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Business Coalition Letter

Additional submitted attachment is included below.

May 3, 2024

California Energy Commission
Docket Unit, MS-4 – Re: Docket No. 23-OIIP-01
715 P Street
Sacramento, CA 95814

23-OIIP-01: Industry Coalition Comments on Maximum Gross Refining Margin and Penalty RFI

On behalf of numerous California business interests, we write to share our concerns about your potential decision to impose an unprecedented margin cap and penalty upon California's refineries. These will not solve the problem of gasoline price volatility; they will only punish California consumers by further restricting California's already tight in-state gasoline supplies. The unintended consequences could have a significant impact on California's businesses and the economy at a time when the cost for all forms of energy continues to increase at unsustainable rates. Creating a mechanism that could result in fuel shortages would have disastrous ripple effects across multiple sectors.

The legislature clearly had the same concerns regarding unintended consequences when they rejected the administration's initial proposal in SBX1-2 (Skinner) to impose a margin cap and penalty in statute. Rather the legislature amended SBX1-2 to give the California Energy Commission the option to impose a margin cap and penalty if, and only if, the commission could prove that it would not result in increased gas prices or negatively impact gasoline supply.

California's Gasoline Supply Challenges Remain Unaddressed

Virtually every expert to look at this problem in the past three decades – including those working for the state – has concluded that California gasoline prices are not the result of any industry conspiracy, but have been a direct result of sustained strong consumer demand coupled with chronic structural supply restrictions. It is a simple fact that California still has a very strong consumer demand for transportation fuels. It is also the CEC's responsibility to ensure that Californians have a reliable and affordable supply of these critical fuels necessary to drive our economy, operate our businesses, and move employees. Policies like a cap on margins or a penalty on selling too much gasoline will only ***discourage*** supply, put more pressure on prices and make it harder for Californians to obtain affordable transportation fuel.

Margin Cap and Penalty Will Likely Lead to Reduced Supply and Higher Gas Prices

Instead, the State ***must*** address our current gasoline supply limitations – these include permitting obstacles, physical constraints (including in production and for marine imports), regulatory uncertainties that discourage capital investments, and geographic realities. A margin cap doesn't address those barriers and would actually ***penalize*** a refiner for producing more gasoline and making "too much" profit. Why would any business continue to voluntarily produce a product if they would then be subject to a penalty for doing it?

The CEC must consider whether refiners will be incentivized to invest the capital needed to maintain California operations and expand local gasoline supply. Losing local refining capacity would be a disaster for Californians and would only result in ***less*** supply and ***higher*** prices, in addition to putting thousands of jobs at risk. A margin cap would make California *less* appealing for new investments and those needed to maintain existing operations. Fewer California refineries may be a win for some politicians, but it's a loss for Californians who rely on affordable gasoline every day.

California's Gasoline Prices Are Already Amongst the Highest in the Nation

Don't make it worse. Expecting prices to decrease for a critical, in-demand commodity by disincentivizing production and *constricting* supply defies basic economics. By imposing a margin cap and penalizing production beyond that cap, California will further restrict supply. Energy supply shortages result in ***higher*** prices. We are concerned that a margin cap will discourage investment in California refining operations and may even cause our remaining refineries to be idled. The effects of such a significant policy mistake could be permanent and lead to a decrease of reliable in-state production, and ultimately higher fuel prices.

On behalf of:

Californians for Affordable and Reliable Energy
California Chamber of Commerce
California Fuels + Convenience Alliance
California Manufacturers & Technology Association
Garden Grove Chamber of Commerce
Greater Coachella Valley Chamber of Commerce
Harbor Association of Industry and Commerce
Industrial Association of Contra Costa County
Inland Empire Economic Partnership
Los Angeles Latino Chamber of Commerce
Los Angeles County Business Federation
Long Beach Area Chamber of Commerce
Murrieta/Wildomar Chamber of Commerce
Redondo Beach Chamber of Commerce
San Pedro Chamber of Commerce
South Bay Association of Chambers of Commerce
Western States Petroleum Association