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# Commissioner Hearing on California Gasoline Price Spikes, Refinery Operations, and Transitioning to a Clean Transportation Fuels Future

## Tuesday, November 29, 2022

### 10:00 a.m. – 4:30 p.m.

### Staff Presentations, Panel Discussion, and Public Comment
### Key Points and Takeaways

[Workshop Info]

**Staff Presentations – Key Points and Takeaways**

- *Historical Trends and CA Prices*
    - California demand for finished gasoline is declining because of EVs and remote work
    - California is a unique market due to isolation, self-sufficient but with refinery outages there is a need to import via marine from foreign refiners, takes 3-4 weeks
    - Taxes, production costs, environmental costs, isolated market, importing expensive crude oil, retail margins for premium brands cause California's high prices
    - The retail pricing source used (EIA or AAA) changes the average gasoline price you get

- *2022 Gasoline Price Spikes*
    - First two spikes in 2022, March and June, were due to higher crude oil costs
    - Third spike in September was due to declining refinery capacity (Marathon shut down two refineries), refineries under planned and unplanned maintenance, decreased production, low imports, and low inventory
    - Early summer to winter recipe transition and bringing in imports lowered the prices

- *Refinery Transparency*
    - State needs better data to understand outages, inventories, and impacts
        - Planned maintenance schedules, changes/delays, and unplanned outages
        - Refinery production during outages to compare impact on prices
    - WSPA said they are open to hearing the data requests and discussing how to provide what the state needs under PIIRA regulations

- *Fuels Transition Study*
    - The zero-emission vehicle (ZEV) market is steadily growing, interest is growing, sales remain high.
    - CARB's Advanced Clean Cars II policy, begins in 2026, requires vehicle manufacturers to sell an increasing number of ZEVs as a proportion of their total new vehicle sales to ramp up to 100 percent ZEV sales of new vehicles by 2035.
    - Two scenarios looking at increasing ZEVs show a dramatic decrease in gasoline demand.
    - Declining demand does not mean a decline in gasoline prices
    - CEC's goal is to produce a study that sets a path for a reliable, safe, equitable, and affordable transition away from petroleum
        - Need to consider time horizons (1-3 years, up to 10 years, and beyond 10 years)
        - Look at equity to make sure no one is unduly burdened
        - Look at policies to address price volatility and increase access to alternatives, like better infrastructure
        - Need better access to data and work with partner agencies to get the right input scenarios to set the right boundaries for how gasoline demand may look

throughout the study periods, while weighing the confidential and proprietary nature of the data
    - Study should be ready by early 2024.

**Panelist Opening Statements – Key Points and Takeaways**

- **Dr. Elena Krieger**
    - Impacts to Californians due to high gasoline prices, transportation fuels infrastructure, and the shift to a clean energy future are not equal. State should focus efforts on creating equitable approaches to solving the gasoline price problems and provide opportunities for low-income households to have more efficient transportation.
- **Kathleen Foote**
    - The Attorney General's office will continue to investigate antitrust violations, mergers, acquisitions, and collusion, and price fixing within the petroleum market.
- **Catherine Reheis-Boyd**
    - California taxes, fees, and policies cause high gasoline prices, prevent infrastructure improvements, and limits refinery capacity. State should focus efforts on removing policy hurdles so they can provide low carbon energy to California and have an "all of the above" fuels portfolio, not only focusing on one solution for the future.
- **David Hackett**
    - The state needs to look at the impact of regulations on oil industry to understand how oil is priced along the supply chain. There is a lack of competitors. The state should review the 2002 and 2003 work done by the CEC in past on strategic fuel reserve to plan for adequate fuel supply as we transition to a clean energy future.
- **Severin Borenstein**
    - The state should look at not just gasoline price spikes but the overall high prices levels in California. The price problem isn't with refinery operations, it's in the downstream marketing and distribution. Refineries have control of prices and there is not enough competition between branded and non-branded stations.
- **Jamie Court**
    - California's high gasoline prices give the refineries "windfall profits". The state needs to institute a windfall profit tax, publish a public ledger of all transactions in the spot market and empower the Attorney General's office to investigate refinery profits.

**Panel Discussion – Key Points and Takeaways**

- *2022 Gasoline Price Spikes*
    - David: Refinery production was off and imports dropped due to high freight rates.
    - Jamie: Price of gas went up because of spot market, trades happen without a public ledger and are open to abuse. Refiners can raise prices because no one is watching.
    - Severin: When a product is in high demand it raises prices. The market is so concentrated that refineries can reduce their production and it will drive up the price.

- *Price Spikes and Record Profits*
    - David: Energy producers have high margins this year because the war created dislocations, coupled with changes in consumption, and this created higher prices all over that led to downstream profits. There are not enough gas stations, there is less competition, and buyers have fewer choices.
    - Jamie: Refineries quadrupled their profits. The state should set a reasonable level of profit and implement a price gouging penalty. Refineries have too much market power.
    - Catherine: The state needs to look at policies that have a negative impact on costs. The refineries made up their profits from past losses.
    - Severin: A windfall tax wouldn't lower prices; it would just roll back some profits.

- *Solutions to CA/US Price Differential and Avoiding Future Spikes*

- Catherine: Current regulations all point to removing capacity and resiliency in the system, which is the opposite of what would help these items. Agreed refineries are open to hearing the data requests from the state for more transparency and to discuss how to provide what the state needs under PIIRA regulations. Also acknowledged transition away from fossil fuels.
- David: State policy shouldn't restrict supply. Gasoline price controls will cause poor service and high prices.
- Jamie: A windfall tax will prevent price spikes and gouging.
- Kathleen: Relying on litigation to solve these problems is expensive
- Elena: Ensure low-income households have access to newer and more efficient cars, financing, incentives, infrastructure.

- *Impacts to Consumers*
    - Elena: California is expensive. Low-income and rural households have older, inefficient cars and too much of their income is used to pay for gasoline, they are disproportionally affected by prices.
    - Catherine: The fuels transition study should focus on reducing costs so we can deal with the issues and increase resiliency.

- *Suggestions for Fuels Transition Study Scope*
    - Catherine: Relook at scenarios that show a better way to reach the goals while reducing costs to consumers.
    - David: Their scenarios aren't as aggressive as ARB, look for alternative scenarios, don't be too optimistic about the future
    - Elena: There are three areas to address: the lifecycle of emissions, damaging pollutants and who it affects, and adopting cleaner fuels.
    - Severin: Stay on top of equity and affordability issues while transitioning, it will not be smooth, reducing refineries will only create more market power and downstream profits.
    - Jamie: Refineries going offline to transition to renewable fuels will impact prices. Study should make sure the gas supply is ample and do more outreach.

**Public Comment – Key Points and Takeaways**

- Windfall tax, oppose and support
- Support for the fuels transition study
- Support of California's consumer and environmental policies, like LCFS
- State should be involved with refinery maintenance scheduling