



Western States Petroleum Association
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Joe Sparano
President

February 20, 2009

California Energy Commission
Dockets Office, MS-4
Re. Docket No. 09-IEP-1K
1516 Ninth Street
Sacramento, CA 95814-5512

DOCKET

09-IEP-1K

DATE FEB 20 2009

RECD. FEB 23 2009

Re: WSPA Comments on CEC 2009 IEPR – Transportation Energy Forecasts
Docket No. 09-IEP-1K

Dear Docket,

The Western States Petroleum Association (WSPA) provides comments below, on the February 10 CEC 2009 IEPR staff workshop on transportation fuel prices and energy demand. WSPA is a non-profit trade organization representing twenty-eight companies that explore for, produce, refine, distribute and market petroleum, petroleum products, natural gas and other energy products in California and five other western states.

The CEC's 2009 IEPR will deal with transportation fuel and energy policy issues for the state. WSPA has participated in every IEPR for the past several years, as our members' business activities are directly and indirectly impacted by the Commission's recommendations.

In particular, the assumptions and decisions on inputs to the models used in forecasting and other IEPR work are absolutely essential to the credibility of the recommendations the CEC will make. Those assumptions and decisions will also impact the state's ability to promote successful efforts that ensure adequate, reliable and affordable energy supplies are available to California and western region consumers and businesses..

Our previous comments indicated that WSPA members are deeply concerned about the state's transportation energy supply situation. We have appended our 2007 IEPR comments since they are still very relevant to today's concerns. We ask that staff also review and carefully consider our previous comments.

Overall, WSPA supports diversification of California's transportation fuels portfolio. We do not support the use of mandates. We continue to advocate for the efficient and abundant use of cleaner-burning petroleum-based products, augmented by all renewable and alternative fuels that are scientifically sound, technologically feasible and cost-effective.

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However, an important part of our message to the Commission is that WSPA disagrees with the CEC philosophy of substantially reducing cleaner-burning, efficient petroleum products as a core element of the strategy to diversify energy supplies. That approach is biased and counter-productive.

The situation is significantly different for the 2009 IEPR as compared to development of the 2007 IEPR. The big difference is the very significant economic disruption that has been experienced – not just by the state but by the entire world. Recognizing this significant change, we have several comments to make regarding the presentations made during the February 10 workshop:

- During 2008 and so far in 2009 there has been tremendous economic turmoil. Many of the economic indicators with "normal" historical trends were significantly disrupted. The analysis provided by staff relies heavily on those historical, normal and near term trends, and not on the potential significant swings that may be reflective of the new "normal".

We question whether reviewing the past several years is going to be appropriately reflective of what may occur in the future. In fact, the documentation states staff evaluated retail price spreads for the past 10 years. Based on the recent economic situation, we suggest that staff should alter their approach and examine a greater number of years' history.

- On page 10, under "Assumptions" there is a comment, "The following are some of the assumptions associated with the proposed demand forecast: 1) Recent trends in the transportation energy sector are statistically representative of future trends, and within 2) ...the effects of low probability but high impact events, which change the use of transportation energy in California...are not represented in the existing models...it is assumed the modeled mathematical equations adequately describe potential future trends given the trends in input historical data."

These statements appear to confirm the inappropriateness of the assumptions. WSPA recommends staff develop forecasts that are not just based on restrictive models, but that incorporate the realistic and unusual nature of the most recent events as well.

- In the CA Freight Energy Demand model, the outputs are driven by price projections and growth projections of industrial activity in 16 economic sectors. Do the "recent trends" reflect what has happened in the last 6-12 months?
- The gasoline high case is \$4.78 per gallon in 2030 and the low case is \$3.34 per gallon in 2030. Based on the above points and on the significant volatility in recent fuel prices, we would expect the CEC to produce estimates that contain a very large range in potential prices, not these narrow range price points.

We believe ranges should be introduced throughout the report to provide policymakers with an appropriate view of the uncertainty associated with the numbers. This is particularly important in light of the current economic situation.

- Given the nature of these models and the inputs, we do not believe it is appropriate for CEC to list prices with numbers after the decimal point. Surely just a whole number is

adequate. The use of such a level of numbers in the tables infers a higher level of accuracy than is warranted.

- The Scoping Order states the 2009 IEPR will develop a conceptual blueprint that identifies the amount, performance characteristics and location of electricity resource additions....for the anticipated electrification of the transportation sector between now and 2050.

We are interested in how many electric vehicles have been assumed as available for consumers. We are also interested in CEC providing an assessment of how much additional generation capacity will be required for this electrification, and how the utilities will determine the level of additional electric power required for transportation.

WSPA appreciates the challenge posed by transportation planning for the state. We are prepared to assist the Commission with finalization of the 2009 IEPR and look forward to frequent communications as it is developed further this year.

Please contact either me or Gina Grey at 480-595-7121.

Sincerely,

A handwritten signature in black ink that reads "Joe Sparano". The signature is written in a cursive, flowing style.

c.c. Commissioner Jeffrey Byron

Commissioner James Boyd



Western States Petroleum Association
Credible Solutions • Responsive Service • Since 1907

Joe Sparano
President

May 25, 2007

California Energy Commission
Dockets Office, MS-4
Re: Docket No. 06-IEP-1B
1516 Ninth Street
Sacramento, CA 95814-5512

Re.: 2007- IEPR- Transportation Energy Forecasts
Docket No. 06-IEP-1B

This letter contains the Western States Petroleum Association's (WSPA's) formal comments in connection with the California Energy Commission's preparation of the 2007 Integrated Energy Policy Report (IEPR). The accompanying comments are submitted as part of the record of the Commission's Staff Workshop on Transportation Energy Demand and Import Infrastructure Requirements conducted May 8, 2007.

As discussed briefly during the Workshop, WSPA's main areas of focus and concern are:

- The impact climate change initiatives will have on energy supplies and planning;
- Implementation of the Governor's Low Carbon Fuel Standard and its impact on energy supplies;
- The troubling obstacles to expansion of California's port and marine petroleum infrastructure and the implications for meeting future energy demands;
- The necessity to maintain fuel neutrality as California adopts and implements alternative fuels, climate change and other energy policies, and;
- The impact federal, state and local public lands policies have on the accessibility and production of oil and natural gas resources.

WSPA strongly encourages the Commission to conduct additional investigation into these areas that we believe play central roles in California's energy supply and energy security picture. We welcome the opportunity to discuss these issues further with the Commission and staff as you develop the 2007 IEPR.

Thank you again for considering WSPA's comments in your deliberations. We also thank you for your willingness to continue working through a collaborative process with CARB on: improving the TIAX full fuel cycle analysis; developing a California-specific dynamic simulation transportation energy model to evaluate and compare various LCFS scenarios for their economic impact; and, engaging in firm, well-defined scheduled milestones at which the CEC and ARB review and evaluate progress and jointly make findings and determinations in complete, transparent reports to the Governor.

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Response to the seven questions posed by the Energy Commission

You have asked that we respond to seven questions regarding fuel price and supply projections and other forward looking information. As a trade association that represents commercial competitors, WSPA cannot answer the forward looking questions. Nor do we believe anyone else can answer them with any degree of surety.

However, we do believe it is essential that your projections be based on sound data and reasonable analysis. We have expressed to you in the past and will repeat today our concerns about building models or basing projections on what you would like energy consumption to be as opposed to reasonable projections.

Policy initiatives designed to reduce petroleum consumption should not be a basis for demand projections. While we may disagree with some of those policies, we believe we all should agree that sound and rational planning must be based on facts and reality and not wishes and hope.

The Governor's letter to the legislature in 2005 enunciated future energy goals such as adequate, reliable and affordable energy supplies using advanced energy technologies. We believe these are still valid and appropriate goals.

Climate change initiatives and energy planning

Since the Commission developed the 2005 IEPR, California has embraced an ambitious program to reduce greenhouse gas emissions by 25 percent over a roughly 13-year period. We believe it is incumbent on the Energy Commission to examine and factor into its projections, the *potential negative and positive impacts* that the implementation of greenhouse gas emission strategies could have on transportation fuel supplies.

Prudent planning requires an awareness of the potential for supply shortages and some effort to develop alternative strategies and plans to mitigate any anticipated adverse impacts to energy supplies.

AB 32 anticipates some form of safety valve if the GHG emission reduction regulations have unforeseen adverse consequences on energy supplies. The Commission could provide an enormous service to California by developing a rational methodology to determine if the reliability of abundant energy supplies is being imperiled by these new regulations and by providing the state with enough advance notice to avoid an economic meltdown.

We are working with CARB, the Energy Commission, the Governor's office and others to see that AB 32 and the Governor's Low Carbon Fuel Standard are implemented in a manner that does not lead to reduced transportation fuel supplies. We believe it is important to recall the fundamental purpose of the IEPR – "to develop energy policies that conserve resources, protect the environment, ensure energy reliability, enhance the state's economy, and protect public health and safety."

WSPA and its member companies are committed to working cooperatively with state agencies to develop a workable and effective LCFS program. Due to the risks associated with negatively impacting California's transportation energy fuel supplies, implementing an LCFS will not be an easy task.

It is essential that the LCFS be designed and implemented in ways that will not discourage further investment in California's petroleum-based fuels infrastructure. CEC projections over the next several years show a large and growing gap between gasoline and diesel demand and the ability of the state's refineries to supply those fuels.

Several real constraints impact the ability of transportation fuel suppliers to supply their California customers, including the availability of large volumes of low-carbon fuels and conventional fuels to meet the transportation fuel requirements of the large and diverse California markets.

We have urged creation of a stepwise implementation process where the CEC and ARB review and evaluate progress. Together, the CEC and CARB should first jointly make a determination that adequate LCFS fuel supplies and infrastructure are in place to allow implementation of the next steps of the LCFS in an orderly manner and with minimal disruption to the state's transportation fuel market.

Additionally, the LCFS program should have firm, well-defined and scheduled milestones at which the CEC and ARB review and evaluate progress, and jointly make findings and determinations. Policy makers can then be alerted to the potential for disruptions in transportation fuel supplies and associated market volatility, using complete, transparent reports to the Governor and Legislature.

We previously submitted copies of WSPA letters on this subject: One of them written April 2, 2007 to Brian Prusnek of the Governor's office; the other written May 7, 2007 to Catherine Witherspoon, Executive Officer of CARB. We are attaching those letters to this testimony because they contain important comments, recommendations, and concerns about the LCFS. We request they be incorporated into the record of these proceedings.

As mentioned in the May 7th letter, WSPA strongly urges ARB and the CEC to formally establish a technical collaborative process, such as described in Attachment 1. We believe this is essential to help develop two important and credible technical tools necessary to implement successfully a scientifically and technically sound and cost-effective LCFS and to assure that the ARB and the CEC rely on the best available economic and scientific information:

A widely accepted and accurate full fuel cycle analysis method will be needed. It is noteworthy that the May 1, 2007, UC draft, *A low-carbon Fuel Standard for California*, says there is no widely agreed on full-cycle analysis method, none has undergone rigorous review, and the products of the existing fuel cycle analysis are "in many cases highly uncertain." It confirms that further review and development of a widely accepted, credible full cycle analysis tool are necessary.

WSPA also recommends that CEC use a California-specific dynamic simulation transportation energy model to evaluate and compare various LCFS scenarios for their economic impact. Such a model would enhance the ability of CEC and ARB to evaluate the economy-wide and sector-specific impacts of LCFS measures to help assure the rules are cost-effective and equitable within the requirements of AB 32.

The question of biofuels, especially in the context of the LCFS, is another area that should be addressed in the 2007 IEPR. Biofuels are in increasingly higher demand and might not be available in sufficient quantities to supply California. The President has suggested around a five-fold nation-wide increase in the federal renewable fuel mandate.

Fleets are using increasing volumes of biofuels, and several states have or are considering biofuels mandates. California will be competing for these supplies, and the state still produces precious little in-state volumes.

The early-year goals of the LCFS may be achieved by low-level blends of first-generation biofuels in conventional gasoline and diesel. However, meeting the LCFS's 10 percent reduction in carbon intensity will likely require significant volumes of second generation, low-carbon intensity biofuels. The technology for cost-competitive, commercial-scale production of these fuels does not yet exist, despite decades of work.

Even with meaningful technology breakthroughs, it may be difficult in the contemplated timeframes to obtain the approvals, community support and funding necessary to build a large alternative fuels industry in California. This is a real vulnerability, given the significant land use, water use, equipment and energy requirements of a cellulosic or other biomass-based industry.

The most energy efficient use of biomass is for power generation rather than as a raw material for the production of biofuels. So, a more sensible state strategy may be to encourage biomass use for electrical generation. In any case, future biofuels may be competing with electrical generation for limited biomass resources.

Ports and imports

The adequacy of port infrastructure is a particular concern. Two-thirds of the crude oil supplies processed in California refineries is imported from foreign sources or Alaska, using vessels that deliver those supplies through the state's major southern and northern ports. California imports 3.5 million gallons of gasoline and other refined products every day to meet current demand, all of which enter through our ports.

Current public port policies are impacting the entire state's energy supply balance, and the state needs to step in and gain control over this situation before those port policies against the movement and use of petroleum-based fuels result in damage to California's economy.

According to the CEC's 2005 IEPR, California's marine infrastructure is at or near the limits of throughput capacity. If the marine infrastructure capacity does not expand, that could put constraints on crude oil supplies coming into the state.

We were encouraged that in the 2005 IEPR the CEC embraced and described many of our concerns relative to infrastructure. These include retention of existing facilities and the need for new construction, permit streamlining, more supportive port capacities and policies, constructive and collaboratively addressing community needs and concerns, etc. Unfortunately, there has been little, if any improvement in two years in any of these areas. Action needs to be taken now before these port policies trigger long-term economic harm for California.

Fuel neutrality

The Commission's 2005 IEPR states that no alternative fuel "represents a panacea," and that there was no intent to "define winners and losers." We hope these ideals still apply.

WSPA does not believe that fuel neutrality and fuel diversity are mutually exclusive. We feel strongly that the state's role is to remove obstacles to the market's choosing of practical and cost-effective solutions to expand the overall supply of transportation fuels.

Since our industry is heavily investing in alternative fuels right now, we believe CEC should focus on removing impediments that may limit the ability of market forces to work. These impediments include mandates, port policies, NIMBY-ism, permit system complexities and delays, and unrealistic or unachievable product specifications.

Federal, state and local policies

We recommend the Commission also consider the impact state, federal and local policies have on the accessibility and availability of domestic crude oil supplies. The U.S. Minerals Management Service, U.S. Geological Survey, Bureau of Land Management and National Petroleum Council have estimated there are 635 trillion cubic feet of natural gas and 102 billion barrels of oil that are undiscovered yet technically recoverable on or under public lands. A large portion of these energy supplies have been placed off limits for beneficial use by public policies. The portion of this untapped source of energy within the jurisdiction of California should be considered in the Commission's IEPR review.

Additional issues for consideration

Regional and global considerations

There is a critical need for CEC to broaden its focus outside the boundaries of California. The list of questions prepared for this workshop all tend to focus on what will occur in California. What might be even more relevant is what will happen outside of California - both nationally and internationally.

Energy markets and supply chains all work as systems. California, for example, isn't the only state wanting to reduce greenhouse gas emissions and encourage a shift to alternative and renewable fuels. The state needs to ensure it includes in its demand forecast any growth in the amounts of gasoline, diesel and jet fuel products that are currently produced in California refineries or imported through California port facilities, and then shipped from California to Arizona, Nevada, and in some cases, Oregon.

We can't afford to leave these volumes out of the supply/demand analysis.

When reviewing fuel supply and infrastructure capabilities, the state needs to understand that the impacts of geopolitical situations and natural events (like hurricanes) are not confined to just petroleum facilities and fuel supplies. Any alternative and renewable fuel supplies and infrastructure will be vulnerable to the same forces.

Alignment with other related factors

A sole focus on transportation fuels and fuels infrastructure seems to be ignoring the other critical part of the issue - the vehicles. Alternative fuels may be successfully utilized in existing vehicles. But, there is an alignment problem if the state focuses on certain fuels for future vehicles and during the period between development and significant market penetration, the vehicle manufacturers do not produce a sufficient number of the vehicles that can use these fuels.

The other element that is consistently missing from these analyses is the consumer, who will have certain expectations and genuine needs.

WSPA continues to support the use of low rolling resistance tires, better integration of transportation and land-use planning, and other measures to improve fuel efficiency and reduce transportation fuel demand growth.

We do not agree, however, with any artificial demand constraints. If specific mandates or objectives to limit or reduce the use of petroleum products are placed on the system, investors cannot be expected to put their risk capital into new facilities that produce, distribute and dispense additional supplies or even into the maintenance of existing supplies.

Sincerely,

A handwritten signature in black ink that reads "Joe Sparano". The signature is fluid and cursive, with the first name "Joe" being more prominent and the last name "Sparano" following in a similar style.

cc: Commissioner Jackalyne Pfannenstiel, CEC
Commissioner James Boyd, CEC
Commissioner John Geesman, CEC
Commissioner Jeffrey Byron, CEC

WSPA/
May 25, 2007