DOCKET
06-IEP-1
DATE MAY 12 2006
RECD MAY 13 2006

CEC May 12, 2006 Hearing on Scope of 2007 IEPR
Testimony of Joe Sparano President,
Western States Petroleum Association

My name is Joe Sparano. I am President of the Western States Petroleum Association or WSPA. WSPA's 26 member companies are engaged in exploration for, production, refining, transportation and marketing of a variety of energy and transportation fuels products.

WSPA has provided extensive testimony and comments in the development of previous Integrated Energy Policy Reports. We hope that the 2007 IEPR schedule will permit an even more meaningful exchange of information and ideas.

One of the challenges we face is how we are going to deal with conserving and developing energy resources in California. Specifically, I'm referring to conserving our state's existing oil and gas production and petroleum infrastructure, and allowing for the development of additional petroleum feedstocks and products, and new alternative and renewable fuels.

WSPA believes the Governor articulated a clear vision for our energy future in his August 2005 letter to the Legislature. In that letter, he indicated that the state's primary energy initiatives should provide:

1. Adequate and reliable energy supplies when and where needed;
2. Affordable energy to households and businesses; and
3. Advanced energy technologies that protect and improve economic and environmental conditions.

To that end, we believe the 2007 IEPR and all energy-related laws and regulations should be measured against these policy objectives.

WSPA members believe some of the currently proposed policies will go a long way to support the Governor's stated objectives. However, we are concerned many of the methods and policies currently under consideration are not consistent with the primary initiatives. We hope that public discussion surrounding the development of the 2007 IEPR will help us examine competing ideas and lead to a constructive and useable plan.

As noted in our May 8, 2006 letter, we believe previous IEPR's generally have done a good job dealing with the natural gas and electricity elements of the plan, and WSPA has been very supportive of the recommendations contained in those reports. However, we have expressed serious concerns about the approach taken toward transportation fuels.

Specifically, the areas in which we have the greatest concerns are those addressing (or not addressing) the very real and urgent supply and demand imbalance we face in California. These areas include the need for conservation of petroleum and petroleum products, the development of prudent, feasible and market-driven alternative energy supplies, the need to expand refinery capacity and our ability to deliver additional supplies of petroleum and petroleum products to in-state markets.

Foremost on our list of concerns are proposed policies and recommendations that purport to address these issues in ways that will have significant cost implications for the state's

1415 L Street, Suite 600, Sacramento, California 95814
(916) 498-7752 • FAX (916) 444-5745 • cathy@wspa.org • www.wspa.org

consumers and undesirable consequences. In fact, the basic objective that California should reduce petroleum demand by fiat and eliminate products that are meeting all performance and cleanliness requirements is not sound policy.

In an April 26, 2006 letter to Commissioner Desmond, we identified a number of current and proposed laws and regulations we believe will have negative impacts on the state's economy and do little to promote the Governor's energy objectives.

These counterproductive proposals include:

- **New gasoline taxes** – Numerous pending tax proposals are directly contradictory to the Governor's desire for adequate, reliable and affordable energy. The list includes a proposal to impose a new tax on gasoline, called a "Public Goods Surcharge," that was originally identified as 2.57 cents per gallon. Other legislative proposals would increase the tax on gasoline by 5 cents per gallon each year for five years (for a total of 25 cents). When fully implemented, this bill would increase gasoline taxes by $5 billion a year. Additionally, a proposed windfall profits tax bill would have a significant negative impact on the transportation fuels market.

- **Greenhouse gas reductions** – Proposals requiring reductions in specified greenhouse gases could impact transportation fuel supplies and consequently transportation fuel prices. The reality is, since California's refineries are already some of the most efficient in the world, the only sure and feasible way for California's few remaining refineries to reduce CO2 emissions is to reduce output. Reduced gasoline production, at a time of steadily increasing demand, could have a profound impact on the adequacy, reliability and affordability of transportation fuels.

- **Petroleum Demand Reduction** – While we believe conservation is an essential part of any successful California energy policy, numerous proposals to reduce the demand for petroleum could be very costly for consumers and threatening to our economic wellbeing. A proposal to mandate a 15 percent or greater reduction in the use of gasoline and lower use of diesel fuel can be expected to adversely impact the investment environment for refineries and other petroleum infrastructure.

  In addition, the Energy Commission's own published reports include strategies for reducing petroleum demand by imposing a new 50 cent per gallon gasoline tax, a new vehicle miles traveled tax of 2 cents per mile and a $3,500 surcharge on pickup trucks and SUVs. These proposals must be evaluated carefully for their potential impact on the state, consumers and the Governor's energy objectives.

- **Biofuels/mandates** – We have additional concerns about efforts to adopt mandates or quotas on the production of specified biofuels and other alternative fuels in California. Our industry believes biofuels and alternative fuels will be a key part of the long-term solution to our energy challenges. Our members currently use close to one billion gallons of ethanol each year and are investing billions of dollars to research and commercialize new fuels and technologies.

  However, mandates that ignore the imperatives of markets, or the genuine needs and expectations of consumers, are hidden taxes. They distort markets and lead to higher costs. With ethanol costs doubling in the past year alone, consumers could face even

greater upward pressure on prices if these mandates are imposed. In addition, the Air Resources Board has concluded that current and increased levels of ethanol in gasoline would lead to increased smog-forming emissions.

We believe the Energy Commission can and should take some very positive and constructive steps as part of its IEPR process that will provide some short-term and long-term improvement to California's energy outlook. These include:

- Maintaining and expanding supplies of clean petroleum-based products while adding alternative and renewable fuels that are scientifically sound, technically feasible and cost-effective – all developed and marketed without mandates or subsidies.

- Streamlining permit and CEQA review processes and helping WSPA members address community concerns when faced with the need to expand our energy infrastructure and refining capacity;

- Eliminating barriers to in-state oil and natural gas production;

- Assisting in the siting and development of LNG terminals;

- Encouraging expansion of petroleum infrastructure, particularly for marine imports;

- Encouraging clean new fuels such as Ultra Low Sulfur Diesel and new engine technologies that are clean and efficient.

In closing, I want to commend the CEC for its efforts in trying to deal with permit streamlining and improving infrastructure at the ports and elsewhere in California's energy supply system. However, WSPA members are still very concerned about the unintended consequences of what is being proposed for reduction of petroleum-based transportation fuels.

We believe the IEPR should instead be sending positive signals that additional investment in California's petroleum-based energy supply system is welcomed by the Administration and its agencies.

Despite many challenges, our industry continues to supply the world's cleanest petroleum products and our members are already developing alternative and renewable technologies and fuels to augment California's strong petroleum base.

GG/TH/CRB/JES
WSPA - Final
May 12, 2006