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President

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California Energy Commission
Dockets Office, MS-4
Re.: Docket No. 09-IEP-1A
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Sacramento, CA 95814-5512
Via electronic mail to docket@energy.state.ca.us

Docket No. 09-IEP-1A: WSPA Comments on the Committee Draft 2009 Integrated Energy Policy Report

This letter contains the Western States Petroleum Association's (WSPA) written comments on the draft Integrated Energy Policy Report for 2007 (IEPR). WSPA's 27 member companies are engaged in the exploration for, production, refining, transportation and marketing of energy and transportation fuels products.

WSPA has participated in every IEPR for the past several years, as our members' business activities are directly and indirectly impacted by the California Energy Commission's (CEC) recommendations. We have testified before the Commission, and have also submitted comments earlier this year relative to the draft IEPR and the Transportation Energy Demand & Fuel Infrastructure Requirements report.

Our comments in this cover letter focus on three frustrations WSPA has with the 2009 draft IEPR. We have also attached a document which provides more detailed comments.

One of our primary sources of frustration, which was also identified in previous IEPR proceedings, is that the Executive Summary and Recommendations sections appear disconnected from the body of the IEPR and the conclusions of the Transportation report.

This is important, because we all know that each IEPR is required to provide policy recommendations to ensure reliable energy supplies, and that the primary sections of the IEPR that policy and decision-makers will use are the Executive Summary and the Recommendations.

It appears that these summary sections exhibit selective focus. Let me expand on this observation.

The main portions of the IEPR and the Transportation report identify several deficiencies in critical petroleum infrastructure, particularly the state's marine import capacity. If these issues are not addressed, it could lead to energy supply disruptions.

Yet, there is no mention of these infrastructure deficiencies in the Executive Summary, and no recommendations calling for any state action to deal with the deficiencies.

The report recommends the state should modernize and upgrade the existing infrastructure for alternative and renewable fuels, but nothing is said about the need to modernize and upgrade the state's petroleum infrastructure.

This is despite the fact often mentioned by the CEC, that petroleum-based fuels will be the predominant form of transportation fuels used by California consumers for decades to come.

In short, the CEC report paints a bleak picture of the ability of the state's petroleum infrastructure to keep pace with increasing demands and changing conditions. While energy efficiency and fuel diversification are important, the state cannot afford to give up on petroleum use. But, that is what seems to have been done in the draft IEPR.

O**ur second frustration** is the 2009 IEPR continues to favor petroleum reduction policies, despite a recognition that the overall demand for transportation fuels is projected to continue rising.

This favoritism continues, also despite recognition that the introduction of commercial scale replacements of alternative fuels and vehicles may not be as near-term as some would like – even with significant government financial incentives.

The 2003 IEPR recommended that the state increase the use of non-petroleum fuels to 20% of on-road fuel consumption by 2020. At the time, this was characterized as a fuels diversification goal rather than a petroleum reduction goal.

Also, AB 1007 required a plan to increase California's production and use of alternative and renewable fuels. This was characterized as a fuel diversity initiative and expansion of actions to promote alternative and renewable fuels.

We don't believe that there is a state law, executive order or policy mandating petroleum reduction. There are several policy initiatives promoting greenhouse gas emission reductions, fuel efficiency and diversity. And, there are state policies promoting reliable and adequate transportation fuel supplies.

But there is no law, executive order or policy that says the state should encourage or even tolerate the systematic elimination of petroleum fuel supplies at the expense of the state's economy or consumers.

A healthy economy depends on a reliable supply of transportation fuels. A reliable supply of transportation fuels requires the contribution of efficiency, petroleum based fuels plus alternative and renewable fuels.

While the state can no longer rely only on petroleum-based fuels, we also do not have the ability to rely only on efficiency measures or alternative and renewable fuels. We believe the appropriate pathway to fuels diversification has three segments: efficiency; a healthy petroleum contribution; and, a growing alternative and renewable fuels component.

However, rather than pursuing that three-pronged approach, the CEC has chosen a petroleum reduction strategy – this despite recognizing the many uncertainties associated with achieving adequate future supplies of alternative and renewable fuels.

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Nowhere in the report can we find a suggestion that while taking concerted steps to grow the alternative and renewable fuels market, the state should also promote adequate supplies of petroleum-based fuels.

Our third frustration involves the realistic possibility of public policy decisions creating transportation fuels supply problems in the state.

The CEC does not appear to be actively and urgently working to chart a specific strategy that will deal with the very tight demand/supply outlook embedded in the Commission's transportation fuels forecasts.

Starting on page 32 of the 2009 draft IEPR is a list of eleven state laws, policies and executive orders. According to the text, these are being "implemented to increase the use of renewable and alternative fuels and vehicles and accelerate the adoption of low carbon fuels through regulatory and funding mechanisms, as well as to improve the state's infrastructure."

These laws and policy initiatives are in addition to federal laws and policies, most notably the federal renewable fuels standard. With so many policy initiatives driving alternative fuels, there is a real risk of the state sending confusing or conflicting signals to the market.

As we see with the final draft report, in responding to so many alternative fuels initiatives, state agencies are sending anti-petroleum signals that could seriously impact transportation fuel supplies before alternative fuels can fill the gap.

While we have these frustrations, WSPA also believes that **Carbon Capture and Storage** or, CCS can be a key piece of California's program to reduce carbon emissions.

CCS has great potential as one very important method, among a number of strategies, for avoiding the effects of carbon dioxide emissions and emissions of other greenhouse gases into the atmosphere.

Geological surveys indicate that storage formations in California have the potential to securely store hundreds of millions of tons of carbon dioxide for many thousands of years. If successfully developed, CCS has the potential to reduce significantly California's greenhouse emissions while allowing for the continued use of fossil fuel.

For these reasons, we have made it our goal to advance CCS technology and policy to the point where statewide, affordable deployment can begin within the next five years.

There are at least three positive outcomes possible from the development of this technology. The first is a substantial contribution to avoiding the risk of global temperature rises that could threaten many communities.

The second is enabling growth in energy use to continue in a carbon constrained world and thereby promoting continued economic growth. This is especially important for California during this time of economic downturn.

The third positive outcome is that the technology will allow California to maintain its energy industry, which is a major engine of economic growth and wellbeing in all regions of this state.

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It is also the source of significant exports to other states in the western region and a key component of California's competitive advantage in energy-intensive manufacturing.

WSPA recently attended a statewide CCS reception and dinner in San Francisco, where state agencies extolled the benefits of CCS. The agencies offered their support to make sure California takes the lead in this aggressive effort, harnessing the scientific talent and resources of governments and industry.

Given this show of state agency support, WSPA is dismayed that mention of CCS is buried in the electricity section of the CEC 2009 draft IEPR.

In addition, an interagency group formed in August to develop recommendations on CCS-related policy issues was mentioned. We would like to obtain information on this group; more importantly, we want a place at the table since the petroleum industry is at the forefront of this effort.

We all need to come together to address CCS policy questions in tandem with technology development and demonstration. WSPA stands ready and able, as we have from the beginning, to keep the momentum going.

Finally, there are previously identified government-imposed barriers that fuels providers encounter doing business in California. These barriers include complicated and difficult permitting processes, regulatory uncertainties, infrastructure capacity limitations, and individual port policies that are intended to restrict or eliminate petroleum bulk storage and handling facilities.

The barriers not only restrain petroleum infrastructure development but also may impair timely alternative fuels development.

The IEPR is clearly the place for an in-depth discussion of what needs to be done to grow a domestic alternative and renewable fuels industry as well as address factors hindering modernization of the petroleum infrastructure. But, the final draft IEPR avoids the difficult issues of permitting and local decision-making for all types of fuels.

And, it is totally silent on recommendations addressing the identified and clearly articulated deficiencies in the state's petroleum infrastructure.

There is one additional piece of information WSPA wants to share with the Commission. According to a June 2009 CalTrans report titled, "2008 California Motor Vehicle Stock, Travel and Fuel Forecast," CalTrans is forecasting large increases in Vehicle Miles Traveled or VMT, vehicle fuel consumption and registered vehicles, between now and 2030.

On page 1 of the report, CalTrans shows VMT increasing from 333 billion vehicle miles in 2008 to 532.5 billion vehicle miles in 2030. Transportation fuel consumption increases from 18.34 billion gallons in 2008 to 28.39 billion gallons in 2030.

Since the IEPR projects gasoline demand to fall to between 13.5 and 14.4 billion gallons for the low demand and high demand cases in 2030, how are increased efficiency and alternative fuels going to make up the difference of a possible 14 billion gallons shortfall in 2030?

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WSPA requests the CEC staff incorporate the implications of this CalTrans forecast into the final 2009 IEPR.

As a final note, WSPA is disappointed that many of our comments over the past several IEPRs have not been addressed.

According to the Staff presentation at the October 14 public workshop, the CEC IEPR policy focus includes minimizing the environmental impacts of energy production and use, ensuring reliable energy supplies and energy security, promoting resource diversity and supporting the state's economy.

To many of us, this policy focus also includes a responsibility for ensuring that the state's consumers have reliable, adequate and affordable transportation fuels supplies.

It appears the Commission has not met that portion of the policy focus, and instead has continued to focus selectively on issues such as climate change and growing "green" fuels, rather than ensuring there will be reliable, adequate and affordable transportation fuels of all types for consumers.

The state's economic viability and future potential may not be nearly as secure without a commitment by the CEC to avoid a fuel supply gap. This can be accomplished by supporting all types of fuel supplies and addressing all of the issues important to ensuring a robust supply of cleaner burning fuels for California consumers and businesses.

Sincerely,

Joe Sparano

Cc: Commissioner Jeffrey Byron
Commissioner James Boyd
Commissioner Karen Douglas – CEC Chairman
Commissioner Julia Levin

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Detailed WSPA Comments
2009 Integrated Energy Policy Report
Draft Committee Report

WSPA has submitted several written and oral comments throughout the process of drafting the 2009 IEPR. This submission will not repeat details of the unaddressed issues we have raised in previous communications, but will focus on issues we believe are also critical to successful development and implementation of this IEPR.

Our primary observations are summarized below:

1. The Draft Committee Report and supporting documents identify several deficiencies in critical petroleum infrastructure that if not addressed could lead to supply disruptions. Yet, there are no recommendations calling for any state action to deal with these identified problems.

2. This Draft Committee Report clearly leans in favor of petroleum reduction strategies. Yet the driving state policies, the 2003 IEPR recommendations and AB 1007 (Pavley), are not petroleum reduction policies. They are instead, efficiency and alternative fuels expansion policies.

3. The risk of public policy decisions creating transportation fuels supply problems in the state appears to us to be a realistic possibility. The Commission does not seem to be actively and urgently working to chart an appropriate course that will deal with the very tight demand/supply outlook embedded in the Commission's forecasts.

These matters are addressed in more detail below and on the following pages.

1. By law, each IEPR is required to provide policy recommendations to ensure reliable energy supplies. This IEPR and supporting documents identify several deficiencies in critical petroleum infrastructure, particularly the state's marine import capacity, that if not addressed could lead to supply disruptions. Yet, there are no recommendations calling for any state action to deal with these identified problems.

According to the draft report's Preface, the IEPR is prepared in response to Senate Bill 1389 (Bowen, Chapter 568, Statutes of 2002), which requires the California Energy Commission (CEC) to prepare a biennial integrated energy policy report that contains an integrated assessment of major energy trends and issues and provides policy recommendations to ensure reliable, secure and diverse energy supplies.

Despite several statements that California's petroleum infrastructure may be inadequate to supply the needs of California's consumers, there are no suggestions or recommendations to do anything about it. The report recommends that the state should "modernize and upgrade the existing infrastructure for alternative and renewable fuels," but nothing is said about the need to modernize and upgrade the state's petroleum infrastructure, despite the fact that petroleum will be the predominant form of transportation fuels for decades.

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For example:

- On page 16, the report says, “California needs sufficient fuel infrastructure to ensure reliable supplies of transportation fuels for its citizens. Both petroleum and renewable fuels face significant infrastructure challenges from the wholesale and distribution level to the end users. The petroleum infrastructure is strained at the marine ports and throughout the distribution system and much of the infrastructure for renewable and alternative fuels that will soon be necessary is not even in place.”

- On page 32, the report says the state has taken a clear policy stance of reducing petroleum reliance and increasing the mix of alternative and renewable fuels. Yet it says the state recognizes that “petroleum will be the primary fuel source for California’s vehicles for at least the near term, so it must be factored in into all policy decisions regarding infrastructure and fuel needs.” The text says the state is looking at ways to enhance and expand the existing petroleum infrastructure at in-state marine ports, but there are no recommendations and no specifics.

- On page 151 the draft report seems to be issuing a wakeup call. “The Energy Commission forecasts that crude oil imports will continue to increase, requiring expansion of the existing crude oil import infrastructure. This infrastructure is critical in ensuring a continued supply of feedstocks to enable refiners to operate their facilities and maintain a reliable supply of fuel for California and neighboring states.”

- The Energy Commission forecasts that the existing crude oil import infrastructure in Southern California must expand to avoid shortages in supplies for refinery operations. To add further strain (especially in Southern California), staff expects the increased imports of crude oil to result in greater number of marine vessels arriving in California ports…. “Additional storage tank capacity must be constructed to handle the incremental imports and it is unclear where these can be located given the competition for land in and around the ports…. Overall, the near- and long-term forecast periods indicate that transportation fuel demand growth in Nevada and Arizona could place additional pressure on California’s refineries and petroleum marine import infrastructure.”

- The Abstract for the Transportation Energy Forecasts and analysis for the 2009 IEPR, August 2009, says the staff’s “projections and analysis indicate a potential need for targeted expansion of import infrastructure, particularly marine import facilities, to offset declining in‐state oil production and growing demand in California, Nevada, and Arizona for transportation fuels.”

- The abstract goes on to say “the magnitude of future contributions from efficiency improvements and various emerging transportation fuels and technologies is highly uncertain. Staff found that efficiency and emerging fuels and technologies can potentially displace significant amounts of petroleum, which will reduce the need for petroleum‐specific infrastructure

enhancements. However, many of these alternative fuels, in particular renewable fuels, may also require their own additional segregated import facilities, including pipelines and storage tanks. Moreover, developing the means of distributing these emerging alternative fuels, particularly through public retail refueling sites and home recharging systems, and aligning the development of these refueling systems with the rollout of appropriate numbers of vehicles may prove to be a challenge to industry and government."

The takeaway is that perhaps efficiency and emerging fuels may reduce the need for petroleum infrastructure investments, but there are enough uncertainties and challenges associated with their introduction that we shouldn't put all our eggs in only those baskets.

In short, these statements paint a bleak picture of the ability of the state's petroleum infrastructure to keep pace with increasing demands and changed conditions. While energy efficiency and fuel diversification are important, the state can't give up on petroleum use, and that is what this IEPR seems to have done.

Recommendations addressing identified and clearly articulated deficiencies in the state's petroleum infrastructure should be added to the final 2009 IEPR.

2. **This Draft IEPR clearly leans in favor of petroleum reduction policies. Yet the driving policies, the 2003 IEPR recommendations and AB 1007 (Pavley), are not petroleum reduction strategies. They are efficiency and alternative fuels expansion policies.**

The 2003 IEPR recommended the state increase the use of non-petroleum fuels to 20 percent of on-road fuel consumption by 2020. At the time it was suggested this wasn't a petroleum reduction goal but a fuels diversification goal.

Likewise, AB 1007 (Pavley, Chapter 371, Statutes of 2005) required the CEC and ARB to jointly prepare a plan to increase the production and use of alternative and renewable fuels in California. This bill started out in the legislature as a petroleum reduction bill, but was amended to be a bill promoting fuel diversity and expansion of alternative/renewable fuels.

In short, there is no law or state policy mandating petroleum reduction. There are several laws and policies promoting fuel efficiency and diversity. And, there are state policies promoting reliable and adequate transportation fuel supplies. But, there is no law, executive order or policy that says the state should encourage or even tolerate the reduction of petroleum supplies to the detriment of the state's economy or consumers.

A healthy economy depends on a reliable supply of transportation fuels. A reliable supply of transportation fuels requires the contribution of efficiency, petroleum based fuels, and alternative/renewable fuels.

We can no longer rely only on petroleum-based fuels, and we don't have the ability to rely just on efficiency or alternative fuels either. The appropriate course to fuels diversification, we

believe, has three segments: efficiency; a healthy petroleum contribution; and, a growing alternative/renewable fuels component.

However, rather than pursuing that three-pronged approach, the Commission has chosen a petroleum reduction strategy, despite recognizing the uncertainties associated with achieving adequate supplies of alternative fuels. Ignoring the need to modernize infrastructure and promote an adequate petroleum supply is not a wise or appropriate path to fuel diversity. Unfortunately, the 2009 IEPR draft seems to do just that:

- On page 162, the report suggests that declining in-state and Alaskan oil production, opposition to offshore drilling, political instability in Iraq and Nigeria, and inadequate marine infrastructure could significantly impact fuel security and reliability for California and neighboring states.

  The report goes on to say that while the uncertainty in "future supplies of crude oil represents an opportunity for the state to move more aggressively in expanding the use of alternative and renewable fuels." However, these fuels are not without uncertainty. Unless the state takes concerted steps to grow the alternative and renewable fuels industry domestically, policy-makers may be faced with similar potential supply interruptions from an overreliance on foreign source of fuel and feedstock.

- Borrowing again from the Abstract for the *Transportation Energy Forecasts and analysis for the 2009 IEPR, August 2009,* "many of these alternative fuels, in particular renewable fuels, may also require their own additional segregated import facilities, including pipelines and storage tanks. Moreover, developing the means of distributing these emerging alternative fuels, particularly through public retail refueling sites and home recharging systems, and aligning the development of these refueling systems with the rollout of appropriate numbers of vehicles may prove to be a challenge to industry and government."

Nowhere in the report is there a suggestion that in parallel with taking concerted steps to grow the alternative/renewable fuels market, the state should also promote adequate supplies of petroleum-based fuels.

3. **The risk of public policy decisions creating transportation fuels supply problems in the state appear to us to be a realistic possibility. The Commission does not appear to be actively and urgently working to chart an appropriate course that will deal with the very tight demand/supply outlook embedded in the Commission's forecasts.**

Starting on page 32 is a list of eleven state laws, policies, and executive orders. According to the text, these are being "implemented to increase the use of renewable and alternative fuels and vehicles and accelerate the adoption of low carbon fuels through regulatory and funding mechanisms, as well as to improve the state's infrastructure." These are in addition to important federal laws and policies, most notably the federal renewable fuels standard.

With this many policy initiatives driving alternative fuels, there is a real risk of the state sending confusing or conflicting signals to the market. And, as we see with the draft report, in responding to so many alternate fuels initiatives state agencies send anti-petroleum signals that could seriously impact transportation fuel supplies before alternative fuels can fill the gap.

Finally, there are previously identified government-imposed barriers fuels providers encounter doing business in California, such as complicated and difficult permitting processes, regulatory uncertainties, infrastructure capacity limitations, or individual port efforts, to name a few. These not only restrain petroleum infrastructure development but also alternative fuels development.

The IEPR is clearly the place for an in-depth discussion of what needs to be done to grow a domestic alternative/renewable fuels industry as well as address the factors hindering the modernization of the petroleum infrastructure. But, the draft IEPR avoids the difficult issues of permitting and local decision-making, and is totally silent on recommendations addressing the identified and clearly articulated deficiencies in the state's petroleum infrastructure.

More must be done to eliminate the deficiencies WSPA has identified. If the CEC does not address the issues related to overall fuel supply sufficiency, California consumers and businesses could be facing a fuel supply gap with potential market volatility and marketplace issues.

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