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CALIFORNIA ENERGY COMMISSION

In the matter of:

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GASOLINE SUPPLY RELIABILITY WORKSHOP

TRANSCRIPT OF PROCEEDINGS

HYBRID VIA IN-PERSON AND ZOOM

THURSDAY, AUGUST 22, 2024

9:30 A.M.

Reported by:

Martha Nelson

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P R O C E E D I N G S

9:01 a.m.

THURSDAY, AUGUST 22, 2024

MR. SMITH: Good morning, everyone, and thank you for joining the California Energy Commission SB X1-2 workshop. My name is Jeremy Smith. I'm a Deputy Director in the Energy Assessments Division. We've held several workshops on various elements of this legislation, but today's workshop will focus on market liquidity and gasoline supply considerations for consumers on price spikes.

Next slide, please.

Before we get started, I'd like to share some housekeeping items with everyone.

First, please be aware this meeting is being recorded.

Second, we welcome and appreciate your feedback. We have time allotted for public comment at the end of the presentation. We also welcome written comments, which are due by 5:00 p.m. on September 10th. We'll have slides to provide written and oral comments later in the presentation.

For in-person attendees, restrooms are in the atrium, out the door and to the left.

If there's an emergency and we need to evacuate

the building, please follow the staff to Roosevelt Park, which is a block away across the street, diagonal to the building.

Next slide, please.

As a reminder, Senate Bill X1-2 was signed by Governor Newsom in March 2023 and took effect in June of last year. The law was designed to protect Californians from experiencing price gouging at the pump by oil companies. Among other things, the law provided the CEC with the authority to collect additional data from the petroleum industry to better understand the causes of price spikes and provide the necessary facts to develop policies to prevent Californians from overpaying at the pump.

The purpose of today's workshop is to look at the various factors that impact gasoline supplies, particularly in summer months when Californians drive more and the demand for gasoline increases. If supply and demand are not balanced, prices can increase, which we've observed to varying degrees, including rapid price spikes in summer of 2022 and 2023.

Since refinery outages can play a major role in gasoline supplies, we'll hear about the Department of Industrial Relations' role in refinery maintenance, worker safety, and the information they collect from the industry. We'll also look at recent supply, demand, and price trends

observed in the data collected under SB X1-2. Using tools developed with that information, and we'll investigate the impact by supply conditions on gasoline prices. Finally, we'll look at some conceptual frameworks for minimizing the supply impact of refinery maintenance through resupply and minimum inventory requirements.

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This is the agenda for this morning's workshop. We'll start with opening comments from the dais. We're joined today by Vice Chair Gunda of the California Energy Commission and Director Milder of the Division of Petroleum Market Oversight. We have three staff presentations, one from Zohra Azim from the Department of Industrial Relations, one from myself, followed by one from Varsha Sarveshwar from the DPMO. And we'll wrap up with comments from the dais and public comments before adjourning.

Next slide, please.

With that, I'll hand it over to Vice Chair Gunda for opening comments.

VICE CHAIR GUNDA: Thank you, Jeremy, for setting the stage for today. Welcome, everybody, to the workshop.

I want to begin by thanking Jeremy, you, for helping with coordinating this workshop, along with a number of staff behind the scenes.

I also want to welcome Zohra Azim and Varsha

Sarveshwar for taking the time today to be presenting today and providing insights, you know, from the vantage points you have.

I would also like to welcome and thank Director Milder, my colleague and quickly becoming a friend, here to the dais joining me today to co-lead this workshop.

I want to recognize the incredible amount of work that has been done since the passage of SB X1-2. I'm just incredibly proud and just impressed with the staff's work over the last 12 months. The number of hours, the sheer number of hours in collecting information, working on data quality and providing insights has been incredibly helpful towards the progress of this work.

As part of SB X1-2, we were able to also adopt the fuels assessment in the last business meeting of the CEC, which has been a mammoth task, again, to provide a landscape of the petroleum industry in California, but lay out some policy options to continue to work towards long-term transition of the fuels and allowing for a reliable and affordable transition from the current fossil usage.

So over the last year, I have also really come to recognize the complimentary and oftentimes incredible value that DPMO adds to the CEC both in terms of the skillset, the staff that have joined from DPMO that just have been incredible to work with, so thank you, everybody. I see

everybody in the audience here.

With that, you know, I think as Jeremy mentioned, a lot of work today will be focused on thinking through the problem that has been set up in the last workshop. You know, Jeremy and Gigi from DPMO presented the broad strokes around the lack of liquidity and what that does to the prices at the pump. And today, we will have better opportunity to look at what are some of those tools, what are some of the options we can do to improve liquidity, but also look at the impact on consumers and, you know, looking at some counterfactual, you know, values and opportunities on what we can save.

I'm also really excited to look at -- hear from Zora today on the DIR's perspective on the maintenance issues. And I think it will be another really useful workshop in developing the record towards utilization of various tools that the CEC has in the protecting consumers.

With that, I'll turn it over to Director Milder.

DIRECTOR MILDER: Well, thank you, Vice Chair. I want to first reflect back those positive comments. Working with your office and with the Energy Assessments Division is critical to DPMO's work, and I'm so effusively positive about the support that we've gotten and appreciative of the work and the long hours by staff related to data processing and the like, and genuine

heartfelt appreciation there.

In terms of today, I want to echo your comments, looking forward to the three presentations, learning more about what the Department of Industrial Relations does to ensure safety related to refinery turnaround, hearing from EAD staff about some of these critical supply and demand dynamics and how they impact our California market, and also listening in the DPMO presentation about what options the state might have to try and mitigate or even eliminate price spikes.

So appreciate the work behind today's presentations. I'm looking forward to the discussion.

VICE CHAIR GUNDA: Thank you, Director Milder.

With that, Jeremy, back to you. Thanks.

MR. SMITH: All right. Thank you, Vice Chair and Director Milder.

So with that, we can go to the next slide, and I would like to introduce our first presenter, Zohra Azim. She is a Senior Safety Engineer specializing in refinery operations at the Department of Industrial Relations.

Zohra?

MS. AZIM: Hi. Good morning, everyone, and thank you for giving me this opportunity to come and speak in front of Energy Commission and share Cal/OSHA's policy of the process safety management goals.

So the goal of the Cal/OSHA Process Safety Management Unit is to protect the workers and public from safety and health hazards by enforcing California Title 8 Regulation, and specifically Process Safety Management Regulation, Title 8, sections 5189 and 5189.1.

So Process Safety Management Unit takes its authority from Labor Code section 7850 through Labor Code section 7873. In Process Safety Management Unit, we do two categories of inspections, planned or program inspection, and also we do unplanned and program inspections. So in program -- in a program or unplanned inspections, we respond to serious injury, illness, fatality, major incident, and also we respond to complaints from employees, employees' representatives, state agencies, contractors, subcontractors, and other governmental representatives.

So in program inspections, though, we do three types of inspections. We do first program quality inspections that apply to refineries and (indiscernible) and chemicals. And we do turnaround inspection that only applies to refineries. And also we do follow-up inspection on a serious citation abatement.

The scope and application of Process Safety Management Regulations 5189 and 5189.1 are different. 5189.1 applies to a chemical facility, and it's based on the threshold quantity and flashpoint below 100 Fahrenheit.

Process Safety Management Regulation 5189.1, it applies only to petroleum refineries. So under 5189.1, in the Process Safety Management Unit, we do about 30 to 45 program quality inspections every year statewide. And under 5189.1, we do four program quality verification and refineries. We randomly choose two refineries in the south and two refineries in the north California.

So we complete the program quality inspection as a team of three to four safety engineers. And we have spent about 600 to 1,000 hours of ours to do inspections and complete our investigations.

So we've choose about one to two process units and refineries. And the team and refineries focus on Safety and Health Program. It reviews, their written programs, and also reviews their implementation of their written programs to verify the effectiveness of the refineries' program implementation team reviews, activities records such as inspection records, corrosion studies, management of changes study, process safety (indiscernible) human factor analysis, and many other elements where they are looking.

We also interview employees at different levels. We do site observation to see if they're really implementing their safety program. Our team, also, we are not only focusing on Process Safety Management Regulation,

also we do look at the Heat Illness Prevention Program, Injury Illness Prevention Program, Confined Space Program as our communications and emergency action. And there are so many other programs we are reviewing during the quality verifications.

If we find any deficiency during our inspection, we do it by consent, and we require the employer to provide us abatement.

We do turnaround inspection, which strictly applies to petroleum refineries. What turnaround means, it's a planned and scheduled shutdown of process unit or refineries to perform maintenance, repair, replace, test, inspect the process equipment.

Senate Bill 1300 (phonetic) requires the refineries to provide information regarding their turnaround schedules to the Divisions. Senate Bill 1300, the governor approved it on September 20th, 2014, as a result of Senate Bill 1300. Labor Code section 70, 872, and 7873 (phonetic) had it. So these Labor Codes requires every petroleum refinery in the state of California to submit their full schedule of maintenance to the Division by September 15th every year.

So we do four turnaround inspections per year. We do two in the north and two in south California. So the Division is allowed to start their inspection 60 days prior

to shutting down the unit. This is the only inspection that we are allowed to inform the employer ahead of time that we are coming and doing inspections.

So in the turnaround inspection, we focus on the deferring maintenance and maintenance only. We look at it to see if any deferring maintenance has impact on health and safety of employees. And also we look if any deferring maintenance has impact on integrity of a process equipment. We have six months to complete our turnaround inspection from the day that we get started. It's based on the statute of limitations.

So during our -- during the turnaround inspection, we review the corrosion study, process safety hazard analysis, management of change, risk-based inspection, and our (indiscernible) inspection, temporary repairs, deferring maintenance, and also we look at all the work orders that needs to be completed during the turnaround.

So during the turnaround, we do many site visits, and all of our site visits are happening during when the unit is shut down. We go to the unit and verify the confined space permit, make sure that they're filling out or doing the work properly. And also, we look at the health work. We check the contractor training certification. And also, we look at the pre-startup safety

review after the turnaround is completed. And also, we look at the startup procedure for the units.

And Process Safety Management Unit, all our safety engineers are very well-trained and qualified to doing different types of inspections. So we are, the unit is, receiving a lot of specialized training, and so we are well prepared to respond to any situation, including major incident in refineries.

Thank you very much for your attention. Any questions?

VICE CHAIR GUNDA: Yeah. Yes. Thank you so much, Zohra. I think you set the -- you provided some information on the turnaround-specific portion. Are you able to expand on, you said, I mean, if I heard it right you said September is when --

MS. AZIM: By September 15, they have to provide us the list of their schedule for the next year --

VICE CHAIR GUNDA: Okay.

MS. AZIM: -- complete schedule. If any changes are made, they have to inform us also.

VICE CHAIR GUNDA: Got it. So it's the entirety of the year, so September --

MS. AZIM: Yes.

VICE CHAIR GUNDA: Okay.

MS. AZIM: They have to provide us for the entire

year.

VICE CHAIR GUNDA: And when they provide the schedule, kind of, what kind of information do they generally provide?

MS. AZIM: We don't receive the scope and application of the turnaround, we only get the unit and the date that they are doing -- starting the maintenance. And even that date is usually is not fixed, it changes.

VICE CHAIR GUNDA: Got it. Thank you.

DIRECTOR MILDER: Yes, thank you, as well, for the presentation.

MS. AZIM: Thank you.

DIRECTOR MILDER: Is there a process in place currently to examine whether all the planned maintenance that has been submitted in the September schedule, in fact, takes place?

MS. AZIM: We don't have any plans, but we are expecting if they are submitting full schedules for us, they are going to do it. But, yes, there is a time that they have postponed it. We get a letter or we get information that, okay, for example, the turnaround that was in December is postponed to January.

DIRECTOR MILDER: Thank you.

VICE CHAIR GUNDA: Yeah, thank you so much.

MS. AZIM: Thank you.

DIRECTOR MILDER: We really appreciate your time today.

MS. AZIM: Thank you. Thank you very much.

MR. SMITH: All right. Thank you, Zohra.

And in my presentation, I'll talk about the correlation between gasoline supply conditions and prices, and we'll walk through a hypothetical scenario to really illustrate that relationship. I'll explain more in detail as I go along, but keep in mind that when we talk about supply, we're referring specifically to California gasoline and not crude oil supply.

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All right, so I'll start by talking about the average retail price in California. This is the price consumers pay at the pump.

The green line on this chart represents the average California retail price from January 2021 to today in dollars per gallon. In 2021, following the COVID-19 pandemic, prices steadily rose to the point where now statewide average retail prices rarely fall below $4.50 a gallon. In 2022, Californians saw gasoline prices exceed $6.00 per gallon on multiple occasions. Prices also spiked above $6.00 in late Summer 2023. Finally, we saw elevated prices averaging $5.50 just earlier this spring in 2024.

Next slide.

Next, the red line is the average retail price of gasoline across the United States. Again, prices steadily rose in 2021, as they did in California after the COVID-19 pandemic, and we observed some similar price fluctuations, including higher prices in summer than in winter.

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We can learn a lot about what causes prices to fluctuate in California by comparing the price here to the average price in the United States. The blue line in this chart represents the difference between the California and U.S. average retail prices. There are times when both the California and the U.S. price increase, and thus the difference between these two stays low. This means the price fluctuations are likely due to conditions outside California, such as global crude oil prices or geopolitical issues.

There are other times when the two trends are not in lockstep, however, which indicates the reason price spike is likely due to conditions isolated to California. Notably, the late summer price spikes in 2022 and 2023 are not seen in the U.S. price, so the difference between these two prices spike and is shown in the two yellow regions. These are periods that CEC has been studying very closely.

Next slide.

And finally, as a fourth layer here, when prices

spike due to issues isolated to California, there is another price trend worth observing, which is the California gasoline spot market differential. The spot market is a high volume physical trade market located in at pipeline hubs. Market participants buy fuel when they don't have enough to meet their contractual obligations or sell when they have a surplus. The trades are priced in reference to the New York Mercantile Exchange, or NYMEX price.

Spot trades and the spot price differential have a significant impact on California's retail prices. It can be observed that when the spot price spikes, which occurs when traders bid up the price of gasoline in the spot market, the higher cost of fuel is on consumer. When gasoline supplies are healthy, the spot market differential can be $0.25 per gallon or less. The differential increases, though, when supply conditions in California tighten.

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One of the primary ways we've been studying recent price spikes is comparing the available supply of gasoline to the gasoline demand. There are three components that make up gasoline supply in general: Gasoline inventories that re held in large refinery and terminal storage tanks; local refinery production; and

marine imports. While refinery production has decreased the last several years, declining consumption and an increase in marine imports has kept supply and demand in balance. However, refinery outages can disrupt this balance and increase our reliance on available gasoline inventories and marine imports to keep up with demand.

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To better understand the supply conditions that lead to these price escalations, we worked with our consultants at ICF to develop a gasoline price model using a forward days supply metric. Essentially, this is a way of taking the supply and demand data trends to measure market tightness. The slack in the system is referred to as days of supply, or DOS, representing the number of days current demand can be met with the available supply.

This process was presented in detail during our summer outlook workshop on June 6, 2024. But essentially, we take the most recent gasoline inventory levels to add the buildup or drawdown of inventories over the next few weeks, accounting for expected marine imports, upcoming refinery maintenance, and other factors that might impact supply in the next week. Then we divide by the average daily demand to arrive days of supply.

Next slide.

So we presented this, again, at the summer

outlook. But if we fit a relationship between the forward days of supply metric and the spot market differential, that we just talked about, we noticed a strong correlation. The light blue and dark blue dots on this chart are the observed spot market price differential in cents per gallon versus the days of supply metric that was calculated for each week in summer of 2022 and 2023, respectively.

Starting from the right side of the chart, if you watch the dotted line at all of those points, as the days of supply fall, the price spread to the NYMEX increases, which means as we go right to left on the chart, the dotted line goes up. It's a flat relationship down to an inflection point around 15 days of supply. Below this point, we see an exponential increase and they spread as days of supply falls.

If you think about this generally from just a situational awareness perspective, so long as days of supply remains above 15, these are low risk of price spikes. And we've shaded this region in green. If days of supply drops to between 13 and a half and 15, they're nearing conditions that lead to price spikes, and have shaded this yellow. Once days of supply falls below 13 and a half, we've observed significant price spread increases, and a decrease in red.

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There are several things that have caused more significant shifts in the gasoline supply and demand balance. A couple of refineries in California have converted their crude refineries to produce renewable diesel. The most recent conversion was P66 in Rodeo earlier this year, which reduced statewide refining capacity by five percent.

Summer demand is another factor. It typically is seven to ten percent higher than demand in the winter, which can again create tighter market conditions.

On the other hand, the adoption of zero-emission vehicles is contributing to a sustained peak in gasoline demand.

And finally, planned and unplanned refinery outages, especially when these occur in multiple refineries at the same time, can reduce statewide gasoline production

Next slide.

With that in mind, and before I get to a hypothetical supply disruption scenario, I want to share some metrics that we've observed recently just to emphasize how realistic the scenario that I will present really is.

First, let's look at recent trends in summer gasoline stocks. This chart shows the weekly stocks of reformulated gasoline and blending components in PADD 5. That's the region that includes the western states of

California, Arizona, Nevada, Oregon, Washington, Alaska, Hawaii, and this is for the summer months of June through October. The black line is the 2021 to 2023 weekly average, while the green line shows the 2024 levels observed so far this summer.

The three-year average stocks cover around 14 million barrels in early summer for trending downward in late summer at approximately 140,000 barrels per week, or 20,000 barrels per day. That's that downward trend that we observe in the '21 to '23 average. The '21 to '23 average fell to around 12 million barrels by the end of the spring. Starting from the most recent 2024 PADD 5 data, which is the green line, you can see where we are now, and we'll use that trend in our upcoming sample.

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So this is the weekly summer CARBOB production trends from June through October for years 2021 through 2024. Again, the black line shows the average weekly production for 2021 to 2023, while the teal line shows the weekly production so far this summer. Notably, production this summer has been lower than the 2021 to 2023 average. One of the primary reasons for this is the P66 refinery conversion I mentioned earlier which reduced total statewide gasoline production capacity by about five percent.

Refineries typically operate at utilization rates between 80 and 90 percent. Current CARRBOB-producing refineries in California produce 60 percent gasoline from the crude process at an 85 percent utilization rate, and we set aside the roughly 100,000 barrels per day of non-California gasoline production, then we would expect average daily CARBOB production around 120,000 barrels per day. And that's represented by that dashed line.

Next slide.

All right, for our final trend, I'd like to look at weekly summer CARBOB demand trends from June through October, again, for years 2021 to 2024. Again, the black line shows the average weekly levels for 2021 to 2023. While data on summer 2024 gasoline sales are not yet available, for the 2024 data that has been analyzed, we've observed a decrease in demand compared to last year of between one and two percent. If we assume a similar decrease to hold through the remainder of the summer, we can estimate demand to be around 800,000 barrels per day in late summer, which is shown in the dotted blue line.

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All right, so putting these observable trends together, let's walk through a scenario that illustrates how maintaining market liquidity can prevent price spikes. Let me emphasize that the prices, supply, and demand trends

are realistic, as we just walked through, but are hypotheticals that are not based on any actual upcoming refinery production, imports, confidential or proprietary data.

In the top right, you'll see the supply and demand conditions for this scenario. We have refinery production averaging around 120,000 barrels per day of CARBOB, with an additional 60,000 barrels per day of marine imports. Demand is estimated, as I said, at 800,000 barrels per day.

In this example, let's assume on day one, the days of supply metric is 15.5. You can see that on the chart, the solid dark blue dot. This means that the available supply and upcoming trends predict there's enough fuel to support 15 and a half days of California demand, which is about 12.4 million barrels. Here, we estimate the spot price differential will fall somewhere around $0.25 per NYMEX. Let's also assume this puts the retail price is $4.75 for this illustrative example, meaning Californians will spend about $176 million total each day on gasoline.

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Looking again at the top right, these supply and demand conditions are out of balance, resulting in a deficit of 20,000 barrels per day. So again, if we add up the 720,000 barrels of production, 60,000 barrels of

imports, that does not meet the 800,000 barrels of demand, that we're left with a 20,000 barrels per day deficit.

If we look back at the graph, we can see that after four weeks we've moved from our initial position of 15 and a half days of supply down to 14.8 due to a total 500,000 barrel drawdown of inventory, that's that 20,000 barrel per day deficit times 28 days, just to meet the demand. At 14.8 days of supply, we would expect the spot price differential to increase and retail prices jumped up to $4.90 per gallon in this example. Over these four weeks, Californians would spend an additional $78 million on top of what they were already paying to purchase the same amount of fuel due to this $0.15 cent increase.

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While the last scenario is not what we would hope to happen, there are other factors that can make this situation worse.

Looking again at the top right, let's assume that in an alternate scenario, let's call this scenario two, during this four-week period there was also a refinery outage or a combination of refinery outages that reduced gasoline production by 50,000 barrels a day, or roughly five percent. This increases the daily deficit to 20,000 barrels a day, as we saw in the last slide, to 70,000 barrels per day.

Looking again back at the chart, we can see after four weeks, we've moved from our initial position of 15.5 days of supply down to 13 due to a 2 million barrel drawdown of inventories to meet demand, that's 70,000 barrels per day times the 28 days. At 13 days of supply, based on price-type trends observed in summer 2022 and 2023, we would expect price differential to increase and retail prices to increase by $1.00 to $5.75. Over four weeks, Californians would spend an additional $518 million to purchase the same amount of fuel due to the $1.00 per gallon increase over these four weeks.

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Finally, let's look at a third scenario in which refinery maintenance events or the combination of events still occur, but this time industry took action to resupply by importing additional cargos of gasoline to offset the entirety of the lost production. The four-week 50,000 barrel per day maintenance event equates to about 1.4 million barrels, which could be offset by an additional four cargo ships.

In this case, the market tightness is avoided, and the $1.00 per gallon increase is not realized. Instead, we're back to the conditions presented in scenario one at 14.8 days of supply and retail prices around $4.90 per gallon. These resupply actions would avoid $440

million in additional cost to consumers for the same amount of fuel over that four-week period.

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I'd like to close out by just mentioning a few key considerations.

The example I presented showed how supply can mitigate a price caused by market tightness by importing additional fuel offset loss due to a refinery outage. This was a simplified example, and in reality, the gasoline market is more complex, and balancing supply and demand requires extensive planning.

The resupply could have also been accomplished through inventory buildup equal to the total lost production prior to the event start. This would have had the same effect as the additional imports as there would be more fuel stocks available to draw down during that four-week period.

Finally, as an added benefit, maintaining higher inventory levels should also help mitigate the impact of sudden unplanned maintenance, which can occur on short notice without sufficient time for additional cargos to go.

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All right, that concludes my presentation. With that, I'd welcome any questions, or we can move to our next presenter, up to you.

VICE CHAIR GUNDA: Great. Thank you, Jeremy, again. The presentation cannot be more clear in terms of the problem statement. And I want to recognize at least three observations, right, that I kind of hear very clearly based on data that we received.

So the first one is just the need for liquidity. And, you know, you have to make sure that the least liquidity is there in the marketplace for these other markets activities to not occur, like the high spot market prices.

Second, when I hear, you know, you talk about the days of supply metric, when we say we are kind of under the 15 and maybe around 12, it doesn't mean that it's scarcity in the market. It doesn't mean people are lining up at the pumps, trying to figure out if they can fuel their car. It's the perception of the safety be that makes the market act a certain way, you know, historically, and that continues to play out. So that's kind of the second observation.

And third, just the simple actions that we could take. While I recognize and thank you for noting that, one thing that I've learned over the last year through visits to the refineries, talking to, you know, industry experts, 100 percent observe the complexity of the operations. But the problem is very clear, and the ability for the industry

to take those complex actions to mitigate that problem seems within grasp, you know, grasp, so like to be able to do that.

So I think the third part, you know, just kind of the numbers, the magnitude of numbers that you just shared, I just want to observe that it's two levels; right? So one is you have spot market prices, but that just creates this, you know, up like a rocket, you know, down like a feather phenomenon which makes the retail prices hang up high level for a very long time.

So what I observe in terms of the data showing is a very clear need for maintaining liquidity at the resupply, maintaining inventories, maybe others, you know, that's kind of, you know, we hope to hear through this conversation, and the incredible impact, the amount of impact it can have on the consumers, you know, especially those amongst us who go paycheck to paycheck. And you know, $100 increase for me at the pump is not the same for, you know, a person living on low income. And that could mean, you know, the difference between putting food at the table or not.

So I think it's really important that we solve this. And I am, once again, you know, incredibly grateful for the level-headedness, the thoughtfulness, and the analytical rigor that you have been shepherding with the

rest of Division and the entire folks in the Division to establish the problem statement very clearly so we can actually act on it, so thank you for that.

DIRECTOR MILDER: Yes, I want to pick up on what the Vice Chair was saying. And I think it's really striking for folks who don't know this market well. If I'm following correctly, every day, even at sort of a what we'll call a competitive price where there's 15 days of supply, did you say it's almost $200 million a day that Californians spend on gas?

MR. SMITH: That's right, yeah.

DIRECTOR MILDER: And so you're measuring how much more Californians spend as the days of supply go down.

As you do that, are you using the same numbers of gallons sold when you talk about $500 million more?

MR. SMITH: That's right. That’s still meeting the same demand, but just appreciating the fact that the price, if it goes incrementally by $0.15 or even $1.00, those same 37 million gallons bought each day just come at a higher cost, and we were looking at the total incremental added cost to consumers.

DIRECTOR MILDER: And so I think picking up on what the Vice Chair was saying, there are so many drivers who have to buy gas regardless, this is just, they pay more for the same gas?

MR. SMITH: That's right.

DIRECTOR MILDER: And so over four weeks, that could be more than half a billion dollars?

MR. SMITH: That's right. Yeah, just depending on the severity of the price spike and the pricing increase, yes, it could very easily be half a billion dollars in a month's time.

VICE CHAIR GUNDA: I just want to kind of pick up on what Director Milder was saying, and I think it's now pretty well established that the demand, gasoline demand, is not really allowed. It doesn't really -- you know, you can't spike it to $9.00 and then expect it to go down. What we do observe in the data is consumers try their hardest to go to a gas station, but the demand actually doesn't go up; right?

MR. SMITH: That's right.

VICE CHAIR GUNDA: Okay.

MR. SMITH: That's what we've observed, yeah.

VICE CHAIR GUNDA: Thank you. And excellent presentation. Thank you, Jeremy.

MR. SMITH: All right, great.

Well, with that, I would like to introduce our next presenter, Varsha Sarveshwar, Senior Policy Advisor of the Division of Petroleum Market Oversight.

MS. SARVESHWAR: Great. Well, good morning.

Thank you, Jeremy, for the introduction. My name is Varsha Sarveshwar, and I am the Division of Petroleum Market Oversight's new Senior Policy Advisor. This is my second month on the job and my first CEC workshop, so I'll take a moment to introduce myself.

I'm about to complete two years of graduate study at the University of Oxford as a Rhodes Scholar. There, my research and coursework focus on public policy, economics, competition, and industrial strategy. Before Oxford, I served as an Assistant Deputy Cabinet Secretary in the Governor's Office.

On a personal note, I am thrilled to be back in state service, working alongside fantastic colleagues at DPMO and CEC on issues of such great importance to Californians.

Today, I'll be picking up by presenting on conceptual frameworks for resupply and minimum inventory requirements, the problems that they address, the proposals that DPMO and the Governor's Office have now put forward, the case studies that we can learn from, and our next steps.

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So let's start with the immediate problem. As Director Milder and DPMO have said previously, refinery decisions to take production offline for planned

maintenance during the busy driving months, when California has a summer gas, leads to price spikes. As the Vice Chair noted, the market behaves as if there's undersupply. It's perception of scarcity. Even though refiners' input costs don't really change, it's not any more expensive for refiners to produce motor gasoline during these periods, prices at the pump soar. This is what happened in Fall 2022 and Fall 2023.

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So let's take a look at Fall 2023 price spike. Our Chief Economist Dr. Gigi Moreno presented the slide at the June 2024 Gasoline Summer Outlook Workshop. On the left is the price. And the gray shaded area represents planned maintenance map. And as you can see, price spikes and planned maintenance went.

On the right is the impact of those planned maintenance. These events led to a 65-million-gallon loss in gasoline supply, a net loss of just over 60 million gallons, once you account for some supplemental imports.

Here is another visualization of the price break from that same presentation. And as you can see, prices rose for 70 days over $6.00 a gallon, and then took another 35 days to return to top. In total, this price spike lasted for 105 days.

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This price spike was extremely costly for Californians. The increase in retail gas prices during those 105 adjusted for the cost of crude, taxes, fees, and climate and clean energy programs and cost Californians about $2.2 billion. That's $146 million for every week of the price spike, or $20 million every day of the cycle.

One thing, this price spike, even partially, would have saved Californians a lot of money. Our analysis shows that even if 25 percent, just a quarter of the increase in prices was averted, Californians would have saved over half a billion dollars. And that doesn't even include the benefits of price stability on the economy as a whole; consumer confidence, predictability for small businesses, and a reduction in drivers of inflation.

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There is also a broader problem. Refiners may not have enough of a buffer against the unexpected, including unplanned maintenance and other disruptions, like the 2015 Torrance fire and a short-term unexpected outage in April of this year. Creating this buffer can stabilize prices and bolster our energy security.

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Our goal is to have a safe, reliable, and affordable supply of transportation fuel, and so this is a problem we must address. Just a few months into the job,

Director Milder sent a letter to the governor about price spikes that recommended requiring resupply and minimum inventory levels for refiners. Governor Newsom has now proposed legislation that would give CEC this authority, and we are excited to support this goal.

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Let's start with resupply. The resupply requirements goes hand in hand with planned maintenance. When refiners go offline to repair a unit, and these are plans made often months, if not years in advance, then they should plan to adequately resupply the market. In designing the requirement, we might consider whether planned maintenance earned during peak or off-peak months, because in the long run, we'd like to encourage refiners to plan responsibly and schedule maintenance during off-peak months when demand is lower.

Finally, refiners can meet this obligation in two ways. They can import and/or they can sell from their inventory. And this is where the minimum inventory requirement comes in.

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Minimum inventory requirements go hand in hand with unplanned maintenance. When something unexpected happens, refiners should have some reserves on hand that they can tap into so that supply to the market is not. Say

a refiner operator identifies a workplace safety issue. Having extra inventory on hand allows a refiner to continue selling while shutting down the affected units for repairs. Operators, workers, and consumers better off.

In order to draw inventories down below the minimum, refiners would need approval from the state. The state might also consider requiring drawdowns under certain circumstances.

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We are still working to understand exactly what capacity we have available here in California, but PADD 5 data, that’s the West Coast, Alaska and Hawaii, indicates that there is ample storage capacity for such a requirement.

Between 2018 and 2024, storage utilization averaged at about 55 percent. In other words, industry used only about half of its available storage capacity. Storage utilization peaked at about 66 percent in Spring 2020. That's during the early months of the COVID-19 pandemic when demand had cratered. Utilization dropped to 45 percent in September 2022. That's actually during a price spike when four refiners conducted planned maintenance, reducing production by 55,000 barrels per day. This data suggests that a minimum inventory requirement that is based on historic utilization rates in existing

storage facilities should be achievable.

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Now, none of this is new. For two decades, policymakers makers in California have recognized that a bigger buffer can play an important role in mitigating and stopping price spikes. Now, many of these proposals called for a state fuel reserve which would have complicated state research. By contrast, the DPMO's and the governor's proposal relies on industry to maintain those buffers tocks, kind of like a distributed Strategic Reserve in private hands.

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Today, dozens of countries around the world maintain minimum inventories. These include the 31 members of the International Energy Agency, known as the IEA. These countries, including the United States, maintain at least 90 days of crude and/or finished products which can be released either individually or collectively during significant global oil supply disruptions.

Over the past few weeks, we have spoken to officials from the IEA, as well as Switzerland and Australia, regarding their own holding. All emphasize that the benefits of stockholding significantly exceed any cost.

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I'll quickly run through some case studies.

The first is the U.S. As many of you will know, the U.S. can store more than 700 million barrels of crude oil in its Strategic Petroleum Reserve. While the SPR has long been a tool for energy security, this administration has also used it to stabilize prices by buying low and selling high. SPR releases help saved Americans between $0.17 and $0.42 per gallon after the invasion of Ukraine in 2020.

Another case study is the U.S.'s Northeast Gasoline Supply Reserve. This reserve was created in the aftermath of Hurricane Sandy to ensure that New England could weather any future supply deficit. But like the SPR, this administration has used it to stabilize prices. Just a few weeks ago, the Department of Energy announced that it was selling all one million and barrels to ensure supply and stabilize prices during the busy summer months. It is also a great example of refined products, not just crude oil, being stored in the U.S.

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And finally, perhaps the most relevant case study is Australia. To protect itself against shortages, Australia imposed a minimum stockholding obligation on refiners and major fuel importers in 2021. These stockholding obligations are based on historic storage utilization in existing capacity, so it does not impose

significant costs on industry participants. In fact, the Australian government estimated that the average consumer price increase of their minimum stockholding requirement would be less than one Australian cent per liter, or less than one American cent per gallon.

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In short, resupply and minimum inventory requirements can ensure liquidity, strengthen our energy security, and avert prices. Resupply requirements can incentivize refiners to plan responsibly and shift maintenance toward the least disruptive times of the year. A minimum inventory requirement can buffer against the unexpected, reassuring the market even if those inventories are not used. These proposals are win-win for California consumers, refinery operators, workers, and communities.

I'll conclude with this, this is the 30,000-foot level view. We believe that the details should be worked out through CEC's public rulemaking process and that the final product should be a flexible regulatory framework that allows individual refiners to meet their obligation in a way that works best.

We look forward to engaging with stakeholders, including with labor and industry, to develop these proposals further if and when the governor's proposal comes along.

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Thank you. I'll pause here for any questions from the dais.

DIRECTOR MILDER: Thank you so much for that presentation. I wanted to pause on the Australia example for a moment.

Some commentators have called California a fuel island. I personally don't think that's the best analogy because we're quite interconnected in some ways to our neighbors in Northwest and other parts of America, as well, and have a lot of refining capacity on the U.S. West Coast. That being said, Australia truly is an island, and it appears they've selected a 25-day inventory requirement, which is even higher than what we've been discussing here so far.

Why do you think Australia is a good example for the state to look at? And why do you think it was so inexpensive, ultimately, you know, not just less than a penny but a fraction of a penny per gallon to implement in Australia?

MS. SARVESHWAR: So it's a great question. There are three reasons that we really like the Australia example.

One, Australia has only recently imposed this requirement. Many countries in the IEA, including the

United States, have had reserves for decades. And so the cost estimates and the benefit estimates are a little bit hard to understand in the modern sense. Australia has done this recently, so we can learn from their example.

The second reason is that Australia stores refined products as well as crude. Now, the U.S. stores a lot of crude. We are not proposing to store crude, we're proposing to store refined products, which works a little bit differently. And so looking at how Australia did it is a good way to understand how we can do it.

The third reason is that Australia, as we are proposing to do, uses an industry obligation. Unlike the U.S., Australia doesn't have large caverns where they store their oil, they ask industry to do it, and so we can understand how that requirement has worked.

Which leads to your second question, which is why -- your second question was around the industry obligations, and why we know it's not going to cost too much money for industry, why we suspect it won't. Well, Australia used historic storage utilization and existing capacity to calculate the obligation for each of its participants. So in other words, they basically said, how much capacity do you have? How much have you been using? And can we build a buffer into that reasonable that we prevent against any future shortages? That's pretty much

what we're proposing to do. And since it's based on what participants are in some ways largely doing, they are storing more fuel in the winter and less than a summer, we don't expect to cost them a lot of money, basically.

DIRECTOR MILDER: Thank you so much.

VICE CHAIR GUNDA: Thank you, Varsha, super helpful presentation. Again, I think it cannot be more clear in terms of the articulation of the opportunities in the case of the globe, let alone the U.S.

So I think one question that would be really helpful if you could talk through this is, you know, I think, as Director Milder mentioned, you know, like Australia presents a really good case given it's, you know, actually an island. And I know that they talked through this issue, especially coming out of COVID.

MS. SARVESHWAR: Yes.

VICE CHAIR GUNDA: And could you kind of comment on any additional insights that you've heard during your conversations with Australia on the thoughts that they might have in how we could, you know, implement this?

MS. SARVESHWAR: Yeah, it's a great question. The conversations we had, they indicated that they felt like this wasn't a significant burden on any industry participants, and they felt like it was working really well. And they attributed that to having a great

understanding of the sort of existing storage utilization and how they can build a buffer in terms of requirements.

So they -- you know, we actually asked them, you know, would you have done anything differently? And, sort of candidly, their response was we actually think we did pretty well. So that's a measure of confidence for us as we move forward with the proposal.

VICE CHAIR GUNDA: Great. Thank you. And I want to acknowledge, I think, maybe a couple of comments kind of connecting the complexity of such an exercise, you know, in terms of even something like a resupply. And I want to just, one, acknowledge, you know, some of the industry players who have been working collaboratively with CEC for the summer, and what we are observing as a, you know, as a reaction to the market.

So one thing, you know, I observed, you know, again, these are all confidential information so we can't publicly discuss, but the complexity of operationalizing something like a resupply is absolutely there, but also the ability is there because industry really understands how to do this, these complex operations, and have been, you know, doing this for decades to be able to kind of navigate the system.

So I think it's a, you know, two-sided comment; right? One, acknowledging complexity, but also recognizing

industry who are collaboratively working with us and the ability to kind of do that.

And the second part, I just wanted to note, and maybe a question, Varsha. I think, you know, always, when we do something new, it's, you know, it's scary, you know, there's a lot of questions about the unknowns. You know, we have been doing something like this on the electricity side for so long. And I want to give a big shout out to Australia. When we tried to set up a Strategic Reserve on the electricity side, the only paper that we had, research paper, was from Australia. And we actually took lessons from them before we dove into that exercise.

So if you could just maybe comment on -- you know, I think you already addressed this and there are like, there are real cases here which have provided us enough confidence that this will work.

You know, I mean, maybe this, Director Milder, you could step in, too, here, we're not talking about these things happening in silo; right? We are going to continually refine this. We're going to learn. We're going to have the conditions, you know, all sorts of rulemaking, you know, guardrails we typically put. You know, maybe not to you directly but, Director Milder, if you want to comment on, as DPMO thinks about this proposal, you know, like the additional confidence that you have, or

like guardrails, we should think about? You know, Varsha talked about flexibility of refiners. Anything that you might want to add?

DIRECTOR MILDER: Yeah, I think the comments earlier about working with industry partners to design the framework and working with existing infrastructure, Vice Chair, is really important.

So as you were saying, each refinery is configured differently. They have different sort of storage set up within the refinery gates or through a third party. And we know that they know how to do this because they do sometimes resupply but not at a level of lost production to the test state. They do build inventories regularly to much higher levels during the winter time, so they do know how to do this within their existing footprint.

And so I think a framework that works with industry to say, How do we do this the most efficiently, so having an industry-led solution allows that complexity that exists not to hamper these efforts. And I think that's where the Australia example is different than prior proposals in California that did not move forward because that would have required the state to have a much more active role with these complexities that you acknowledge.

And I also want to, you know, say to industry

that this, you know, potential collaborative process should be positive overall in that there's a reliable supply of fuel and the ability to make a fair profit, but not these half billion or billion dollar price spikes that we've been talking about here today. And so I think this is a win-win for reliable and affordable fuel.

VICE CHAIR GUNDA: Great. And, you know, given that we don't have a lot of opportunities to put these kind of thoughts on the public record, I think it's really helpful to hear this. Especially, I think I take from your comment, industry currently, I mean, for example, the refining factor, they do the resupply, for example, to meet the core obligations today, you know, but we -- you know, this proposal would allow a little bit more, you know, depending on liquidity needs.

And I also recognize what you just said about the variation of business models of different, you know, refining players. And also something that you've spoken at the legislative hearings, this hike and the amount of money that we're talking is coming at different levels. It's coming at the retail side. It's coming at the refinery side. So I think I feel when these numbers are put out, it's good to recognize the various players along the chain that would have to come into this conversation to help make that happen.

DIRECTOR MILDER: Yes. And I think there's -- I think it's important to think about protecting Californians year round from inflated gas prices. And that is a conversation and an analytical lens that DPMO is engaging in. And the most obvious painful phenomenon that we have currently are these price spikes. And so this is a concrete proposal to address price spikes.

And I think that one thing that's clear from the presentations is that in the planning of maintenance, I think refineries are looking at safety, importantly, they're looking at their own bottom line, but they're not thinking about protecting California consumers. And so at this point the profit incentive might be not aligned correctly for consumer protection incentives. And this is an opportunity for the state to have a seat at that table and to encourage more responsible resupply and inventory practices in the industry. And I think that industry can engage very positively in that discussion.

VICE CHAIR GUNDA: Yeah, and I think, just in closing, I feel over the SB X1-2, you know, I've learned a lot in every conversation, every, you know, workshop, every, you know, confidential conversation we had or a trip to a refinery. We continue to learn and understand, you know, the complexity, the differences in the industry.

But what I like about this proposal is, you know,

on the penalty side, we had a three-level discussion, you know, that said either changing the supply dynamics using the penalty framework or blunting the spike or potentially taking some of those additional monies back into the pockets. But this actually gets to one of the core underlying issues around liquidity.

So I really appreciate focusing the problem on underlying, you know, conditions and trying to solve, providing a solution that actually solves the underlying issues. Really appreciate DPMO's work on all of this. Thank you.

MS. SARVESHWAR: Jeremy, back to you.

MS. BERLINER: Written comments should be submitted to the Docket No. 23-SB-02 by Tuesday, September 10th by 5:00 p.m.

Next slide.

Now we'll move on to public comment. One person per organization may comment, and comments are limited to three minutes per speaker. For in-person comments, we call on you to come to the microphone to make comments. For the Zoom platform, use the raised-hand feature to let us know you'd like to comment. We will call on you and open your line to make. Please state your name and affiliation for the record. Also, spell your first name and last name before commenting.

MS. DERIVI: Good morning. My name is Tanya DeRivi, T-A-N-Y-A D, like David, E, capital -R-I-V, like Victor, -I, with the Western State Petroleum Association.

We appreciate efforts underway to better understand California's unique structural gasoline supply challenges and the resulting impacts to our transportation fuels market. WSPA would again like to take this opportunity to recommend that the state prioritize practical solutions to meaningfully help address current and future supply constraints.

Specifically, we need more robust state-led discussions to address a patchwork of local permitting obstacles constraining the delivery of cleaner fuels, particularly for marine imports. These permitting obstacles pose very real logistical challenges in timely delivering fuel to Californians. Permitting challenges range from upstream domestic crude oil production to the downstream production of low-carbon fuel supplies. The state needs to help streamline and speed up permitting for all of these categories, also for CCS and other low-carbon technology options.

We have also repeatedly flagged that the California Air Resources Board's 2020 changes to the Ocean-Going At Berth Regulation as another critical obstacle to the state's continued ability to timely obtain fuel from

overseas sources. The regulation changes will require all tankers to either use shore power or emissions controls when transferring cargo at berth at Southern California's main port starting this January 1st, 2025, a mere 132 days from now.

But the California tanker fleet is not presently capable of utilizing shore power and no safe emissions control technology has even been deployed yet for tankers, so the regulation will severely limit the number of calls tankers can make to the ports of Los Angeles and Long Beach beginning 2025, two of the very same facilities identified in the Transportation and Fuels Assessment that will need to absorb the delivery of increasing marine imports that will be critical for meeting California's fuel demand going forward.

Unfortunately, we have no offer of relief from CARB from the regulation and no guidance on how the state plans to ensure that the effort regulation doesn't restrict the import capacity the state needs.

I'll also flag our pending comments on the Low Carbon Fuel Standards that could compromise the ability to bring ethanol into the state as soon as those amendments do become effective. Addressing these issues will require us to meaningfully work together in an iterative manner.

Regarding DPMO's presentation on a conceptual

framework to support system reliability through resupply and minimum inventory requirements, we understand the CEC has informed state legislators that this proposal would come with a cost. And if the CEC would provide the public with the estimated cost per gallon impact here as well.

Thank you.

MS. BERLINER: Thank you.

There are no -- are there any other people wanting to comment in the room? Seeing none.

For those using the Zoom platform, please use the raised-hand feature to let us know you'd like to comment. We will call on you and open your line to make comments. For those of you joining by phone, dial star nine to raise your hand and star six to mute or unmute your phone line. We will unmute your line from our end.

Are there any Zoom attendees who would like to comment?

It doesn't look like we have any Zoom comments, so next slide.

MR. SMITH: All right, ending public comment, I just want to close out and check and make sure if there are any other comments from the dais before we close out today?

DIRECTOR MILDER: Yes, thank you. First, thank you to Jeremy, to Varsha, and to Zohra for these very helpful presentations. I really want to elevate the work

of CEC, the Vice Chair's Office, and the Energy Assessments Division in particular for doing yeoman's work on a number of fronts that make this type of presentation possible.

I think it's pretty clear as we think about refinery maintenance, that there is no tension between protecting workers and communities and protecting consumers, that planning responsibly for maintenance is very possible and, in fact, I think necessary at this point.

Thanks to the new tools in the price gouging and transparency law, we have a really clear picture that under supply during maintenance, the supply disruption, right, you're taking supply offline, is contributing to the price spikes that we've seen. We've had price spikes in three of the last five years. You know, I say that -- I don't have to say that to drivers. Drivers remember that. And the only two years that we didn't have price spikes were during the pandemic. So the current state of incentives is misaligned. And so the proposal that the Governor's Office put forward, I think is critical because it will give the Energy commission new tools to require more responsible planning.

I think it's crucial that we're looking at tools that would allow for complexity in the industry, allow for industry-led participation and coordination. Hearing the

comment today from the Western States Petroleum Association, I would like to renew a request that DPMO has put to WSPA to present to us what your issues are with the Ocean-Going At Berth rules so that we can at least understand what your concerns are better. So we've made that request, renew that request now.

This is a critical juncture. I think the public's attention gets focused on price spikes when they occur. And our mission now is to try and prevent them or mitigate them. And so at this moment, we're in the summer, this is a time when we're more vulnerable to price spikes under the current regulatory environment. It's critical to be laser focused on solutions that will help not just now but into the future when we might face price spikes again.

So I want to thank everyone here, and also commend the governor for this proposal, and look forward to having additional tools if the proposal becomes law, critical new tools to protect consumers.

VICE CHAIR GUNDA: Great. Thank you, Mr. Milder.

I just want to, again, reiterate my thank you to DPMO, and you at the top of that Division of the entire team in DPMO, for the incredible work that you're able to pull off so, so quickly, so I just want to thank you for that.

I extend my thanks to EAD, Jeremy, Aleecia,

Andrea here, just an amazing, you know, team we have that's working tirelessly to get us the data to be able to make meaningful, well-informed decisions on this. So just a big thank you, our IT team, the teams that put on these workshop. It's not easy to put these things on together. Lindsay Buckley, who I see in the back, who's always there helping us think through how to get information in a way that we actually say it right, so thank you for doing that.

And then another team that is not oftentimes recognized is our Chief Counsel's Office, the amount of time they have to put in given the complexities of this regulation.

I do want to take permission to call out one person from your team, just Ryan has been an incredible partner, and thank you for your leadership in helping develop that collaborative spirit. And, Ryan, thank you for your incredible contributions.

Varsha, thank you for the presentation.

Zohra, thank you to you.

Jeremy, again, thank you for the presentation.

I do want to make sure, you know, we take a minute to think through both the enormity of the problem. Again, it's very clear today, regardless of why/who is responsible, the pain to the consumers we're talking about here, first of all, the baseline conversations is billions

of dollars. I don't think it's in anyone's interest to let it stay and not to actively take actions to mitigate that level of price spikes that hurt consumers at the end of the day. So I just want to like make sure that we lay out some core facts.

So one, price spikes are not good for consumers, and we just have to do everything in our power to mitigate them.

And two, I don't think anybody disagrees, you know, in our conversations with the industry, you know, like I kind of want to take this stone, because we play a different role from DPMO, in terms of need to both develop these tools and ultimately as a Commission vote on them down the lane, but also, because we have to figure out ways to collaboratively work with the industry and provide the table constantly to build trust.

So in that spirit, I will just say, you know, I want to both thank the industry for their participation in the meetings, but also acknowledge from the conversations that there isn't, and I don't think it's controversial to say, there isn't an incentive to mitigate those spikes. Even if you say, you know, we are in a country that, you know, we believe in markets, we believe in profits, we're not talking about taking people's profits. This is about making sure we are acting in a way that we are kind of

protecting consumers and how do we make them not against each other, but together, right, so collectively, and how do we make this happen? And I think it's not controversial to say that there is no incentive for the industry currently to do what we're asking them to do under these proposals.

And I think three, as we think through, you know, some of the debate out there that oftentimes talks about state taxes as the reason why we have elevated prices in the states, you know, there's two statements. Part of it is true that we do, as California, have higher tax and fees compared to the rest of the U.S. But it's also true that they don't just go up and down during the year. They are pretty stable and the spikes happen not because tax and fees are contributing to that. And that's an important thing that we just have to agree as a bottom line.

And I think, four, we just talked today very clearly, it's not scarcity, it's the perception of scarcity. And the market over several decades has understood to look at different points. And in our discussions we hear about this, just as, you know, Jeremy today presented the days of supply metric, some industry players looked at just the PADD 5 inventories as a metric. Some traders might look at that as a metric.

And it's important to note that we're in a

dynamic situation, and the metrics that have been used in the past are not valid anymore. But those are the metrics we continue to use, and these price spikes happen even though there isn't real scarcity but a perception of scarcity and the market reacts to that.

So it's really important to dive into the problem. And I really, really enjoy that we are getting to the core of the problem, which is, you know, the perception of scarcity and maintaining liquidity. And the proposals that were put forward by the Governor's Office really targets the problem statement.

And, Varsha, to your point on the case strategy in Australia, it gives a lot of confidence that we can actually do this in California and do it well in a very collaborative finish with both the industry, but also DIR and other state agencies who are critical to this overall conversation as we move forward.

And lastly, I want to acknowledge, you know, Tanya's comment. I think it's incumbent upon the state agencies to continue to work together and de-silo this conversation, because the more we try to do this wholistically, the more we all need to sit at the table.

So, you know, as a commitment, similar to Mr. Milder, we will continue to work through understand the totality of the state policies that have impact on what

we're trying to do here and work constructively moving forward.

So with that, thank you again so much for being here.

And, Jeremy, you can have the last word.

MR. SMITH: Well, thank you, Vice Chair and Director Milder for your leadership. And thanks to our presenters.

Again, I just want to echo that the whole team and EAD that helps process over, you know, 1,000 data submissions a month make our continued understanding of this problem much better.

And thanks for everyone in attendance, both in the room and online, for joining this workshop today.

And with that, I'll close it out. This workshop is adjourned. Thank you.

(The workshop adjourned at 10:49 a.m.)

CERTIFICATE OF REPORTER

I do hereby certify that the testimony in the foregoing hearing was taken at the time and place therein stated; that the testimony of said witnesses were reported by me, a certified electronic court reporter and a disinterested person, and was under my supervision thereafter transcribed into typewriting.

And I further certify that I am not of counsel or attorney for either or any of the parties to said hearing nor in any way interested in the outcome of the cause named in said caption.

IN WITNESS WHEREOF, I have hereunto set my hand this 30th day of August, 2024.

Martha L. Nelson

MARTHA L. NELSON, CERT**367

CERTIFICATE OF TRANSCRIBER

I do hereby certify that the testimony in the foregoing hearing was taken at the time and place therein stated; that the testimony of said witnesses were transcribed by me, a certified transcriber and a disinterested person, and was under my supervision thereafter transcribed into typewriting.

And I further certify that I am not of counsel or attorney for either or any of the parties to said hearing nor in any way interested in the outcome of the cause named in said caption.

I certify that the foregoing is a correct transcript, to the best of my ability, from the electronic sound recording of the proceedings in the above-entitled matter.

August 30, 2024

MARTHA L. NELSON, CERT**367