

**THE CALIFORNIA DEBT LIMIT ALLOCATION COMMITTEE**  
**September 24, 2008**  
**Staff Report**  
**REQUEST FOR A QUALIFIED PRIVATE ACTIVITY BOND ALLOCATION FOR AN**  
**EXEMPT FACILITY PROJECT**

*Prepared by Brady Hill.*

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**Applicant:** California Pollution Control Financing Authority

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**Allocation Amount Requested:** \$100,000,000

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**Project Name:** **BP West Coast Products LLC**  
**Project Address:** 1801 East Sepulveda Boulevard  
**City, County, Zip Code:** Carson, Los Angeles, 90749-6210

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**Project Sponsor Information:**  
**Name:** **BP West Coast Products LLC**  
**Address:** 2350 East 223<sup>rd</sup> Street  
Carson, CA 90810  
**Principals:** J.A. Dietz, R.A. Malone, R.J. Novaria and T.L. Taylor  
**Contact:** Paula J. Clayton  
**Phone:** (630) 821-2342

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**Project User Information:**  
**Name:** Same as Project Sponsor  
**Address:** Same as Project Sponsor  
**Contact:** Same as Project Sponsor  
**Phone:** Same as Project Sponsor

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**Project Financing Information:**  
**Bond Counsel:** Fulbright & Jaworski L.L.P.  
**Underwriter:** Goldman, Sachs & Co.  
**Credit Enhancement Provider:** BP p.l.c.  
**Private Placement Purchaser:** Not applicable  
**TEFRA Hearing:** May 22, 2008

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**Project Sponsor's principal activity:** According to the application, the Project Sponsor is applying to the Equipment Only Purchase Program for solid waste disposal facilities administered by the California Pollution Control Financing Authority.

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**First Tier Business (Yes/No):** No

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**Regulatory Mandate (Yes/No):** No

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**Sources of Funds:**

Tax-Exempt Bond Proceeds	<u>\$100,000,000</u>
Total Sources	\$100,000,000

**Uses of Funds:**

Acquisition & Installation of New Equipment	<u>\$100,000,000</u>
Total Uses	\$100,000,000

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**Description of Proposed Project:** According to the application, petroleum refining is the operation/process that will be conducted at the proposed facility. According to the application, the Project includes multiple facilities designed to help the Company achieve two goals associated with the Company's continuing program to produce cleaner burning gasoline and other petroleum products: (1) to comply with California and federal regulations with respect to reformulated gasoline and clean fuels and (2) to make a significant contribution to improve air quality in the South Coast basin. The new clean fuels gasoline is less volatile and contains fewer aromatics and olefins as well as less sulfur and benzene. In addition, it contains more oxygen which results in a reduction in carbon monoxide emissions. According to the application, the facilities to be financed with the proceeds of the Bonds consist of equipment, components and systems which have been or will be acquired, improved, installed or constructed for use as solid waste disposal facilities located at the Company's Carson Refinery. The facilities are necessary and integral to the production of cleaner burning fuels for use in California. The solid waste disposal or recycling facilities collect, handle, store, treat, process, dispose and recycle solid waste materials. The facilities funded by the Bonds are integrated components of the solid waste disposal or recycling and include additions, improvements and modifications to coking, hydrotreating, hydrocracking, desulfurizing, fluid catalytic cracking, sulfur recovery, and flare off-gasing. The capital addition of the flare-gas recovery system recovers waste gas and reduces the expected frequency of flaring events, thereby controlling air emissions. The capital additions to the fluid catalytic cracker control air particulate emissions generated by the production of clean fuels. The addition of the new hydrotreater and the facilities upgrades to the hydrodesulfurizer manage sulfur in the gasoline produced under the clean fuels program. Lastly, the fluid catalytic cracker and hydrotreater described above contribute to gasoline and diesel fuels production from solid waste sources by removing sulfur and other contaminants. The Project will also include related refinery auxiliary systems and certain property that is functionally related and subordinate to the foregoing systems and components. Finally, according to the Project Sponsor, the facilities also include process equipment, utilities, controls and instrumentation, related mechanical and electrical systems and related structures and buildings.

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**Environmental impact:**

- 1) **Air Quality:** According to the application, the Project is designed to produce reformulated gasolines. Such reformulated gasolines were previously mandated by the federal Clean Air Act and the California Clean Air Act. The reformulated gasolines help to reduce air emissions from existing gasoline-powered vehicles because the reformulated gasolines are less volatile, contain less aromatics, olefins, sulfur and benzene. In addition, they contain more oxygen that reduces carbon monoxide emissions. Lastly, emissions from cars using the reformulated gasolines will continue to be significantly reduced, in part because of the new fuels produced at the Project Sponsor's Los Angeles Refinery as a part of the Project.
- 2) **Water Quality:** None indicated.
- 3) **Energy Efficiency:** None indicated.
- 4) **Recycling of Commodities:** None indicated.
- 5) **Safety and Compliance:** According to the application, the Project includes a vacuum residual recycling facility, which allows for the processing, recycling and disposal of an otherwise unmarketable byproduct of crude oil refining. The Project is not anticipated to produce other incremental byproducts or residues not currently handled by standard refinery operations. In addition, the Project Sponsor is in compliance with all the state and federal environmental regulations regarding the operation of the proposed facility and its existing facilities that it currently operates.
- 6) **General Public Benefit:** According to the application, the Project expects to produce construction and permanent jobs and possible increases in property, income and sales taxes. In addition, according to the application, the Project Sponsor has had a record of providing public benefits through its multiple prior CPCFA financing projects.

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**Other public benefits provided by BP and BP West Coast Products LLC:**

**GENERAL PUBLIC BENEFITS MADE POSSIBLE BY TAX-EXEMPT FINANCING FOR THE PROJECT SPONSOR (BP West Coast Products LLC) <sup>1</sup>:**

- 1) Providing efficiencies and fuel product flexibility that help position BP for future compliance with AB 32 and the Low Carbon Fuels Standard.
- 2) Reducing emissions of particulate matter (PM) from their Fluid Catalytic Cracking unit to the lowest possible levels under SCAQMD Rule 1105.1.
- 3) Removing excess sulfur from the emissions streams from both their processes, from the fuels that are produced and ultimately from vehicles using California fuels.
- 4) Significantly reducing flaring emissions into a closed system and decreasing the likelihood of exposures to the surrounding communities under SCAQMD Rule 1118.
- 5) BP has formed a partnership with Rio Tinto, which is called Hydrogen Energy. Hydrogen Energy has proposed a new kind of hydrogen-powered electric generating facility for the Kern County area that would capture and store most of its carbon-related emissions. In addition, BP runs the largest California co-generation facility. This 400 megawatt facility is located in Carson and provides power to both the company's Carson facility and the California electric grid. The Carson facility produces enough power to meet the energy needs of more than 400,000 Southern California residents.

**In addition, the following programs illustrate the ways in which BP, which is the parent company of BP West Coast Products LLC (Project Sponsor), provides public benefit to the State of California:**

**RENEWABLE ENERGY TECHNOLOGIES PROGRAMS:** In California, BP Solar is a market leader in solar power. Homeowners and businesses are using BP generated solar power to lower their electric bills and increase their energy independence. In addition, BP Alternative Energy is a leading wind developer in the US. In Riverside County, BP Alternative Energy is investing approximately \$40 million on the Edom Hills project. This BP wind re-powering project will replace 139 turbines with 8 larger and more efficient turbines.

**MARINE / PORTS:**

**World Class Tankers:**

In San Diego, BP made a recent investment of approximately \$1 billion: namely, the construction of four Alaska Class double-hulled tankers. These cutting-edge and environmentally friendly tankers are "double-double," meaning double hulls, twin engines, twin propellers, and twin rudders. In addition, the tankers have water cooled propeller shafts (instead of oil) and piping below decks to protect from freezing. This fleet is setting the standard for environmental performance. The tankers have used low sulfur fuels at the Port of Long Beach for over seven years and have voluntarily reduced ship speed in the Port.

**Cold-Ironing:**

BP and the Port of Long Beach jointly administer this \$5 million voluntary project. It is meant to reduce emissions through shore based electrical power for vessels at berth; cold-ironing allows vessel generators to power down while they are offloading product.

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**Legal Questionnaire:** No information was disclosed that raised any question regarding the financial viability or legal integrity of the applicant.

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**Recommendation:** Staff recommends that the Committee approve \$100,000,000 in tax-exempt bond allocation contingent on CPCFA final approval of the Final Resolution of BP West Coast Products LLC.

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<sup>1</sup> Summary and explanations come from BP California Government Relations document dated August 19, 2008