DOCKETED	
Docket Number:	23-SB-02
Project Title:	SB X1-2 Implementation
TN #:	259055
Document Title:	California Fuels & Convenience Alliance Comments - Minimum Refining Inventory
Description:	N/A
Filer:	System
Organization:	California Fuels & Convenience Alliance
Submitter Role:	Public
Submission Date:	9/7/2024 3:14:48 PM
Docketed Date:	9/9/2024

Comment Received From: California Fuels & Convenience Alliance
Submitted On: 9/7/2024
Docket Number: 23-SB-02

CFCA Letter - Minimum Refining Inventory

Additional submitted attachment is included below.

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August 26, 2024

California Energy Commission
Docket Unit
Docket No. 23-SB-02
715 P Street, MS-4
Sacramento, CA 95814

RE: [Docket #23-SB-02] SB X1-2 Implementation: Minimum Inventories and Resupply Requirements

The California Fuels and Convenience Alliance (CFCA) represents about 300 members, including nearly 90% of all the independent petroleum marketers in the state and more than one half of the state's 12,000 convenience retailers. Our members are small, family- and minority-owned businesses that provide services to nearly every family in California. Additionally, CFCA members fuel local governments, law enforcement, city and county fire departments, ambulances/emergency vehicles, school district bus fleets, construction firms, marinas, public and private transit companies, hospital emergency generators, trucking fleets, independent fuel retailers (small chains and mom-and-pop gas stations) and California agriculture, among many others.

As a leading representative body for the fuels and convenience industry in California, CFCA has significant concerns with the proposed plan. We acknowledge the California Energy Commission's (CEC) commitment to safeguarding the state's fuel supply against potential disruptions. However, we must respectfully oppose the proposed plan to require refiners to maintain contingency reserves of gasoline fuel in refineries, with provisions for the temporary release of these reserves during supply shocks.

While the intention behind the proposal is commendable, its implementation could lead to significant unintended consequences that would destabilize the fuel market, impose undue financial burdens on consumers, and exacerbate existing infrastructure and regulatory challenges. Below, we outline our principal concerns in opposition to the proposed plan.

Artificial Shortages in Downstream Markets
The requirement for refiners to maintain minimum contingency reserves is likely to result in unintended disruptions in the downstream fuel supply chain. Refiners, in their effort to comply with these mandated reserve levels, may be compelled to withhold stocks that would otherwise be distributed to meet market demand. This withholding could create artificial shortages in downstream markets, particularly at terminal facilities.

For example, a refiner may delay or reduce a shipment to sustain the legally required minimum reserves, potentially causing a terminal to run lower than anticipated. Such a scenario could disrupt the smooth functioning of supply chains, leading to localized shortages at retail outlets, thereby eroding consumer confidence and fueling price volatility. The rigidity of the reserve requirement could impede the refiner's ability to respond dynamically to normal market fluctuations, making the fuel supply less resilient rather than more so.

Escalation of Costs and Consumer Impact
The economic implications of the proposed contingency reserve requirement are equally concerning. The mandate to maintain additional storage capacity will inevitably increase the operational costs for refiners. These costs include capital investments in new storage infrastructure, as well as ongoing expenses related to maintenance, security, and compliance. Such costs are unlikely to be absorbed by refiners alone; rather, they will be passed along the supply chain, ultimately resulting in higher prices at the pump for California's consumers.

Moreover, the proposed plan introduces the potential for a fixed cost associated with the reserved fuel. Should refiners be compelled to purchase fuel at a higher market price to meet reserve requirements and later sell it at a lower price during a supply shock, the economic burden would further increase. This scenario would distort market pricing mechanisms, forcing consumers to bear the financial consequences of a regulatory measure that was intended to protect them.

Local Permitting and Infrastructure Challenges
The implementation of the proposed plan also raises significant concerns regarding local permitting and infrastructure. In many jurisdictions across California, local ordinances have been enacted that either severely restrict or outright prohibit the expansion of fuel storage facilities. Refiners attempting to comply with the proposed reserve requirement would face substantial hurdles in securing the necessary permits, leading to potential delays and legal challenges.

These local regulatory barriers could render the proposed reserve requirement impractical, forcing refiners to seek alternative solutions that may not align with the state's broader energy policy goals. The lack of alignment between state-level mandates and local regulations would introduce further uncertainty and inefficiency into the fuel supply chain, detracting from the intended benefits of the proposed plan.

Risks of Exploitation by Foreign Entities
The proposed requirement for refiners to backfill supply during shortages by importing gasoline or related products introduces a new vulnerability to California's fuel market. Foreign entities, aware of the refiner's obligation to import fuel during disruptions, could potentially exploit this situation by inflating prices or withholding supply to maximize their own economic gain. This could exacerbate the very supply shortages the CEC aims to mitigate, placing California's fuel security at the mercy of external actors with interests that may not align with those of the state.

Burden on Mid-Sized Businesses
Lastly, we urge the CEC not to extend these contingency reserve requirements to terminal facilities, as doing so would disproportionately impact mid-sized businesses within the fuels and convenience industry. Unlike larger corporations, mid-sized businesses often lack the financial resources and operational flexibility to absorb the additional costs and logistical challenges associated with maintaining contingency reserves. Imposing such requirements on these businesses could lead to market consolidation, reducing competition and further driving up consumer prices.

While we recognize the importance of enhancing fuel supply resilience in California, we believe that the proposed plan to mandate contingency reserves for refiners is fraught with risks that could undermine its objectives. The potential for artificial shortages, increased consumer prices, local permitting challenges, exploitation by foreign entities, and the disproportionate impact on mid-sized businesses all warrant a thorough reevaluation of the proposed approach.

We strongly encourage the CEC to consider alternative strategies that achieve the goal of supply security, including incentivizing in-state production, without imposing undue burdens on the industry and consumers. We remain committed to working collaboratively with the Commission to develop solutions that enhance market stability, protect consumers, and support the long-term viability of California's fuel infrastructure.

Thank you for your attention to these critical matters. If you have any questions, please contact Alessandra Magnasco at alessandra@cfca.energy.

Sincerely,

Alessandra Magnasco
Governmental Affairs & Regulatory Director