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04-IEP-1B

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Joe Sparano
President

July 22, 2005

California Energy Commission Dockets Unit
Attn: Docket No. 04-CCCA-1 and Docket No. 04-IEP-1B
1516 Ninth Street, MS-4
Sacramento, CA 95814-5512

Re. Climate Change Advisory Committee Quarterly Meeting and Integrated Energy Policy Report Committee Workshop/ Docket 04-CCCA-1 and Docket 04-IEP-1B

On behalf of the Western States Petroleum Association (WSPA), we appreciate the opportunity to comment on the documents released by the Commission as part of the July 11 and 12 Climate Change Advisory Committee (CCAC) meeting and IEPR Committee workshop on climate change issues. WSPA is a nonprofit trade association representing 26 companies that explore for, produce, transport, refine and market petroleum and petroleum products in California and five other western states.

We offer the following comments and recommendations.

WSPA will first provide general comments on our perspectives relative to global climate change issues. Then, we will provide specific comments on several of the documents and reports that are available for review.

The stated purpose of the Climate Change Advisory Committee is "to make recommendations to the Energy Commission on the most equitable and efficient ways to implement international and national climate change requirements based on costs, technical feasibility, current energy and air quality policies and GHG emissions reductions and trends since 1990."

WSPA companies recognize that increased concentrations of greenhouse gases may lead to adverse changes in global climate. As illustrated in the API presentation given on July 12, our industry agrees with the CCAC's mission statement in the sense that we support national and international greenhouse gas policies, programs and solutions.

However, we are concerned about any action taken by the State of California to implement policies on a state-level basis that should be managed at the national and international levels. WSPA believes that local or regional efforts, conducted independently, often are not implemented consistently.

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These types of efforts can result in inequities between in state and out-of-state investment opportunities and even business financial results. The possible competitive disadvantages to California businesses may cause significant harmful economic impacts on the state.

The CCAC mission statement clearly indicates the Commission will address the most equitable and efficient ways to implement international and national requirements based on the criteria listed. In order to ensure the mission is adhered to, WSPA will be participating in future CEC efforts as well as the Governor's CalEPA Climate Action Team that is tasked with implementing the Executive Order.

WSPA's other main area of concern is related to proposals that impose unilateral state mandates to reduce GHG emissions. Our members instead support urging voluntary actions that accomplish results through cost-effective energy efficiency technologies and programs.

There are already many activities our industry is engaged in to increase the efficient use of energy at our facilities, but the key element of this is that they are all voluntary. This also directly reduces environmental impacts associated with providing and using energy.

State-only or region-only programs should use voluntary measures, not mandates, to avoid putting California at a competitive disadvantage. We believe it is ill advised to establish planning priorities that could damage the economic health of the state, without having a clear indication of a measurable and favorable impact on climate change.

WSPA members have also encouraged customers and suppliers to utilize energy efficiently. For example, WSPA supports California's voluntary Flex Your Power at the Pump program, a campaign to educate consumers on things they can do immediately to utilize motor fuels more efficiently.

Our industry has also been very active in the research and development arena. This is where the issue of climate change and our role with respect to global climate change is being studied.

There are also several site-specific issues that need to be addressed concerning the long-term storage or sequestration of CO₂. Overall, there are significant petroleum industry research dollars being applied to the development of cost-effective technology to reduce GHG intensity.

To address one issue clearly, WSPA does not support a mandatory cap and trade program. Nor do we support the development of a credit trading program specific to California, or any other state.

However, we do support voluntary national or international programs that provide a greater balance between emissions reductions and the benefits they create, and the cost to the economy and the citizens of the State of California. For example, our companies support voluntary participation in larger scope, national credit trading programs like the Chicago Climate Exchange.

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WSPA also supports sensible climate change policies that foster real technological solutions and that allow for economic growth. However, those policies need to encourage voluntary action, not programs that mandate by command and control and not those that force expensive requirements or contain mandatory reduction targets.

In summary, the issue of climate change is, by its very nature, a global issue that we believe should be addressed on the national and international level. Because the issue is global in scope, mandatory reductions of Green House Gas emissions in California or even the Western Region are not likely to have a measurable impact on climate change.

WSPA believes much has been learned about climate change. We all recognize that it is a complex and long-term public policy challenge. In particular, the petroleum industry is very complex. As the CCAP has admitted, and as API discussed in its presentation, much of the specific GHG emissions data and inventory information related to our operations are still in various phases of development.

As we understand, part of the responsibility of the CEC in the development of the IEPR is to balance the energy needs of California and its consumers, in order to develop a solid, broad-based energy policy and supply strategies for the state. WSPA believes that the Commission should review the results and recommendations of the CCAC with these broader goals in mind.

This is particularly important, since the newly appointed Climate Action Team will carefully consider the Energy Report's recommendations relative to Green House Gases. WSPA would now like to provide some detailed comments on the documents and reports related to global climate change.

Potential Reductions in GHG Emissions from Selected Industries in California (CCAP presentation)

The presentation reinforces WSPA's view that more research is necessary to get accurate numbers before re-evaluating the refining sector for possible reductions. In short: this report only surmised that the refining sector has a lot of GHG emissions - not whether meaningful reductions are possible.

Statements are also made that the refining industry will grow at 0.5%/year, a projection that there will be a 16% increase in refining throughput from 2005 - 2025, and that utilization will increase 0.25%/year. There doesn't appear to be a basis for these statements. It's not clear if any consideration was given to potential impacts from additional regulatory requirements (fuels and stationary sources) on the ability of refiners to maintain current capacity, let alone increase it.

Crosscutting Committee Work Plan

WSPA feels strongly that a state, even region-wide, cap-and-trade program will be ineffective. Implicit in this report is that a statewide cap-and-trade program will address the "problem" of climate change. Factually, this will not be the case, since the global warming phenomenon is a world wide, not local issue.

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How can the state justify an expensive program like this that will yield no tangible benefit to the environment, and that will perhaps harm California's economy in the process? The analysis to-date seems inadequate to determine the scope and depth of any cap-and-trade program, or to quantify its cost/benefit comparison.

Crosscutting Memo

"A well-designed cap-and-trade program is a promising mechanism for reducing greenhouse gas emissions with a high level of certainty in a way that allows for compliance flexibility and encourages the lowest cost mitigation approaches. "

This approach is as yet untested for the GHG market. The only prototype is the acid rain program. It has not been shown that this program can effectively be implemented in the context of climate change/GHG control.

"...each sector should have some independent responsibility to reduce emissions towards the overall state target."

This statement is unfounded in that all the previous studies have failed to quantify how many, if any, GHG reductions (in an absolute sense) can be made for the petroleum sector.

Climate Change Advisory Committee To The Energy Commission Recommendations From The Industry And Agriculture Subcommittee

We have observations about the three conclusions made in this report concerning the petroleum sector:

- *Improve facility energy practices through site energy audits. These types of audits can generate significant savings, such as stream leaks.*

Stream savings will not net a significant reduction in GHGs. Additionally, further audits will not improve energy efficiency. As part of our business, we are constantly looking for ways to save money through energy efficiency. Increased agency "audits" will not improve upon a practice already undertaken by the industry.

- *Implement additional co-generation capacity.*

The oil and gas industry has made significant investments in cogeneration as a highly efficient way of simultaneously generating process energy (steam) and electricity. While there are significant overall efficiency gains to be made in cogeneration, this gain will be made over the petroleum/electrical industry as a whole, and not for the petroleum sector individually. The addition of a co-generation unit at a refinery will increase, in an absolute sense, the total GHG emissions footprint, while decreasing overall emissions including emissions from the utility sector.

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The net impact of transferring emissions from one sector to another will need to be examined more closely by the petroleum sector. WSPA will offer an opinion once we have reviewed the overall impacts in greater detail.

- *Provide incentives for the implementation of technologies that separate and capture carbon dioxide from refinery processes.*

Incentives notwithstanding, we do not know of a working prototype of CO2 separation and capture from flue gas, on an industrial scale, anywhere in the world. This is an unproven technology for which incentives will not provide relief.

Climate Change Impacts and Adaptation in California

In Section 2 entitled “Global Climate Change”, we agree and appreciate the acknowledgement that at the California level there is still considerable uncertainty about certain elements and regional details. For instance, the report notes that when looking at global average temperature increases there remains uncertainty reflected in the ranges.

This is a result of the estimated trajectories of future GHG emissions and uncertainty in various representations of climate processes used to estimate these projections. These differences reflect the imperfect scientific understanding of how the climate system responds to increasing GHG emissions and other disturbances.

Section 3: “Climate Change in California” also notes that when looking at Climate Projections for California, it is important to emphasize that there is a high level of uncertainty in any regional projection.

Given these uncertainties, the staff has introduced the concept of “adaptive measures” and has recommended that their identification in the medium and long term should be a priority. Given the uncertainty of the science, this approach of using adaptive measures to provide some flexibility seems like a good concept.

In Section 4, which discusses “Potential Climate Change Impacts in California”, the staff notes that the exploratory studies provide useful insights and indicate that human adaptation will be costly, that natural systems are extremely vulnerable, and that a holistic view of potential impacts (including other stressors) should be attempted.

Also in this section specific to energy demand, the report notes that climate change adds an additional level of uncertainty for certain energy demand forecasts, but that other factors such as population and economic growth seem to have more impact on final energy demand. We agree with that conclusion.

In Section 5 entitled “Potential Adaptation Measures to Climate Change for California”, it notes that it will be important to quantify any adaptive measures to estimate how much these strategies can alleviate potential negative climate change impacts. This will be an important analysis to ensure the most effective and cost-effective measures can be identified.

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Section 6 entitled State-Sponsored Climate Change Research in California reiterates the continued need for research, and the need to develop a long-term strategic research plan designed to complement national and international research efforts in order to produce policy-relevant research products.

WSPA supports research that leverages, complements and is synergistic with research at the national and international level. We also support the continued PIER research activities that are heavily coordinated with other state and federal agencies.

We understand that the CEC has engaged in an initial five-year research effort with the first phase designed to develop tools and data necessary for in-depth policy relevant analyses. To implement the research plan, the CEC has established the California Climate Change Center.

The Center will produce a California Assessment Report at the end of the five year effort, working with the scientific community and private sector to produce a compilation of what is known about climate change and relevant to California.

WSPA looks forward to engaging in this effort to ensure sound science guides the path forward. Two specific areas of interest to us are the need to identify conservation strategies and the potential to sequester carbon in marginal natural gas or oil fields in California, while at the same time increasing natural gas and oil production.

This section also discusses the research into the role of aerosols on regional climate and precipitation levels in high elevations. This research underscores once again the uncertainty of the science and the need to proceed cautiously in adopting some of the costly CO2 reduction measures that may not result in the desired environmental response.

In the final Section 7 on "Staff Findings and Options for Policy", WSPA supports the staff conclusion that further research is needed to better understand the potential impacts and adaptation measures that California may adopt in the face of the threats and opportunities that climate changes pose for the state. The staff recognizes the need for better coordinated planning efforts and a more consistent set of policy recommendations for the state, based on applied research to reduce any identified impacts and adapt to changing climate.

Global Climate Change and California

Although we concur with some of the statements in this report, we do **not** agree with the introductory statement that GHG emissions in California are high. Later in the report the data indicates California is responsible for 7% of the US total greenhouse gas emissions, which, based on the fact it is the fifth largest economy in the world, and contains diverse and high productivity businesses, is not a very high percentage of the total.

In the section called "Historical GHG Emissions" the report states that emissions from the transportation sector increased 14 percent between 1990 and 2002. First we would recommend that all the statements in the report that discuss what the emissions amounts are, be clearly stated to be estimates since they are not measured data and the report gives the impression these are hard numbers.

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Another example is on page 23 under the Industrial sector. The example states that nearly 67% of direct industrial emissions are produced from fossil fuel combustion, with the largest sources being from petroleum refining, oil & gas extraction and manufacturing. Again, the report provides numerical figures that are presented as fact, not estimates, and should be clarified.

In addition, since the majority of the petroleum industry has not been a party to the Climate Registry, and since the CCAP admitted they were having difficulty in quantifying the refining sector's emissions due to the complexity of our facilities and processes (see page 24), we would suggest a much clearer portrayal of the level of knowledge with respect to emissions.

Also, many of the numbers quoted in the report, such as the one for the transportation sector, would benefit from the inclusion of context. It might be instructive, for example, to include the increase in vehicles, planes, etc from 1990 to 2002 and the increase in VMT. The same would be helpful for the electricity sector relative to the increase in population and influx of businesses.

The projection of the GHG emissions section estimates they will continue to increase through 2020 unless additional policies to mitigate GHG emissions are adopted and new actions are taken to slow the rate of increase. Interestingly, however, this section also states that the state's emissions were stable from 1990 to 1995, largely due to a stagnant economy.

The CEC doesn't appear to have analyzed a future scenario that includes another period of a stagnant economy along with normal efficiency measures that could substantially reduce the need for additional control measures.

Finally, on page 23 under Industrial Sector measures, there is a section discussing the petroleum industry's consumption of energy. Nowhere in this section is there mention of the co-generation capabilities of our companies and the electricity that is either placed in the grid or is used as displacement for power otherwise required.

Inventory of California Greenhouse Gas Emissions and Sinks: 1990 to 2002 Update

The first paragraph in the Executive Summary contains a statement that WSPA recommends revising. The words are as follows, "From 1990 to 2001 California's economy experienced the largest gross state product growth of any state in the country. During the same period, the state successfully slowed the rate of growth in GHG emissions, demonstrating that California can have both a strong economy and high environmental standards."

We do not concur necessarily that these two facts demonstrate that a slowing of GHG emissions growth will not impact the economy. The key, we believe to the two coexisting is the fact that the GHG emission reductions up to this point in time have been voluntary. We support voluntary measures, and are concerned that the implementation of mandatory measures will negatively impact the economy.

Emission Reduction Opportunities for Non CO2 Greenhouse Gases in California

The report, on pg 11, identifies improving flaring efficiency as a petroleum system non-CO2 GHG mitigation option. The option assumes an enhancement of overall efficiency of flares from 90% to 99%. We believe that the baseline 90% efficiency is too low. In fact, under the

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BAAQMD's Regulation 12, Rule 11 Flare Monitoring at Petroleum Refineries, our industry is required to use a flare efficiency factor of 98% for hydrocarbon flares.

Here is the actual language from the BAAQMD rule:

“BAAQMD Regulation 12, Rule 11 Flare Monitoring at Petroleum Refineries, Section 12-11-401.9 For each day and for the month provide calculated methane, non-methane and sulfur dioxide emissions. For the purposes of emission calculations only, a flare control efficiency of 98 percent shall be used for hydrocarbon flares, and a flare control efficiency of 93 percent shall be used for flexi-gas flares or if, based on the composition analysis specified in Section 12-11-502, the calculated lower heating value of the vent gas is less than 300 British Thermal Units/Standard Cubic Foot (BTU/SCF).”

Thank you for taking our written comments on the Climate Change Advisory Committee Quarterly Meeting and the Integrated Energy Policy Report Committee Workshop. If you have any questions, please don't hesitate to contact me or my staff, Gina Grey, at 480-595-7121.

Sincerely,

A handwritten signature in cursive script that reads "Joe Sparano".

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