



Western States Petroleum Association
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Catherine H. Reheis-Boyd

Executive Vice-President and Chief Operating Officer

November 3, 2009

Via Email: eaac@calepa.ca.gov

Dr. Lawrence Goulder, Chair
AB 32 Economic and Allocation Advisory Committee
California Air Resources Board
1001 I Street
Sacramento, CA 95814

Subject: AB 32 Implementation – Economic and Allocation Advisory Committee (EAAC) - Leakage

Dear Dr. Goulder:

As a follow-up to our letters of August 6, 2009 and September 16, 2009, the Western States Petroleum Association (WSPA) is submitting the following comments and recommendations to address leakage. WSPA is a non-profit trade association representing twenty-seven companies that explore for, produce, refine, transport and market petroleum, petroleum products, natural gas and other energy supplies in California and five other western states.

As noted above, WSPA has submitted comments to the California Air Resources Board (ARB) highlighting the potential impacts of key cap-and-trade design elements (allocations, auctions, offsets) on the California petroleum industry. We believe the views in those previous letters remain applicable to your ongoing discussions and will be useful as you develop your Committee's recommendations.

WSPA recognizes that the issue of leakage and its implications on commerce and industry are emerging as a result of intense study. To assist you in your deliberations, we are attaching a recently released report prepared by Ensys for the American Petroleum Institute (Ensys Waxman-Markey Analysis October 2009) that analyzes the key cap-and-trade design elements of the federal Waxman-Markey (WM) climate change legislation (HR 2454).

Under WM, the refining sector would receive a free allocation of only 2.25% or about 5% of refiners total emissions obligations. Ensys finds that "the impacts on US refining and on US petroleum imports dependency would be substantial." The Ensys analysis also predicts that "throughput reductions at US refineries are largely offset by non-US refinery gains". In other words, "net global GHG emission reductions would be small" as a result of implementation of the WM bill. The report further concludes that the associated consequences, including US refinery closures and job losses, are potentially substantial.

For the West Coast, Ensys concludes that as early as 2015, implementation of WM could reduce refinery throughput by 200,000 barrels per day and that by 2030 refinery throughput could be cut by as much as 1 million barrels per day. Clearly, such an impact would have a catastrophic effect on the California refining industry, could reduce transportation fuels supplies and could have a negative impact on California's economy. Increased market volatility is a possible outcome if fuel supplies are insufficient to meet demand.

This potential impact of the allocation design for California's cap-and-trade program is even more pronounced because California is already importing about 20% of its transportation fuel from outside our state.

It seems clear that the refining industry is trade exposed and that the California allocation scheme is likely to significantly influence the competitiveness of California's refining industry. Recognizing this fact, the EAAC should recommend that the AB32 program designed by ARB take this market impact into consideration. At a minimum, the EAAC should recommend that trade-exposed sectors be provided free allocations in the case of California's cap-and-trade program as this is the preferred mechanism to address GHG emission leakage and competitiveness issues in a state level cap-and-trade program.

WSPA appreciates the opportunity to provide our comments to you on this topic and we look forward to working with you in the future.

Sincerely,

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

cc: Linda Adams, Secretary, Environmental Protection
Kevin Kennedy, ARB Office of Climate Change
Lucille Van Ommering, ARB, Office of Climate Change
Richard Varenchik, ARB, Office of Climate Change