with the following categories of information specific to Powerine to assist them in performing their analysis and making their recommendation:

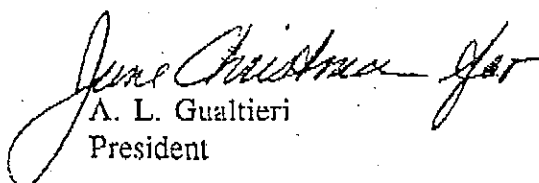
- Distillate production capacity
- Crude capacity
- Production costs for CARB Diesel fuel
- Analysis of operating costs and capacity utilization over time
- Evaluation of "break-even" operation
- Justification for a higher exempt diesel volume

Except for minimal information which is "trade secret and confidential" this information is part of the public record and justifies CARB Staff's Modifications.

There is one last item I must address. The estimate of Powerine's exempt volume in the Modifications is in error. We believe it was based on an errant crude capacity for Powerine. Using our correct crude capacity of 46500 BPCD, our exempt volume should be approximately 8800 BPD.

Please feel free to contact myself or June Christman with any questions or comments you may have.

Sincerely,


A. L. Gualtieri
President

JMC:aj\carb-mod.doc

cc: Reader File
File

POWERINE Oil Company

12154 Lakeland Road, P.O. Box 2108
Santa Fe Springs, California 90670

(310) 944-5861
(310) 944-6111



TLX No: 4720404
A/B Powerine
Teletcopy No: 944-2522

June 15, 1994

Mr. Mike Scheible
Deputy Executive Officer
Environmental Protection Agency
California Air Resources Board
2020 L Street
Sacramento, California 95812

Confidential Material Deleted

Re: Small Refiner's Exempt Diesel Volume

Dear Mr. Scheible:

This letter provides additional information and justification for CARB staff to support an amendment to 13CCR2282 (the "Regulation") that will provide an acceptable exempt volume of diesel fuel that California small refiners can manufacture at the 20% aromatics equivalent standard. As you know, our respective staffs have been struggling with a difference in interpretation of the Regulation for some time. In recent conversations with you and other CARB staff, I perceive a willingness by CARB to propose an amendment to the regulation that clarifies small refiners exempt volumes that is within the original spirit of the Regulation. The proposed amendment would increase the California small refiners volumes as currently calculated by CARB's staff. Our understanding is that CARB staff is recommending an amendment to the Regulation that bases exempt volume on of historic production of total distillates less any jet fuel production. For Powerine, this will amount to an exempt volume of barrels/day. Unfortunately, the proposed amendment does not provide an adequate exempt volume to enable any of the California small refiners to continue viable operations. In Powerine's case we require an additional barrels/day of exempt volume to remain financially viable.

You may be aware that in October, 1993 Powerine was given a suspension volume based on our production capacity of approximately 16,000 barrels/day of diesel fuel. We are now requesting an exempt volume of barrels/day which represents of our total production capacity so that we can remain economically viable. We obviously would prefer to be able to produce all 16,000 barrels/day as CARB certified fuel. Our request to CARB to increase our exempt volume only to barrels/day is being made in order to provide CARB staff with a proposal they can support. We understand from past discussions with CARB staff that they are not willing to propose an amendment based on current production capacity as an exempt volume for small refiners.

POWERINE Oil Company

Environmental Protection Agency

California Air Resources Board

June 15, 1994

Page 2

In late 1993 Powerine entered into a long term marketing arrangement with a third party company. This arrangement allowed Powerine to obtain the necessary financing to build the facilities necessary to comply with the CARB diesel fuel and EPA and CARB reformulated gasoline regulations. Based on discussions with CARB staff at that time regarding Powerine's exempt volume, we committed to provide approximately _____ barrels/day of CARB diesel. Our commitment was based on CARB staff's representations that our exempt volume would at least be adjusted to this level. We will be severely penalized financially if we cannot meet this obligation. Our operating income for the Refinery will be reduced _____ if our CARB diesel production is limited to _____ barrels/day versus _____ barrels/day. This includes a _____ penalty for producing less than our contracted volume. This loss in income is very significant to Powerine and it is even more significant when you recognize that Powerine was not profitable in our last fiscal year which ended in September of 1993.

I am attaching a summary from the output of our linear program for the refinery, which was used to determine this loss in margin. As you can see, total crude throughput is similar in both cases (_____ barrels/day vs. _____ barrels/day of exempt volume), within several hundred barrels/day. However, the entire refinery operation is affected and operates less optimally with the _____ limitation on CARB diesel. This information is trade secret and confidential. It contains details regarding our refinery's process configuration.

Many other factors have changed since the Regulation was developed and adopted in the late 1980's. An assumption was made by CARB that 10% aromatics diesel would be available for small refiners to purchase for blending with their fuel in order to comply with the 20% requirement. This is not the case today. We have had to modify our refinery at a significant investment cost in order to dearomatize to the level we believe we can certify as a 20% aromatic equivalent fuel. In early 1993 we estimated our investment to be _____ dollars. When the modifications were completed in late 1993, we spent approximately _____ million dollars and we still have some additional work to do. This investment represented over _____ of Powerine's total capital expenditures in 1993. In light of this significant investment, we must be allowed to operate in a manner where we remain financially viable.

Perhaps it would be helpful to compare the significance of this investment to Powerine's net worth. At the end of the first quarter of 1994 Powerine's financial statement reported a net worth of only approximately _____ million dollars. Our expenditures for our CARB diesel fuel project was equal to _____ of Powerine's net worth. Our fixed assets are worth considerably more than our net worth, however, when you consider our debt, our net worth is very small.

POWERINE Oil Company

Environmental Protection Agency
California Air Resources Board
June 15, 1994
Page 3

One final issue we would like to address is market share. We are confident that the small refiners share of the California diesel market will not increase from what it was in the late 1980s if our proposal for small refiners exempt volume is accepted by CARB staff. Unfortunately, we have been having difficulty obtaining the specific PIIRA data we need to present to you to support this position. We are working with the California Energy Commission to obtain the data in the format required. As soon as the information is available, we will provide it to you.

In summary, Powerine appreciates CARB staff's consideration thus far of the small refiner's exempt volume issue. However, Powerine needs an additional barrels/day of exempt volume to remain financially viable. We have minimized our request for additional exempt volume in order to provide CARB staff with a workable proposal. I believe our proposal is justified for all the reasons described above. We request that CARB staff recommend our proposal to your Board to amend the Regulation in July of 1994.

Please feel free to contact myself or June Christman of my staff with any questions you may have.

Sincerely,



A. L. Gualtieri

JMC:aj\exemptdsl.doc

cc: Peter Venturini (CARB)
Dean Simeroth (CARB)
John Curtis (CARB)
Tom Jennings (CARB)

Attachments deemed confidential

Ultramar

Ultramar Inc.
P.O. Box 93102
Long Beach, CA 90809-3102
(310) 437-6795

July 28, 1994

Ms. Jacqueline Schafer, Chairwoman
State of California
AIR RESOURCES BOARD
P.O. Box 2815
Sacramento, CA 95812

SUBJECT: Proposed Amendments to the Small Refiner Volume Provisions of the Regulation Limiting the Aromatic Hydrocarbon Content of California Motor Vehicle Diesel Fuel

Dear Ms. Schafer:

Ultramar Inc. regretfully must oppose the above referenced proposal. We sympathize with the staff's desire to ensure that the diesel program runs smoothly; but in light of the more than adequate supply picture, we are puzzled as to what "problems" this rule amendment is attempting to solve. Staff has assured Ultramar and others that there is no intent to relax the requirement that small refiners meet the 20% aromatic hydrocarbon content limit by October 1, 1994. We fully support that position. However, we are extremely concerned about the implications of this rule proposal on other refiners.

Contrary to the conclusions in the staff report, this proposal does represent a "fundamental change" to the regulation. It sends an ominous signal that this Board is willing, by making a small change here and a slight adjustment there, to chip away at the very fabric of its regulatory program. Ultramar's comments on the components of the proposed rule amendment are presented below.

Small Refiner Volume Limits

The staff proposes to allow small refiners to select how their exempt volume will be calculated for determining how much 20% diesel they can sell within the state. According to the staff report, the proposed amendments will merely allow the small refiners to produce 20% diesel at their historic total distillate production levels during the base years specified in the original rule. The justification is that the initial



A Member of the Ultramar Group of Companies



Ultramar

assumptions were incorrect regarding the percentage of distillate production dedicated to diesel. Those assumptions should have been easily verified when the regulation was adopted and were, in fact, challenged during the adoption hearing. However, as staff noted in the staff report for this rule amendment (p.13), your Board decided that the allowable 65% diesel/distillate percentage was appropriate, particularly since it had been based on a survey of both large and small refiners. This change constitutes a policy shift, not a mere technical adjustment as staff would have you believe, and we fail to see how the same information can produce such a different conclusion today.

More disturbing, however, is that staff's proposed methodology actually allows the small refiners to increase overall distillate production beyond their base year volumes. When the volume caps originally were set, the limits were based on total distillate production regardless of where the distillate was sold. The new proposal counts only sales of California distillate against a total historical production volume cap, thus excluding consideration of export distillates. The effect of this change is to allow the small refiners to produce for sale in California a volume of diesel equal to their entire historical production, including any export volumes. Such a change allows an increase in distillate production by the small refiners beyond their historic levels, which is in direct conflict with the staff's stated premise for the amendments.

Although we question the need and rationale for the proposed adjustment, we recommend that your Board continue to base the exempt volume limit on total distillate production.

Small Refiner Volume Limit During Fourth Quarter of 1994

Staff is proposing to postpone for three months the implementation of the small refiner volume limits, thus allowing the small refiners to produce up to their suspended volume of 20% diesel between October 1, 1994, and January 1, 1995. The staff report claims that this change "...will help to avoid any market adjustments from occurring during the fall harvest season (p 3)." However, the staff report also notes that even the small refiners do not dispute that "...total supply throughout California

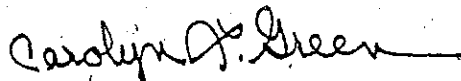
by large, independent and small refiners would satisfy demand even if no changes were proposed to the regulation (p. 25)." [emphasis added] Simply stated, this proposal allows small refiners to produce more, dirtier fuel than was contemplated by the original rule. Particularly given the glut of complying diesel available today, there is no environmental or market justification for this amendment.

Ultramar

We urge your Board to reject this recommendation.

Although the above amendments are being presented to your Board as minor technical adjustments, Ultramar views them as substantive changes to a regulation that has been clearly understood since its adoption. Staff has failed to show any compelling reason why the rule needs to be changed at this late date. Moreover, we cannot emphasize too strongly the disastrous signal that these recommended changes send to the refiners and the general public with respect to the even more complex and environmentally necessary reformulated gasoline program. Every time a small subgroup is able to win concessions or exemptions, the regulated community and the public become even more cynical about the effectiveness of the regulatory process. We urge you to stay the course on this regulation and provide the regulatory certainty we all need to continue making the substantial investments that will be required to bring healthful air to California.

Yours truly,



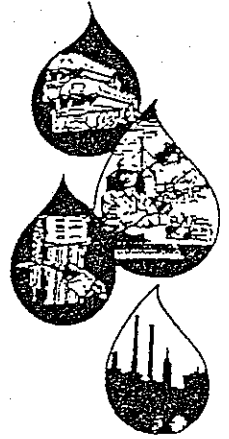
Carolyn L. Green
Director, Government and
Public Affairs

CC:
Board Members
P. Venturini
D. Simeroth



CIOMA

California Independent Oil Marketers Association



July 29, 1994

Comments Regarding Proposed Amendments to Small Refiner Volume Limits (94-7-3)

- President**
JEFF IRVIN
ITL, Inc.
Cudahy
- Senior Vice President/Treasurer**
DAVID ATWATER
California Fuels
Stockton
- First Vice President**
JIM CROSS
Cross Petroleum
Mt. Shasta
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Poma Distributing Co., Inc.
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Eric Kroesche
John E. Dewitt, Jr.
Fred Bertetta, Sr.
Tom Lopes
Jack Reed
Herb Richards
Al Wickland

Thank you for the opportunity to comment on the proposed amendments to the small refiner volume limits for the production of diesel fuel. I represent the California Independent Oil Marketers Association (CIOMA). CIOMA represents approximately 500 petroleum distributors who operate throughout the state. Diesel is an extremely important product to our members since much of their business involves sales of diesel to commercial, agricultural, and governmental customers.

Given the importance of this product to our members, CIOMA has an intense concern about sufficient supplies of diesel being available when and where they are needed. To have sufficient supply, we believe that all refiners who are currently producing diesel in California must continue to produce it. Furthermore, they must produce diesel in the quantities they are currently producing. Without all of these suppliers producing at capacity, supply and distribution problems are inevitable.

The small refiners who are the subject of these proposed amendments are a key part of the supply picture. Without their presence, our members would not be able to supply all of their customers' diesel demands. Certainly, the large and independent refiners produce substantial and needed quantities of the state's diesel supply, but small refiners frequently are marketers' only source of diesel in some rural regions of the state and when disruptions at the larger refineries stop production. We only have to look at the introduction of low-aromatic diesel in October 1993 to see how fragile the balance between diesel supply and demand is and to realize how important these small refiners are to insuring adequate supply or in filling gaps between supply and demand in emergency situations.

We support the proposed amendments that will enable these small refiners to continue making quantities of diesel above the original limit. However, we do not think this proposal goes far enough. It poses two options -- allowing these small refiners to produce diesel under the existing volume limits and to produce other distillate products or to produce only diesel fuel in volumes equal to the small refiner's total historic production of distillates. In other words, they can make a little diesel and some other distillate products -- jet fuel or marine diesel, for example -- or they can make only diesel. CIOMA is very much concerned that either of these options will force small refiners to make production choices that may take needed gallons of diesel out of the California market or that will not enable these small refiners to make enough fuel products to remain viable.

CIOMA urges the California Air Resources Board to allow these small refiners to produce up to 25,000 barrels per day of diesel and to allow them to also make other distillate products in order to ensure that this segment of California's refining industry remains in existence. It is important to note that since the adoption of regulations limiting the sulfur and hydrocarbon content of diesel that California has lost ten small refiners.

These regulations were not adopted with the intent of concentrating refining to only a handful of large and independent refiners, with a few remaining small refiners, but that has been the inadvertent result. California cannot afford further concentration of petroleum refining and continue to have an adequate balance between supply and demand. We must acknowledge the investments these remaining small refiners have made to make cleaner fuels – efforts made at great cost and substantial risk – and allow them to remain competitive fuel producers by allowing them collectively to sell 25,000 barrels per day of diesel and the levels of other distillates their refining capacity will permit.

Diesel Supply & Reformulated Gasoline

When production of reformulated gasoline begins, large and independent refiners may be forced to choose production of gasoline over production of diesel. For large refiners in particular, diesel production has traditionally been a by-product of gasoline production. The refining process for diesel has become more complex with the implementation of the low-aromatic diesel regulation. It now competes with gasoline for some refinery processes. As gasoline production also becomes more complex under the reformulated gasoline regulations, some refiners may reduce their diesel production levels.

This forced choice between making gasoline or diesel will affect the two independent refiners who were critical sources of diesel during the heavy demand period of last fall as well. Since both of these independent refiners have retail branded gasoline stations that they must supply with gasoline, they will have to devote significant refinery capacity to gasoline production. This gasoline production could come at a sacrifice of diesel production. Since these two refiners may not be counted on to produce enough diesel to keep diesel supply to balance, then California's commercial diesel users will face an erratic future filled with spot shortages and regional outages without small refiners to fill the production gap.

Again, we need these small refiners -- who primarily make only distillate products, mostly diesel -- to remain operational at their highest capacity to keep diesel supplies and prices stable. Variances issued during emergency shortfalls that allow short periods of increased production by this market segment may not be a solution if these refiners commit their production out-of-state or if one or more of them close. The increased production allowances must be a long-term change in the existing limits.

Fairness

Undoubtedly, the first comment that will come to mind with regard to allowing these small refiners to make more diesel than originally allowed and also to continue making other distillate products will concern the fairness of such changes to other refiners. First of all, CIOMA challenges any of the refiners in this room to say they suffered during last fall's introduction of low-aromatic diesel when supplies were very low and demand high. Even with the small refiners producing 32,000 barrels per day of diesel and their normal production of other distillate products, large and independent refiners increased their market share to the point where they at times turned away their unbranded marketers, even though those marketers had long-term supply relationships.

If these small refiners have increased market share, it is the result of increased demand or absorption of the market share held by other small refiners no longer producing fuel. These refiners have not taken away market share from any of the other existing diesel producers and would not if they were allowed to produce at these levels on a permanent or long-term basis.

Public Health Impact

CIOMA also believes that allowing these small refiners to make both increased barrels of diesel and other distillate products will not compromise the public health benefits of the low-aromatic diesel regulation. The original limits set for small refiners allowed approximately 33,000 barrels per day of 20% aromatic diesel to be produced by all of the small refiners producing diesel fuel in California in 1988 when the regulation limits were approved by the California Air Resources Board. Since the remaining small refiners are only asking to make 25,000 barrels per day collectively of 20% aromatic diesel in addition to their other distillate products, they will still be below the production level of this higher aromatic diesel allowed for the small refiner segment of the industry. In addition, the emissions that may be released from other distillate products should not be considered or attributed to these small refiners since these distillate are not currently regulated under the low-aromatic rule and will contain the same levels of emissions whether these small refiners sell them or the large and independent refiners do.

At this time, CIOMA believes the economic impact of limiting small refiners to production, levels that will force them to sell substantial amounts of diesel or other distillate out-of state or to even cease production entirely outweighs the minimal public health impact of allowing these increased production levels of 20% aromatic diesel.

Thank you again for your consideration of our concerns.

CALIFORNIA TRUCKING ASSOCIATION

STATE OF CALIFORNIA
AIR RESOURCES BOARD
DATE: 7/26/94
BY: BOARD SECRETARY

July 25, 1994
West Sacramento

94-8-1
7/29/94

XC: Board members
JQS MHS
AS Legal
JB SSD

By Facsimile

Jacqueline E. Schafer, Chairwoman
California Air Resources Board
2020 L Street
Sacramento, CA 95814

Attention: Board Secretary

Re: Notice of Public Hearing to Consider Amendments to the Small Refiner Volume Provisions in the Regulation Limiting the Aromatic Hydrocarbon Content of California Motor Vehicle Diesel Fuel

Dear Chairwoman Schafer:

The California Trucking Association is pleased to submit these comments in support of the small refiners' proposal to increase the amount of diesel fuel subject to the 20 percent aromatic hydrocarbon content limit to approximately 25,000 barrels per day ("bpd"). This is the amount of diesel fuel the small refiners need to be able to produce in order to survive.

As consumers, our members need more than just major company suppliers. Small refiners ensure price stability and adequate regional supplies. Without them, California consumers will be at the mercy of developing monopolies.

Small refiners also supply petroleum products, other than diesel fuel, necessary to our members and the California consumer. Small refiners are substantial gasoline suppliers. As the implementation of California's Phase II reformulated gasoline approaches, we need as much supply as possible to ensure a smooth transition, to avoid the types of problems which occurred in the Fall of 1993 with reformulated diesel.

Additionally, small refiners produce 100 percent of the asphalt in southern California and half of the asphalt in northern California. If small refiners are unable to produce an adequate amount of diesel fuel, it may disrupt not only the diesel fuel market but also the market for these other petroleum products.

The June 10, 1994 staff report on this matter acknowledges that many things have changed since the 1988 rulemaking on diesel fuel. These changes have greatly increased capital costs. Since 1988, 14 diesel fuel suppliers have withdrawn from the California



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GENERAL OFFICE
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1251 BEACON BOULEVARD
(916) 373-3500

HAYWARD, CALIFORNIA 94546
2376 DAVIS AVENUE
(415) 783-3870

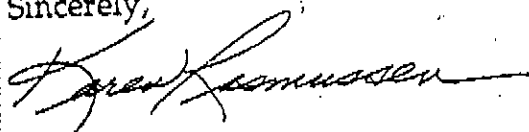
Jacqueline E. Schafer
July 25, 1994
Page 2

marketplace. The remaining refiners need to be able to produce at levels the marketplace requires and at levels that allow small refiners to cover their operating costs. As costs have increased, all refiners need to increase crude oil throughput to maintain per barrel operating costs. The rule currently mandates a return to operations at utilization rates too low to be competitive in today's markets. The result to fuel users is a market dominated by two or three big producers and the very real possibility of shortages and new price spikes.

Your staff acknowledges that producing 20 percent aromatic hydrocarbon content diesel fuel provides no price advantage to small refiners. Accordingly, this rule provides no guarantee of any market share to any small refiner. Instead, increasing the amount of volume that small refiners can sell will simply provide price stability.

Compared to the proposal adopted by the Board in 1988, the small refiners' proposal would not adversely affect air quality because there are so many fewer small refiners producing diesel fuel than were anticipated during the 1988 rulemaking. Since the small refiners' proposal results in no air quality detriment, no price advantage to the small refiners, and greater price and diversity of supply to the consumer, we urge the Board to adopt the small refiners' proposal to increase the amount of diesel fuel subject to the 20 percent aromatic hydrocarbon content limit to approximately 25,000 bpd. Thank you for the opportunity to comment.

Sincerely,



Karen Rasmussen
Director of Policy

KR:pt

cc: CARB Board Members

CALIFORNIA
TRUCKING
ASSOCIATION

FACSIMILE COVER SHEET

TO: Jackie Shaper

COMPANY: CARB

FROM: Karen Rasmussen

DATE: 7-25-94 TIME: _____

NUMBER OF PAGES INCLUDING COVER SHEET: 3

MESSAGE: _____

cc Board members

IF YOU DO NOT RECEIVE ALL PAGES, PLEASE CALL:

NAME: Pat Todd TELEPHONE: 916/373-3578

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EXXON COMPANY, U.S.A.
POST OFFICE BOX 2180 • HOUSTON, TEXAS 77252-2180

REFINING DEPARTMENT

94-8-1
7/29/94

July 22, 1994

STATE OF CALIFORNIA
7/25/94
XC: Board Members
JQS MHS
AS Legal
JB SSD

Board Secretary
Air Resources Board
2020 L Street, 5th Floor
Sacramento, CA 95814

Dear Board Members:

We received notice of the July 28 public hearing to consider amendments to the small refiner volume provisions in the California diesel regulations, and we wish to provide the following comments for the record on this matter.

The original diesel regulation allowed small refiners to sell lower quality diesel to the California public than that required of larger refiners. The regulation limited California highway diesel sales by the small refiners to their historic volumes to prevent these refiners from increasing their diesel sales under this quality exemption. This volume limit is 10.9 kBD for the four small refiners affected by the proposed amendments. The limit was temporarily increased by executive order to 35.1 kBD until October 1, 1994. The ARB staff is now proposing that the 35.1 kBD limit continue to apply for three additional months until the end of the year and that the original limit be increased 54 percent to 16.7 kBD effective January 1, 1995.

Exxon requests that the Board reject both proposals. Both proposals would substantially increase emissions of NOx and PM₁₀. The ARB staff's analysis states that the emissions increase from the proposed amendments "would constitute a significant adverse environmental impact" (Staff Report June 10, 1994, page 22.) Both proposals are counter to the Board's charge to reduce motor vehicle emissions and improve air quality.

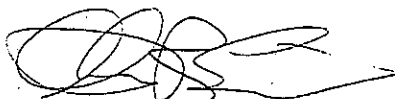
The ARB staff's justification that the amendments are necessary to protect the economic viability of the small refiners is groundless. Rather, the small refiners affected by the proposed amendments are currently reaping a substantial windfall, and the proposed amendments would continue that windfall. Under the temporary executive order, these refiners have substantially increased their diesel production, contrary to the intention of the original regulation, and they are reaping the benefit of selling this additional volume of lower quality diesel to the California public for the same market price as cleaner diesel produced by larger refiners. Denying the proposed amendments will return the small refiners to the volume limits established by the original regulation and correct the economic distortion created by the executive order.

The original volume limits were based on the three highest annual distillate production years of the baseline period for each small refiner and on an estimate by California refiners of the highway diesel percentage of distillate sales. The ARB staff now suggests that this percentage was low, resulting in an overly restrictive volume limit on small refiners. However, no substantiating evidence or analysis is presented for this opinion by the ARB staff.

The ARB Staff Report also maintains that the proposed amendments are intended to address concerns expressed by farmers and independent oil marketers about available diesel volumes. However, the Staff Report notes that large refiners expressed confidence to the ARB staff that California diesel supply would satisfy demand without the proposed amendments, and this point was not disputed by small refiners. The Staff Report presents no analysis or support that the farmers and oil marketers' concerns are valid and warrant the proposed amendments.

In addition to having a significant adverse environmental impact while serving no valid purpose, the proposed amendments may undermine the Board's desire for smooth implementation of the upcoming Phase 2 gasoline requirements. Adopting these amendments will increase the investment uncertainty for meeting future regulations by demonstrating the Board's willingness to provide special treatment for certain companies without regard for companies which invest in good faith to comply with the regulations.

Sincerely

A handwritten signature in black ink, appearing to read 'T. Eizember', with a long horizontal flourish extending to the right.

Thomas R. Eizember
Technical Division