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| California Energy Commission DOCKETED 13-IEP-1L TN 71584 JUL 12 2013 |
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Catherine H. Reheis-Boyd
President

July 12, 2013
California Energy Commission
Dockets Office, MS-4
Re: Docket No. 13-IEP-1L
1516 Ninth Street
Sacramento, CA 95814-5512

Re: **WSPA Comments on CEC IEPR Workshop on Inputs and Methods for Transportation Energy Demand Forecasts: Docket No. 13-IEP-1L**

Dear Docket:

The Western States Petroleum Association (WSPA) appreciates the opportunity to provide comments relative to the Joint Lead Commissioner's Workshop on June 26th on Inputs and Methods for Transportation Energy Demand Forecasts. WSPA is a non-profit trade association representing twenty-seven 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.

It is important to note that the CEC's IEPR policy charge is multi-faceted and not just focused on environmental aspects. It 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.

Overall, WSPA continues to advocate for a realistic, science based, and apolitical approach to establishing future requirements for California's transportation fuel supplies. We believe such an approach will recognize the role of petroleum-based fuel products, and provide a realistic, technologically feasible and cost-effective portfolio of alternative fuels. California needs adequate, reliable, affordable, and clean supplies of energy to serve its citizens and maintain a strong economy.

We are encouraged the CEC has begun to study the entire transportation fuels system in the state – including petroleum fuels - and is no longer merely focused on the introduction of alternative and renewable fuels, which is what we observed in prior years. Until new vehicle technologies and alternative fuels are commercialized, petroleum will continue to be the primary fuel source for California's vehicles. The state can assist in the enhancement and expansion of the existing petroleum

infrastructure, particularly at marine ports, while at the same time working to develop an alternative fuel infrastructure.

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 numerous times before the Commission, and have also submitted many sets of comments. We anticipate the majority of our comments will be provided when staff produces draft results for review later this summer.

We recognize that the workshop was designed to receive public input from stakeholders in the development of materials as input to the 2013 IEPR. Below, we have provided comments on general issues, as well as comments/questions on the specific staff presentations from the workshop. Some of our comments have been excised and presented from past sets of WSPA comments since we believe they continue to be relevant, important and largely unaddressed.

Our overriding concern is that the vast number of assumptions and models being employed will drive the conclusions. Quite often real data and experienced opinion is missing from the forecasts. In addition, unrealistic statements of the anticipated time it will take for the transportation system to evolve are not helpful, and are not supported by any reflection back to what has occurred in the state to date which has been a slow transformation despite significant incentive programs.

Finally, the IEPR is now dealing with forecasts out to 2050. As stated by a Commissioner during the workshop, "You get more wrong the further out you go." In all cases, staff needs to include a discussion of what the possible errors are in their analyses, how the degree of surety changes the more long range one goes, plus what the range of possible results could be if the assumptions vary.

General Issues:

We would like to highlight a few issues at this point in time for further consideration in this year's IEPR:

- **CEC's Role and Full Insertion of Transportation Issues in Main IEPR:** We believe the CEC can play a vital role in addressing future transportation fuel challenges and energy supply implications, and suggest the issues identified in the transportation report be highlighted in the 2013 IEPR. WSPA also strongly encourages the staff to include the challenges or barriers associated with all fuels in the executive summary and recommendations of the IEPR document itself. These sections are the ones focused on by policymakers. Past documents have tended to gloss over these issues.
- **Three-Part Transportation Solution:** The critical synergy amongst the three elements: the vehicles, the fuels, and the consumer, needs to be more fully addressed this year. The advent of RFS2 and the LCFS, and the structure of each, means there should be additional discussion about how these three elements are going to converge. It does the state no good to have plentiful supplies of a certain fuel but no vehicles to run it in, as well as vice versa. It also does the state no good, for example, for the vehicles and fuels to be available, but the consumer refuses to engage in purchasing the vehicle/fuel due to a variety of reasons such as cost or convenience.

- CARB LCFS Program: The Commission needs to highlight the problems and complexities inherent in the state's implementation of the Low Carbon Fuel Standard (LCFS) on top of the federal RFS2 program. We also do not see any mention in the staff documents or during the workshop of a commitment this year (as there was in 2011) to provide an analysis of CARB's LCFS program. WSPA continues to be concerned about the challenges facing our member companies in achieving the ambitious goals of the LCFS regulation within the timeframe provided. WSPA believes there are no feasible solutions to full LCFS compliance in the short-term.

WSPA has consistently asked the Commission to review the ARB's LCFS program and assess the ARB scenarios being relied on for compliance as to whether truly innovative, low CI fuels will be available in the timeframe required and in the volumes needed. The volumes of low carbon intensity fuels needed to comply with the LCFS program in the 2015 plus timeframe are not yet available, and the projections do not support the volumes needed to comply. In addition, WSPA requests the CEC indicate whether the needed infrastructure will be in place and the vehicles to use the fuels will be available in significant enough numbers in the existing market at the time.

- Full Identification of Challenges, Recommendations on Solutions: The IEPR is clearly the vehicle 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. We continue to encourage the Commission to ensure there are recommendations in the IEPR documents that address the challenges facing all transportation fuels, including petroleum-based fuels. Although the forecast may project a flat or lower short-term demand for petroleum-based fuels, this does not indicate any less of a need for attention and assistance relative to the challenges being faced by the petroleum industry, and it may be short-sighted relative to longer-term trends.

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 and renewable fuels development. WSPA would like the IEPR to address the difficult issues of permitting and local decision-making for all types of fuels.

Further, the IEPR needs to provide recommendations and a specific plan for more marine facilities/cargo handling capacity, and how to address previously identified specific deficiencies in the state's fuels infrastructure.

Specific Issues:

Below are a few questions/comments on the specific staff presentations at the workshop:

- Transportation Energy Demand Model Overview:

- How much/what kind of data is supplied by CARB?
 - The demand projections are now out to 2050 which is further out than traditionally attempted in the IEPRs. Staff needs to include statements to clarify what this means in terms of the level of accuracy of any results.
 - There are high and low petroleum consumption forecast scenarios, but we don't see a similar set of forecasts on the alternative fuel side. This is needed. Since for some time now ethanol has comprised 10% of the gasoline side of the pool, it needs to be considered as a baseline/conventional fuel, for example.
 - All scenarios assume the National Academy of Science and Technology cost curves. WSPA has not analyzed the NAS work but would like to know if it has been peer-reviewed. Also, how accurate have they been historically?
 - 2040 Scenario Input Values – Although staff indicated they are relying on EIA data for oil prices, we would like to see further justification for a \$237 oil price, and how this tracks with historical periods of low energy consumption.
 - One of the key assumptions – that fuel and vehicle prices are exogenous (?) to California's transportation energy and vehicle demand – does not appear to be a viable assumption. Two other key assumptions – that fuel production and consumption in California has no impact on long term annual fuel prices, and that fuel/vehicle substitution by California consumers has no impact on fuel prices – are also questionable. We request that staff provide quantitative/qualitative analyses of the consequences of these assumptions NOT being accurate, and how the results could change with different assumptions.
 - The chart showing California and National New Vehicle Markets is interesting in that California has 39.3% of the national EV market, and 26% of the global EV market. With such a high percentage of EVs being concentrated in the state, one of the questions becomes whether EVs will be able to continue towards a robust market without national support or similar EV acceptance by other states.
 - The slide “What Will 2050 Look Like” seems to portray a vague optimistic but unrealistic picture of the future. There needs to be substance behind the statements regarding “change”. Staff needs to study or reference other studies on the historical technology/social evolution rates – how long it takes, what criteria/factors need to be first in place, what requirements/impacts there are on the economy, etc.
- California Light Duty Survey:
- WSPA requests that staff provide the survey questions on-line for public viewing, since it is known that the way survey questions are asked can predetermine the answers.
 - The slide entitled, “SP Instrument” contains a few issues.
 - First, Vehicle D is a mid-size battery electric car. It seems more likely that the market will be offering a small car for an EV. Stating it is a mid-size is likely to sway the survey recipient towards this selection unfairly.
 - Stating the range of the EV is 150 miles also appears to not match with industry statistics.
 - Also, showing the refueling time as 24 minutes is questionable. Is this for a partial refill or a full refill at a limited number of quick charge facilities? Does the 24 minutes match up with the 150 mile range figure?

- The annual maintenance cost of the EV appears low. Does it include the cost of switching out the batteries periodically?
- Crude Oil and Transportation Fuel Price Cases for the 2013 IEPR:
 - A comment by staff in the workshop was that tight oil extraction will not increase California production. WSPA does not understand the basis of this statement and would like staff to explain it. We are attaching a report from USC which describes the potential for the development of the Monterey Shale in central California.
 - The \$300/bbl high price case needs to have some context around it. For instance, has staff conducted a retrospective analysis of all of the IEPRs since the beginning to establish how accurate the EIA/CEC's forecasts have been? If high values such as \$300/bbl were used previously, were they ever reached? With the increase in tight oil supply currently occurring and projected to occur, making the U.S. more self-sufficient for crude oil, what impact does staff think this will have on the crude oil market?
 - Similarly, the slide showing regular gasoline price cases out to 2050 quotes \$10/gallon for the high case, \$6/gallon for the reference case, and \$3/gal for the low case. Staff needs to provide context for these numbers and some sense of likelihood for the case outcomes, including historical perspective on markets.
 - The slide on CNG, hydrogen and gasoline prices cases shows that CNG and hydrogen in all cases being less than gasoline by the out years, and hydrogen becomes less expensive than CNG by 2020. We would like to see the assumptions behind this result. Is this based on \$300/bbl crude oil?

Conclusion:

WSPA believes there is a real possibility the state's public policy decisions may create future transportation fuels supply problems for the state, its businesses and consumers. The CEC and the IEPR continue to be enervated and do 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.

As indicated by staff, there are many state laws, policies and executive orders that 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 energy supply 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. In responding to so many alternative fuels initiatives, state agencies are sending anti-petroleum signals that could seriously impact transportation fuel supplies before alternative and renewable fuels can fill the gap.

Policy makers must ensure that while we develop and deploy future renewable and alternative fuels for California consumers, state policies do not result in an energy supply gap. Government policies should be balanced and should not cause a reduction in available supplies of cleaner burning gasoline and diesel fuels before there are sufficient, commercial quantities of renewable and alternative fuels to

fill the gap. California consumers and our state's economy must have access to abundant, reliable and affordable future supplies of all forms of energy.

WSPA and its members look forward to assisting Commission staff in the coming months with additional comments and data in order to ensure a realistic depiction of the transportation fuels arena is in the IEPR. We also look forward to reviewing the draft staff report this summer and request at least two weeks review time prior to the scheduled next workshop.

Please contact me at this office or my staff Gina Grey at (480) 595-7121 if you have any questions.

Sincerely,

A handwritten signature in blue ink, reading "Catherine A. Boyd". The signature is fluid and cursive, with the first name "Catherine" written in a larger, more prominent script than the last name "Boyd".

c.c. Commissioner A. McAllister – CEC
 Commissioner J. Scott - CEC
 Gene Strecker – CEC