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CFCA Comments - Year in Review

Additional submitted attachment is included below.

CALIFORNIA FUELS + CONVENIENCE ALLIANCE

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December 9, 2024

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

RE: [Docket #23-SB-02] Comment Letter on Year in Review

Dear Chair and Commissioners:

On behalf of the California Fuels and Convenience Alliance (CFCA), representing the fuels and convenience industry across California, I write to express our growing concerns regarding the precarious state of the transportation fuel market. The cumulative impact of recent legislative, regulatory, and economic developments is creating profound challenges for fuel supply, affordability, and competition, which will likely worsen in 2025. It is imperative that the California Energy Commission (CEC) fully assess these developments and prepare comprehensive strategies to mitigate their effects on Californians.

Market Impact of SBX1-2 Enacted Reporting Requirements
The enactment of SBX1-2 has introduced significant new reporting obligations, particularly daily spot market reporting requirements. While designed to enhance transparency, these mandates have inadvertently driven smaller importers and participants out of the California fuel market due to the burdensome nature of compliance. This exodus is deeply concerning, as reduced market participation diminishes competition and exacerbates price volatility. Smaller importers have historically played a vital role in ensuring competitive pricing and market liquidity. Their departure not only undermines the state's objectives for a robust fuel market but also places the burden of supply disproportionately on a shrinking number of large entities.

Phillips 66 Refinery Closure and Supply Implications
The planned 2025 closure of the Phillips 66 refinery in Southern California represents a significant threat to the state's already constrained fuel supply. With only nine refineries currently producing gasoline, the loss of this critical facility will further strain production capacity, particularly in a state that remains isolated from the broader U.S. fuel market due to unique fuel specifications and geographic constraints. This looming supply reduction will increase dependence on imports, subjecting California to greater risks from global supply disruptions and price spikes.

Potential Impacts of Pending Regulations
The potential gross profits cap on refiners and proposed minimum storage requirements, while well-intentioned, may exacerbate the challenges facing California's fuel market. Profit caps risk distorting

market dynamics by disincentivizing investment in fuel production and supply, while minimum storage requirements impose significant costs on refiners. These costs are likely to be passed on to consumers, further inflating fuel prices. Such policies could reduce supply flexibility in an already constrained market, amplifying the risks of supply shortages and price volatility.

Amendments to the Low Carbon Fuel Standard Program

Recent amendments to the Low Carbon Fuel Standard (LCFS) program, aimed at accelerating decarbonization, will undoubtedly impose additional costs on consumers. Projections indicate that compliance costs could increase fuel prices by an estimated $0.47 to $0.65 per gallon as early as 2025. While we support the state's climate objectives, these price impacts come at a time when consumers are already grappling with some of the highest gasoline costs in the nation. A more gradual implementation timeline or complementary measures to offset consumer costs may be warranted to balance environmental goals with economic realities.

At-Berth Requirements

Starting January 1, 2025, the California Air Resources Board (CARB) will enforce stringent emissions control regulations for oceangoing vessels at berth in California ports. Under these new requirements, tanker and roll-on/roll-off (RoRo) vessels must adopt CARB-approved emissions reduction strategies, including the use of shore power or emissions capture and control technologies to reduce pollutants from auxiliary engines and boilers. The shift to shore power will require substantial infrastructure upgrades to support a variety of vessel sizes and their distinct power needs. For fleet operators, the costs and timelines associated with retrofitting vessels with shore power systems or emissions capture technology present significant challenges. Additionally, the complexity of retrofitting is increased by the variability in auxiliary power demands and the duration of port stays, which differ across tanker classes. These added costs and operational challenges will ultimately drive-up fuel prices as operators adjust to comply with the new regulations.

Expiration of the Federal Biodiesel Tax Credit

The impending expiration of the federal Biodiesel Tax Credit under Section 40A at the end of 2024 introduces another significant risk. This $1-per-gallon incentive has been instrumental in fostering the production and use of biofuels, which now account for over 50% of the diesel market in California. The removal of this credit will reduce the economic viability of biofuel blending, leading to decreased supply and increased reliance on petroleum diesel. This shift would not only reverse progress on emission reductions but also drive-up costs for consumers and businesses, particularly in industries reliant on diesel-powered transportation.

Consequences for Consumers and Emissions Goals

Taken together, these developments create a perfect storm for California's fuel market. Reduced supply, heightened compliance costs, and waning incentives for alternative fuels threaten to elevate prices at the pump and across all goods transported by truck. Additionally, the state risks backsliding on its climate progress if biofuel adoption declines and reliance on petroleum diesel grows. These outcomes are not only economically harmful but also conflict with California's long-standing leadership in environmental stewardship.

Recommendations

Given the urgency and complexity of these challenges, we urge the CEC to:

1. **Evaluate the cumulative impacts** of SBX1-2, the Phillips 66 refinery closure, the LCFS amendments, the at-berth requirements, and the expiration of the Biodiesel Tax Credit on fuel supply and pricing in 2025.

2. **Collaborate with federal stakeholders** to advocate for an extension of the Biodiesel Tax Credit to preserve biofuel market stability and emission reduction benefits.
3. **Develop contingency plans** to address potential supply shortages arising from reduced market participation and refinery capacity, especially for times of emergency.
4. **Engage stakeholders** to explore alternative regulatory approaches that balance transparency and competition without imposing undue burdens on smaller market participants.

The CEC plays a critical role in safeguarding California's fuel market, ensuring that policies align with the dual objectives of affordability and sustainability. Proactive measures are essential to prevent unintended consequences that harm consumers and undermine the state's climate goals.

Thank you for your attention to these pressing matters. We welcome the opportunity to engage further and provide additional insights as needed. If you have any questions, please contact Alessandra Magnasco at alessandra@cfca.energy.

Sincerely,

Alessandra Magnasco
Senior Director, Government Affairs