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WSPA Comments on "Petroleum Year in Review Workshop"

Additional submitted attachment is included below.



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WSPA Comments on “Petroleum: Year in Review Workshop” [Docket #23-SB-02]

Thank you for the opportunity to comment on the California Energy Commission’s (CEC) December 5, 2024, “Petroleum: Year in Review Workshop” per Senate Bill (SB) X1-2 (2023). In responding to the information presented and comments made at the workshop, this letter incorporates by reference our prior comment letters and the June 2024 “Transportation Energy Supply Chain Infrastructure and Investment (TESCII) Study” previously submitted to the docket by Turner, Mason & Company.^{1,2,3,4,5,6,7,8,9,10} WSPA offers the following general commentary on the topical issues raised by staff during the workshop.

First, WSPA recognizes the challenges California faces in meeting its ambitious climate goals and acknowledges that the transportation sector is an integral part to any solution. The CEC and its sister agencies should also recognize that any actions taken to further these goals must strike an appropriate balance between environmental protection, and affordability and reliability. While WSPA continues to work with the CEC and the California Air Resource Board (CARB) to address energy supply and cost concerns – especially since liquid fuels will be needed for decades to come – we remain concerned that California’s transportation and energy policies are attempting to reduce affordable and reliable energy supplies faster than consumers can afford. Ignoring affordability and reliability leads to volatile energy markets and higher prices, especially for economically disadvantaged individuals. Therefore, all technologies (including hybrid technologies) should be considered to determine what is the most cost effective and diverse strategy to meet California’s lower carbon future that is affordable for all California consumers.

Second, WSPA reiterates its serious concerns regarding the CEC’s continued use of, and reliance upon, truncated emergency rulemaking procedures in matters related to SB X1-2 implementation. It is neither justified by any actual “emergency” as defined by California law nor allows the public or stakeholders their right to due process and meaningful engagement in an iterative process with staff. While the industry has provided detailed reporting to the CEC for decades, the State itself has also recognized the volatility of the gasoline spot market for nearly

¹ Western States Petroleum Association Comments - on SB 2 Implementation; May 30, 2023.

² Western States Petroleum Association Comments - on Transportation Fuels Assessment Report Workshop; September 11, 2023.

³ Western States Petroleum Association Comments - Solomon Report California Refiners’ Cost and Margin Analysis, 2000-2022; November 27, 2023.

⁴ Western States Petroleum Association Comments - literature review on Energy Price Controls; November 27, 2023.

⁵ Western States Petroleum Association Comments - on Nov 28 SB X1-2 Margin Cap and Penalty Workshop; December 12, 2023.

⁶ Western States Petroleum Association Comments - on April 11 SB X1-2 Margin Cap and Penalty Structure Workshop; April 25, 2024.

⁷ Western States Petroleum Association comments - on Gasoline Summer Outlook Workshop; June 20, 2024.

⁸ Western States Petroleum Association Comments - WSPA Preliminary Comments on Gasoline Supply Reliability Workshop (Docket 23-SB-02); August 29, 2024.

⁹ Western States Petroleum Association Comments - WSPA Response to DPMO 9-13-2024 Letter; September 19, 2024.

¹⁰ See Turner Mason & Company Comments - Transportation Energy Supply Chain Infrastructure and Investment Study (TESCII) – Turner, Mason & Company – June 15, 2024; September 23, 2024.

as long. Thus, any claim that these long-standing issues are suddenly an “emergency” deprives the public and the CEC of the ability to fully assess and comment upon these issues.

Third, WSPA remains concerned that future rulemakings affecting California’s refining sector will likely lead to unintended consequences for California, Arizona, and Nevada consumers. California’s declining refining capacity, coupled with significant forthcoming State-imposed constraints on marine imports, should cause State and regional policymakers concern looking towards 2025 and beyond. WSPA has repeatedly raised warnings about the State’s attempt to micromanage California’s gasoline inventory supplies; that doing so is a recipe to raise everyday California fuel costs and potentially reduce fuel supplies to Arizona and Nevada. We have urged the CEC to conduct further work to first determine whether imposing a minimum inventory requirement would even be feasible in California’s market – including whether such a requirement would avoid price volatility, and at what cost to consumers.

WSPA has stressed the need for the CEC to thoroughly and thoughtfully evaluate the potential unintended consequences of setting a maximum Gross Gasoline Refining Margin (GGRM) and any associated penalty. Indeed, numerous legislators have expressed concerns about potential unintended consequences across California, Arizona, and Nevada in prior oversight hearings and CEC workshops. The CEC must therefore evaluate how any production losses due to compliance with a maximum GGRM in California would impact regional fuel supplies. Specifically, any ramifications if refiners would not knowingly violate the law by exceeding a maximum margin.

WSPA has also warned in previous comments submitted to the CEC docket that imposing minimum inventory levels would most likely create sustained gasoline price increases due to new tankage and working capital costs and would not reduce market volatility. We have explained how even a massive amount of additional storage cannot correct this problem due to permitting and operational cost constraints – and that while having additional fuel inventories may be useful in certain contexts to address *energy security* concerns, it is not a *price-control* mechanism. Inventory supplies safeguard against the possibility of running out of fuel until additional supplies arrive or local production resumes. The resupply market works *because* higher prices attract additional gasoline supplies to balance an undersupplied market in that instance. Furthermore, a minimum inventory requirement does not consider California’s unique environmental policies (e.g., a unique CARBOB fuel blend, CARB’s Ocean Going At-Berth Regulation, disproportionate marine import constraints under the Federal Jones Act). And storage constraints, which are very real in California, must not be ignored. The CEC itself identified several concerns associated with mandated inventory thresholds in its 2024 Transportation Fuels Assessment:¹¹

- “it may artificially create shortages in downstream markets;”
- “[it] could increase average prices for refiners to maintain additional storage;”
- “market equilibrium may likely emerge at a higher price level;” and
- “potential exists for the state to be criticized for requiring refiners to withhold fuel from the market”

The Assessment also recognized that California is a “fuel island.” It must therefore be recognized that California is geographically large and topographically complex, that neighboring state populations and economic centers are far from California’s, and that there are few supply- or demand-side substitution opportunities.

¹¹ Transportation Fuels Assessment: Policy Options for a Reliable Supply of Affordable and Safe Transportation Fuels in California, August 15, 2024: <https://www.energy.ca.gov/publications/2024/transportation-fuels-assessment-policy-options-reliable-supply-affordable-and>.

Fourth, we have explained that what *could* help stabilize a market imbalance to help mitigate price volatility is having sufficient local fuel manufacturing capacity, connectivity to other regional markets, and fewer policy restrictions on imports. Instead, the CEC has recently focused on imposing minimum inventory levels that would most likely create sustained gasoline price increases due to new tankage and working capital costs and would not reduce market volatility. In addition to any pending policy to institute a GGRM and associated penalty. This likely means that gasoline that could be supplied to California, Arizona, and Nevada consumers might need to be kept off the market, creating shortages and inflating costs for drivers today – the exact opposite intent of SB X1-2.

WSPA has urged the State to focus on practical supply-driven solutions to meet California's ongoing demand for affordable gasoline per the goals of SB X1-2. We have recommended that the State prioritize practical solutions to meaningfully help address current and future supply constraints. Specifically, WSPA has exhorted the CEC to provide more robust, State-led discussions to address a patchwork of local permitting and regulatory obstacles that are already constraining the delivery of cleaner fuels – particularly for marine imports – which will be critical for meeting Californians' future fuel demands.

Prior to instituting any new regulations on the industry, it should be incumbent upon the regulator to afford the industry adequate time to meaningfully engage in the development process to ensure that the data being used is indeed accurate and the framework, as a result, is implementable. Industry must be afforded an opportunity to alert the agency to any flaws in the underlying analysis and/or approach that must be corrected before it is applied to California's transportation fuels market. Not doing so would constitute a failure of the CEC's responsibilities as the State's chief energy planner.

It is also incumbent upon the CEC to explain any potential cost impacts to end consumers. These impacts are only compounded when layered upon other State policies, which also must be considered. WSPA again notes that these significant market and policy dynamics, which will constrain California's fuel supply, *are already in motion*.

CONCLUSION

WSPA appreciates the opportunity to provide our comments on these issues of critical importance not only to us, but to all California consumers – and consumers of other states dependent on California's fuel supply chain – who rely on affordable and reliable sources of transportation fuel every single day.

Please do not hesitate to contact me with any additional questions.

Sincerely,



Tanya DeRivi

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