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I listened to the PMAC meeting of 12/16/2015 and wanted to give you my comments.

For introduction I retired from ExxonMobil several years ago, having worked in the Torrance, CA area for about 20 years, and essentially ran ExxonMobil's Crude and Product Supply Business around the Torrance refinery in California from 2003 through 2010.

I do not think you are pursuing the right things in trying to understand the high gasoline prices in California in 2015. Delving into the small volumes of CARB gasoline that may or may not have been shipped to AZ, or small changes in Padd III shipments to AZ is not the answer. For one thing, from time to time, in California where the product is actually traded, the AZ product is valued above CARBOB due to either seasonal spec, or just lack of the product (which is not produced by many refiners in Los Angeles). The suggestion that someone was taking a 75 cent per gallon loss on such a movement is not accurate.

In my mind there are two factors that have come into play this year. First, obviously the ExxonMobil outage has resulted in a much different supply/demand situation than in recent past. Imports have been needed to meet demand, and no doubt the spot market trading activity is less as I suspect there have been very few barrels of excess gasoline seeking a home (whereas with all refineries running well the market is long). This thinly traded market can create opportunities. For reasons discussed, gasoline imports are expensive. But the cost of these imports does not explain the several huge price spikes which occurred this year in the spot market, and certainly does not impact the larger branded to unbranded retail spreads of this year. But, as the data you have shows, when the spot market goes up, the rack and retail markets follow, and quite often lag on the way down.

So what justifies a one day spot market increase of 30 or 50 or more cents per gallon? I think you need to gather the information on who the buyer and seller were, and what other activity they had going on. Were they long some volume of gasoline pricing out against the OPIS quote – perhaps a paper position, an import or export cargo, or a large domestic sale on a “floating” price? What was the volume actually bought at the elevated price, and did it actually take that high of a price to find the volume? In a number of markets around the world it is common for traders to “price in” a cargo or paper position by conducting small volume trades at high prices in order to increase the sales price of a large volume of material. Brokers in the market could be a good source for obtaining what paper and physical gasoline trades have occurred. Gathering data on the load dates of any export or import cargoes and comparing to dates of price movements might also be a worthwhile exercise.

One thought for a policy action would be to install some sort of “circuit breaker” on the spot market, limiting the daily price movement.

The second factor I see is the apparent change in the retail market. As the data shows, branded to unbranded to spot price spreads have increased. On the street, I see huge differences between the “major” brands such as Chevron, Shell, or Mobil, and Arco, and of course, Costco and other “big box” retailers. In the past, the “majors” would not let these price differences widen, apparently in fear of losing market share. So what is different this year?

My theory, and it is only a theory, is that Chevron, with one of the largest shares of the CA gasoline market, also has an income, and cash flow issue this year due to the collapse of oil prices. Their 2Q and 3Q earnings this year show their Upstream made essentially no money and Downstream provided all of

the income and much of the cash to the corporation. The corporation is taking on increased debt this year as cash from operations is not sufficient to meet their needs. I surmise they have made a decision to keep their gasoline prices as high as they can to help support the corporation (which of course has announced large capital expenditure and staffing reductions). And California is where most of the gasoline sales are. Shell, though much smaller in California, is in the same condition. Valero and Tesoro, can price below Chevron, but still keep a much larger than normal margin and protect or grow volume. Big box volumes are limited due to membership requirement, lines (of course) and from what I hear permit conditions.

Now, I am not implying anyone is doing anything illegal, they are just making the best business decision they can. But if you are trying to explain the higher retail prices, I think you need to understand the apparent change in the retail market and relative prices.

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