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DIVISION OF PETROLEUM MARKET OVERSIGHT

Market Structure Considerations for Resupply Rulemaking

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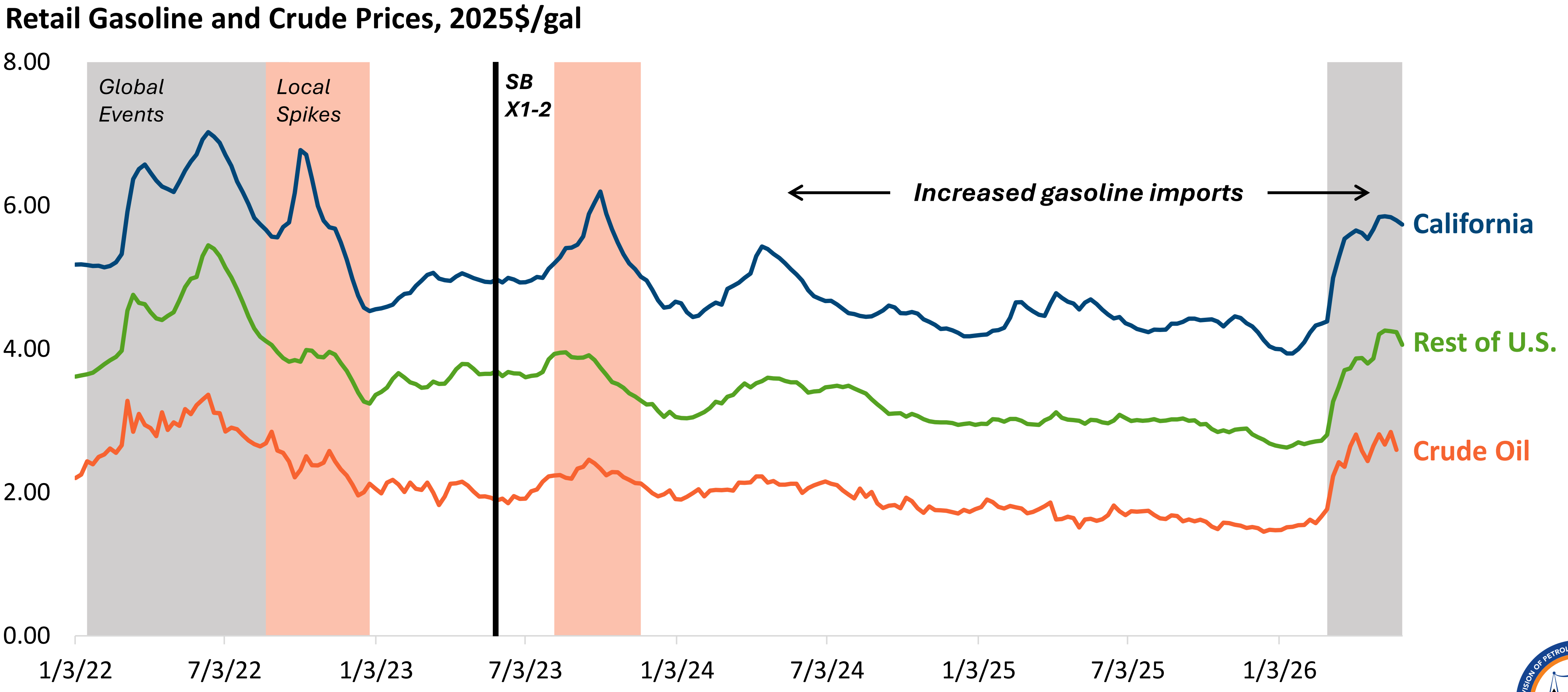
June 8, 2026

Retail Gasoline and Crude Oil Price Trends



DPMO analysis of EIA data. Alaska North Slope is used as a crude oil benchmark. Last updated June 1, 2026.

Price Spikes as Market Failure (1/3)

Firms as Profit-Maximizing Actors

- All firms are profit-maximizers
- Public companies obligated first to investors
- Price and supply reliability are secondary

Price Spikes as Market Failure (2/3)

Firms as Profit-Maximizing Actors

- All firms are profit-maximizers
- Public companies obligated first to investors
- Price and supply reliability are secondary

Market Power & Misaligned Incentives

- Market power creates incentives to decrease supplies
- Decreasing supplies increases prices and profits
- Creates disincentive to buffer the market from supply disruptions

Price Spikes as Market Failure (3/3)

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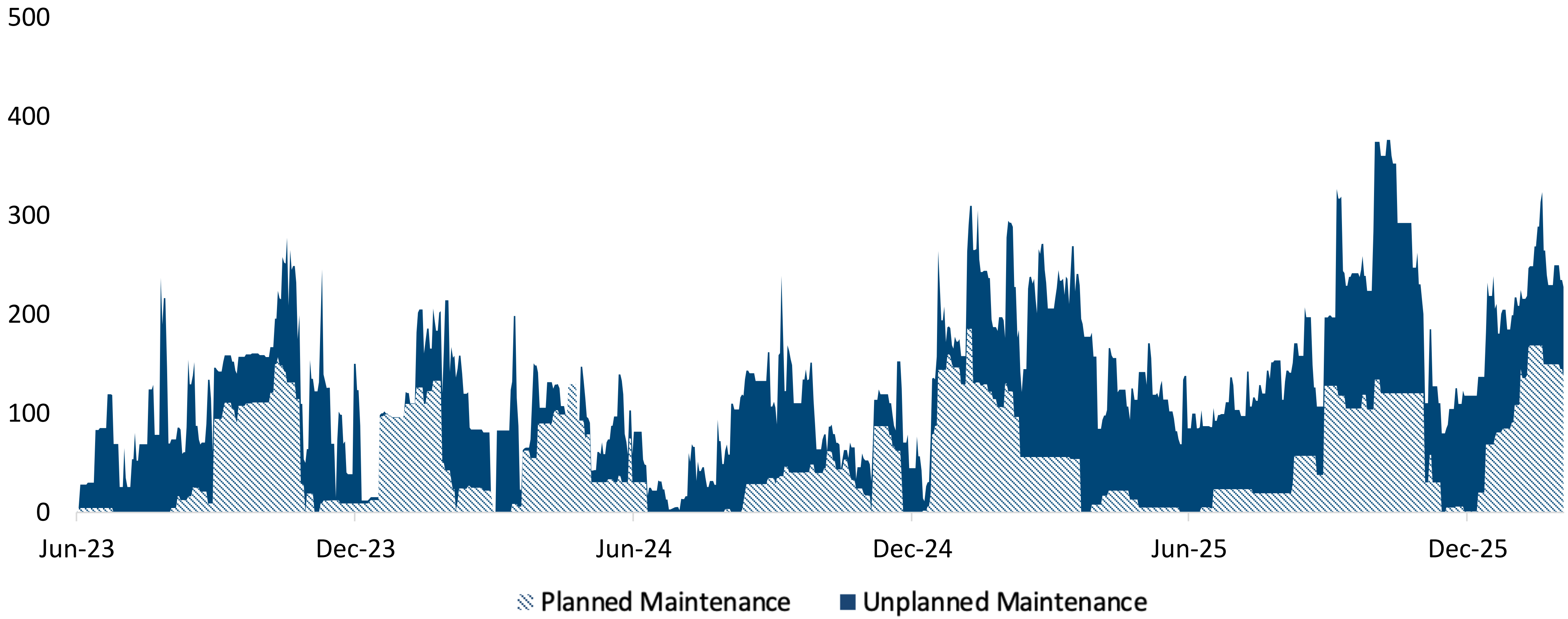
Result: Supply Volatility & Price Spikes

- Price volatility becomes market feature
- Market has disincentive to buffer supply disruptions
- State intervention (including AB X2-1 tools) realigns incentives

Maintenance and Prices (1/3)

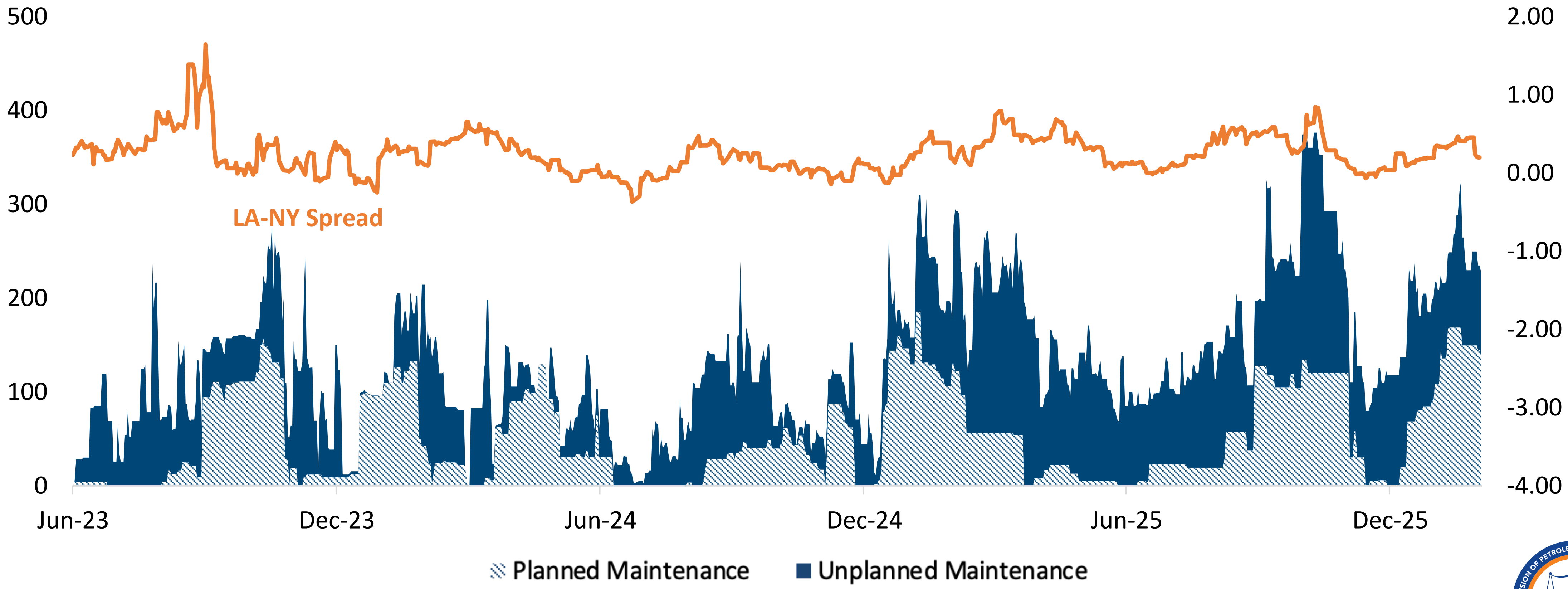
Maintenance-Related Gasoline Output Loss (KB/D)



DPMO analysis of CEC, EIA, and Bloomberg data.

Maintenance and Prices (2/3)

Maintenance-Related Gasoline Output Loss (KB/D) and California Spot Price Spreads (2025$/gal)



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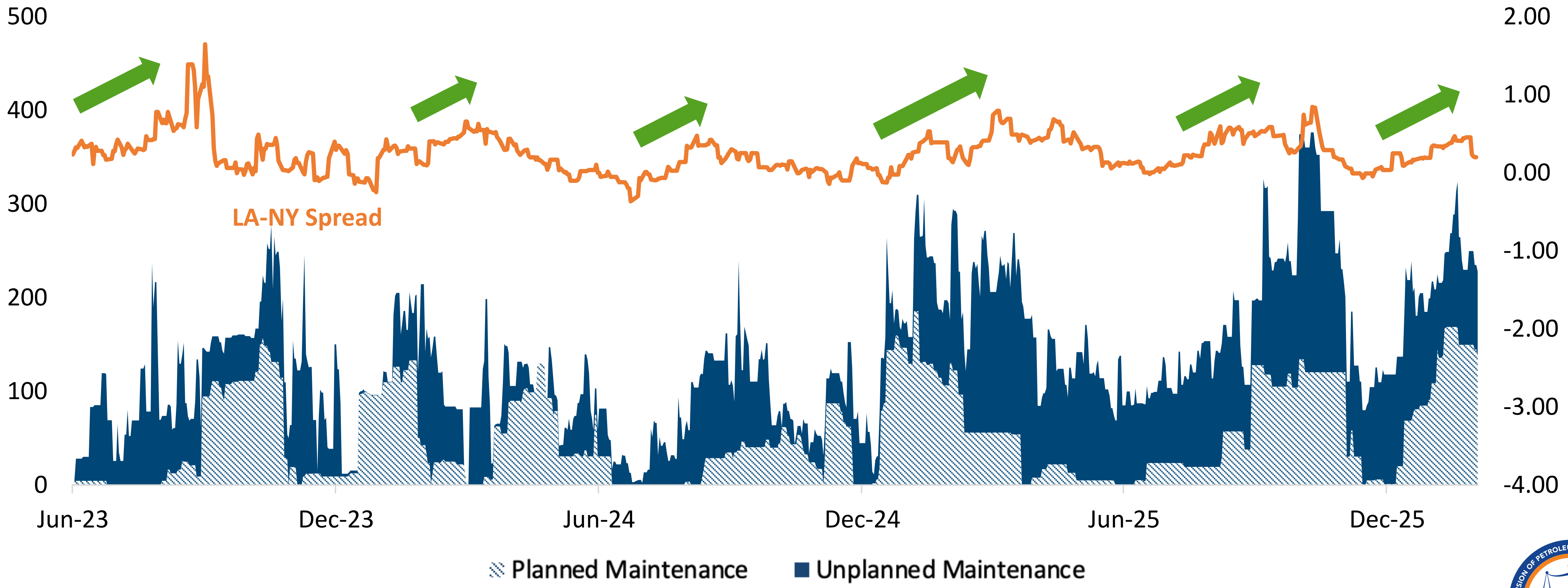
Maintenance and Prices (3/3)

Maintenance-Related Gasoline Output Loss (KB/D) and California Spot Price Spreads (2025$/gal)



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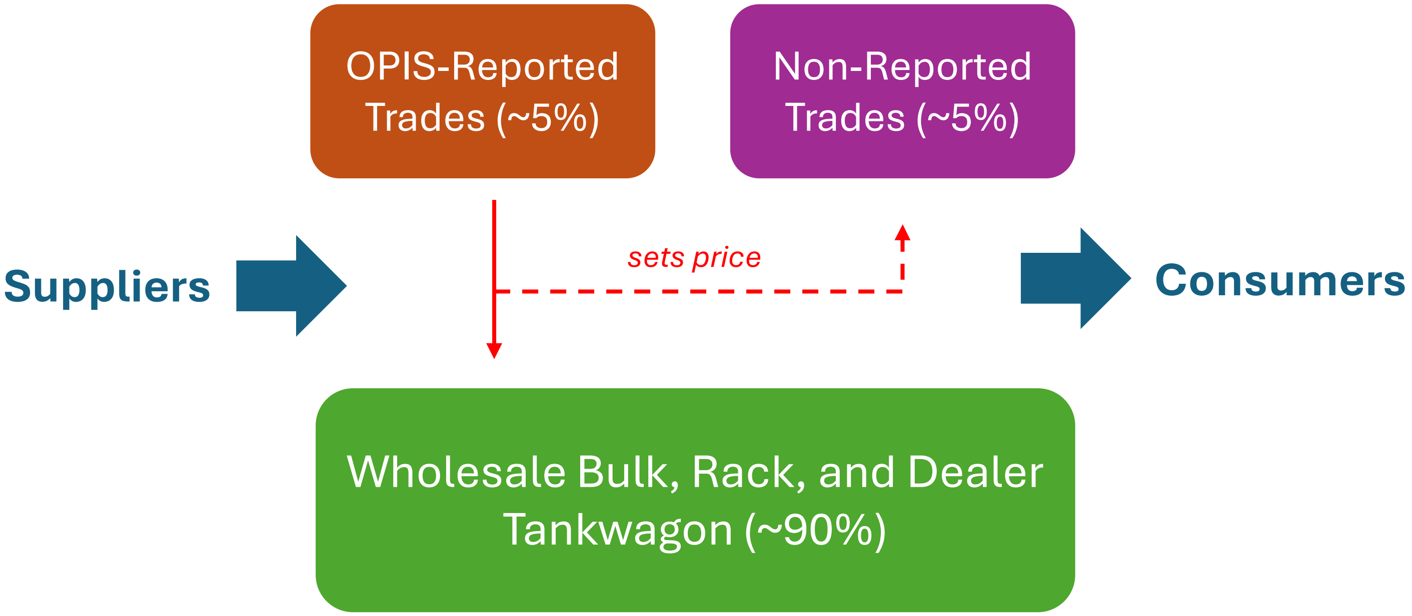
How is Gasoline Priced?



1. **Voluntary reports** → Vulnerable to manipulation
2. **Wholesale contracts pegged to spot prices** → incentive to inflate spot price *(People v. Vitol)*
3. **Thinly traded** → volatility, especially during maintenance (especially when refiners engage in reactive spot purchasing)
4. **If no trades, price kept at previous day's level** → high price "freezes"

Principles for Resupply Design

- **Encouraging External Resupply:** Flexibly incentivize external resupply to the California market during maintenance
- **Avoiding Reactive Spot Purchasing:** Discourage or exclude in-state purchasing as a source of resupply, particularly when it is done on a reactive or “prompt” basis

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March 2025 Draft Rule (1/2)

California Code of Regulations § 3401:

(c) A Refinery Maintenance and Turnaround Supply Plan subject to this subsection shall demonstrate resupply planning sufficient to ensure that lost gasoline production anticipated during the event does not adversely affect the California transportation fuels market. A plan in conformance with the following criteria satisfies this requirement:

(1) The plan demonstrates resupply of a volume of gasoline equal to or greater than 85% of lost gasoline production that occurs during the period specified in subsection (b)(1). The resupply shall match the seasonal specification of lost gasoline production.

i. Each barrel of resupply obtained via imports shall count as 1.3 barrels of resupply for the purposes of this section.

ii. A plan that includes resupply through the purchase or storage of gasoline blendstocks or gasoline blending components shall explain in detail how such materials will result in an equivalent amount of California specification gasoline.

March 2025 Draft Rule (2/2)

California Code of Regulations § 3401:

(c) …

(2) The plan demonstrates that resupply will be made available to the market at approximately the same rate as it would have been made available had the event not occurred.

(3) The plan demonstrates that the refiner will obtain resupply for the event through actions that minimize impacts to gasoline supply in the California market. This includes, but is not limited to, a demonstration that the refiner will not obtain resupply for the event via spot market purchases, unless the refiner demonstrates that such purchases will not adversely impact the California market.

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