

Comment Letter No. G1-118

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December 21, 2016

Via Email and U.S. Mail

Wayne Nastri, Executive Officer
South Coast Air Quality Management District
21865 Copley Drive
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wnastri@aqmd.gov

Re: Tesoro Los Angeles Refinery Integration and Compliance Project

Dear Mr. Nastri:

We write on behalf of Safe Fuel Energy and Resources California ("SAFER California"), Peter Estrada, Leonardo Parra and Nicolas Garcia in response to your counsel's December 14, 2016 letter regarding the Tesoro Los Angeles Refinery Integration and Compliance Project ("Project"). The letter states that, while the "DEIR's analysis concludes that this project was not designed to, and will not in fact, facilitate any crude oil switch at the refinery," pending "review of the relevant comments and response," you will consider revising and recirculating the DEIR to include an analysis of environmental impacts from a potential crude slate switch. We appreciate your careful consideration of this issue, and to aid your determination, we highlight the following information previously provided to the District in comments on the DEIR.

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The California Environmental Quality Act ("CEQA")¹ requires an agency to analyze all reasonably foreseeable environmental consequences of a project.² Here, the record shows that the Project would facilitate the Los Angeles Refinery to receive a broader range of crudes, including Bakken crude and Dakota and Canadian tar sands. Thus, CEQA requires the District to analyze impacts associated with the reasonably foreseeable changes in crude slate resulting from the Project.

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Tesoro's assertion that there will be no change in the crude slate or crude quality is unsupported. Rather, the record shows that Tesoro plans to change its crude slate, including importing significant amounts of Bakken and tar sands crudes to its Los Angeles Refinery, and that these crude slate changes are facilitated by the Project. Evidence shows that the Project is designed to achieve maximum flexibility in crude slate to reduce operating costs and maximize profits by refining the cheapest available crude.

First, Project components will allow a change in crude slate, including: (1) 3.66 million barrels of additional marine terminal storage capacity with a Reid Vapor Pressure of 10.5 psi (a much higher vapor pressure than crudes received at the terminals in the baseline); (2) shutdown of the Wilmington FCCU; (3) recovery of propane; (4) a new wet jet treater to remove mercaptans and reduce total acid number; (5) increase in capacity of units that process light process streams including the No. 51 Vacuum Unit and HTU-1, -2, and -4; and (6) increased firing rates of various heaters. These changes will allow the integrated refinery to import and process significant amounts of very light crude oils, such as Bakken crudes, as well as Canadian tar sands crudes, and blends of these two.

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The heart of the Project is the shutdown of the Wilmington FCCU. Fluid catalytic cracking is typically done to reduce the molecular weight of the heavy fractions of crude oil to lighter fractions. The FCCU converts heavy gas oil from crude distillation and other heavy streams to light gases, petrochemical feedstocks, gasoline blendstocks and diesel blendstocks.³ The FCCU was necessary to process a heavy feedstock. Shifting to a Bakken blend eliminates the need for the Wilmington FCCU because distillation of Bakken and other light crudes at the front

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¹ Pub. Resources Code § 21000 et seq.

² *Laurel Heights Improvement Association v. Regents of University of California* (1988) 47 Cal. 3d 376, 398 (emphasis added); see also *Vineyard Area Citizens for Responsible Growth, Inc. v. City of Rancho Cordova* (2007) 40 Cal. 4th 412, 449-50.

³ See, e.g., DEIR, Figure 2-8.

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end of a refinery yields much greater amounts of these lighter blendstocks and much smaller amounts of heavy feedstocks that require cracking.

Further, the increased yields of lighter fractions from refining Bakken and other light crudes requires increases in the throughput of downstream units that process lighter fractions from distillation, including the reformer, isomerization, and hydrotreating units.⁴ The Project includes increases in the throughput of these units. The CRU-3 fractionation section will be modified to enable recovery of propane from the refinery fuel gas.⁵ The naphtha isomerization unit will be modified to recover propane and heavier material from the off-gas, enabling additional product sales.⁶ The increased amounts of propane that will be recovered originate from lighter crudes that are rich in propane. The Project increases the firing rate of the No. 51 Vacuum Unit at Carson from 300 to 360 MMBtu/hr, which would increase the lifting capability in this unit. Further, hydrotreating Units 1, 2 and 4 will be modified to handle increased yields of lighter products, consistent with refining a lighter crude slate.⁷ Similar modifications are proposed at Tesoro's Anacortes Refinery to accommodate Bakken crude oil.⁸

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Second, Tesoro is heavily invested in Bakken.⁹ Tesoro has substantial holdings in the Bakken reserves, including the High Plains System, Great Northern Midstream and related trucking operations in the Bakken Shale/Williston Basin area of North Dakota and Montana.¹⁰

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⁴ See, e.g., K.J. Bryden and others, Processing Shale Oils in FCC: Challenges and Opportunities, Hydrocarbon Processing, September 1, 2013; Available at: <http://www.hydrocarbonprocessing.com/Article/3250397/Processing-shale-oils-in-FCC-Challenges-and-opportunities.html>.

⁵ DEIR, p. 1-12.

⁶ DEIR, p. 1-16.

⁷ DEIR, pp. 2-37/38.

⁸ Anacortes Upgrade, Clean Products Upgrade Project Fact Sheet, Available at: <http://anacortesupgradeproject.com/docs/anacortes-upgrades-fact-sheet.pdf>.

⁹ 12/9/14 Tesoro and Tesoro Logistics Analyst and Investor Day Transcript, p. 17 ("Obviously, our Bakken business, which has been the center of a lot of our growth, it's where we really work on acquisition of crude oil. We pick it up in trucks; we have gathering pipelines; we have our mainlines. We store crude; we deliver it to rail facilities and we deliver it to Tesoro's refinery... We've obviously been investing quite a lot around our Bakken system; we're investing in our West Coast system to grow our capabilities there, matched to the things Tesoro is trying to do.")

¹⁰ See, for example, Tesoro 12/9/15 Analyst and Investor Day Transcript, pp. 14, 15, 23 and U.S. Securities and Exchange Commission, Form 10-K, Tesoro Corporation, Fiscal Year Ended December 31, 2013, p. 12.

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Third, in a joint venture with Savage Companies, Tesoro proposes to construct a new rail-to-marine terminal at the Port of Vancouver in Washington ("Vancouver Terminal"). The Vancouver Terminal would receive Bakken and tar sands crudes¹¹ by rail and then transport the crudes by marine vessel to Tesoro's California refineries and other west coast refineries.¹² Indeed, Tesoro's application for the Vancouver Terminal anticipated exports of 80% Bakken crude and 20% other crudes, including Canadian tar sands.^{13,14} Accordingly, the Vancouver Terminal environmental impact statement analyzes impacts from spills and accidents for Bakken crude and DilBits.¹⁵

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Fourth, the Material Safety Data Sheet ("MSDS") for "light sweet crude oil" submitted with the initial permit applications for the Project's Wilmington tanks is identical to the MSDS Tesoro submitted for the Vancouver Terminal (which proposes to import Bakken crude oil from Tesoro's substantial holdings). Based on public statements by Tesoro, at least 50,000 bbl/day of this crude oil would be shipped to the Los Angeles Refinery.¹⁶

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¹¹ Energy Facility Site Evaluation Council, Tesoro Savage Vancouver Energy Project, Draft Environmental Impact Statement, January 22, 2016, pp. 2-65, 2-73, 4-29/31, 5-51, Appendix B, p. 1 ("The Facility would be designed and constructed to unload Bakken crude oil, and possibly other heavier grades such as diluted bitumen crude oil, from railcars in Terminal 5."), Appendix E, p. 39, Appendix J; Available at: <http://www.efsec.wa.gov/Tesoro%20Savage/SEPA%20-%20DEIS/DEIS%20PAGE.shtml>.

¹² Vancouver Terminal DEIS, Tables 4-6 and 4-7 and pp. 4-33/34 (explaining that DilBit or diluted bitumen is a Canadian tar sands crude).

¹³ Tesoro Savage, Application for Site Certification Agreement (Vancouver Application), vol. 1, August 29, 2013, Available at:

<http://www.efsec.wa.gov/Tesoro%20Savage/Application/EFSEC%202013-01%20Volume%20I/EFSEC%202013-01%20-%20Compiled%20PDF%20Volume%20I.pdf>.

¹⁴ 2/27/14 Tesoro Presentation, pp. 13-18; Kristen Hays and Erwin Seba, Update 1 – Tesoro Delivering First Bakken Crude Unit Train to California, Reuters, September 11, 2013, Available at: <http://www.reuters.com/article/2013/09/11/tesoro-rail-crude-idUSL2N0H70U420130911>.

¹⁵ Vancouver Terminal DEIS pp. 4-29 through 31, 4-26, 5-51, 2-65, 2-73; Appendix E, p. 39; Appendix J.

¹⁶ While Tesoro has included a MSDS for "Bakken Crude Oil" from Enbridge Pipelines Inc. in some filings, this MSDS is not representative of the Bakken crude oils that would be imported by Tesoro at the Vancouver Terminal. The light ends are stripped from crude oil shipped by pipeline, reducing the crude vapor pressure and concentration of volatile organic compounds such as benzene. See, e.g., Reuters, Exclusive: TransCanada Toughens Pipeline Pressure Limits for Gassy Crude, January 31, 2014 (Crude vapor pressure on pipelines lowered to 69 kPa-a or 10 psia); Available at <http://www.reuters.com/article/us-transcanada-pipeline-vapor-pressure-idUSBREA0U0UW20140131>.

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Finally, Tesoro's "cost-advantaged crude strategy" is to increase its Bakken and tar sands supplies from 15% to 38% by replacing Alaska North Slope, foreign imports and California supplies.¹⁷ The President and CEO of Tesoro, Greg Goff, stated in the first quarter 2014 earnings call in responses to questions:¹⁸

Paul Y. Cheng - Barclays Capital - Analyst

Okay. In Carson, I think before being acquired by you guys, that they were running largely you said¹⁹ ANS, maybe 100,000 barrel per day. And then maybe another 100,000 of the Iraqi Basra²⁰. Is the crude slate changed now? Or that is essentially secured by the same crude slate as in the past?

Gregory J. Goff - Tesoro Corporation - President & CEO

Basically the same. We are running some different crudes there, but not material differences at this point in time. It is in our plans to do that. Basically what you described, is the bulk of the crude supply the two sources what is happens in the Los Angeles refinery today.

Paul Y. Cheng - Barclays Capital - Analyst

Right. Greg, how quickly that you think you may start to be able to change the crude slate to do that?²¹

Gregory J. Goff - Tesoro Corporation - President & CEO

The first thing, our intention at the Port of Vancouver to be able to do that.

Paul Y. Cheng - Barclays Capital - Analyst

You have to wait until the Savage terminal's²² up and running before you can actually do that?

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¹⁷ 2/27/14 Tesoro Presentation, p. 18.

¹⁸ Thomson Reuters Streetevents Edited Transcript, TSO - Q1 2014 Tesoro Corporation Earnings Conference Call, May 1, 2014 (Q1 2014 Tesoro Earnings Call), Barclay Capital questions at pp. 12-13. [There are some discrepancies between the Thomson Reuters transcript and the original webcast.](#)

¹⁹ "you said" mistranscribed as "essential"

²⁰ "Basra" mistranscribed as "basket"

²¹ "slate to do that" mistranscribed as "slated to buy it?"

²² "Savage terminal" mistranscribed as "terminal"

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Gregory J. Goff – Tesoro Corporation – President & CEO

That would allow us to move the most significant volume right now if we do that. We are looking at other things on an ongoing basis to be able to move crudes there. But we have a number of things that we're looking at, but that is the primary way that we want to be able to improve crude supply cost at the Los Angeles facility.

Paul Y. Cheng - Barclays Capital - Analyst

When the Savage that if we assume that you will get the permit and it's actually become a reality sometime in 2015. Given you have said in your system, if you run smoothly you can process up to 200,000 barrels per day of the light oil, is there any reason that you will not take 100% of the Savage crude --²³ into your own system?

Seems like even after you expand into 280,000 barrel per day, including heavy oil and light oil, you will have more than sufficient capacity, refining capacity, to absorb it. Is there any kind of arrangement with your partner that will stop you in²⁴ taking the entire shipment for yourself?

Gregory J. Goff – Tesoro Corporation – President & CEO

There is no restriction on how much we choose to move to Vancouver, Washington and then supply our West Coast system. We will balance it with the financial commitments and our overall supply strategy with continued sources of crudes of how much we ultimately decide to take.

We have said so far we have committed to take the first 50,000 barrels a day. And the partnerships work through the rest of the supply for that facility, we will be engaged in doing that.

But I think at the same time, Paul, we need to look at the dynamics of the pricing of other types of crude, as we do that. I think goes back to Jeff's question earlier, that there may be some other impacts on crude. But we'll see how that impacts and determine how much crude we take out to our West Coast system.

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²³ Mistranscribed as "Savage water"; recording unclear, but meaning in context is "Savage crude"

²⁴ "you in" mistranscribed as "unions"

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In its December 2015 Analyst and Investor Day earnings call, Tesoro was optimistic about supplying Bakken crude to its California refineries:

When you think about formalizing competitive advantage and fully integrating our value chain, that is really what the Los Angeles Integration and Compliance Project is about. And when we think about creating value, we are not just thinking about advantaged crude oils in front of our refineries, but we're thinking about how that supply to the west coast of advantaged crude oils can change the shape of the crude oil supply/demand dynamics for the west coast. And that's what we are trying to accomplish through Vancouver Energy.²⁵

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In its May 2016 earning conference call, Tesoro reiterated its plans to import crudes from the Vancouver Terminal to the Los Angeles Refinery in response to a question on the connection between the integrated Los Angeles Refinery and the Vancouver Terminal:

Gregory J. Goff – Tesoro Corporation – President & CEO

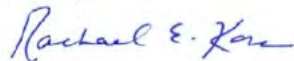
We have said that once Vancouver Energy is up and operating, we'll use crude oil into the facility to supply our west coast operations but there's no connection to the permits.²⁶

In short, Tesoro's plan is to change the Los Angeles Refinery crude slate to include more cost-advantaged crudes by importing Bakken and tar sands through the Vancouver Terminal. The Project will facilitate the crude slate change. Therefore, the District must analyze impacts associated with the reasonably foreseeable changes in crude slate resulting from the Project.

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Thank you for your attention to this very important matter.

Sincerely,



Rachael Koss

²⁵ Tesoro 12/9/15 Analyst and Investor Day Transcript, p. 10.

²⁶ Tesoro, 2016 Tesoro Corporation Earnings Conference Call Recording, May 5, 2016, 41:39 – 41:50 minutes, Available at: <http://edge.media-server.com/m/p/56vac56c>; Thomson Reuters Streetevents Edited Transcript, TSO – Q1 2016 Tesoro Corporation Earnings Conference Call, May 5, 2016, p. 14.

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