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August 17, 2023

Cap-and-Trade Program Workshop
California Air Resources Board
1001 I Street, Sacramento, CA 95814

Submitted electronically via the Workshop Comment Submittal Form

Re: Cap-and-Trade Program Workshop – Industrial allowance allocation

Dear CARB Staff,

Phillips 66 Company (Phillips 66) appreciates the opportunity to comment on the California Air Resources Board (CARB) Cap-and-Trade (C&T) Workshop that was conducted on July 27, 2023, to provide additional details about allowance budget scenarios and concepts related to industrial allowance allocation[1]. We support and incorporate herein by reference comments submitted by the Western States Petroleum Association (WSPA), dated August 17, 2023, and provide the following comments to emphasize key points related to allowance budget scenarios and industrial allowance allocation.

<u>Proposed allowance budget scenarios</u>

Phillips 66 is an obligated entity under the C&T regulation and considers C&T as a key market-based approach to help California achieve greenhouse gas (GHG) reduction goals. CARB's focus on C&T program stability and allowance cost containment during previous rulemaking has been crucial in ensuring compliance certainty for regulated entities that conduct business operations in California. Phillips 66 is aware of the GHG reduction and net zero targets for 2045 that were set in 2022 under the California Climate Crisis Act (AB 1279, Muratsuchi) and GHG reduction targets for 2030 included in the 2022 Scoping Plan. To meet these statutory and Scoping Plan targets, CARB staff is considering increasing the stringency of the cap by proposing three different allowance budget reduction scenarios. Appropriate stringency in the program can help in driving investment in projects to lower GHGs and meeting statutory GHG reduction targets. However, program stability could get impacted if program stringency is increased excessively and GHG emissions do not decrease at a pace commensurate with the 48% or 55% GHG reduction scenarios. To increase the stringency of the cap, CARB has proposed to remove allowances from either price containment reserves or future allowance budget. These changes need to be carefully modeled and we strongly caution against removing allowances from the reserves unless full effects of such actions on program stability are well understood and justified.

<u>C&T allowances: Industrial allocation</u>

Phillips 66 is in the process of transitioning one of its in-state petroleum refineries to produce renewable fuels, including renewable diesel (RD). As CARB staff discussed during the Workshop[1], there will be future demand for liquid fuels to supply legacy on-road and off-road fleets as well as for the aviation sector. During

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[1] CARB. California Public Workshop: Potential Amendments to the Cap-and-Trade Regulation. Available at: https://ww2.arb.ca.gov/sites/default/files/2023-07/nc-CapTradeWorkshop_July272023_0.pdf. Accessed: August 2023.

the Workshop, CARB staff discussed the topic of “New Product Allocation” for industrial facilities that are or will be producing products currently not listed in Table 9-1 of the C&T regulation[2]. For industrial facilities producing biogenic fuels, these products include renewable diesel and renewable naphtha, among others. Phillips 66 considers this topic of “New Product Allocation” as important for proper distribution of allowances to biogenic fuel production facilities so that these facilities can comply with the C&T regulation in a cost-effective manner and avoid emissions leakage. Phillips 66 is supportive of CARB’s direction to develop and incorporate a mechanism to allocate allowances to industrial facilities whose products are not currently listed in Table 9-1 of the C&T regulation. In addition, Phillips 66 also supports allocation of allowances to those facilities for all years since the start of the “new product” manufacturing, including any operational years before regulatory amendments have taken effect.

During the Workshop, CARB staff expressed their view that the “energy-based” allowance allocation method is not appropriate for biogenic fuel production facilities as these facilities will be producing hydrogen and a “product-based” allocation method is used to allocate allowances for hydrogen production. This determination puts “product-based” allocation as the only method for allowance allocation to biogenic fuel production facilities. As Table 9-1 in the C&T regulation doesn’t include renewable diesel or renewable naphtha as eligible products, a new benchmark needs to be developed for biogenic fuel production facilities. Phillips 66 is supportive of CARB developing a robust benchmark like the “complexity-weighted barrel (CWB)” that is part of Table 9-1 for the petroleum refining facilities. A benchmark like CWB for biogenic fuel production facilities should consider feed throughput, energy requirements for biofuel production, and complexity of biofuel production facilities (standalone vs. co-processing). Since biogenic fuel production facilities are slowly coming online in and out of California, the operational data to derive a CWB-like benchmark is currently not available. Until robust data is generated and collected from steady plant operations, CARB may have to use an interim benchmark that considers facility-level greenhouse gas emissions and facility throughput that includes either feed or product volumes. CARB can collect facility-specific GHG and throughput data from 2024 and beyond to develop a robust benchmark and incorporate that benchmark in the C&T regulation during the next phase of rulemaking along with a true-up mechanism.

C&T allowances: biogenic CO_2 exemptions

As indicated in our previous letter submitted in response to the Joint California-Québec C&T amendments Workshop conducted on June 14, 2023[3], Phillips 66 strongly encourages CARB to update the C&T regulation to include an exemption for biogenic CO_2. For a biogenic fuel production facility, biogenic CO_2 is typically produced from combustion of bio-propane that is a by-product of RD production and the current C&T regulation lacks clarity on granting exemption for the generated biogenic CO_2. A regulatory gap also exists for renewable naphtha/renewable gasoline, a co-product of RD production, for which biogenic CO_2 emissions are not exempted. We appreciate CARB’s efforts to address these regulatory gaps in the current rulemaking and support expansion of exemption for biogenic CO_2 generated from combustion of bio-propane and renewable naphtha/renewable gasoline that are produced from any biogenic feedstock irrespective of its origin.

EITE electricity allocations

During the July 27 Workshop, CARB staff presented a proposal to directly allocate allowances to EITE industrial facilities to address carbon costs associated with purchased electricity. Phillips 66 is supportive of this proposal and will welcome this change.

[2] Cap-and-Trade Regulation (Unofficial Electronic Version)

[3] Joint California-Québec Public Workshop: Potential Amendments to the Cap-and-Trade Regulation: June 14, 2023: Submission #133 | California Air Resources Board

Concluding Remarks

Phillips 66 thanks CARB for this opportunity to submit comments. Phillips 66 is supportive of efforts by the CARB staff to allocate allowances to biogenic fuel production facilities and recommends development of a robust benchmark for calculation of allowances. We look forward to collaborating with CARB to develop this benchmark and make necessary updates to the C&T regulation. If there are any questions, please contact me at (832) 765-1274 or sourabh.s.pansare@p66.com.

Sincerely,

Sourabh Pansare