

## DOCKETED

<b>Docket Number:</b>	15-PMAC-01
<b>Project Title:</b>	Petroleum Market Advisory Committee
<b>TN #:</b>	212820
<b>Document Title:</b>	Consumer Watchdog PMAC Presentation
<b>Description:</b>	Presentation by the Consumer Watch Dog at the August 16, 2016 Petroleum Market Advisory Committee Meeting.
<b>Filer:</b>	Ryan Eggers
<b>Organization:</b>	Consumer Watchdog
<b>Submitter Role:</b>	Public
<b>Submission Date:</b>	8/17/2016 8:53:23 AM
<b>Docketed Date:</b>	8/17/2016

# Consumer Watchdog Presentation

August 16, 2016

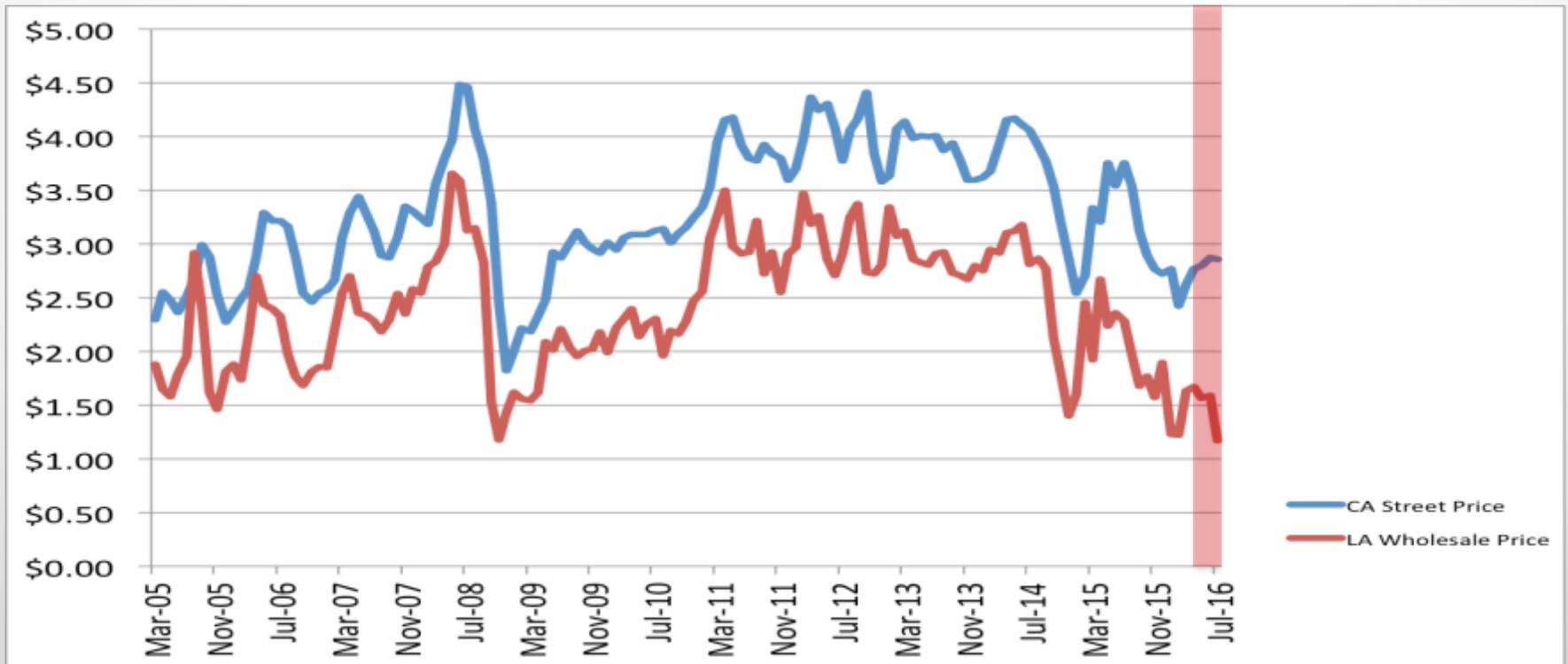
Petroleum Market Advisory Committee

# CA Spot Price

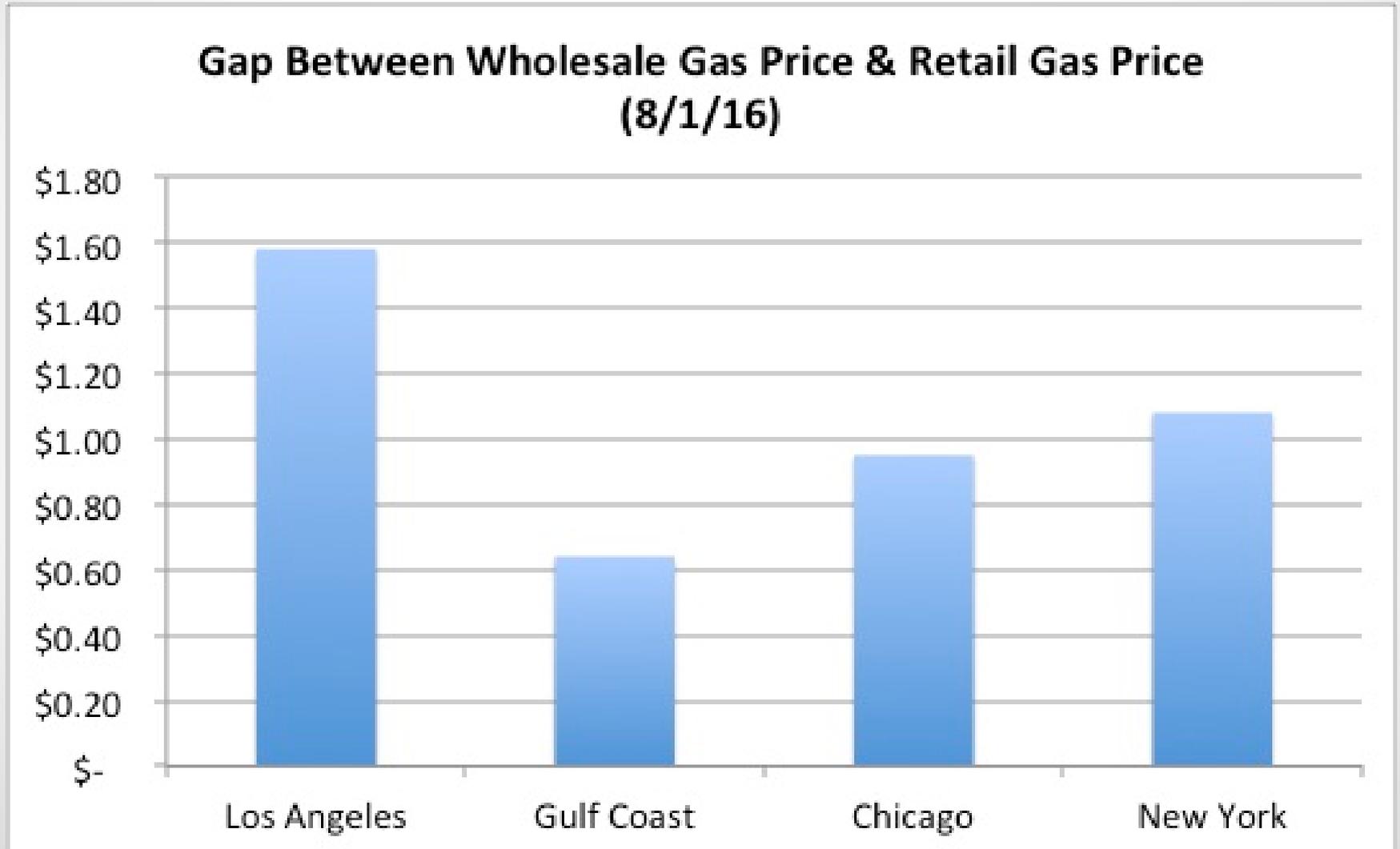
California has the cheapest spot gasoline price in the nation, but highest street price in the contiguous United States. (8/1/16)

CA Street Price: \$2.72

LA Spot Price: \$1.17

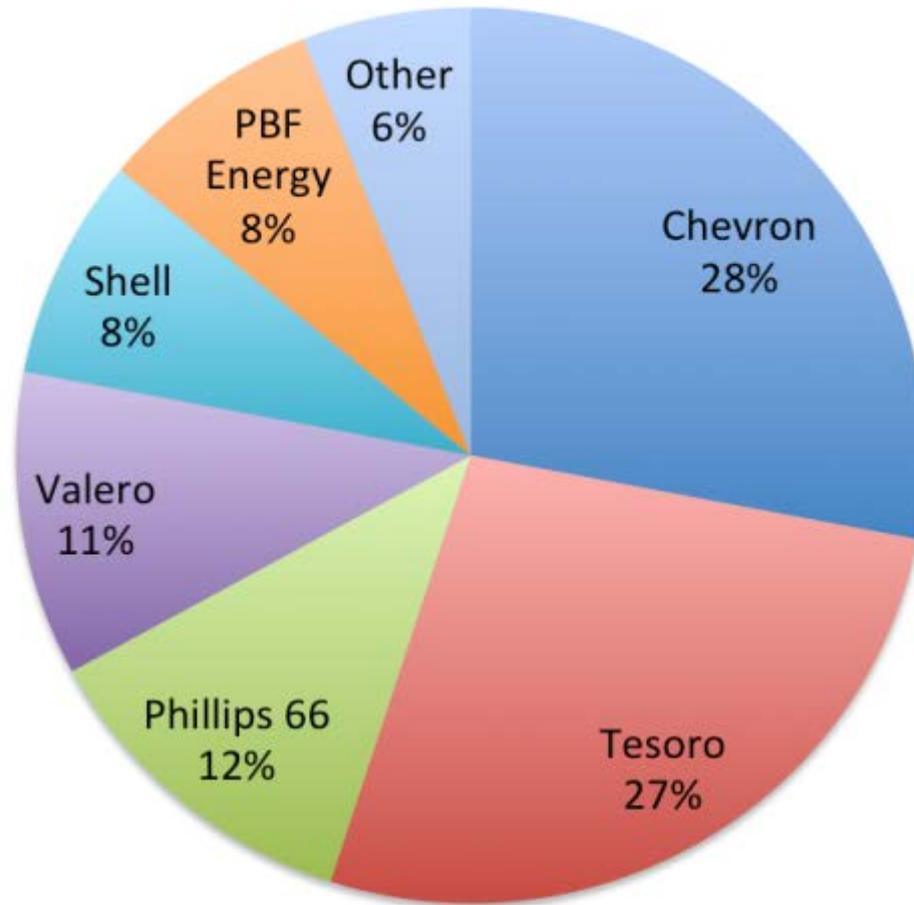


California drivers usually pay 88 cents more than the spot price – in early August they were paying \$1.50 more. It's the second highest premium after the 2008 economic collapse.



# Problem? Market Power

**California Refining Capacity**



# 2013 Tesoro Purchase of BP Assets

## Pivotal For Higher Priced Gas



[home \(/\)](#) > [newsrelease \(/updates/newsrelease/all/all/all\)](#) > [arco \(/tags/arco\)](#) > california consumers doomed to high gas prices as feds & state bless tesoro purchase of bp refinery & arco stations

### NEWS RELEASE

## California Consumers Doomed to High Gas Prices as Feds & State Bless Tesoro Purchase of BP Refinery & ARCO Stations

5/17/2013

#### Contact Info

##### Name:

Liza Tucker

##### Phone Number:

310-392-7931 direct, 626-372-1964 cell

SANTA MONICA, CA—A green light that Tesoro's purchase of BP's big refinery in Carson complies with anti-trust laws means over time gas prices will go up in the state, Consumer Watchdog said today. The approval by the Federal Trade Commission and California Attorney General of Tesoro's acquisition of BP's Carson refinery and 800 ARCO stations in the Southwest is not good for consumers or for competition, the group said.

"This might be the best deal that California Attorney General Kamala Harris could strike," said consumer advocate Liza Tucker. "But the status quo is \$4 per gallon gasoline and gasoline price spikes and all this deal does is protect the status quo, which is unacceptable to consumers." Tucker said. Now two companies—Tesoro and Chevron—will control 54 percent of the California market. "The big oil companies have California over a barrel and there's no good answer."

Tucker said the acquisition was a recipe for artificially high gas prices, despite Tesoro guarantees to the Attorney General that current gasoline production would be maintained. According to a letter sent by Attorney General Kamala Harris to the California Energy Commission, Tesoro agreed it will not reduce capacity of CARBOB—or specially blended, environmentally friendly—California gasoline for a period of three years. It also promised to maintain the historical average daily production for both its Carson and Wilmington refineries. But no documents signed by the companies with the Attorney General were immediately available for public review.





Thomas Nimbley  
CEO, PBF Energy

**Thomas J. Nimbley:** So at the end of the day we can make those switches but the **bottom line is there's too much clean product and the only way you can solve that problem is reducing the amount of clean product that you make.**

-PBF Energy Investor Call,  
July 29, 2016

# IEA Inventory Requirements

- The **International Energy Agency** requires their member states to hold oil and/or petroleum products in a strategic reserve.
- The IEA was formed after the 1973-74 oil crisis.
- **IEA requires member states to hold 90 days of previous year's net imports.**
- **As of 2013, 20 of the 29 IEA Members place some stockholding requirement on industry.**
- Six states meet their obligations solely through industry requirements: Greece, Italy, Luxembourg, Sweden, Turkey and the United Kingdom.
- Many IEA nations hold their stocks in the form of refined products such as gasoline.

[http://usatoday30.usatoday.com/money/industries/energy/2005-09-02-oil-gas-daily\\_x.htm](http://usatoday30.usatoday.com/money/industries/energy/2005-09-02-oil-gas-daily_x.htm)

<https://www.iea.org/topics/energysecurity/subtopics/stockholdingstructure/>

# IEA Inventory Release History

- Refined product was released by the IEA in the wake of Hurricane Katrina in 2005:
  - “Refined product supplies are being made up from the release of 30 million barrels of gasoline, middle distillate and other products from the strategic reserves of member nations of the Organization for Economic Cooperation and Development (OECD) who are International Energy Agency (IEA) members.” –US State Department
  - The Associated Press reported at the time: “Crude oil prices dropped more than \$1 a barrel and gasoline futures fell sharply Friday as key allies agreed to release supplies from their stockpiles to help offset U.S. shortages.”
- A prior release of reserves came in 1991 during the first gulf war.

<http://fpc.state.gov/documents/organization/55824.pdf>

[http://usatoday30.usatoday.com/money/industries/energy/2005-09-02-oil-gas-daily\\_x.htm](http://usatoday30.usatoday.com/money/industries/energy/2005-09-02-oil-gas-daily_x.htm)

# EU Inventory Requirements

- **EU** member states must hold, “90 days of average daily net imports or 61 days of average daily inland consumption, whichever of the two quantities is greater.”
- These can be held as crude oil or their equivalent of petroleum products. The products chosen must make up at least 75% of the state’s consumption.
- About a third of that supply must be in a specific product – “specific stocks” -
  - “Each Member State that has not made a commitment for the full length of a given calendar year to maintain at least 30 days of specific stocks shall ensure that at least one-third of their stockholding obligation is held in the form of products”

# The United States Northeast Gasoline Supply Reserve

- In the wake of Superstorm Sandy, President Obama announced the creation of the Northeast Regional Petroleum Product Reserve.
- The Northeast Gasoline Supply Reserve specifically holds one million barrels of gasoline:
  - 700,000 barrels in the area of the New York Harbor
  - 200,000 barrels in Boston
  - 100,000 barrels in Maine

# Inventory Mandate: Pros & Cons

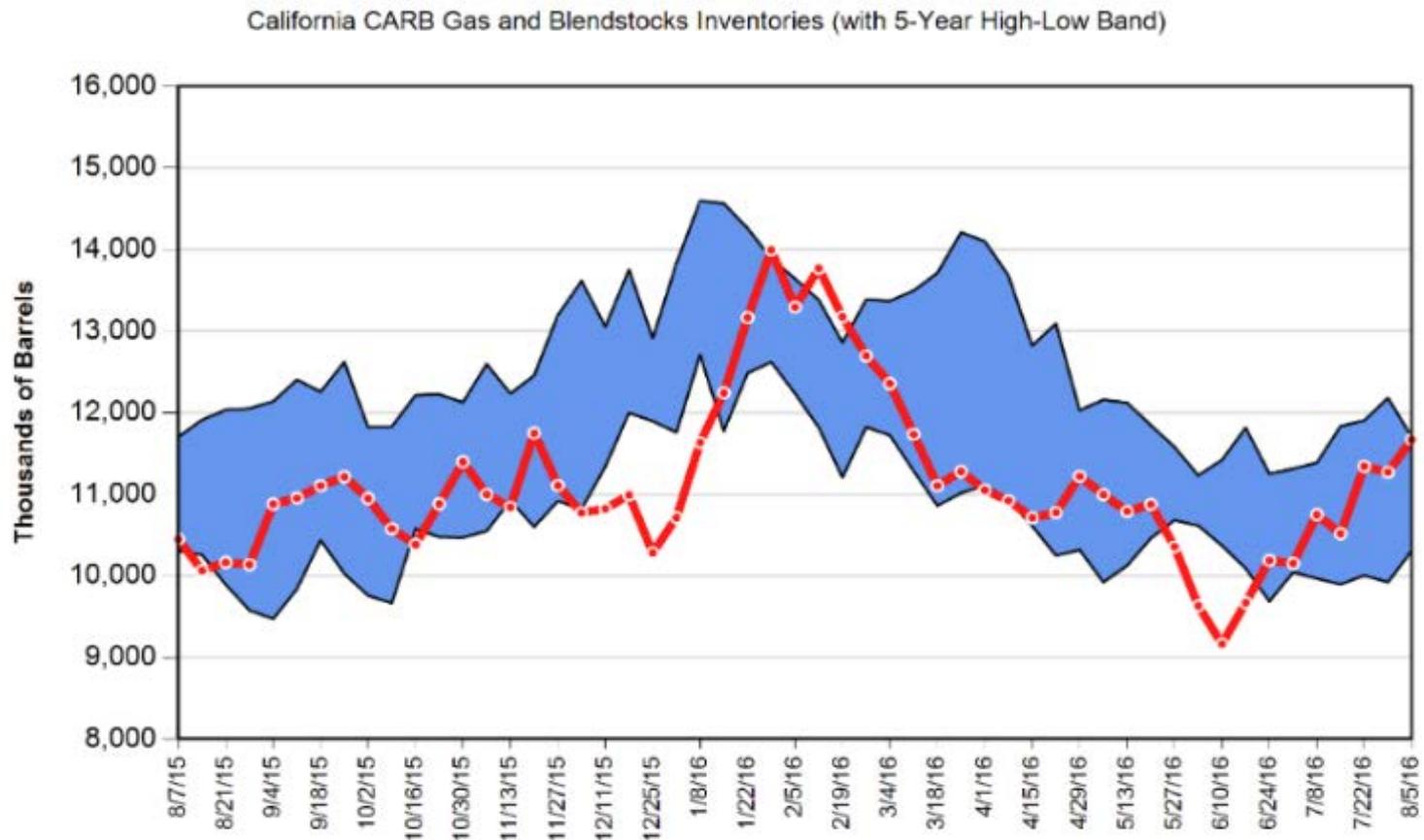
- **Pro:** Creates cushion to prevent supply manipulation and ward against perennially low inventories, mitigating against extreme price spikes
- **Pro:** Disaster relief in case of major earthquake or other disaster.
- **Con:** Inventory levels may no longer be driver of higher gas prices.

# Inventories Grow– Prices Remain High

CA Inventory near 5-year high for month of August.

SF Gas Price: \$2.84

US Gas Price: \$2.12



# California Forward Purchase of Gasoline

- **Pro:** Forward purchases by the state may help add supplies and lower prices in the wholesale market
- **Pro:** If forward purchases would bolster imports and provide for reserves in case of refinery outage, could mitigate price spikes.
- **Con:** Would likely have a minor impact on lowering street prices overall, which remain high despite drops in the wholesale prices.
- **Con:** Forward purchases of 1-2% of sales would not be able to alleviate major price spikes.

# CARB Pressure Relief Valve

- **Pro:** Creating fungible gas supply could increase supplies in times of shortage and mitigate against price spikes.
- **Con:** Giving policy rewards for polluters, rather than incentivizing clean gasoline infrastructure.
- **Con:** If excessive market drives higher CA gas prices, "relief" will not translate to lower prices and may create new opportunity for abuse

# Big Problem: Market Power

- Limit refiners to owning just one California refinery in order to increase liquidity and competition.
- Make refiners divest from retail stations to spread control to more players.
- Prevent refiners from using contractual power to inflate branded prices 30 – 40 cents above unbranded prices.