DOCKETED	
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California Energy Commission

SB X1-2 Workshop: Refining Margin Establishment and Penalty Determination

November 28, 2023

Agenda

- Welcome and Overview - Drew Bohan
- Opening Remarks from Dais
- Economics Presentation - Matthew Zaragoza-Watkins, Vanderbilt University
  - Questions/comments from the Dais
- Roundtable Discussion: Impacts and Benefits of Implementing a Max Margin and Penalty
  - Questions/comments from the Dais
- Public Comment
- Closing Remarks from Dais

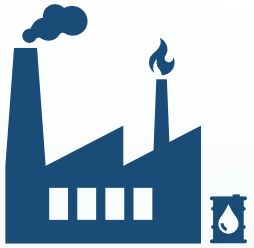
SB X1-2 Implementation Activities

Governor signed on March 28, 2023

Data Collection, Monitoring & Reporting (started on June 26)

Transportation Fuels Assessment

Fuels Transition Plan (in development with CARB)



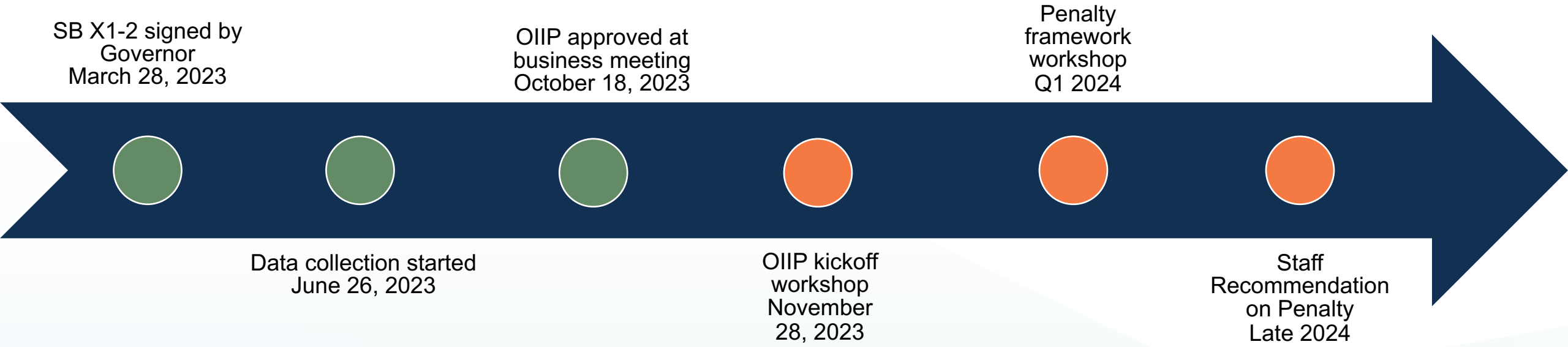
Refinery Maintenance Monitoring (started on June 26)

Today's Topic

Refining Margin Establishment and Penalty Determination (in progress)

Market Manipulation Analysis (to be developed under DPMO)

SB X1-2 Margin and Penalty Timeline



Purpose of Margin Cap and Penalty

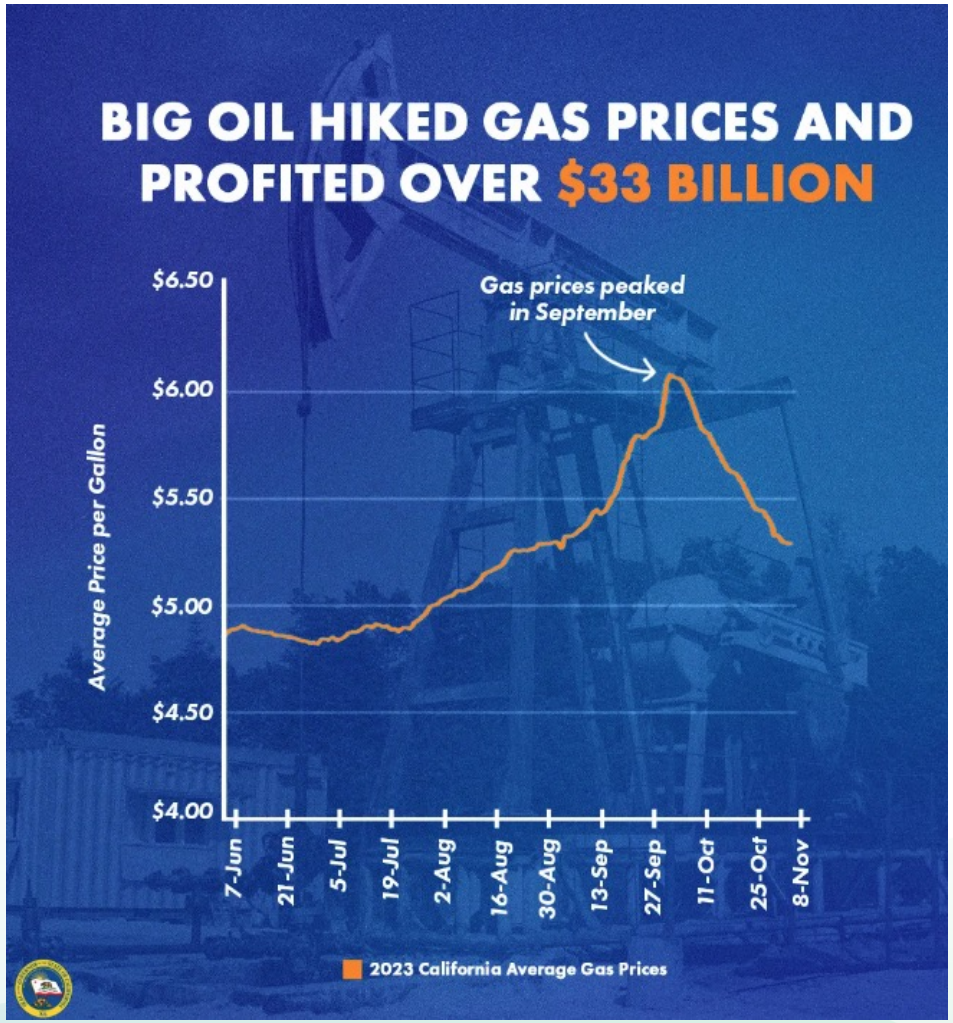
SB X1-2 (sec 1) states:

- (g) Although preventable capacity limitations and inventory shortages played a role in the third quarter of 2022 price increases, they cannot account for all of those increases . . .
- (h) Indeed, during a 90-day period in 2022, refiners earned a record $63,000,000,000 in profits . . .
- (i) Fundamental change is necessary to prevent future extreme price spikes and price gouging by oil companies . . .

Oil Company Profits

Here's how much oil companies profited as gas prices spiked in Q3 2023:

Valero	$2.6 billion
Phillips 66	$2.1 billion
Marathon	$3.28 billion
PBF Energy	$786 million
BP	$3.3 billion
Exxon	$9.1 billion
Chevron	$6.5 billion
Shell	$6.2 billion



Source: Governor's Office Press Release

Refining Margin Establishment

(PRC 25355.5)

To impose a penalty, SB X1-2 states the CEC must:

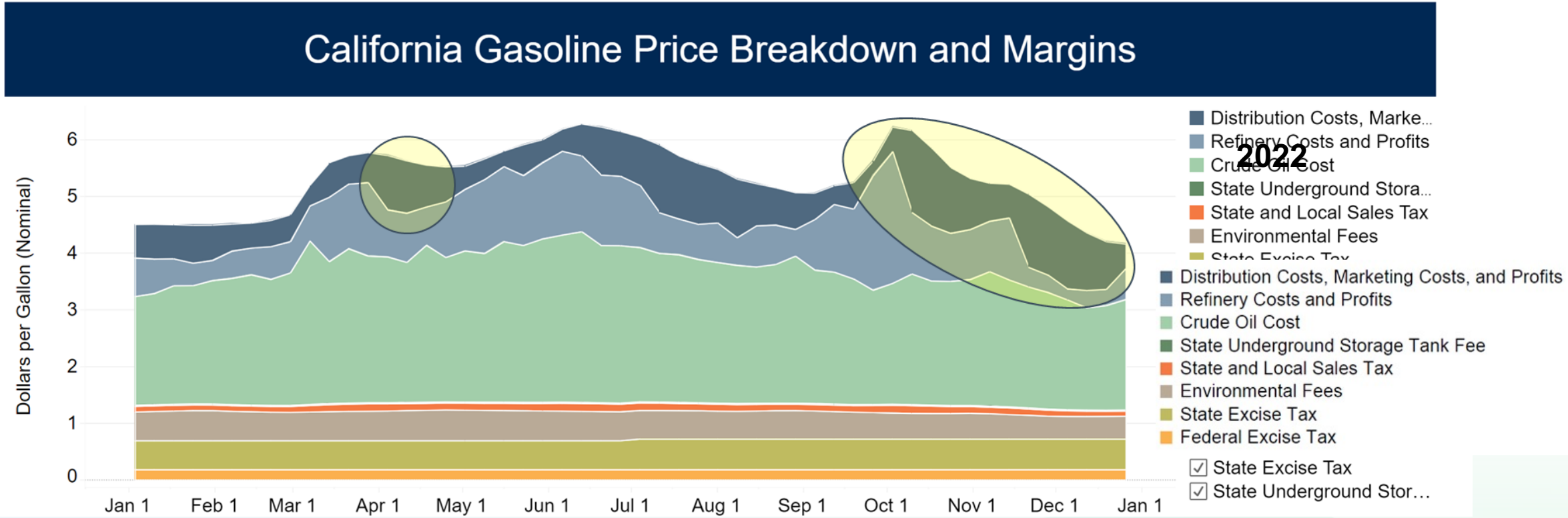
- Determine consumer benefits exceed costs
- Consider the impact of a penalty on:
  - Supply/demand challenges
  - Average prices at the pump
  - Other factors: What else should the CEC consider?

Potential Options for Framing Penalty

Structural Inefficiencies	Exploitation of Structural Inefficiencies	Other issues…
• Structural inefficiencies leading to high prices at the pump • Penalty as a tool to reduce impact on customers	• Deliberate exploitation of structural inefficiencies • Penalty as a deterrent or incentive to increase supply	

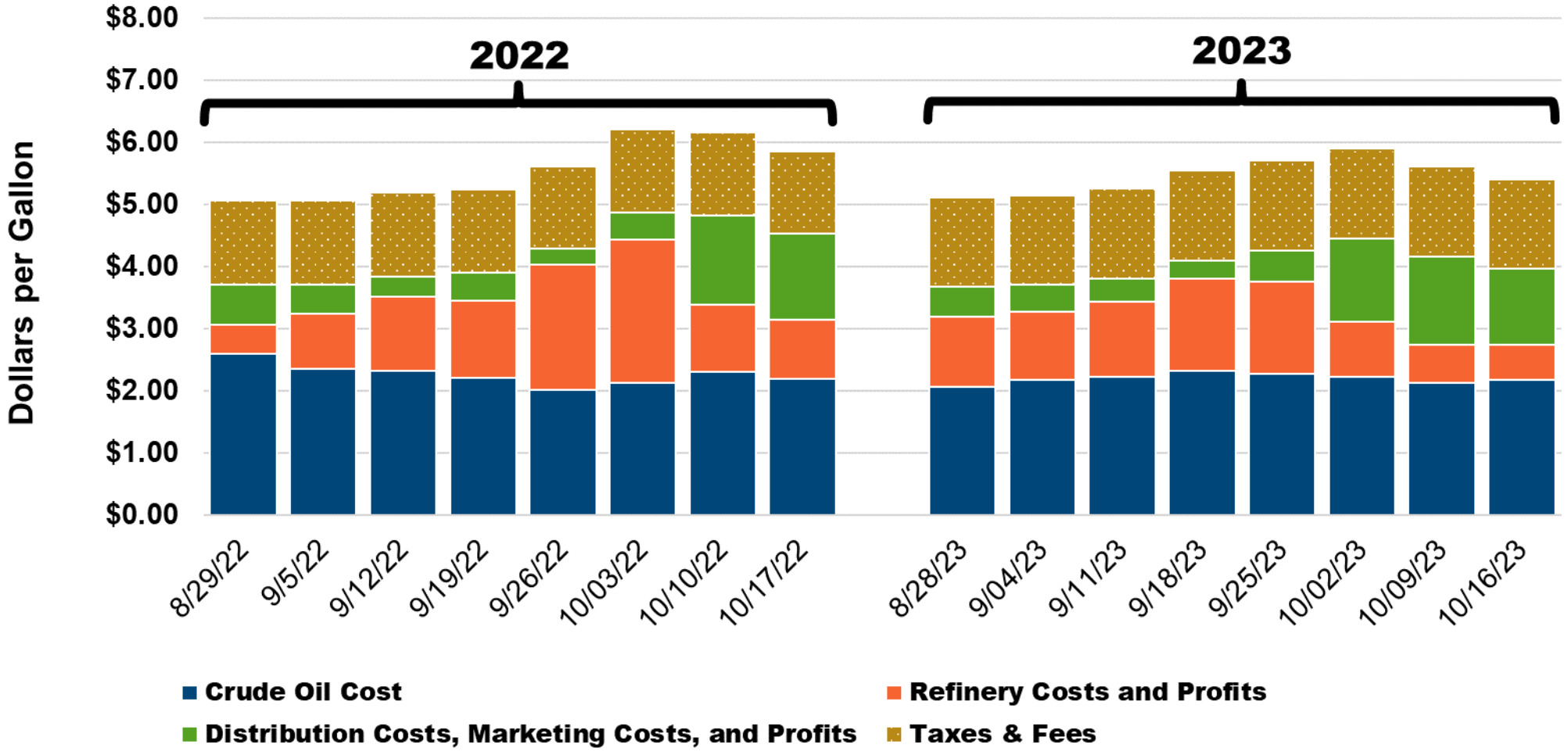
Gross Gasoline Refining Margin

Refiner Margin = Rack Price – Crude Oil Cost – Environmental Cost



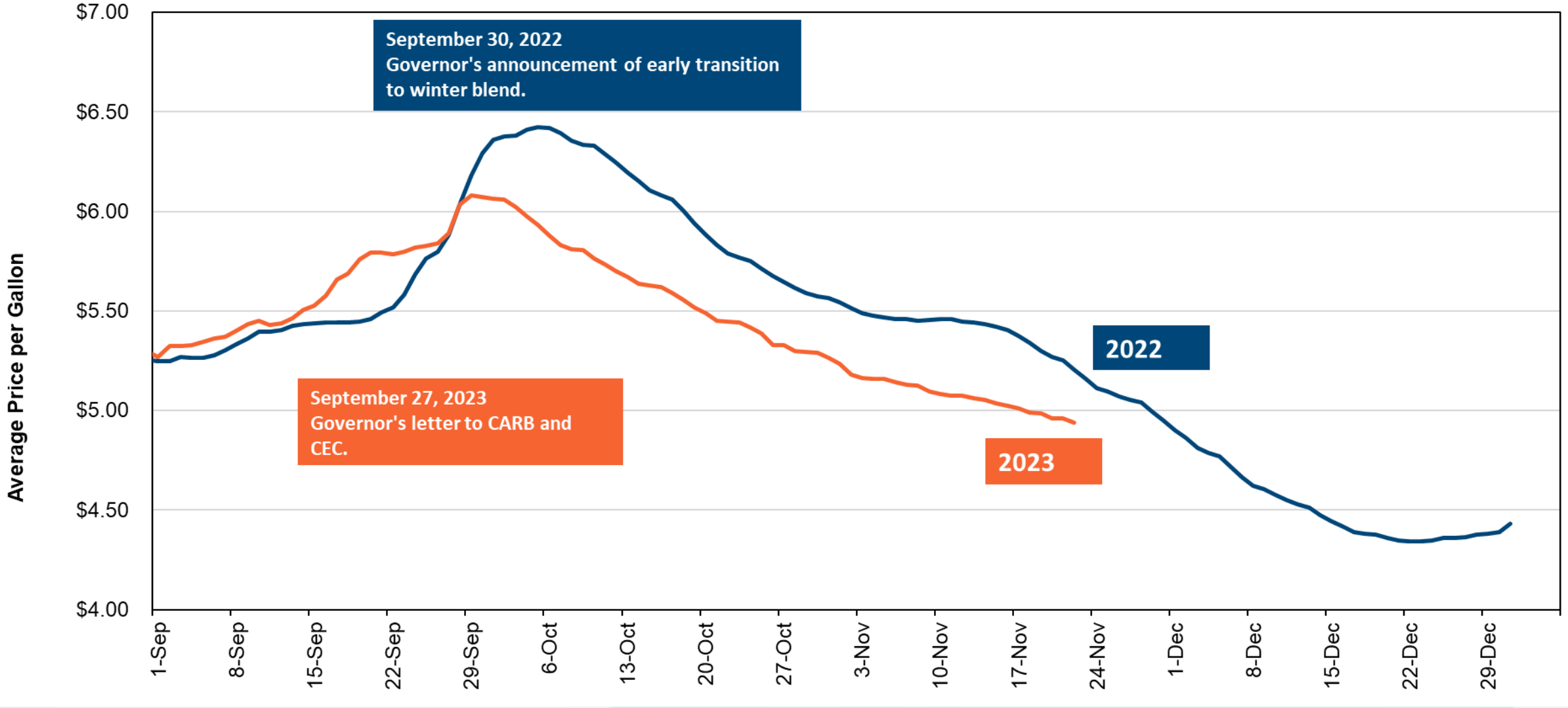
Source: CEC analysis of OPIS, CDTFA, and Alaska Department of Revenue data

Breakdown of California Gasoline Prices



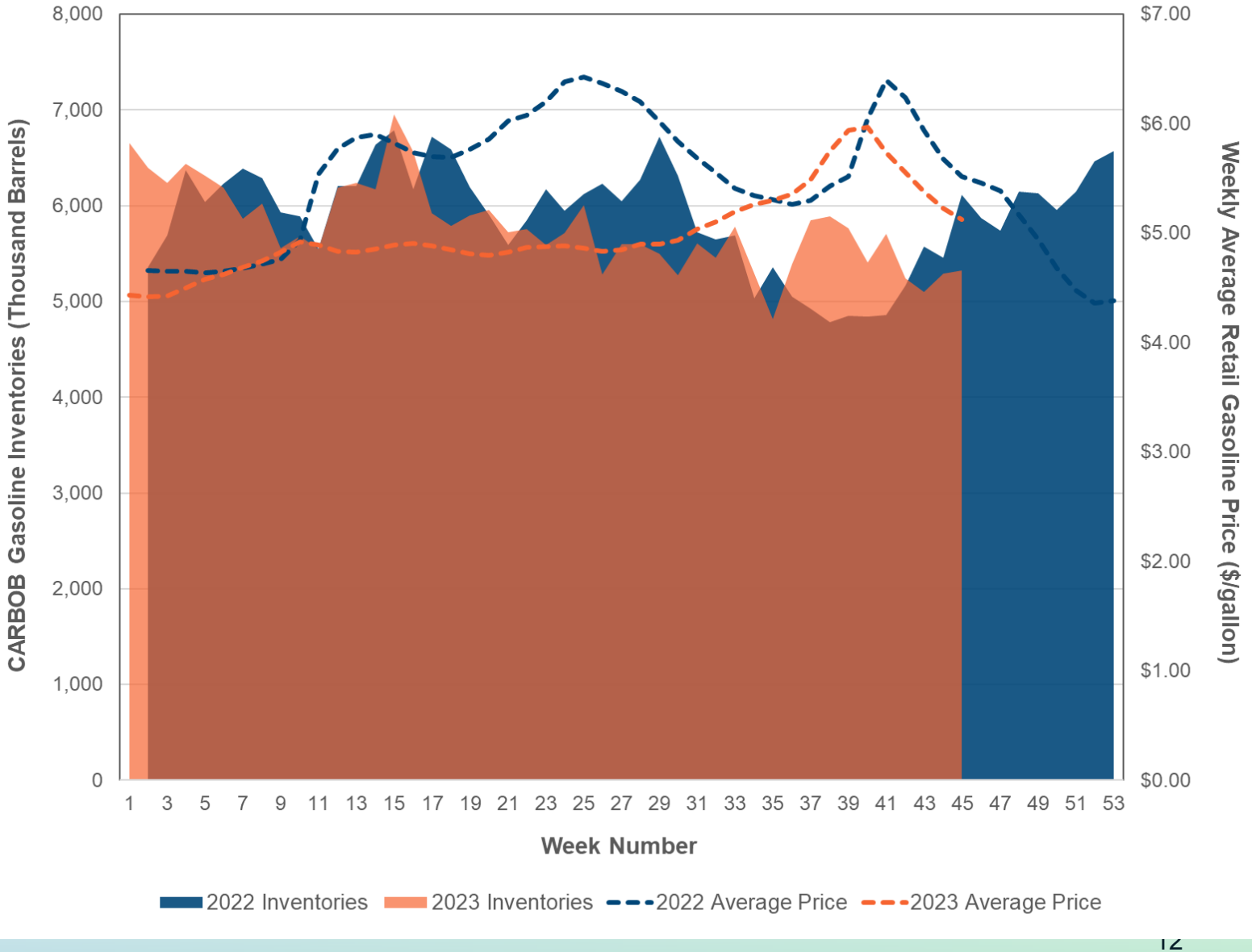
Source: CEC analysis of OPIS, CDTFA, and Alaska Department of Revenue data

California Retail Gasoline Prices

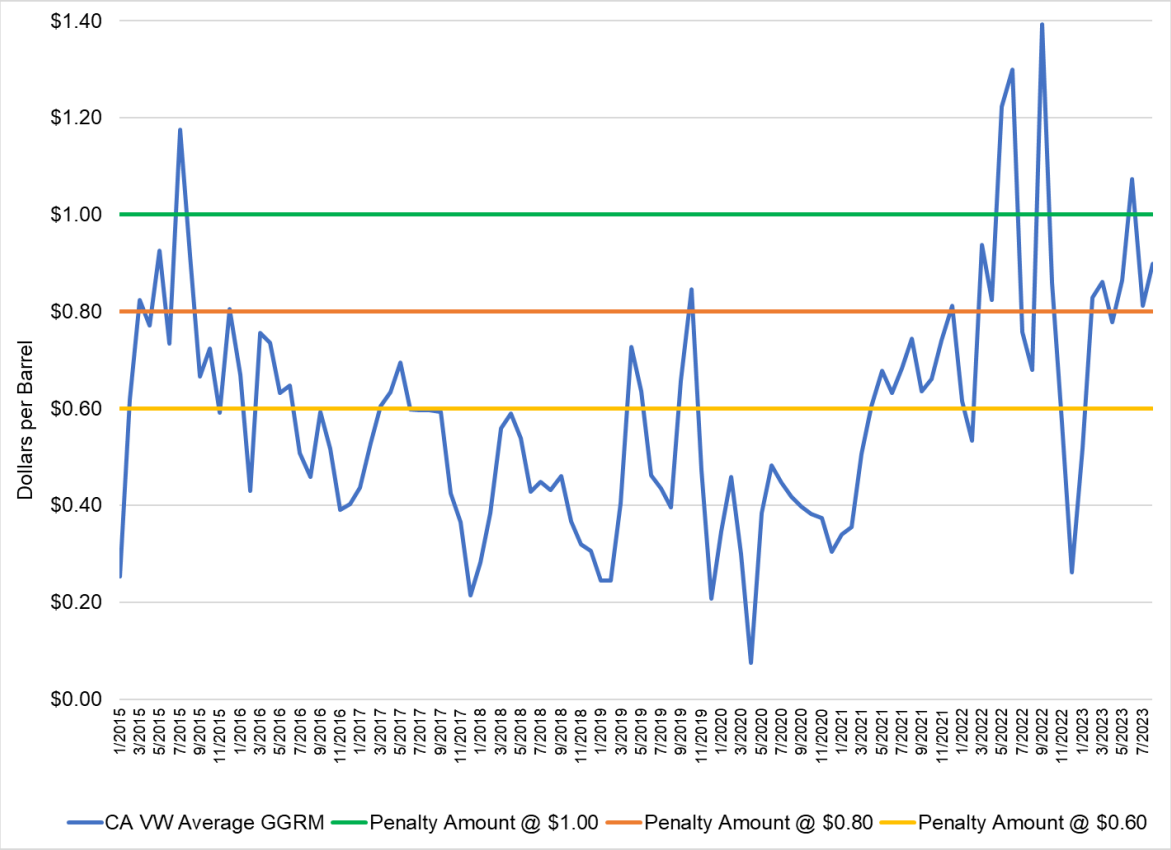


What Causes Gasoline Price Spikes?

1. Gasoline demand increases during the summer.
2. Gasoline inventories drop over the summer.
3. Refiners do not consistently import additional CARBOB to maintain inventory levels.
4. Prices spike.



Potential Margin Threshold (M1322 Data)



Source: CEC analysis of PRC 25355 data

Margin exceedances (2015 – 2023)

- **$1.00 (5 occurrences)**
  Total revenue above max = $1.2 billion
- **$0.80 (18 occurrences)**
  Total revenue above max = $3.1 billion
- **$0.60 (46 occurrences)**
  Total revenue above max = $9.5 billion

Total Revenue = Total Sales Volume (all channels) × (Average Rack Price – LCFS & Cap-at-the-Rack – Total Crude Acquisition Cost)

Should CEC Establish a Margin/Penalty?

1. Do the benefits to consumers outweigh the costs?
2. What is the likely impact on gasoline supply?
3. What is the likely impact on the price at the pump?
4. What other factors should the CEC consider?

Opening Remarks from the Dais

Presentation by Matt Zaragoza-Watkins

Comments from the Dais

Roundtable Discussion

Impacts and Benefits of Implementing a Max Margin and Penalty

Moderator: Ethan Elkind; Center for Law, Energy & the Environment

Participants:

- Catherine Reheis-Boyd, Western States Petroleum Association
- Connie Cho, Asian Pacific Environmental Network
- Elena Krieger, PSE Healthy Energy
- Jamie Court, Consumer Watchdog
- Matthew Zaragoza-Watkins, Vanderbilt University
- Michael Smith, United Steelworkers

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Comments from the Dais

Thank you.

Questions?

Submit comments to Docket 23-OIIP-01 by 5:00 p.m. on December 12, 2023.

Public Comments

Zoom:

- Use the “raise hand” feature.

Telephone:

- Dial *9 to raise your hand
- Dial *6 to mute/unmute your phone line. You may also use the mute feature on your phone.

Zoom/phone participants, when called upon:

- Your microphone will be opened.
- Unmute your line.
- State and spell your name for the record, and then begin speaking.

Limited to one representative per organization.

Three-Minute Timer