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

Submitted electronically via the Workshop Comment Submittal Form

Re: California Public Workshop: Potential Amendments to the Cap-and-Trade Regulation

Dear CARB Staff,

Phillips 66 Company (Phillips 66) appreciates the opportunity to comment on the California Air Resources Board (CARB) workshop that was conducted on October 5, 2023^{1, 2} to consider potential amendments to the Cap-and-Trade (C&T) regulation. We support and incorporate herein by reference comments submitted by the Western States Petroleum Association (WSPA), dated October 26, 2023, and provide the following comments to emphasize key points related to allowance budget scenarios, industrial allowance allocation, and treatment of biogenic emissions under C&T.

Proposed Allowance Budget Scenarios

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 targets for 2030 included in the 2022 Scoping Plan. To meet these statutory and Scoping Plan targets, CARB staff has proposed to increase the stringency of the cap by proposing three different allowance budget reduction scenarios. Appropriate stringency in the program can help drive investment in projects to lower GHGs and meet statutory GHG reduction targets. However, program stability could be 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. We urge CARB to carefully evaluate and model these allowance reduction scenarios and their impact on program stability and allowance cost containment before increasing stringency of the cap.

During the workshop, CARB staff presented a proposal on 2031-2045 allowance budget scenarios (slides 30-36)¹. We appreciate and support CARB's efforts in building out allowance budget until 2045, which will provide certainty to businesses in California about the program post 2030. Of the two options presented to build out the post-2030 allowance budgets, Phillips 66 supports use of the *Emission Target Method*. This method will ensure that the allowance budget starting point in 2031 will be commensurate with state-wide emissions in 2030.

¹ [CARB, C&T workshop, Morning Session, October 5, 2023](#)

² [CARB, C&T workshop, Afternoon session, October 5, 2023](#)



C&T Allowances: Industrial Allocation

During the workshop, CARB staff proposed adjustment to the cap adjustment factor (CAF, slide 20¹) that corresponds to the proposed allowance budget reduction scenarios. CAFs are used to determine the allowance allocation for Energy-Intensive, Trade-Exposed (EITE) industrial facilities and the current CAF value for 2030 is 0.511. Compared to the current value in the regulation, the proposed CAF values will reduce to either 0.443 or 0.354 or 0.281 under the 40%, 48%, and 55% adjusted inventory scenarios, respectively. For EITE industrial facilities, these changes will have significant compliance impacts as the amount of allowance allocation in 2030 will drop by 13% or 31% or 45%, respectively, under these three scenarios vs. the current regulatory value.

Phillips 66 cautions against implementing steeper declines in CAF in a short amount of time as the increased demand for allowances from EITEs can put undue pressure on already expected reduced supply of allowances from 2025-2030, resulting in worsening of allowance supply-demand imbalance. Projects to lower GHG emissions from EITE facilities are capital intensive and implementation of such projects could be delayed by permitting challenges inherent in California's regulatory environment. We recommend keeping CAF values unchanged till 2030. If keeping CAF values unchanged is not possible, then we recommend selecting a smoother CAF reduction curve as shown in the "40% target Adjusted Inventory Scenario". Implementation of a smoother CAF reduction curve could mean decoupling of CAF annual percentage change from the overall allowance budget percentage change, which is a new way of thinking. But a smoother CAF reduction curve will increase confidence of EITE facilities to make investments in GHG reduction projects and can also help in minimizing leakage per AB 32.

Biogenic CO₂ Exemptions

Phillips 66 appreciates and supports CARB's proposal to expand exemption for biogenic CO₂ emissions from existing and emerging biofuels such as renewable naphtha and bio-propane/biogenic fuel gas and recommends exempting all biogenic process and combustion CO₂ emissions. For a biogenic fuel production facility, biogenic CO₂ is produced from combustion of bio-propane that is a by-product of renewable diesel production and the current C&T regulation lacks clarity on its exemption. A regulatory gap also exists for renewable naphtha/renewable gasoline, a co-product of renewable diesel production, for which biogenic combustion CO₂ emissions are not exempted. We support CARB's efforts to address these regulatory gaps in the current rulemaking and support expansion of the biogenic CO₂ exemption to include renewable naphtha/renewable gasoline and bio-propane derived from all biogenic feedstocks irrespective of their origin. During the workshop, CARB staff proposed several questions related to biogenic emissions (slides 64-66²) to seek feedback from C&T stakeholders. We provide below a short commentary to answer some of the proposed questions.

To support California's statutory GHG reduction goals, biofuels production, mainly renewable diesel, has grown in California over the last several years. This growth has occurred at both standalone facilities and facilities consisting of co-processing units. In addition to the existing production of renewable diesel, other emerging renewable fuels that are expected to be produced include renewable naphtha/renewable gasoline that can be blended with CARBOB and sustainable aviation fuel (SAF) that can be blended with conventional jet fuel. Some facilities can also produce renewable propane and renewable butane. Standalone biofuel production facilities will produce 100% biofuels that will likely get blended either on-site or at existing fuel terminals with CARB diesel in varying volumes to produce different renewable diesel/biodiesel/diesel blends such as R99 or R95/B5, to name a few. Renewable naphtha will likely be blended with CARBOB. These blended fuels will likely be distributed in California via pipeline as well as using rail, road, and marine transportation options.



In the current C&T regulation, § 95852.2(a) does not include renewable naphtha/renewable gasoline, renewable propane, renewable butane, and sustainable aviation fuel as biomass-derived fuels without a CO₂ compliance obligation. Considering expected growth of existing and emerging biofuels, CARB should amend § 95852.2(a) to include renewable naphtha/renewable gasoline, renewable propane, renewable butane, and sustainable aviation fuel as biofuels without a CO₂ compliance obligation. We also believe that renewable diesel production facilities that will produce renewable diesel, renewable naphtha, and biogenic propane are not addressed by emission categories specified in 95852(c), (d), (e), (f), (k), and (i).

CARB staff discussed the topic of biofuels and land use change on slide 62². CARB's Low Carbon Fuel Standard (LCFS) regulation considers lifecycle emissions of a fuel through calculation of carbon intensity (CI) and the focus of the C&T regulation, by design, is on stationary and tailpipe emissions from combustion of fuels within the State. The CI of biofuels is adjusted to consider emissions associated with the land use change. A biofuel that is regulated by both LCFS and C&T regulations has already been penalized for land use change emissions in its CI value under the LCFS regulation and CARB should not penalize the fuel again for land use change under the C&T regulation. Phillips 66 urges CARB to continue to focus on fuel lifecycle emissions within the LCFS regulation.

Concluding Remarks

Phillips 66 thanks CARB for this opportunity to submit comments. Phillips 66 is supportive of efforts by the CARB staff to expand exemption for biogenic CO₂ emissions from existing and emerging biofuels. In developing the future allowance budget scenarios from 2025 to 2045 and allowance allocation for EITE facilities, Phillips 66 urges CARB to take a measured and well thought out approach with a focus on program stability and minimizing leakage. We look forward to collaborating with CARB to 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

