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DOCKET

11-IEP-1A

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Catherine H. Reheis-Boyd
President

February 2, 2011

California Energy Commission
Dockets Office, MS-4
Re.: Docket No. 11-IEP-1A
1516 Ninth Street
Sacramento, CA 95814-5512

Re.: WSPA Comments on Staff Workshop on California Economic Outlook – Docket No. 11-IEP-1A

Dear Sir/Madam:

The Western States Petroleum Association (WSPA) provides below, our comments on the January 19 CEC workshop on California's economic outlook. WSPA is a non-profit trade association representing twenty-six companies that explore for, produce, refine, transport and market petroleum, petroleum products, natural gas, and other energy supplies in California and five other western states.

WSPA is encouraged that the CEC held a full day workshop to investigate the state's economic outlook. WSPA has long advocated that the Commission focus more attention on the economic aspects of the IEPR, and the impact that state programs – both legislative and regulatory – have on the economy; both positive and negative. We were disappointed, however, in the lack of focus on transportation fuels in the workshop since the 2011 IEPR will be addressing transportation fuels issues.

As you know, SB1389 states,

"[C]onduct assessments and forecasts of all aspects of energy industry supply, production, transportation, delivery and distribution, demand, and prices. The Energy Commission shall use these assessments and forecasts **to develop energy policies that conserve resources, protect the environment, ensure energy reliability, enhance the state's economy, and protect public health and safety.**" (Pub. Res. Code § 25301(a))."

WSPA hopes the CEC's economic staff intends to continue working with business stakeholders as the IEPR progresses to ensure economic impacts are fully taken into account. In the meantime, WSPA has provided comments relative to the workshop. If you have any questions regarding the attached, please contact me or my staff, Gina Grey at (gina@wspa.org, 480-595-7121).

Sincerely,

c.c. J. Boyd
J. Byron
K. Sullivan

WSPA Comments
On CEC IEPR Workshop
January 19, 2011

The Western States Petroleum Association (WSPA) provides the following comments on the January 19, 2011 workshop for preparation of the CEC 2011 IEPR.

Procedural comments on the makeup and content of the panel presentations

- A specific panel was needed to discuss transportation fuels, and WSPA should have been allowed to participate on a panel as we represent the manufacturers of transportation fuels in the state.
- The panels should have been arranged by topic, e.g., housing, manufacturing, employment, energy supplies, with representatives of academia and business on the same panel for a cross section of opinion and real world experience.
- All presentations and Areas of Interest should be posted on the CEC website no later than 48 hours before the meeting in order to develop better audience participation and questions.
- The first and second panels were redundant and had the same panel members, thereby providing little diversity of opinion.

Comments on the economic assumptions discussed and the outlook for the California economy

- The effect of AB32 (including the LCFS) on the economy should not be minimized. The burdens and cost of the Bill are quantifiable and large, and the offsetting benefits are speculative and rely on unknown technological advances.
- It is dangerous to assume growth will be delivered by new technology and innovation. By definition, new technology is not well enough advanced to provide a reasonable assessment of its growth potential. Innovation, just like manufacturing, is mobile and can be transferred out of state. Jobs do not necessarily occur in the same state where such policies are adopted. Without specific policies to promote and preserve innovation, e.g., education; relying on growth in this sector to save the California economy is an unrealistic expectation.
- All panelists agreed that California's economy is driven by housing, which in turn is driven by employment. Job creation must lead to high paying jobs which spur demand for housing.
- High paying jobs for the middle class are associated with manufacturing, rather than service sector employment.
- The traditional view of the California economy as expressed by the panel members is that this is just another recession and California will recover to pre-recession economic activity. A viable case could be made that this has been a transforming economic event that will result in permanent changes to California's level of economic prosperity.

Comments on the outlook for transportation fuels and the transition to low carbon fuels

- The Low Carbon Fuel Standard has as its eventual goal the replacement of hydrocarbon based fuels. During the transition period to achieving this goal, however, California refineries will be expected to continue operation as well as heavy capital investing. Whether this expectation is economically rational requires further analysis.
- AB32 poses unique costs and fuels development goals which will make it more difficult for in-state refiners to remain competitive, leading to more dependence for fuel requirements on out-of-state sources. This has happened to other manufacturing businesses in the past, but the importance of the refining industry and supply of energy products to the state's economy makes its continued viability crucial to providing the state's energy needs.

- Near term economic growth results in increased demand for traditional hydrocarbon fuels, which for California means increased imports of crude oil and possibly transportation fuels. The infrastructure investments that will be required will be difficult to justify if the longer term view is that hydrocarbon fuel use will be declining.
- Replacement of hydrocarbon based fuels with alternatives must rest on assuming either a high price for crude oil or massive subsidies for new fuels. It is unlikely the world, the U.S., or California can sustain both high economic growth and the higher crude prices needed for the development of alternative fuels, throwing this assumption into question.
- The effects of higher energy prices are felt immediately on the economy whereas the development of alternate fuels, even if less expensive, takes more time. Panel members stated that the cost for AB32 would occur between now and 2020, after which the benefits would begin. We question the ability of the economy to grow in the interim.
- The Federal RFS2 requirements already provide incentives for the development of low carbon fuels. California-only regulations do not create enough additional demand for the new fuels envisioned to achieve the economies of scale necessary for low cost production.

Comments on economic assumptions that should be used in preparation of the 2011 IEPR and policies that should be adopted to ensure the availability of transportation fuels

- This year's IEPR is probably the most significant and difficult economic update attempted so far. The issues of economic growth and job creation under AB32 are largely unknown and not capable of being accurately forecasted.
- Rather than conventional forecasting we suggesting that CEC provide its outlook under various possible scenarios as outlined below:

Case 1: High crude prices, over \$100/Bbl in the near term and increasing to \$150/Bbl in 5 years. Low world economic growth, with California lagging the nation at 75% of the assumed U.S. growth rate. In this case no direct subsidies would be assumed for alternate fuels.

Case2: Moderate crude prices, \$80/Bbl in the near term and increasing to \$100/Bbl in five years. Historic World and U.S. economic growth, with California lagging the nation at 90% of assumed U.S. rates. In this case estimates should be made of direct subsidies needed for development of alternate fuels.

In both cases, CEC should assume a sub case (a) where the requirements of the LCFS are met by market developments, and a sub case (b) where only 50% of the requirements are commercially available.

- Under all studies of the future energy requirements for the State, CEC should develop a detailed transition plan between the current state and the projected future state of energy supplies.
- CEC should analyze a possible scenario in which significant refining capacity in the state shuts down prior to the transition to Low Carbon Fuels being complete.
- Assumptions regarding future energy sources should not be based on nonexistent technologies for at least the first 15 years of the forecast and given only limited effect for the first 20 years.
- The development and preservation of manufacturing jobs should be stated as a top priority for the state's economic forecasts.
- CEC's energy forecast should be done in junction with, and should support, a plan to ensure the assumed economic growth projections.

- All sources agree that AB32, even when fully implemented, will have virtually no effect on global climate change. Therefore, the only possible justification is its use in developing new technologies that will have such an effect. In this case, the emphasis of the regulation should be changed from meeting arbitrary emissions goals to directly subsidizing the growth of new technologies and alternate fuels.
- Regulations such as AB32, which depend on non-existent technologies to achieve their goals, should be subjected to “off ramp” provisions whereby periodic reviews of technological advances are required and used to change specific goals and provisions no longer deemed achievable.
- Regulations should be subject to an independent economic analysis prior to implementation.
- Under AB118, CEC is directed to create an advisory panel on investments for Alternate Fuels. WSPA should be represented on that panel.

WSPA believes that the careful preparation of the 2011 IEPR will help ensure that the state of California can continue to provide the economic growth necessary to the well being of all its citizens. We believe that the availability of hydrocarbon-based transportation fuels is a vital part of that goal and we look forward to further participation with the CEC on this vital effort.