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PHILLIPS 66
2331 City West Boulevard
Houston, TX 77042-2862

PROVIDING ENERGY. IMPROVING LIVES.

October 7, 2022

David Hochschild
Chair, California Energy Commission
715 P Street
Sacramento, California 95814

Dear Chair Hochschild:

We received your letter dated September 30, 2022. While we are happy to provide the information you requested, we don't believe the issues facing California can be solved by exchanging letters. We encourage a collaborative dialogue with you and other policymakers to identify solutions.

Phillips 66 manufactures, transports, and markets energy products in California. Our top priority is operating safely and providing energy to California consumers. We are also committed to pursuing a lower-carbon future while maintaining the reliability of our products.

Your letter asks three questions: (1) Why have gasoline prices risen so dramatically in the last ten days; (2) Whether logistics or other obstacles contributed to the price increases, and if so, how can these obstacles be addressed consistent with environmental and safety concerns; and (3) Why did refiners allow inventory levels to drop when they knew that planned maintenance would occur at this time. Please note questions 2 and 3 regarding logistics and inventory levels are inextricably linked.

Oil prices are determined in a global market and driven by multiple factors, both economic and geopolitical. There are a number of factors that may affect gasoline prices. These include factors such as global economic and geopolitical events, the severity and duration of refinery outages, logistical constraints that may exist or be anticipated at the time of any outages, the availability of product within the region and the potential for timely obtaining product from outside the region, and other factors that may affect the balance of supply and demand. Phillips 66 is one of many companies that is a part of California's oil and gas market. We operate two refineries in California; one in Los Angeles and the other in the Bay area. We do not engage in upstream activities. The industry trade association may be better positioned to address the factors affecting gasoline prices or to provide perspective on the industry more generally. Accordingly, we focused our responses on questions 2 and 3.

Logistical Constraints and Limited Infrastructure

In response to your inquiry regarding logistical constraints, we are aware of several hurdles that impact access to crude and supplying refined finished products. California's demand for gasoline and diesel is one of the highest in the world, and California refineries primarily produce what is referred to as CARBOB. This is produced specifically for use in the state, mostly by in-state refiners. There is limited U.S. refining capability outside of California to produce the specialty California fuel blend, and demand often exceeds in-state capabilities. As a result, California relies heavily on imports from Asia. On average, securing supply from Asia and the necessary freight takes approximately 30 days to arrive by ocean-going vessel to California. Furthermore, foreign-produced gasoline and marine vessels have been in short supply this year as countries have emerged from COVID lockdowns while demand increased.

Access to crude oil is critical to refiners; it is the primary raw material used to make CARB gasoline and diesel. California domestic crude oil production has declined over time, and there are limited options to receive crude oil, given the absence of crude oil pipelines to deliver product into the state. In addition, the available marine terminals are at regulatory capacity, and the industry faces permitting hurdles to increase volume thresholds and the necessary storage tanks to build reserves.

Additionally, the California summertime gasoline season extends beyond other portions of the U.S. As a result, when California is short of supply at the end of the summer season, gasoline and components needed to produce summer-time gasoline are typically more readily available from foreign producers. This further increases demand for marine vessels that have been in short supply and requires the use of congested marine terminals to acquire supply from the global market. Gasoline was scarce in the global market as many countries were emerging from COVID, and during September and October, several Asian refineries were also in maintenance; hence adequate international supply was limited.

Ensuring Safe Operations

Maintaining our refining units is essential to ensuring safe operations and protecting our workers, surrounding communities, and assets. These maintenance activities, which we call turnarounds, require extensive planning and precise execution. We provide California regulators (CalOSHA) with our operating plans at least a year in advance, given the time needed to plan turnarounds. In addition, we secure barrels and place them in reserves to ensure we meet the forecasted demand of our customers while offline or operating at limited capacity. Although we work hard to manage these maintenance programs, downtime can last longer than expected due to items like access to labor and equipment.

The market constraints are due to a series of factors, including post-COVID demand rebound, reduced U.S./Canadian refining capacity, and the unexpected impact on the global market from the Russian invasion of Ukraine. To address the tight market conditions, we have been running our refineries at near full capacity while maintaining our necessary focus on safety. Running refineries at high utilization capacity can impact operations, sometimes resulting in unplanned maintenance issues and underscoring the importance of planned maintenance. Phillips 66 had no significant planned turnaround activity in California over the time period in question. To help alleviate the current circumstances, we are deferring maintenance at our facilities, if possible, but will and must continue prioritizing safety.

Working Towards Solutions

Again, we encourage a collaborative dialogue with you and other policymakers to identify solutions. For example, the recent announcement to relax RVP requirements to allow more product into the market will help increase volumes and provide short-term relief. To address the broader supply concerns for consumers, we recommend that policymakers work with the industry to identify logistical constraints and develop a plan to build out the necessary infrastructure, including the need to increase storage tanks and volume thresholds at the docks. Allowing the permitting of additional rail and marine terminal capacity would enable the industry to increase imports of gasoline blending components, resulting in higher inventory levels.

Please let us know if you have any further questions on this matter.

Sincerely,

Jolie Rhinehart

Jolie Rhinehart,
General Manager, San Francisco Refinery

Tim Seidel

Tim Seidel,
General Manager, Los Angeles Refinery

cc: Governor Gavin Newsom
Secretary Wade Crowfoot, Natural Resources Agency
The Honorable Anthony Rendon, Speaker of the Assembly
Assemblymember.rendon@assembly.ca.gov
The Honorable Toni Atkins, Senate President Pro Tempore
Senator.atkins@senate.ca.gov
The Honorable Jacquie Irwin, Chair, Select Committee on Gasoline Supply and Pricing
Assemblymember.irwin@assembly.ca.gov
Marie Liu, Policy Consultant, Assembly Speaker's Office
Marie.liu@asm.ca.gov
Chase Hopkins, Policy Consultant, Assembly Speaker's Office
Chase.hopkins@asm.ca.gov
Kip Lipper, Chief Policy Advisor, Office of the Senate President Pro Tempore
Kip.lipper@sen.ca.gov