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Kern Energy Comments on Gasoline Supply Reliability Workshop

Additional submitted attachment is included below.



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VIA ELECTRONIC POSTING

DOCKET UNIT, MS-4 [DOCKET NO. 23-SB-02]

September 10, 2024

California Energy Commission
715 P Street
Sacramento CA, 95814

RE: Comments on Gasoline Supply Reliability Workshop [Docket #23-SB-02]

Dear Vice Chair Gunda & Commissioners:

Kern Energy (Kern) is providing initial comments on the California Energy Commission (CEC) and the Division of Petroleum Market Oversight's (DPMO) August 22, 2024, Senate Bill (SB) X1-2 (2023) gasoline supply reliability workshop. Kern Energy urges the CEC to incorporate a small refinery exemption into the proposed gasoline inventory mandate because it is physically and logistically impossible for a small refinery like Kern to comply.

Kern Energy is an independent, family-owned, and operated transportation fuel producer located in the Southern San Joaquin Valley that has proudly fueled California for 90 years. Kern is the only refiner between the major refining complexes in the Bay Area and Los Angeles producing both clean gasoline and diesel according to California's strict standards. At a capacity of 26,000 barrels per day, Kern Energy serves as a critical fuel supplier, reliably supplying the needs of the agricultural breadbasket and major transportation corridors of the state. While California's regulatory landscape has created one of the most challenging operating environments in the world for a small refiner, Kern has thrived while many others have failed. CEC's own data illustrates the demise of 80% of California's small refineries in the last 30 years.

As a renewable fuel pioneer, Kern Energy embraced the challenge presented by California's Low Carbon Fuel Standard (LCFS) and the federal Renewable Fuel Standard, becoming just the second refiner in the U.S. to produce renewable diesel by co-processing bio-feed and the first small refiner in California to blend biodiesel. Kern Energy has produced more than 58 million gallons of renewable diesel since 2009 and blended more than 74 million gallons of biodiesel in the last 12 years.

The gasoline inventory mandate proposed during the workshop on August 22, 2024, would be devastating to Kern Energy. Small refineries have well-documented structural constraints and unique attributes making them necessarily different than their large, complex refinery counterparts – constraints that would make it impossible to maintain the gasoline supply volumes proposed during the workshop. Kern Energy is seeking the CEC’s acknowledgment and consideration for an exemption or exclusion from specific minimum inventory requirements should this proposal come to fruition via legislation and/or subsequent rulemaking.

During the workshop, CEC and DPMO presented a proposal that would mandate refinery gasoline inventory levels equivalent to as many as 13 to 15 days of supply. Maintaining this significant volume of gasoline would be physically and logistically impossible for Kern Energy. Kern Energy’s small refinery has a nameplate capacity of 30,000 barrels of gasoline storage. With a typical production between 8,000 and 10,000 barrels of gasoline per day, this is roughly the equivalent of only three days of supply – a far stretch from the 15 days of supply proposed. In actuality, Kern Energy’s maximum gasoline inventory capacity is two days of supply because the total gasoline tankage is used for fuel production, quality control and assurance, and loading/sales. Kern Energy’s gasoline tankage is set up such that we are producing into one tank while we are certifying specifications and selling from the second and third tanks, resulting in a typical finished gasoline inventory on hand between 15,000 and 20,000 barrels.

Any requirement to meet a 15-day inventory mandate would require Kern to increase our current storage capacity by more than five times. Such an endeavor would be financially prohibitive for a small refinery with limited resources and access to capital like Kern, and unfeasible with respect to obtaining necessary permitting and agency approvals to construct and operate this additional tankage. Even if approvals were granted, it would take multiple years to navigate the permitting process and multiple more years to complete construction.

Kern Energy’s facility in central California has restricted ability to ship or receive gasoline supply produced from other regions, unlike the large refineries located in the Bay Area and Los Angeles with access to major ports and clean product transport pipelines. There are no finished fuel pipelines to or from Kern Energy’s central California location. Kern Energy’s facility is land-locked, with no access to waterborne shipments.

Kern Energy recommends an exemption for small refiners using the existing statutory definition of “small refiner” from Cal. Code Regs. Tit. 13, § 2282(b)(19) (see italicized text included below). As the last small refinery in California still producing gasoline, Kern Energy believes it would be the only beneficiary of the proposed “small refinery” exemption.

Cal. Code Regs. Tit. 13, § 2282:

(b) Definitions

[...]

(19) "Small refiner" means any refiner who owns or operates a refinery in California that:

(A) Has and at all times had since January 1, 1978, a crude oil capacity of not more than 55,000 barrels per stream day;

(B) Has not been at any time since September 1, 1988, owned or controlled by any refiner that at the same time owned or controlled refineries in California with a total combined crude oil capacity of more than 55,000 barrels per stream day; and

(C) Has not been at any time since September 1, 1988, owned or controlled by any refiner that at the same time owned or controlled refineries in the United States with a total combined crude oil capacity of more than 137,500 barrels per stream day.

Given more time to work through solutions, Kern Energy would be amenable to working with the agency on a tactic similar to the Low-Complexity/Low-Energy-Use Refinery provisions in California's LCFS regulation where the qualifying criteria and associated refinery metrics are more specific and tailored to the program goal. For the LCFS provisions, total energy use and complexity of the refinery are the qualifying criteria for a refinery to be eligible for the credit which recognizes the lower carbon intensity of fuels inherent to smaller refineries. In this gasoline supply case for example, the gasoline inventory requirement might exempt a refiner whose total gasoline storage capacity in California is 50,000 barrels or less.

Kern Energy has been an active participant in CEC's efforts to carry out the various elements of SBx1-2 over the last 15 months, actively engaging in the policy-making process, participating in public workshops, and providing transparent feedback. Kern Energy appreciates the work that CEC has put into analyzing the significant amount of data and comments collected to date and trusts you will give appropriate consideration to our perspective and the background information supplied here.

As always, Kern Energy is committed to working with CEC. Please do not hesitate to reach out to me at (661) 845-0761 should you need anything else or have questions.

Sincerely,



Melinda Palmer
VP – Regulatory & Public Affairs
Kern Energy