



TESORO

Climate Change Update – AB 32/Low Carbon Fuel Standard

WSPA Associates Meeting

April 13, 2010

Dave Reed, Vice President, Los Angeles Refinery

Tesoro Companies, Inc.

Tesoro Profile

- Tesoro is a U.S. company headquartered in San Antonio, Texas with 5,600 employees (approximately 2,300 in California and 900 in Texas).
- As a leading manufacturer of transportation fuels, Tesoro operates seven refineries primarily on the West Coast with a combined capacity of approximately 660,000 bpd.
- Tesoro's retail marketing system includes more than 870 branded retail stations, 380 are company operated under the Tesoro, Shell, Mirastar and USA Gasoline brands.
- Tesoro is not an integrated oil company. We have no crude production, thus like consumers, we benefit from low crude prices.
- Tesoro is raw material neutral since we own no crude, and are actively pursuing renewable alternative crude sources for manufacturing.
- Tesoro relies on the margin between crude prices and product prices to generate company revenue.



Three Guiding Principles

- Do it safely or not at all
- There is always time to do it right
- We operate at the pleasure of the community

- What is AB 32
- What will be required of Refiners
 - Cap and Trade
 - Low Carbon Fuel Standard
- Impact on Tesoro
- Impact on California
- California Jobs Initiative

What is AB 32

- First Climate Change regulation in the United States
- Passed by California Legislature and signed into law in September 2006
- Set goal of reducing statewide GHG emissions to 2000 levels by 2010
- Emissions to 1990 levels by 2020 – a 25% reduction
- Carbon emissions 80% below 1990 levels by 2050

AMENDED IN SENATE AUGUST 9, 2006
AMENDED IN SENATE AUGUST 7, 2006
AMENDED IN SENATE JUNE 22, 2006
AMENDED IN SENATE APRIL 18, 2006
AMENDED IN SENATE AUGUST 15, 2005
AMENDED IN ASSEMBLY MARCH 31, 2005

CALIFORNIA LEGISLATURE—2005-06 REGULAR SESSION

ASSEMBLY BILL No. 32

Introduced by Assembly Members Nunez and Pavley
(Principal coauthor: Assembly Member Nation)
(Coauthors: Assembly Members Bass, Berg, Chan, Chu, Cohn, Dymally, Evans, Frommer, Goldberg, Hancock, Jones, Karnette, Klehs, Koretz, Laird, Leno, Levine, Lieber, Lieu, Montanez, Mullin, Nava, Oropeza, Ridley-Thomas, Ruskin, Saldana, Wolk, and Yee)
(Coauthors: Senators Bowen, Chesbro, Escutia, Kehoe, Kuehl, Lowenthal, Romero, Simitian, Speier, and Vincent)

December 6, 2004

An act to amend Section 39003 of, and to add Chapter 7 (commencing with Section 42875) to Part 4 of Division 26 of, the Health and Safety Code, and to amend Section 25730 of the Public Resources Code, relating to air pollution.

LEGISLATIVE COUNSEL'S DIGEST

AB 32, as amended, Nunez. Air pollution: greenhouse gases: California Global Warming Solutions Act of 2006.

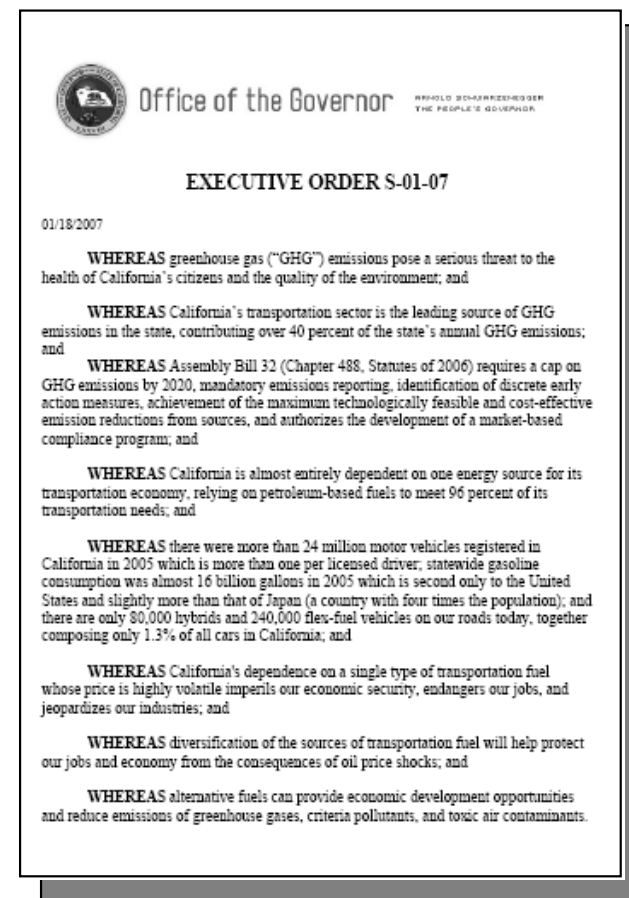
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- Scoping Plan has been developed that provides the outline for actions to reduce CO₂ in CA to 1990 levels.
- It includes a complex menu of 74 specific measures including: Energy efficiency standards for buildings and appliances, renewable portfolio standards, clean car standards and a cap and trade program.
- Scoping Plan Elements impacting Refining Industry
 - Cap and Trade for refineries in 2012, transportation fuel in 2015
 - Low Carbon Fuel Standard
 - Energy Efficiency Audits for Large Sources
 - Removal of the Methane Exemption for LDAR VOC programs
 - Refinery Flare Recovery Enhancements

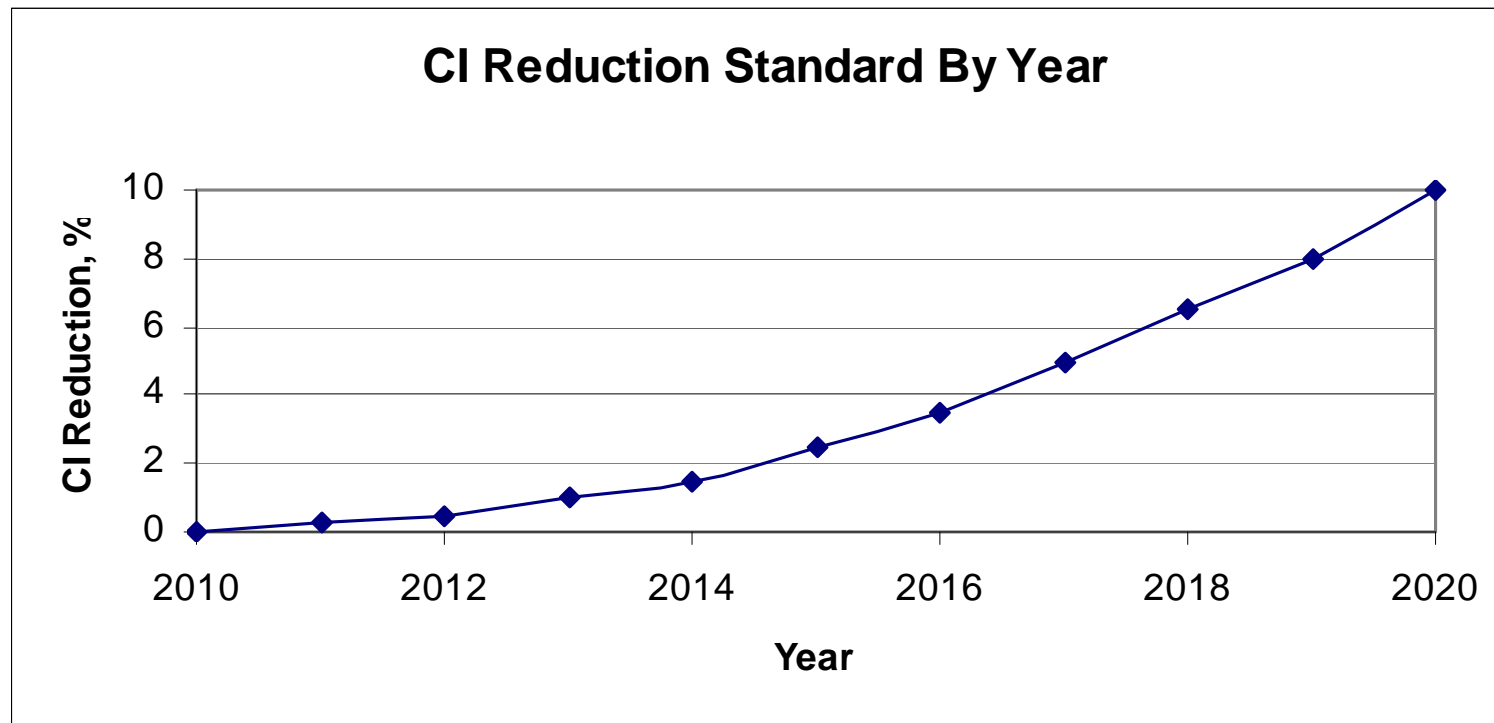
- CAP and Trade is the heart of the AB 32 Program impacting large emitters, including refineries.
- CARB has spent considerable time developing policies that include scope of regulation, banking, trading, and use of offsets.
- Difficult decisions regarding point of regulation, allocation, distribution of allowances and the use of auctions are expected spring 2010.
- CARB Cap and Trade Timeline
 - 2Q2010, finalize program design and regulatory language
 - Late 2010, CARB Board will consider Cap and Trade Regulation

- Executive order signed by Governor Schwarzenegger 1/07 established the LCFS
- CARB Determination – AB 32 Early Action Item
- Directed University of California to provide academic and research support to LCFS development
- CARB Proposed outline – March 2008
- CARB Board Approval – March 2009
- Implementation - January 2010
- While technically in effect this year, CARB is still in the process of finalizing the regulation.



The California Low Carbon Fuel Standard

- The CA LCFS requires producers of gasoline and diesel to reduce the “carbon intensity” (CI) of those fuels that are sold in California.
- Phased-in compliance schedule starts with 0.25% reduction in 2011 and ramps up to 10% in 2020.



- Producers of gasoline and diesel are the target of this regulation and we are required to meet each year's standard by:
 1. Blending low carbon biofuels into our refined products.
 2. Selling low carbon biofuels directly (including electricity and H₂).
 3. Buying credits from entities who are selling low carbon fuels or are over-complying on their blends of low carbon biofuels.

- Compliance obligation for gasoline starts at the refinery, blending facility or import facility - but it is transferred downstream until the CARBOB product is blended with ethanol.
- Compliance obligation for diesel starts at the refinery but can be transferred downstream with the permission of the buyer.
- Intent is to tie compliance with the company that controls the blending of biofuels.

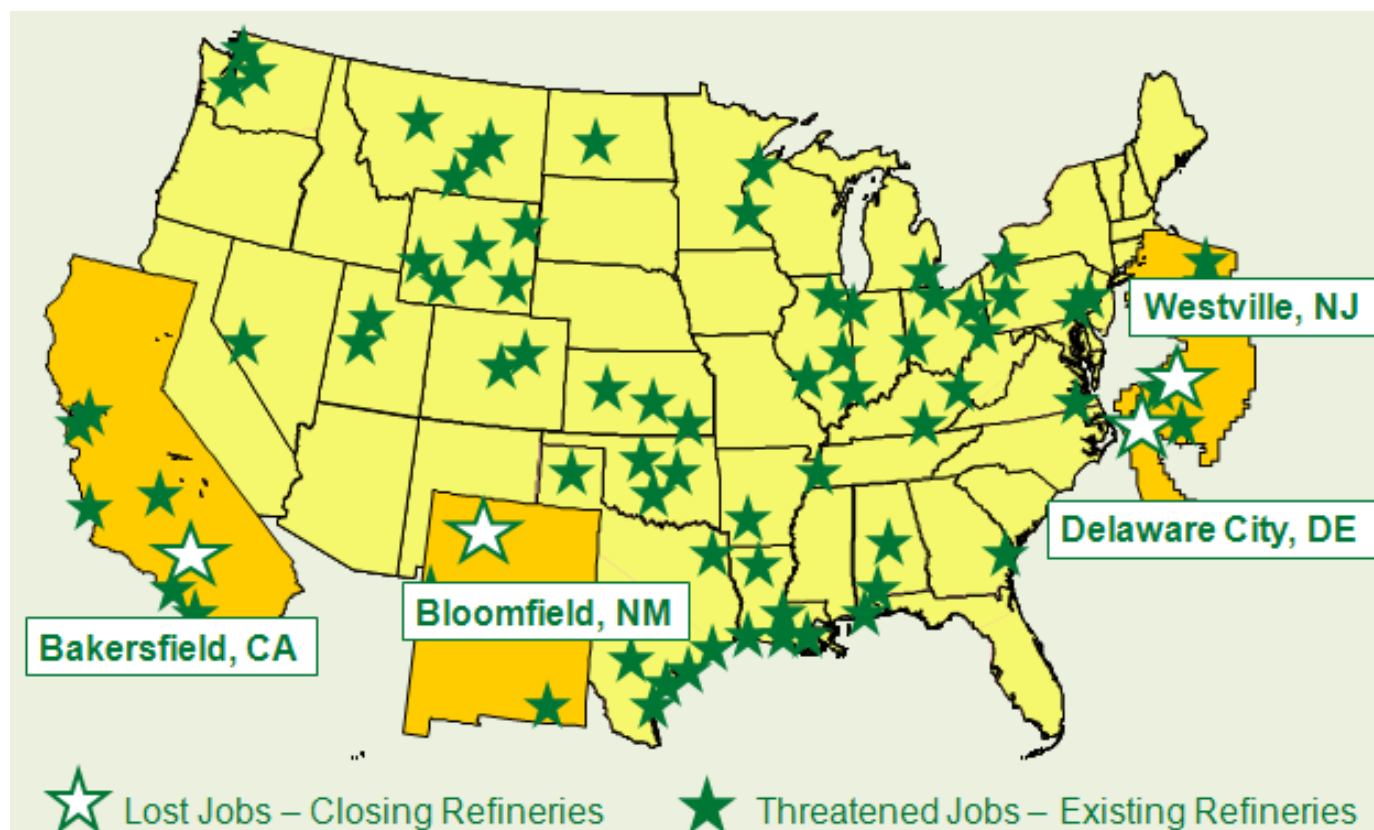
- The LCFS is being applauded as a way to implement California's Bio-Energy Action Plan and the CEC's Integrated Energy Policy Report. Basically, these plans call for California to reduce hydrocarbon use 20% by 2020 and 50% by 2050.
- Applauded for "diversifying" California's energy supply
- Get California "Off Oil"

- According to independent sources:
 - Preliminary estimates unrealistically imply regulations will have zero to very low costs
 - Up to 60% increase in electricity rates (SCCPA)
 - The Low Carbon Fuel Standard will cause \$3.7 billion a year in higher gasoline and diesel costs (Sierra)
 - \$50,000 to \$70,000 added to the cost of a new home (NREL)
 - An 8% increase in natural gas costs (CARB)
 - \$1,000 to \$3,000 increase in vehicle costs (varied)
 - Possible \$143 billion cap and trade auction tax to offset AB 32's higher energy prices and job losses

U.S. Workers Losing Jobs

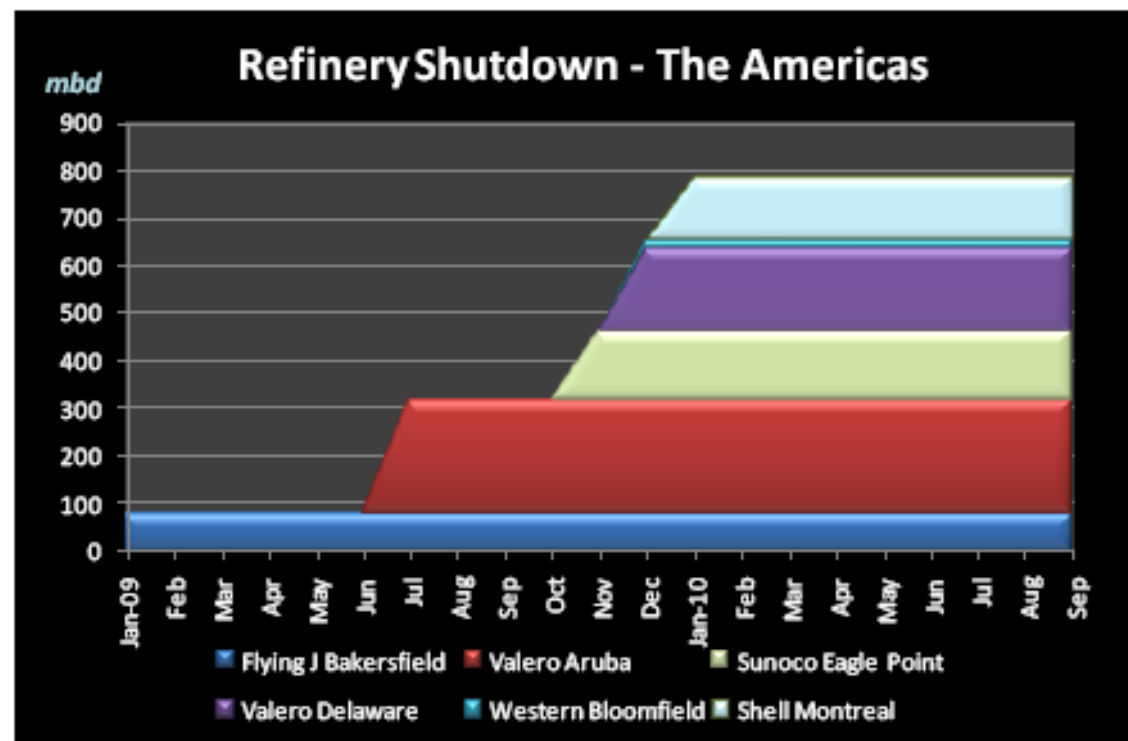
Refineries Closing

U.S. Refining Industry is under attack and being threatened by climate change legislation, additional regulatory requirements, low demand and margins so thin that refinery shutdowns are occurring, resulting in lost jobs.



Refinery Shutdowns

The U.S. domestic refining sector is one of the few remaining manufacturing sectors in the country. Yet states continue to look to our business sector for additional taxes, particularly states with budget problems. The largest manufacturers of transportation fuels, that don't own upstream production, all showed losses in 2009.



- A Ballot Initiative was filed with the attorney General in November that would:
 - “delay the implementation of AB 32 until the state's unemployment rate, currently about 12%, falls to 5.5% for four consecutive quarters.”
- With record unemployment and huge state deficit, the California economy is broken.
- Tesoro is concerned about the State of the Economy in California and its impact on our Business.
- **Tesoro is supporting the Ballot initiative that would suspend AB 32 until unemployment is reduced.**

What is the California Jobs Initiative?

- The California Jobs Initiative is a common-sense measure that will protect jobs and help our state's economy get back on track.
- Like many other large and small employers in California, jobs and the state's economic health are a top priority for us.
- The cost of AB 32 is predicted to run in the billions, impacting virtually every consumer and family in the state with higher prices for essentials like food, fuel, electricity and water. Those higher prices will translate to lost jobs as businesses struggle to stay afloat during this prolonged recession.
- With unemployment running persistently at over 12%, we need to do everything we can to protect jobs and work toward improving our state's economy.
- The California Jobs Initiative merely adjusts the timetable for AB 32 implementation until California's unemployment level is closer to what it was at the time AB 32 was adopted.
- With over 2.2 million unemployed, now is the worst possible time to hit businesses with new regulations that will cost billions of dollars. The California Jobs Initiative will give businesses a fighting chance to create the jobs that are essential to a real economic recovery for our state.