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December 2015 Meeting Review

Petroleum Market Advisory Committee Meeting

California Energy Commission

Sacramento, California

February 8, 2016

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Overview of the Meeting

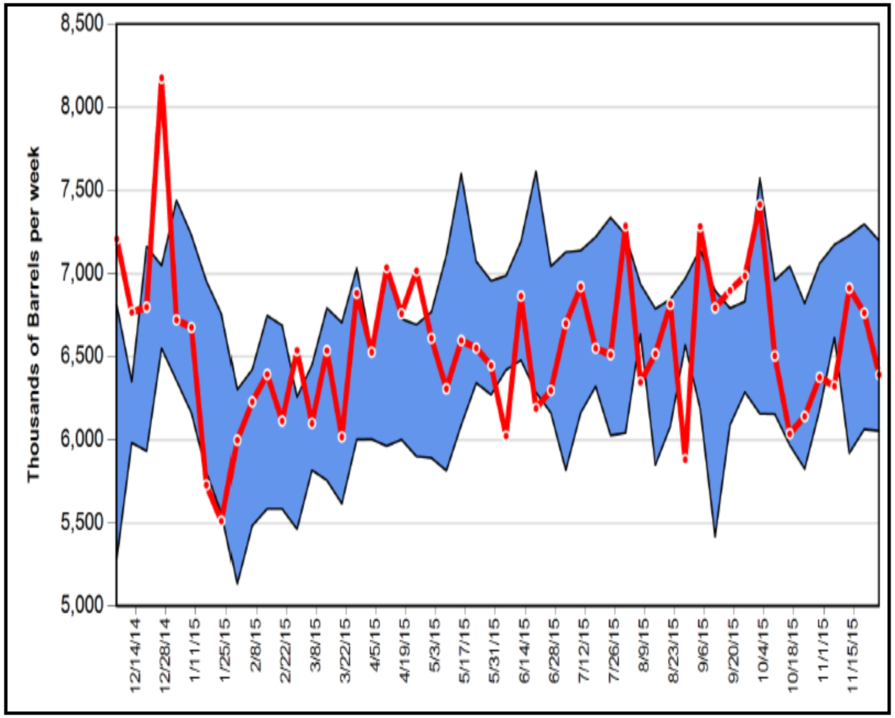
Five Presentations and two Discussion Panels:

- Energy Commission brief on current gasoline market conditions (Schremp)
- Wood Mackenzie on the ability of California to attract gasoline volumes from other markets (York)
- EIA on refinery production planning (Westfall)
- Consumer Watchdog on California gasoline market irregularities (Court)
- Amy Myers Jaffe brief on the Nation Petroleum Council's Emergency Preparedness Study

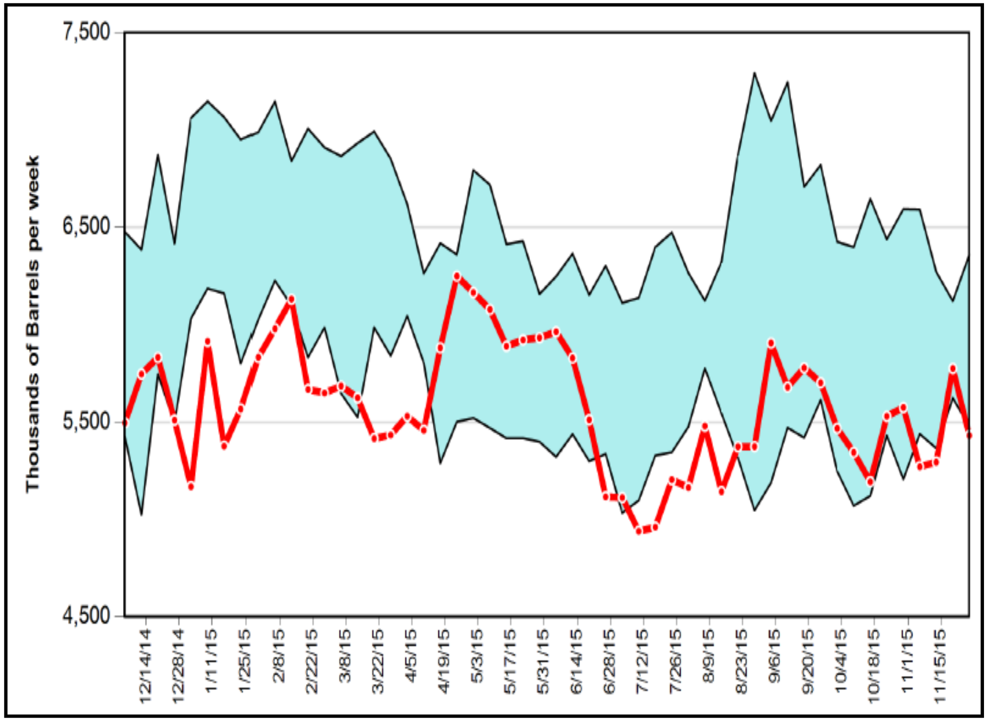
Current Market Conditions (Schremp)

- California gasoline prices remain elevated.
  - o Y-T-D California is 73.9 cents higher than national average (53.9 for reformulated)
- Production in California for 2015 appears to be within 5-year norms, **BUT**:

California Total Gasoline Production (2015)

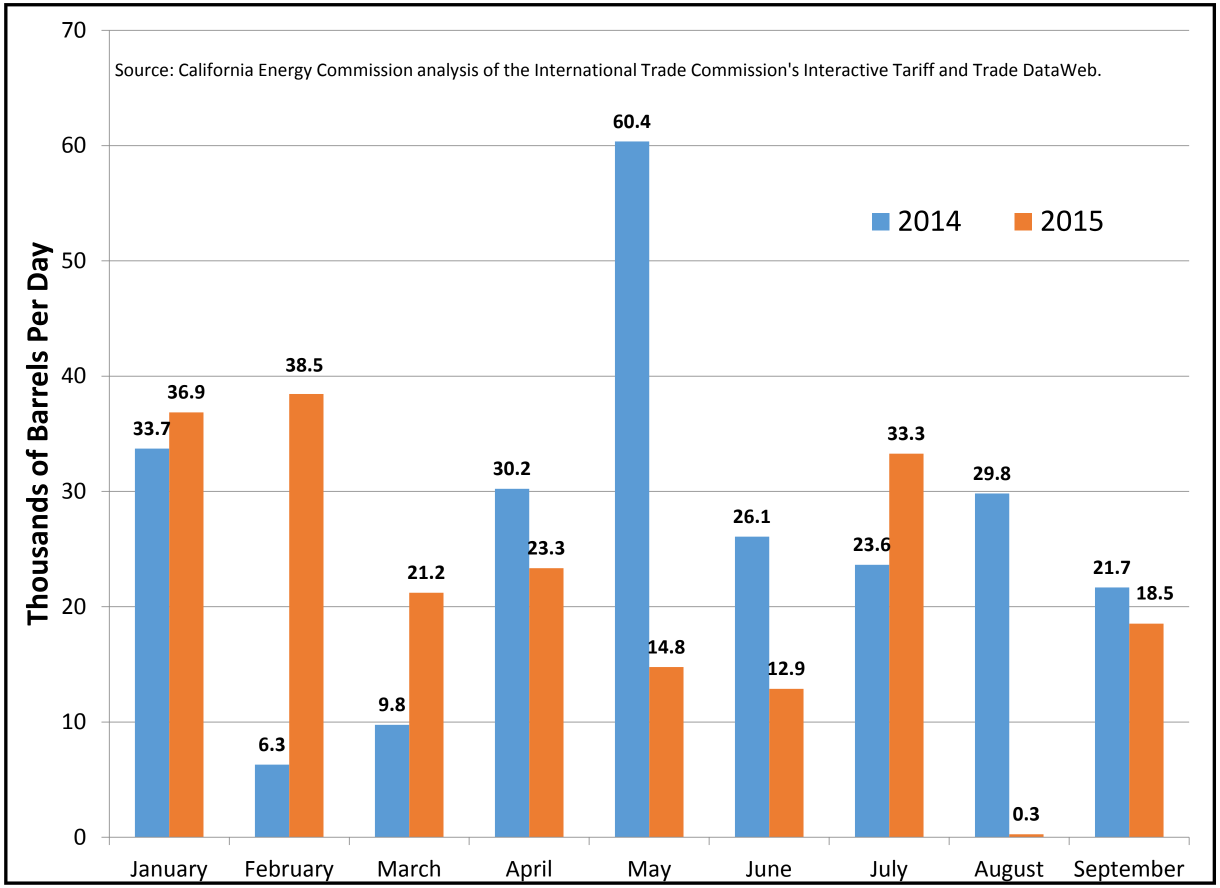


Southern California Gasoline Inventories (2015)



Current Market Conditions (Schremp)

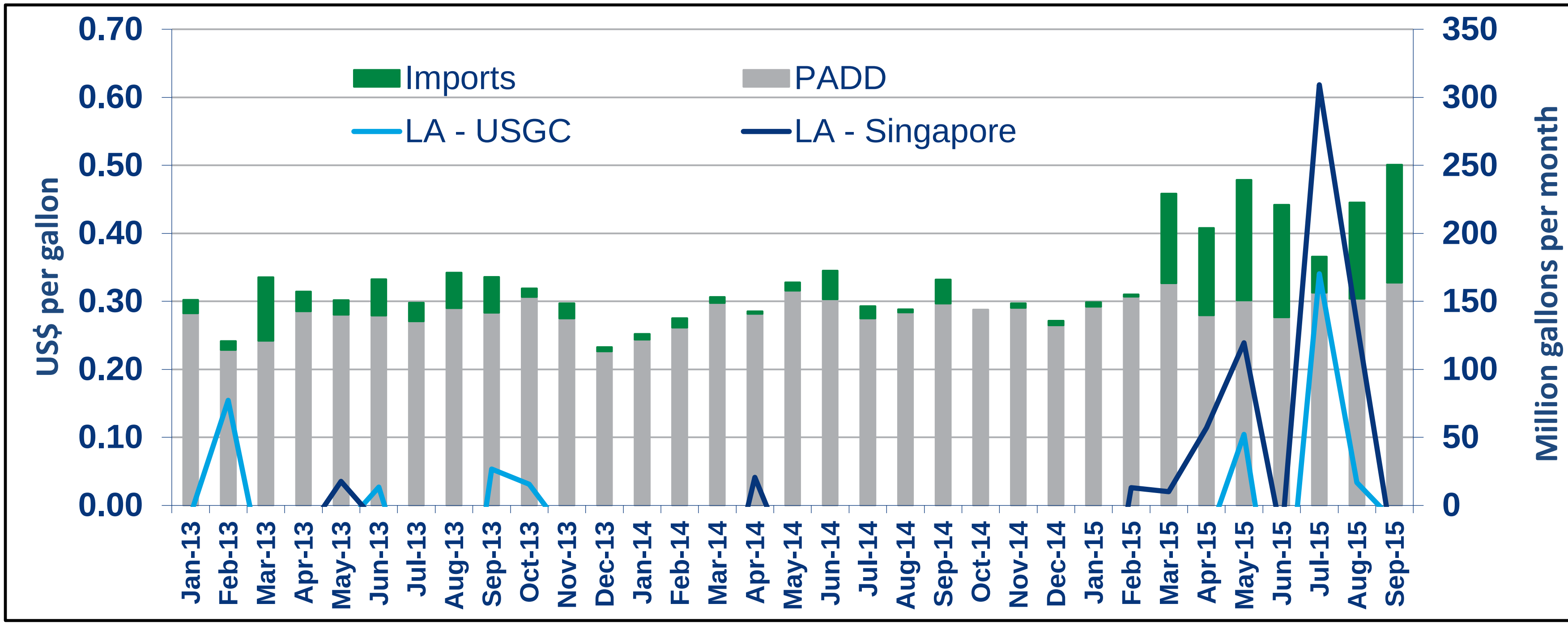
California Foreign Gasoline Exports



- 2015 California gasoline exports are down relative to 2014
- 5 thousand barrels a day less than 2015 (27.1 TBD vs 22 TBD)
- 98.6 percent of those exports originated in Northern California and are believed to be non-California spec gasoline
- **Imports of gasoline averaged 61.7 TBD after March (highest since 2007)**

Attracting Gasoline to California (York)

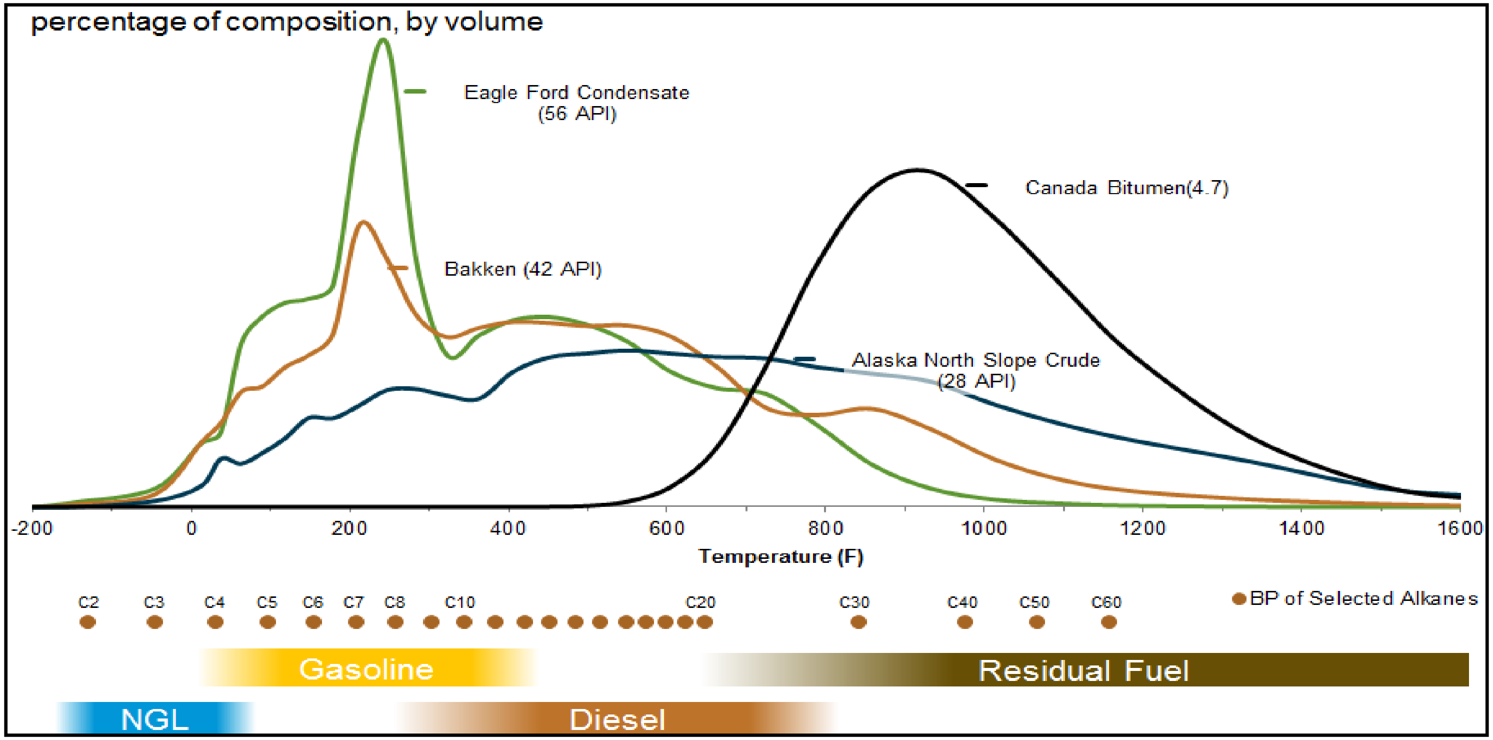
- Price signals have attracted outside sources of gasoline to California
- L.A. spot needs to be roughly **20 cents greater** than Singapore to begin the arbitrage. (10 cents for Gulf difference, but with ship availability issues)



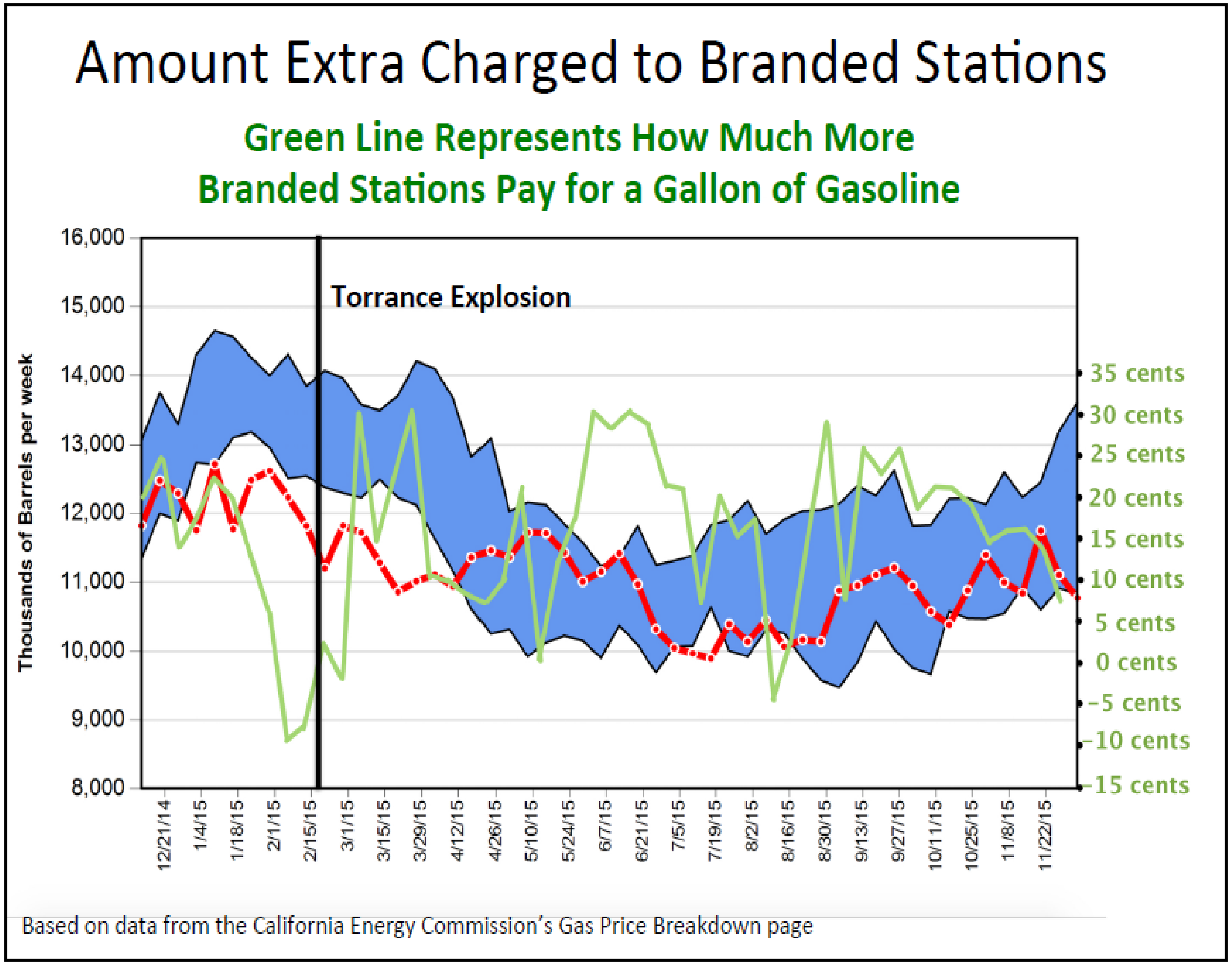
- Global gasoline demand growth is also reducing the California market's ability to attract arbitrage opportunities

Refinery Planning (Westfall)

- Refineries use linear programming models to maximize profits
  - Variables include: crude slate, unit operations, overall run rates, and finished product slate
- California runs heavier crudes that yield lower gasoline amount via distillation (CA API range appears to be from 10 to 40, lower = heavier, SJV = 14.5)



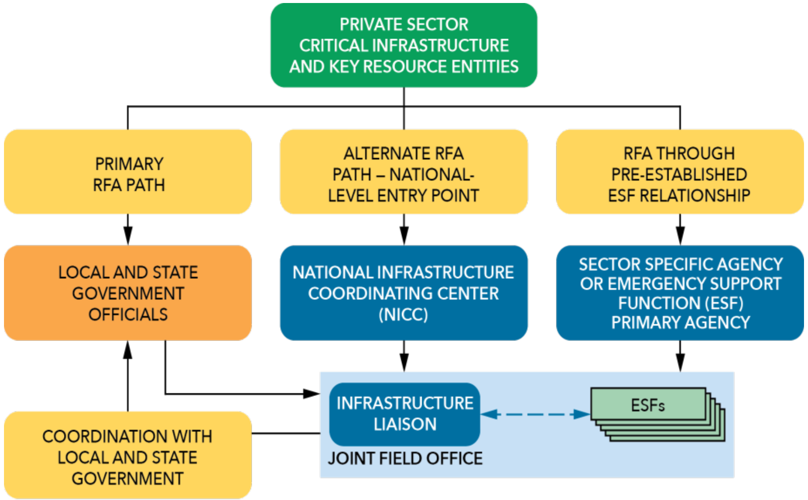
California Gasoline Market Irregularities (Court)



- Branded prices for gasoline have typically been higher than unbranded in 2015
- Past price spikes have shown the opposite effect
- Refinery margins have increased from a 2010 to 2014 average of $0.41 to $0.96
- Little is known about Dealer Tank Wagon sales and pricing (Lundberg information points to them being as high as branded rack)

National Level Emergency Planning (Myers Jaffe)

- States should increase engagement with oil and gas industry in their energy assurance plans, and industry members should assist states in such efforts
    - o DOE / states to assess comprehensiveness of state energy assurance plans



- **Industry has Business Continuity Plans that is coordinated with CEC State Energy Assurance office. What constitutes a trigger for CEC to coordinate with refining industry's business continuity planning process?**

Discussions Panels

- First panel focused on clarification questions of presenters
- Second panel focused on potential supply constraints unique to California
  - Potential of the Gulf refineries to displace more Arizona gasoline (Westfall)
  - Potential of utilizing more California refining capacity (Schremp)
  - Data requests given to the Energy Commission (Posted on 1/27/2016):
    - California Production and Inventory figures, broken out by Northern and Southern California
    - Northern and Southern California branded and unbranded rack prices (Slide 5 of Schremp presentation)