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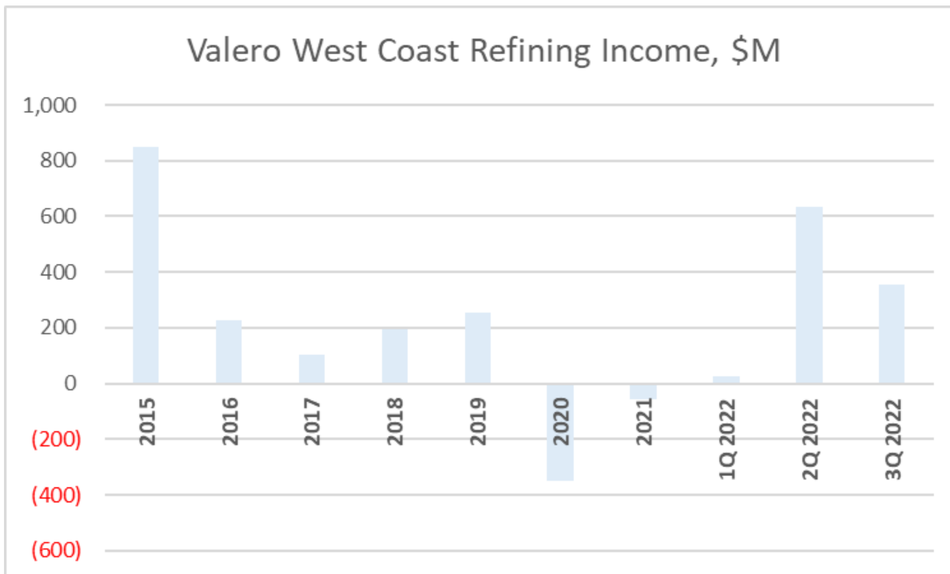
I listened to the workshop on November 29 and I offer the following thoughts. BTW I have had a dialogue with Dr Borenstein on this subject from time to time over the last few years. I retired from ExxonMobil almost 10 years ago and had worked in CA Supply and Trading for about 15 years.

I don't believe the refiners are doing anything "wrong" but I am pretty sure they are looking out for their own interest given the forecast of reduced gasoline consumption and some of the emissions related investments they may be facing, coupled with the poor profits of the last few years.

The below shows one refiner's reported profits from California. Prior to 2020 the profit level of ~$100-200 M/year from assets likely valued at around $1.5 B, and which required large working capital does not seem terribly excessive. Then 2020 And 2021 were very bad. There is no history to suggest they can make large profits whenever they want. 2015 of course shows the benefit of the ExxonMobil outage. They do profit when supply is tight. It has just not been the case all that often.



But, to the extent that the CEC needs to understand and find a way to have lower gasoline prices for the consumers I offer the following.

Refiner margins:
Refiner margins are basically the result of what the crude oil price and spot products prices (mostly gasoline, jet fuel, and diesel) are. Refiners do not set the crude oil or spot prices. Thus, refiners take the margin the market gives them, assuming they operate well.

The spot prices come from a daily assessment made by OPIS (Oil Products Information Service) based on input (trades, bid/offers) they receive from market participants.

However, a large percentage of the trades that are done, and reported to OPIS do not include Refiners, but rather Independent Traders. In addition, as the Los Angeles spot market trading is thin, frequently the daily assessment is made based on one, or zero trades, perhaps with only an indicated bid or offer (and not both).

As such, it is prone to possible manipulation by someone with an incentive for the price to be high, or low. I believe the determination of spot prices is something that should be studied in detail, as the spot prices if high not only help refiners profitability, but also affect the gasoline rack prices, and hence the Retail gasoline prices.

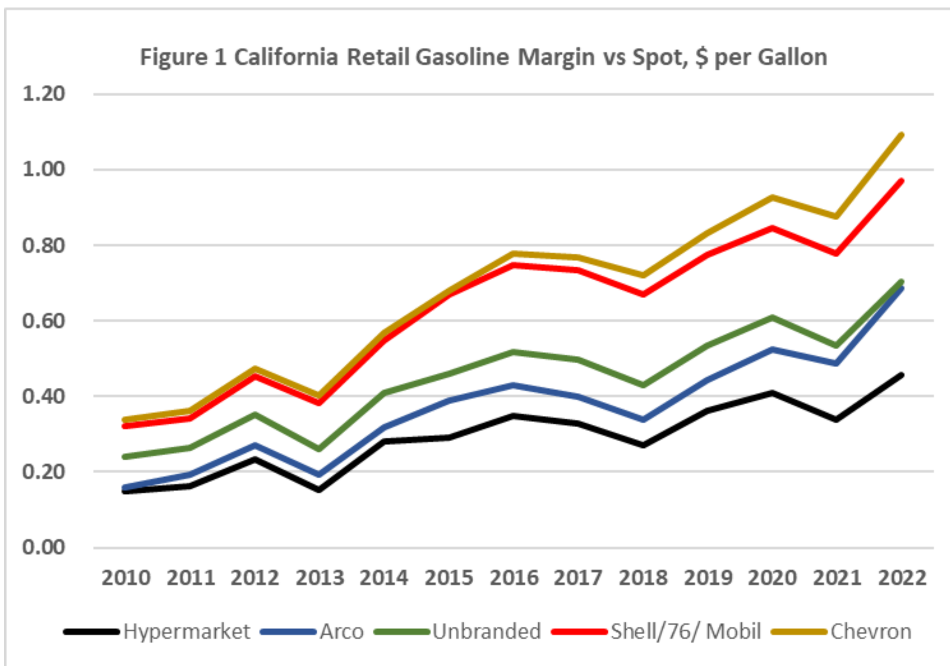
Manipulation of the LIBOR quote was mentioned by Dr Borenstein I believe, and yes, there have been examples of Traders manipulating spot prices.

A discussion with OPIS and some market participants including Brokers might be of benefit in seeking to come up with a way to ensure the daily assessment truly represents the market and not what just one Trader says (or wants).

Retail Margins:
I have noted the increasing retail margins for some time, and forwarded comments to the PMAC back in 2016 on my initial thoughts of what had started. I have also shared my thoughts with Dr Borenstein over the years, including the fact that most of the “Mystery gasoline Surcharge” was not in Refining Profits, but in the Marketing sector (or Downstream). I think he now agrees.

The below chart is derived from CEC data on retail prices and market shares as well as the spot price from EIA , taxes and climate program costs which are subtracted for the retail prices.

The lines represent Retail price minus Taxes, Climate program costs, minus spot, and is the “Downstream” [gross] profit Dr Borenstein mentioned.



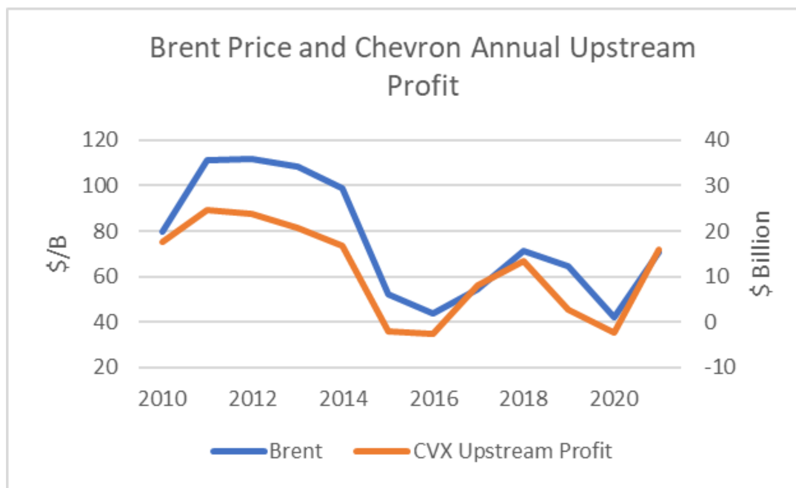
The first thing to note is margins started to move up in 2014 (although 2013 was lower than 2012). I believe this is the result of 2 things which the CEC may want to think about and investigate:

In early 2014 Tesoro released their 10K for the year 2013, the year in which they took ownership of the former BP refinery and southern California Arco stations. In this 10K they noted the profits from the new retail stations they took ownership of was ZERO. See page 54 of the 10K.

https://www.sec.gov/Archives/edgar/data/50104/000005010414000013/a20131231-tsox10k.htm#s857292F93F110869CA1CCC30B9C02C65

I believe starting in 2014 they decided to try to realize some profits from the large purchase of these retail stations, and began to increase their retail (or Rack or DTW) price relative to the spot price.

In addition, in the 2nd half of 2014, crude oil prices started to plummet and they eventually bottomed out in 2016. With the drop in crude prices, Chevron's Upstream (and Corporate wide) profits plunged.



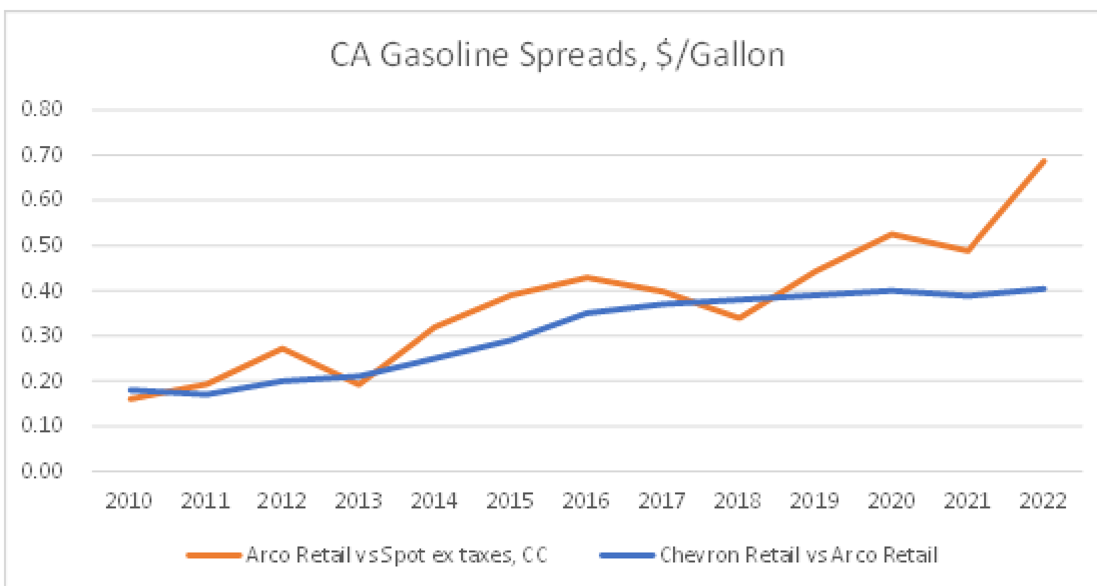
With the plunge in profits (Income), and their large ongoing capital expenditure program, Chevron's cash flow took a large turn for the worse, and they took on debt and laid off a large number of employees I believe.

This can be seen from their annual reports.

I believe, perhaps seeing what Tesoro was doing with the Arco stations, they decided to try to increase their Downstream profits and help the Corporations overall financial position.

Chevron and Arco brands are about 40% of the market, and relatively new owners of the CA Mobil stations (Couche Tarde) and 76 (Petrosun) all seemed to follow.

So the increase in Arco moved the whole market up, and the increase in Chevron relative to Arco I believe lead the "premium" brands which represent about one half of the market up an additional amount. This is derived from the CEC retail price data and EIA spot market prices.



Then, likely seeing they had not lost much gasoline station volume or market share, they continued the practice and even increased as years went on.

With the future they foresee, they probably have little incentive to change.

One thing that I think would be worth doing is having a one on one discussion with those who own or control supply to the major brands and discuss why they set their prices as they do, and what changed starting in 2014.

I am not saying they did do or are doing anything illegal (although I have no expertise in the Laws). I don't know that much can be done about this, and frankly whether anything needs to be done. We see all through the economy examples of different brands charging very different prices for what are largely the same service or product. Consumers choose the brand they think is right for them.

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