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**WSPA Comments on Gasoline Supply Reliability Workshop 9-10-2024 (Docket #23-SB-02)**

Please see attached.

*Additional submitted attachment is included below.*



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September 10, 2024

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## **WSPA Comments on Gasoline Supply Reliability Workshop [Docket #23-SB-02]**

Thank you for the opportunity to comment on the California Energy Commission (CEC) and the Division of Petroleum Market Oversight's (DPMO) August 22, 2024, Senate Bill (SB) X1-2 (2023) gasoline supply reliability workshop. In responding to the information presented and comments made at the workshop, this letter incorporates by reference our prior comment letters, including preliminary comments we filed on August 29, 2024.<sup>1,2,3,4,5,6,7,8</sup>

To summarize the main points of this letter:

- It is troubling that industry had no opportunity to review, analyze, or provide input on the minimum gasoline supply inventory framework until it was presented at the workshop.
  - Industry input has not been appropriately considered.
  - Previous CEC studies have not been appropriately considered.
  - No analysis of cost, feasibility, operability, or safety considerations was presented.
  - The only data we have seen indicates that a minimum inventory would likely raise prices for consumers – expressly against the goals of SB X1-2.
- The exclusive focus on refinery operations and storage presents an incomplete picture of supply and distribution within California.
- International case studies are not representative of California's unique fuel market. In particular, Australia is not at all analogous with California's fuel supply system.
- WSPA is concerned that SB 950 (2024) and Assembly Bill X2-1 (2024) was/is poorly formed and will likely lead to unintended consequences for consumers in California, Arizona and Nevada.

WSPA remains concerned that this workshop was framed as an opportunity to share both the CEC and DPMO's support for the Governor's legislative framework (what became SB 950), to regulate gasoline inventory and refinery turnarounds. It is also troubling for industry to have had no opportunity to review or understand the framework until it was presented at the workshop, all the while the CEC and DPMO continued to frame the presentation as if there was significant analysis and input from industry to shape the proposal and understand the associated risks. However, without a full vetting by industry experts, the only data we have seen indicates that a minimum inventory would likely raise prices.

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

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

<sup>3</sup> Western States Petroleum Association Comments - Solomon Report California Refiners' Cost and Margin Analysis, 2000-2022; November 27, 2023.

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

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

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

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

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

*First*, WSPA strongly objects to any policy proposal that would jeopardize refinery safety by allowing the CEC to dictate the timing of refinery turnarounds and maintenance. Both the workshop proposal and SB 950 stray from industry's calls to avoid compromising refinery safety at all costs. Labor had also raised similar concerns. Instead of fixing decades of poor policies that have driven supply down, these proposals hold industry's safety-first turnaround planning efforts hostage. Indeed, if passed, SB 950 would have given unlimited authority to an agency that lacks expertise in running a refinery, advised by a committee devoid of industry experts, to hold turnaround plans hostage in response to price signals – not legally binding safety and compliance needs. This endangers workers and communities. There is nothing to prevent the CEC from interfering with any existing health and safety requirements, leaving refiners to manage profoundly conflicting regulations.

*Second*, we must question how the CEC can legally pursue binding minimum inventory rules in advance of any presumed legislative authority to do so. To put it simply, this is putting the proverbial cart far before the horse.

*Third*, WSPA has, in fact, repeatedly raised warnings about the State's attempt to micromanage California's gasoline inventory supplies that have gone unheeded. We have repeatedly expressed concerns that doing so is a recipe to raise everyday California fuel costs and potentially reduce fuel supplies to Arizona and Nevada – all while minimizing the existing safety-first priority at refineries.

California's fuel supply chain already maintains substantial volumes of gasoline inventory. As a result, California has not come close to emptying its gasoline supplies; the lowest gasoline inventory recorded since 2011 was still over 425 million gallons (in 2023), representing over 12-days' worth of supply. Furthermore, mandatory stockpiles have been investigated by the CEC and shown to come with significant costs – which will likely and ultimately be borne by consumers. 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. 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.

Price volatility can happen regardless of how much gasoline is in inventory. WSPA previously explained how even a massive amount of additional storage cannot correct this problem due to permitting and operational cost constraints. We have explained that what *could* help stabilize the imbalance is having sufficient local fuel manufacturing capacity, connectivity to other regional markets, and fewer policy restrictions on imports.

While in certain contexts having additional fuel inventories may be useful 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. But under the CEC/DPMO's proposal, refiners may be forced to hold inventory back as they await State authorization.

*Fourth*, 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.

While WSPA would need further information to specifically address some underlying proposals presented in the CEC and DPMO staff’s presentations, we offer the following initial input to help inform policymaking discussions in both the regulatory and legislative arenas.

### WSPA RESPONSE TO DPMO STAFF PRESENTATION

#### California’s Storage Infrastructure

The DPMO presentation at Slide 11 refers to “west coast capacity” for storage in the course of addressing minimum inventory in California. However, the data presented are drawn from PADD 5, not California’s inventory numbers. The two are not the same. We also note that DPMO’s staff separately acknowledged that it has no understanding of the State’s actual storage capacity – a foundational data point for the subject proposal – instead relying on publicly-reported PADD 5 data, and stating it is “still working to understand exactly what capacity we have available here in California.”<sup>9</sup> This is an important distinction given that California’s storage is significantly capacity constrained given both the expense of such facilities (including for associated pipelines) and lengthy permitting delays – if permits can even be acquired.

The gasoline inventory data available from the CEC’s Weekly Fuels Watch (WFW)<sup>10</sup> appears to be an under representation of the total gasoline volumes available to the industry when compared to the U.S. Energy Information Administration (EIA) aggregated gasoline inventory data provided for refiners and bulk terminals published each month. Comparing weekly CEC inventory data to selected EIA end-of-month dates for California illustrates that there has recently been between 4 and 7 million barrels of additional gasoline supplies on hand in California than WFW database contains. It is important to emphasize that the differences are not attributable to the accuracy of refiner reporting, but reporting requirements for different purposes.

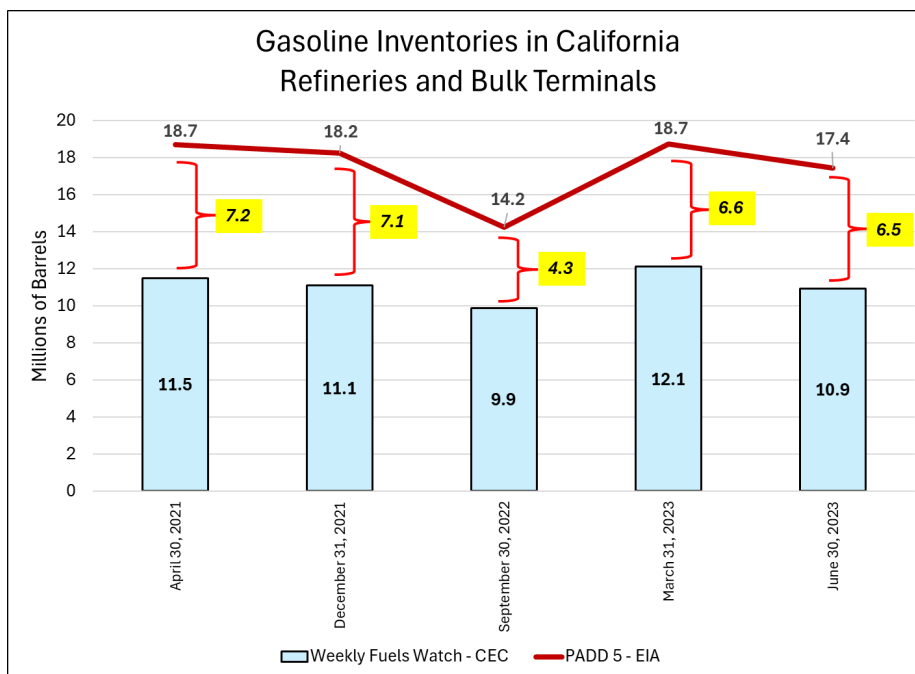


Figure 1 - California Total Gasoline Inventories: CEC compared with EIA data (2021-2023)

<sup>9</sup> CEC August 22, 2024, Gasoline Supply Reliability Workshop at 48:07 mark.

<sup>10</sup> <https://www.energy.ca.gov/data-reports/reports/weekly-fuels-watch> (last accessed 8/27/24).

The implications of additional gasoline volumes available at bulk terminals outside of California refineries is best illustrated by a calculation of days-of-supply (DoS). According to the CEC, average daily gasoline demand of **802,000** barrels per day = 1 DoS.<sup>11</sup> Based on the CEC total gasoline inventory of 10.9 million barrels on June 30, 2023, California would have had **13.6 DoS** in total inventory. However, using the EIA gasoline inventory of 17.4 million barrels held at refineries and bulk terminals on June 30, 2023, California would have had **21.7 DoS** in total inventory.

In the interest of transparency, it would be beneficial for the CEC to provide additional gasoline storage data statistics for stakeholders to review before further discussion of any potential minimum gasoline inventory requirements. Fortunately, the CEC already collects inventory information on gasoline and other petroleum products from all terminal operators on a weekly and monthly basis.<sup>12</sup> Although none of that aggregated gasoline inventory data has yet been made available, the CEC should take this opportunity to provide at least a near-term historical dataset back to January 2023 or earlier that will include a more accurate picture of gasoline supply availability held at all California bulk terminals before adopting regulations specifying how much gasoline California refiners should withhold from working inventory capacity.

### ***Case Studies Presented***

The DPMO presented three case studies presumably intended to illustrate the use of minimum inventory requirements to mitigate gasoline price volatility. WSPA finds the cases presented distracting and irrelevant, as well as inappropriate analogies to California's gasoline supply challenges.

#### ***Case Study 1: U.S. Strategic Petroleum Reserve (USSPR)***

It is unclear why the CEC or DPMO would consider the USSPR as a useful analogue to resolving market volatility in California's gasoline supply markets. The USSPR was created as a **crude oil** emergency reserve following the Iran oil embargo in the 1970s. The strict rules established by the enabling statute<sup>13</sup> requires the President of the United States to make findings of an emergency – including catastrophic interruption of global crude oil supplies – in which release from the USSPR would temporarily relieve shortages for U.S. refiners. While the President did authorize the release over 340 million barrels in 2022<sup>14</sup>, over a 7-month period, in response to global crude oil market volatility following Russia's invasion of Ukraine, any parallel with California's fuel market situation is vague and misleading. Moreover, this is a government-owned storage supply – not something imposed upon industry.

#### ***Case Study 2: Northeast Gasoline Supply Reserve***

Superstorm Sandy in 2012 damaged two refineries and left more than 40 fuel terminals in New York Harbor inoperable. As a temporary measure, in June 2014, U.S. Department of Energy (DOE) Secretary Ernest Moniz issued an order to negotiate storage contracts for gasoline in New York and Maine creating a million-barrel reserve.<sup>15</sup> Clear rules were established by DOE for storage capacity bidding and participation in the use of the reserve in order to mitigate negative market effects from government purchases of fuel and ensure complete transparency. Guardrails were established by DOE to avoid negative effects on the market as the fuel

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<sup>11</sup> CEC Summer Outlook Webinar presentation, June 6, 2024 <https://content.govdelivery.com/accounts/CNRA/bulletins/3a1209d> (last accessed 8/16/2024)

<sup>12</sup> CEC reporting requirements include obligations for terminal operators to report weekly and monthly inventory levels for all refined products and crude oil per Petroleum Information Reporting Act (PIIRA) regulations. The relevant forms are the [CEC W08](#) weekly California Major Petroleum Product Storer and Terminal Weekly Report and the [CEC M08](#) monthly California Major Petroleum Product Storer and Terminal Monthly Report.

<sup>13</sup> Pub. L. 94–163, Dec. 22, 1975, 89 Stat. 871.

<sup>14</sup> [Why Have a Strategic Petroleum Reserve](#), Christopher J. Neeley, Economic Research, posted March 20, 2024.

<sup>15</sup> As with the USSPR, the authorizing legislation was Pub. L. 94–163, Dec. 22, 1975, 89 Stat. 871. Secretary used this authorizing legislation to issue a directive to the Office of Petroleum Reserves on June 20, 2014 to purchase gasoline reserves.

infrastructure recovered from that disaster. The reserve was closed in 2024, as the market and fuel infrastructure in the Northeast was deemed to be sufficiently robust with enough redundancy to ensure resilience in the face of future disruption.

In addition, we have data as the National Petroleum Council (NPC), the federal advisory to the Secretary of Energy, investigated these concepts and reported:

*More recent studies from [Government Accountability Office] and [Department of Energy] have conflicted about the recommendations for and against the strategic petroleum product reserve (SPPR) concept. In summary, there is not a clear record on the desirability or the feasibility of creating and maintaining an SPPR. The costs of procuring and storing the initial volume of fuel are high, especially if capital costs are incurred to build new storage facilities. Leasing of existing facilities would avoid capital costs but would result in a loss in distribution efficiency due to tankage that would not be available to manage daily inventories. To be effective at buffering supply disruptions, the stored volume of fuel would need to be much greater than the amount currently stored in the NGSR. There would need to be multiple storage locations to ensure fuel is available when and where it is needed. There are also challenges with the number and diversity of different products that are stored in the reserve. The reserve inventory must be actively managed to ensure that fuel does not degrade over time. These are some of the many challenges that have been identified with the SPPR concept.*

*The SPPR concept fundamentally interferes with market signals for supply, demand, pricing, and inventory management. A preferred option over the SPPR would be to enhance supply through increased domestic production and by increasing redundancy in existing infrastructure. A robust fuel marketplace can address the challenges of supply reliability more effectively than a mandated SPPR.<sup>16</sup>*

### Case Study 3: Australia

The DPMO staff presentation also pointed to a requirement for minimum stockholding obligations (MSO) recently adopted in Australia that should be considered as an example for California.<sup>17</sup> It is curious that DPMO staff are suggesting looking to the Australia MSO program for guidance when the gasoline market conditions in Australia are so dissimilar to California. Based on 2022 data, the differences appear significant, and not at all analogous with California’s fuel supply system:

<b>Policy Differences</b>	
<p>Australia has no vehicle standards that compare to California’s stringency:</p> <ul style="list-style-type: none"> <li>• This opens import availability and reduces prices for lower-quality feedstock</li> <li>• Australia has no strong vehicle technology/fueling signals to incentivize a shift to ZEVs that heavily rely upon the electric grid</li> <li>• Australia is not limited by the Jones Act nor pending stringent emission control standards with no viable near-term solutions, such as CARB’s Ocean Going At-Berth Regulation</li> </ul>	<p>California has adopted multiple standards, including:</p> <ul style="list-style-type: none"> <li>• The most stringent fuel specifications in the world; Australia has amongst the least stringent</li> <li>• Heavy-Duty Engine and Vehicle Omnibus Regulation</li> <li>• Zero-Emission Vehicle (ZEV) mandates, such as Advanced Clean Cars I and II, Advanced Clean Trucks, and Advanced Clean Fleets</li> <li>• The Ocean Going At-Berth Regulation</li> </ul> <p>California is also constrained by the Federal Jones Act for marine imports; Australia is not</p>

<sup>16</sup> National Petroleum Council. (2023). *Petroleum Market Developments*. Retrieved Sept 2024 from at page 63: [npc.org/reports/Petroleum\\_Market\\_Developments-2023-5-16.pdf](https://npc.org/reports/Petroleum_Market_Developments-2023-5-16.pdf); see 5.4.5 Strategic Petroleum Product Reserve

<sup>17</sup> [Conceptual Frameworks for Resupply and Minimum Inventory Requirements](#), Varsha Sarveshwar, Senior Policy Advisor, Division of Petroleum Market Oversight, August 22, 2024, slide 15.



### Refining

<p>Petroleum refiners in Australia produced 36% of the gasoline to meet local demand.<sup>18</sup>                  In addition, the Australian government provided approximately \$1.8 billion in funding to keep their only two remaining refineries operational until 2027, provides funds for refinery upgrades, and makes certain production for refiners who make specific types of transportation fuel when margins drop below AU \$7.30 a barrel (i.e. USD ~\$5/barrel).<sup>19</sup></p>	<p>By contrast, California refiners produced 90% of the gasoline to meet domestic demand.<sup>20</sup>                   The State of California imposes multiple regulatory compliance fees on industry to meet California's demand.</p>
<p>Australia's gasoline demand is approximately 25% of California's; that nation depends on imports for <i>two-thirds</i> of their total production demand.</p>	

		Gasoline (MBD)	Diesel (MBD)	Jet (MBD)	Source
Australia	Demand	278	568	158	Australian Petroleum Statistics, 2024
	Production	103	73	26	
	Imports	175	495	132	
California	Demand	874	222	276	CEC 2023 IEPR forecast
	Production	904	281	270	CEC Transportation Fuels Assessment 2024 <sup>21</sup>
	Imports	77	65	34	

### Imports

<p>Australian consumers depend heavily on gasoline imports, accounting for 64% of total supply                  "Stock on water" timelines to resupply Australia range between 6-14 days from Southeast Asia<sup>22</sup></p>	<p>California gasoline imports amounted to only 10% of statewide demand                   To resupply California, it now takes West Coast suppliers, on average, 30-45 days (for imports from Asia) to import alternative fuel sources overseas following significant refinery outages</p>
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### Finished Product and Fuel Specifications

<p>Australia finished gasoline ethanol content averaged 1.1% by volume                   Australia does not have a specialized fuel specification – in fact, it notably trails European and United States fuel standards. Australia still allows leaded gasoline, high aromatics, and high sulfur. Such specifications likely mean that Australia's gasoline is cheaper and easier for refineries to produce than California's specifications, and importantly, that Australia accepts product from virtually anywhere in the world.</p>	<p>California's ethanol content averaged 10.5% by volume<sup>23</sup>                   Most refineries outside of California <i>do not, and cannot</i>, produce fuels that meet California's strict gasoline specifications, for which no emergency exception exists.                  California and Australia have seasonal specifications, requiring regular turnover in inventory.</p>
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<sup>18</sup> [Australian Petroleum Statistics 2022](#), Australian Department of Climate Change, Energy, the Environment and Water. 2022 monthly automotive gasoline refinery production and sales data. Automotive gasoline refinery production of 1,508 million liters divided by 4,220 million liters of automotive gasoline sales adjusted to 4,173 million liters to remove ethanol portion of finished gasoline.

<sup>19</sup> See refining section at <https://www.eia.gov/international/analysis/country/AUS>

<sup>20</sup> [Transportation Fuels Assessment](#), Commission Report, California Energy Commission, Publication Number CEC-200-2024-003-CMF, August 2024, pages 11 and 12. CARB gasoline instate refinery production of 796 thousand barrels per day (TBD) adjusted to 723 TBD to remove ethanol portion divided by statewide gasoline sales of 885 TBD adjusted to 800 TBD to remove ethanol portion of finished gasoline demand.

<sup>21</sup> [Transportation Fuels Assessment](#), Commission Report, California Energy Commission, Publication Number CEC-200-2024-003-CMF, August 2024, pages 11 and 12.

<sup>22</sup> "Maintaining supply security and reliability for liquid fuels in Australia" report, at page 9: [https://www.aip.com.au/sites/default/files/download-files/2017-09/Maintaining\\_Supply\\_Security\\_and\\_Reliability\\_for\\_Liquid\\_Fuels\\_in\\_Australia\\_0.pdf](https://www.aip.com.au/sites/default/files/download-files/2017-09/Maintaining_Supply_Security_and_Reliability_for_Liquid_Fuels_in_Australia_0.pdf)

<sup>23</sup> California's finished gasoline ethanol concentration during 2022 exceeded 10 percent by volume due to the sales of E-85 that amounted to 103.5 million gallons during 2022 according to the California Air Resources Board's [Annual E85 Volumes](#) data.



<b>Obligated Parties</b>	
Australia counts inventory across the entire supply chain, including refineries, bulk terminals, and other storage facilities Australia also counts contractually obligated product that is in port or in transit between Australian ports.	California’s proposal would place the primary (if not exclusive) burden on refineries for storage of minimum inventory
<b>Fuel Prices</b>	
In calendar year 2023, Australians paid USD \$7.18/U.S. gallon; Australians are paying the same or more per gallon of gasoline than Californians are <sup>24</sup>	Californians paid USD 4.88/gallon in the United States <sup>25</sup>
Fuel quality and transit times are key factors given that Australia’s imported cargo resupply transit times are 57-68% shorter than California’s	It is worth repeating that California has the most stringent fuel specifications in the world, while Australia has one of the least stringent

The heavy reliance on imports to meet Australia’s transportation energy demand is the primary reason that the country took steps to require sufficient inventories of gasoline and other petroleum products to cover at least 27 days-worth of *net imports*, not total demand. **These requirements are intended to improve Australia’s energy security resilience, and not intended to protect consumers and businesses from price escalation associated with significant unplanned refinery outages.**

Further, the potential minimum gasoline inventory requirement mentioned by DPMO appears confined to gasoline inventory volumes held at refineries. The Australian MSO obligations allow obligated parties to count inventory volumes at several points along the Australian transportation energy supply and distribution chain (refineries, bulk terminals, and import terminals), as well as volumes of transportation fuels contained on marine tankers already in Australian ports or traveling between Australian ports.<sup>26</sup>

The minimum volumes of transportation fuels held in storage is calculated by taking the previous 12-month average of imports multiplied by the minimum number of “cover days” set by the Commonwealth Department of Climate Change, Energy, the Environment and Water (the DCCEEW) for each fuel type. Cover days for importers are now 27 days for gasoline, 32 days for diesel fuel, and 27 days for jet fuel.<sup>27</sup> The MSO obligations for refiners are based, in part, on their anticipated conversion of crude oil and other refinery feedstocks to gasoline, diesel, and jet fuel.

Australia’s fuel security regulations include other non-MSO programs designed to: increase storage tank capacity for diesel fuel;<sup>28</sup> provide payments to refiners when margins drop below a specified lower threshold;<sup>29</sup> and capital for refinery projects to upgrade diesel fuel quality.<sup>30</sup> Given the energy security purposes of Australia’s MSO regulations, the significant dependence on imports to meet the nation’s transportation fuel demand, and government funding incentives to help the industry to construct new storage infrastructure and upgrade refineries, there is little in common with California’s fuel supply system. If it is to inform the Commission’s decision-making on minimum inventory, much more in-depth analytical work than has been presented would need to be done.

<sup>24</sup> EIA data, “California All Grades All Formulations Retail Gasoline Prices (per gallon)” at [https://www.eia.gov/dnav/pet/hist/LeafHandler.ashx?n=PET&s=EMM\\_EPM0\\_PTE\\_SCA\\_DPG&f=M](https://www.eia.gov/dnav/pet/hist/LeafHandler.ashx?n=PET&s=EMM_EPM0_PTE_SCA_DPG&f=M).

<sup>25</sup> See national average retail fuel pricing data from the Australian Institute of Petroleum at <https://www.aip.com.au/pricing>.

<sup>26</sup> [Fuel Security Act 2021](#), registered November 15, 2021.

<sup>27</sup> [Minimum Stockholding Obligations](#), Australian Commonwealth Department of Climate Change, Energy, the Environment and Water (DCCEEW), revised as of July 1, 2024.

<sup>28</sup> [Boosting Australia’s Diesel Storage Program](#), DCCEEW.

<sup>29</sup> [Fuel Security Services Payment \(FSSP\)](#), DCCEEW.

<sup>30</sup> [Refinery Upgrades Program](#), DCCEEW.

## WSPA RESPONSE TO CEC STAFF PRESENTATION

### ***“Days of Supply” (DoS) Metric***

The CEC’s staff presentation generally explained and promoted the use of a “days of supply” metric in California. This was reportedly developed in discussions with CEC’s expert consultants and is intended to represent a measure of how long California’s current gasoline and diesel inventories would last. Unfortunately, despite our request during the intervening 10 days that this workshop was noticed, industry was provided no advance opportunity to review any information presented at the workshop.

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 of 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 in the CEC’s responsibilities as the State’s chief energy planner.

It is extremely important for legislators and the public to understand the likely unintended consequences of using this “day of supply” metric. Once the CEC establishes a DoS threshold and mechanism to release inventory, market trading behavior may drive prices up in response to the lack of market liquidity, which could occur for a number of reasons. For example, if a refiner has product on-hand sufficient to meet demand but risks going below required minimum inventory levels, then the refiner may have to first wait for additional production and/or supply to come in before making such sale, or otherwise risk being non-compliant. And because onsite refinery tankage is necessary to balance *existing* production, blending, certification, and marketing needs, a minimum inventory requirement that occupies such tank space may cause delays that, in turn, force refiners to actually *reduce* production. In other words, this proposal could ironically result in artificial supply shortages caused by compliance needs.

In addition, while industry makes concerted efforts to replenish their gasoline production during planned maintenance events, there are significantly different considerations during *unplanned* maintenance events. These include:

- whether refiners must or can hold supply to maintain their inventory for any upcoming planned maintenance events;
- whether a refiner can help replenish supplies for any unplanned events in another California region; and
- how the State’s efforts to micromanage planned maintenance events impact critical safety considerations.

None of these issues were identified or addressed during the workshop.

### ***Potential Impacts of Micromanaging California’s Gasoline Inventory***

WSPA has identified the following potential issues in the State’s presumed attempt to micromanage California’s gasoline inventory supplies.

*First*, California is a “fuel island.” WSPA agrees with the State’s conclusion of this fact in its recently approved 2024 Transportation Fuels Assessment.<sup>31</sup> It must 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.

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<sup>31</sup> CEC Transportation Fuels Assessment Report: <https://www.energy.ca.gov/publications/2024/transportation-fuels-assessment-policy-options-reliable-supply-affordable-and>.

*Second*, California has a unique regime of environmental policies. Yet, a minimum inventory requirement does not consider California's storage constraints under such policies. A minimum inventory requirement does not consider the storage ability constraints that are real in California, which is a key constraint for meeting the State's fuel needs today. A minimum inventory requirement also ignores the challenges with importing fuel from other regions, due to California's unique geography and existing policies (e.g., California's unique CARBOB fuel blend requirement, Ocean Going At-Berth Regulation, disproportionate marine import constraints under the Federal Jones Act).

*Third*, international case studies are *not* representative of California's unique fuel market. As WSPA has previously and repeatedly explained in great detail, California's unique transportation fuel market is extraordinarily complex. Therefore, any examples of purported policy "successes" in other regions do not necessarily account for the many factors affecting supply and demand, as the CEC's 2003 report identified<sup>32</sup> when analyzing California's conditions. Unfortunately, it is apparent that the CEC and DPMO have not undertaken a detailed analysis of California's storage and inventory challenges. There are especially significant differences with Australia, as is outlined above. That nation – which, again, depends on imports for *two-thirds* of their total production demand – provided approximately \$1.8 billion in funding to keep their only two remaining refineries operational until 2027, provides funds for refinery upgrades, makes certain production payments, and has one of the least stringent fuel blend requirements worldwide, thereby making it a prime import market.

*Fourth*, a minimum inventory requirement may have unintended consequences. Further work must first be done to determine whether any such requirement would even be feasible in California's market – including whether such a requirement would avoid price volatility. The CEC and DPMO must thoroughly analyze what the costs to consumers will be, and other unintended consequences. Without such analysis, WSPA would otherwise question where the transparency is from CEC and DPMO on these economic costs.

*Fifth*, neither the CEC nor DPMO appear to have any certainty to confirm that mandated thresholds will prevent market volatility in California's market as was identified in the 2024 Transportation Fuels Assessment:

- "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"
- "potential exists for the state to be criticized for requiring refiners to withhold fuel from the market"

Thus far, neither the CEC nor DPMO appear to have any certainty they can confirm that mandated thresholds will prevent market volatility in California's market. No analysis has been done on whether a minimum inventory requirement may actually decrease domestic gasoline production given that available onsite storage is needed to efficiently balance blending, testing and certification, and marketing activities. No analysis has been done on how refiners would store increased supply or be able to increase imports under the Ocean Going At-Berth Regulation and Federal Jones Act constraints. No consideration has been given to the likely competitive advantage provided by a minimum inventory requirement to foreign importers over domestic refiners, or how such an advantage could be alleviated. Likewise, there are other, non-refiner inventory holders in the State, yet no consideration has been given to requiring a minimum inventory across *all* inventory holders in the State. Maintenance cannot be determined based on economic interests alone, and under no circumstances should such interests prevail

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<sup>32</sup> CEC. July 2003. "Feasibility of a Strategic Fuel Reserve in California." P600-03-013CR. [https://web.archive.org/web/20060926070356/http://www.energy.ca.gov/reports/2003-07-31\\_600-03-013.PDF](https://web.archive.org/web/20060926070356/http://www.energy.ca.gov/reports/2003-07-31_600-03-013.PDF) (Last accessed Sept. 9, 2024).

over or otherwise compromise safety or environmental needs – needs that are more appropriately understood and addressed by CalOSHA, industry, and labor.

*Finally*, the CEC and DPMO have not explained potential cost impacts. It is especially concerning that important policy decisions would be made with minimal, if any, acknowledgement and ownership about potential cost impacts to end consumers. These impacts are only compounded when layered upon other State policies. A new minimum inventory requirement will certainly create incremental costs per gallon of gasoline for California consumers – and will likely impact Nevada and Arizona consumers too. While exact costs are difficult to estimate, a worst-case scenario regulation requiring a 13-day supply could result in higher costs over an annual period than past market volatility. This policy would require refiners to build inventory when it is already uneconomic to do so. Requiring refiners to increase inventory when prices are low will come at a cost likely to be passed on to consumers.

WSPA again notes that these significant market and policy dynamics, which will constrain California's fuel supply, *are already in motion*.

### **TRANSPARENCY AND LEARNING FROM THE CEC'S OWN HISTORY ON STRATEGIC FUELS RESERVE (2002-2003)**

The DPMO's workshop presentation made brief reference to significant work led by the CEC in 2002 and 2003 in response to an investigation of gasoline price volatility by California's then Attorney General, Bill Lockyer. The Legislature mandated through AB 2076 (2000) that "the commission shall examine the feasibility, including possible costs and benefits to consumers and impacts on fuel prices for the general public, of operating a strategic fuel reserve to insulate California consumers and businesses from substantial short-term price increases arising from refinery outages and other similar supply interruptions."<sup>33</sup> Over a period of two years, the CEC convened several workshops, contracted with consultants to write extensive reports, and published multiple CEC authored reports to meet the requirements of the statute. In its own final report after two years of effort, the CEC set the stage with familiar words:

*In the last few years, California motorists have experienced significant short-term increases, or "spikes" in the price of gasoline. The state's gasoline refineries are operating at near maximum production, and when an unplanned refinery outage occurs, especially when gasoline inventories are low, the price of gasoline can spike. Outages drive the price higher because of the temporary imbalance between supply and demand. The price increase required to restore this balance can be significant due to a very low demand response—California motorists have little alternative to gasoline use in the short run.*

WSPA has identified more than 23 separate documents that are no longer available to the public on the CEC's website, but which are critical to understanding the complexities and history of proposals to establish some kind of Strategic Fuel Reserve (SFR) to mitigate price volatility in the California fuels markets. A mandate for minimum inventory would simply be another variation of an SFR, which was thoroughly examined in the course of fulfilling the requirements of AB 2076 in 2002 and 2003. We include a chronology, complete with links to internet archives, in Appendix 1. Further, for the sake of public transparency, we also submit separately to the docket – due to file size limitations – copies of several reports and workshop presentations published at the time that help to demonstrate the following:

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<sup>33</sup> AB 2076 (Shelley, Chapter 986, Statutes of 2000)

1. Proposals to mitigate fuel price volatility in California have been seriously considered in the past. The State reached conclusions that show, at least at the time, that the solutions examined were subject to too many risks, uncertainties, and potential unintended consequences. As a matter of public record, the CEC rejected establishment of a SFR in 2003.
2. The documentation also shows that **thorough** analysis of policy options takes both time and resources, demonstrated by the depth and breadth of documentation and the more than two full years that the public, consultants, and the CEC took to thoroughly examine the options. This is a far more robust effort than the single page of pros and cons on the matter included in the 2024 Transportation Fuels Assessment recently adopted by the commission.<sup>34</sup>
3. Any serious engagement with industry to develop a Strategic Fuel Reserve – or other policy options to stabilize fuel supplies and mitigate gasoline price volatility – requires expertise and resources that the CEC does not currently have and is not likely to develop in the urgent time frame implied in the Governor’s public messaging and his pressure on the Legislature to find immediate solutions.

Finally, the CEC’s Petroleum Market Advisory Committee (PMAC) – which was formed in 2014 to advise the Commission on the transportation fuel supply system and fuels markets – considered the potential of a SFR among several policy options through a series of meetings from 2014 to 2017. In its September 13, 2017, meeting at which they delivered their final report (before the Committee was dissolved by order of the CEC) – the Committee concluded that a SFR would not be an appropriate response to the gasoline price volatility that followed the Torrance refinery event in 2015. Again, their final report concurred with conclusions previously reached by the CEC in 2003.<sup>35</sup>

Therefore, in the interest of transparency and thoroughness, WSPA herein submits to the docket a full record of the previous work conducted by the commission, including presentations in workshops, transcripts of those workshops, reports by consultants, and reports published by the commission itself. WSPA finds that this full record is likely to contain substantive information useful to the public and demonstrates by example the kind of serious work that is required to develop and establish energy policies of such gravity and consequence.

The documents – submitted in supplemental packages to the docket – are outlined in the chronological record of the documentation in Appendix 1 (attached). To demonstrate the breadth and scope of the work previously published by the CEC, WSPA is also submitting to the docket the entire publicly available record of those documents in separate filings.

## CONCLUSION

WSPA appreciates the opportunity to provide our comments on these issues of critical importance not only to us, but to all California citizens – and citizens of other states dependent on California’s fuel supply chain – who rely on affordable and reliable sources of transportation fuel every single day. These comments are based on WSPA’s review of the materials and statements at the workshop, and we reserve the right to amend these comments or add to the docket as necessary to reflect additional materials or changes in the CEC’s decisions.

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<sup>34</sup> Gee, Quentin, and Aria Berliner and Alexander Wong. 2024. 2024 Transportation Fuels Assessment. California Energy Commission. Publication Number: CEC-200-2024-003-CMF. Adopted by unanimous vote of the Commission at their regular business meeting August 14, 2024.

<sup>35</sup> Borenstein, Severin, Kathleen Foote, Dave Hackett, Amy Jaffe, and James Sweeney. Petroleum Market Advisory Committee, 2017. Petroleum Market Advisory Committee Final Report, December 2014 to November 2016. California Energy Commission. Publication Number: CEC-200-2017-007. Available at <https://www.energy.ca.gov/data-reports/planning-and-forecasting/petroleum-market-advisory-committee>. (Last accessed 8/27/2024.)

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

Sincerely,

A handwritten signature in blue ink, reading "Catherine H. Reheis-Boyd". The signature is written in a cursive style with a large initial "C".

Catherine H. Reheis-Boyd  
President and CEO

**Appendix 1:**

Chronological Sequence of Documents Produced 2002-2003 by CEC Under AB 2076 (Shelley, Chapter 936, Statutes of 2000) – RE Strategic Fuel Reserve Options for California

**Attachments under separate cover submitted to the docket:**

As outlined in Appendix 1, each of the documents enumerated will be submitted under separate cover to Docket 23-SB-02.



## **Appendix 1: Chronological Sequence of Documents Produced 2002-2003 by CEC Under AB 1717 (Shelley, Chapter 936, Statutes of 2000) – RE Strategic Fuel Reserve Options for California**

### ***Archived CEC Strategic Reserve Documents Page Website***

[https://web.archive.org/web/20061005153802/http://www.energy.ca.gov/strategic\\_reserve/documents/](https://web.archive.org/web/20061005153802/http://www.energy.ca.gov/strategic_reserve/documents/)

### **California SFR March 13, 2002 Workshop – Stillwater Draft Report**

Online March 11, 2002

[https://web.archive.org/web/20060926185303/http://www.energy.ca.gov/reports/2002-03-11\\_600-02-004CR.PDF](https://web.archive.org/web/20060926185303/http://www.energy.ca.gov/reports/2002-03-11_600-02-004CR.PDF)

File Name: 2002-03-11\_600-02-004CR.pdf

115 pages

### **California SFR March 13, 2002 Workshop – Stillwater Presentation**

Online March 13, 2002

[https://web.archive.org/web/20061001041709/http://www.energy.ca.gov/strategic\\_reserve/documents/2002-03-13\\_STILLWATER\\_PRES.PDF](https://web.archive.org/web/20061001041709/http://www.energy.ca.gov/strategic_reserve/documents/2002-03-13_STILLWATER_PRES.PDF)

File Name: 2002-03-13\_STILLWATER\_PRES.pdf

101 Slides

### **California SFR March 13, 2002 Workshop Transcript**

Online March 26, 2002

[https://web.archive.org/web/20061001042146/http://www.energy.ca.gov/strategic\\_reserve/documents/2002-03-13\\_TRANSCRIPT.PDF](https://web.archive.org/web/20061001042146/http://www.energy.ca.gov/strategic_reserve/documents/2002-03-13_TRANSCRIPT.PDF)

File Name: 2002-03-13\_TRANSCRIPT.pdf

175 pages

### **California Strategic Fuels Reserve – Revised Contractor Report**

Publication Number P600-02-017D

Online July 4, 2002

[https://web.archive.org/web/20060926185106/http://www.energy.ca.gov/reports/2002-07-04\\_600-02-017D.PDF](https://web.archive.org/web/20060926185106/http://www.energy.ca.gov/reports/2002-07-04_600-02-017D.PDF)

File Name: 2002-07-04\_600-02-017D.pdf

199 pages

### **Economic Benefits of Mitigating Refinery Disruptions – Consultant Report**

Publication Number 600-02-018D.

Online July 8, 2002

[https://web.archive.org/web/20060926184643/http://www.energy.ca.gov/reports/2002-07-08\\_600-02-018D.PDF](https://web.archive.org/web/20060926184643/http://www.energy.ca.gov/reports/2002-07-08_600-02-018D.PDF)

File Name: 2002-07-08\_600-02-018D.pdf

114 Pages

### **April 2003 SFR Workshop – Agenda**

[https://web.archive.org/web/20061001041555/http://www.energy.ca.gov/strategic\\_reserve/documents/2003-04-24-25\\_agenda.html](https://web.archive.org/web/20061001041555/http://www.energy.ca.gov/strategic_reserve/documents/2003-04-24-25_agenda.html)

File Name: 2003-04-24-25\_agenda.pdf

2 Pages



### **Permit Streamlining for Petroleum Product Storage – Draft Consultant Report**

Publication Number P600-03-006D

April 2003

Online April 15, 2003

[https://web.archive.org/web/20061001042021/http://www.energy.ca.gov/strategic\\_reserve/documents/2003-04-15\\_600-03-006D.PDF](https://web.archive.org/web/20061001042021/http://www.energy.ca.gov/strategic_reserve/documents/2003-04-15_600-03-006D.PDF)

File Name: 2003-04-15\_600-03-006D.pdf

77 Pages

### **Government Use of the California Gasoline Forward Market – Draft Consultant Report**

Publication Number P600-03-007D

April 2003

Online April 21, 2003

[https://web.archive.org/web/20061001041642/http://www.energy.ca.gov/strategic\\_reserve/documents/2003-04-21\\_600-03-007D.PDF](https://web.archive.org/web/20061001041642/http://www.energy.ca.gov/strategic_reserve/documents/2003-04-21_600-03-007D.PDF)

File Name: 2003-04-21\_600-03-007D.pdf

30 Pages

### **California Marine Petroleum Infrastructure – Draft Consultant Report**

Publication Number P600-03-008D

April 2003

Online April 21, 2003

[https://web.archive.org/web/20061001041611/http://www.energy.ca.gov/strategic\\_reserve/documents/2003-04-21\\_600-03-008D.PDF](https://web.archive.org/web/20061001041611/http://www.energy.ca.gov/strategic_reserve/documents/2003-04-21_600-03-008D.PDF)

File Name: 2003-04-21\_600-03-008D.pdf

13 Pages

### **April 2003 SFR Workshop – Panel Questions**

Online April 21, 2003

[https://web.archive.org/web/20061001042204/http://www.energy.ca.gov/strategic\\_reserve/documents/2003-04-21\\_questions.html](https://web.archive.org/web/20061001042204/http://www.energy.ca.gov/strategic_reserve/documents/2003-04-21_questions.html)

File Name: 2003-04-21\_questions.pdf

2 Pages

### **April 2003 SFR Workshop – April 24 Presentation: Government Use of the California Gasoline Forward Market - Jeffrey Williams & Gregg Haggquist**

Online April 24, 2003

[https://web.archive.org/web/20060926032620/http://www.energy.ca.gov/strategic\\_reserve/documents/2003-04-24-25\\_presentations/2003-04-24\\_WILIAMS-HAGQUIST.PPT](https://web.archive.org/web/20060926032620/http://www.energy.ca.gov/strategic_reserve/documents/2003-04-24-25_presentations/2003-04-24_WILIAMS-HAGQUIST.PPT)

File Name: 2003-04-24\_WILIAMS-HAGQUIST.ppt

16 Slides

### **April 2003 SFR Workshop – April 24 Presentation: Permit Streamlining for Petroleum Product Storage – ICF Consulting**

Online April 24, 2003

[https://web.archive.org/web/20060926032620/http://www.energy.ca.gov/strategic\\_reserve/documents/2003-04-24-25\\_presentations/2003-04-24\\_ICF.PPT](https://web.archive.org/web/20060926032620/http://www.energy.ca.gov/strategic_reserve/documents/2003-04-24-25_presentations/2003-04-24_ICF.PPT)

File Name: 2003-04-24\_ICF.ppt

42 Slides

**April 2003 SFR Workshop – April 24 Presentation: California Marine Petroleum Infrastructure – Stillwater Presentation**

Online April 24, 2003

[https://web.archive.org/web/20061001041456/http://www.energy.ca.gov/strategic\\_reserve/documents/2003-04-24-25\\_presentations/2003-04-24\\_MARINE\\_PETROLEUM.PDF](https://web.archive.org/web/20061001041456/http://www.energy.ca.gov/strategic_reserve/documents/2003-04-24-25_presentations/2003-04-24_MARINE_PETROLEUM.PDF)

File Name: 2003-04-24\_MARINE\_PETROLEUM.pdf

30 Slides

**April 2003 SFR Workshop – April 24 Presentations: California Strategic Fuels Reserve – Stillwater Presentation**

Online April 24, 2003

[https://web.archive.org/web/20061001041955/http://www.energy.ca.gov/strategic\\_reserve/documents/2003-04-24-25\\_presentations/2003-04-24\\_SFR\\_WORKSHOP.PDF](https://web.archive.org/web/20061001041955/http://www.energy.ca.gov/strategic_reserve/documents/2003-04-24-25_presentations/2003-04-24_SFR_WORKSHOP.PDF)

File Name: 2003-04-24\_SFR\_WORKSHOP.pdf

47 Slides

**April 2003 SFR Workshop – April 24 Presentations: Issues Related to the Strategic Fuels Reserve – Tony Finizza Presentation**

Online April 24, 2003

[https://web.archive.org/web/20061001041645/http://www.energy.ca.gov/strategic\\_reserve/documents/2003-04-24-25\\_presentations/2003-04-24\\_FINIZZA\\_TONY.PDF](https://web.archive.org/web/20061001041645/http://www.energy.ca.gov/strategic_reserve/documents/2003-04-24-25_presentations/2003-04-24_FINIZZA_TONY.PDF)

File Name: 2003-04-24\_FINIZZA\_TONY.pdf

37 Slides

**April 2003 SFR Workshop – April 25 Presentations: Selected Issues Related to Storage – Jeffrey Williams Presentation**

Online April 25, 2003

[https://web.archive.org/web/20060926032620/http://www.energy.ca.gov/strategic\\_reserve/documents/2003-04-24-25\\_presentations/2003-04-25\\_WILLIAMS.PPT](https://web.archive.org/web/20060926032620/http://www.energy.ca.gov/strategic_reserve/documents/2003-04-24-25_presentations/2003-04-25_WILLIAMS.PPT)

File Name: 2003-04-25\_WILLIAMS.ppt

27 Slides

**April 2003 SFR Workshop – April 25 Presentations: The Economic Context for the Strategic Fuels Reserve – Philip K. Verleger Presentation**

Online April 25, 2003

[https://web.archive.org/web/20060926032620/http://www.energy.ca.gov/strategic\\_reserve/documents/2003-04-24-25\\_presentations/2003-04-25\\_VERLEGER\\_PK.PPT](https://web.archive.org/web/20060926032620/http://www.energy.ca.gov/strategic_reserve/documents/2003-04-24-25_presentations/2003-04-25_VERLEGER_PK.PPT)

File Name: 2003-04-25\_VERLEGER\_PK.ppt

32 Slides

**April 2003 SFR Workshop – April 25 Presentations: Comments on Strategic Fuels Reserve – Robert Hermes, Purvin & Gertz Presentation**

Online April 25, 2003

[https://web.archive.org/web/20060926032620/http://www.energy.ca.gov/strategic\\_reserve/documents/2003-04-24-25\\_presentations/2003-04-25\\_HERMES.PPT](https://web.archive.org/web/20060926032620/http://www.energy.ca.gov/strategic_reserve/documents/2003-04-24-25_presentations/2003-04-25_HERMES.PPT)

File Name: 2003-04-25\_HERMES.ppt

11 Slides

### **April 2003 SFR Workshop – April 25 Presentations: Strategic Fuels Reserve: The Right Strategy? – Tony Hoff, ST Services Presentation**

Online April 25, 2003

[https://web.archive.org/web/20060926032620/http://www.energy.ca.gov/strategic\\_reserve/documents/2003-04-24-25\\_presentations/2003-04-25\\_HOFF\\_TONY.PPT](https://web.archive.org/web/20060926032620/http://www.energy.ca.gov/strategic_reserve/documents/2003-04-24-25_presentations/2003-04-25_HOFF_TONY.PPT)

File Name: 2003-04-25\_HOFF\_TONY.ppt

12 Slides

### **April 2003 SFR Workshop – April 24 Transcript**

Online June 1, 2004

[https://web.archive.org/web/20061001041739/http://www.energy.ca.gov/strategic\\_reserve/documents/2003-04-24\\_TRANSCRIPT.PDF](https://web.archive.org/web/20061001041739/http://www.energy.ca.gov/strategic_reserve/documents/2003-04-24_TRANSCRIPT.PDF)

File Name: 2003-04-24\_TRANSCRIPT.pdf

340 Pages

### **April 2003 SFR Workshop – April 25 Transcript**

Online June 1, 2004

[https://web.archive.org/web/20061001042216/http://www.energy.ca.gov/strategic\\_reserve/documents/2003-04-25\\_TRANSCRIPT.PDF](https://web.archive.org/web/20061001042216/http://www.energy.ca.gov/strategic_reserve/documents/2003-04-25_TRANSCRIPT.PDF)

File Name: 2003-04-25\_TRANSCRIPT.pdf

282 Pages

### **Feasibility of a Strategic Fuels Reserve – Draft Committee Report**

Publication Number P600-03-010D

July 2003

Online July 10, 2003

[https://web.archive.org/web/20061001041634/http://www.energy.ca.gov/strategic\\_reserve/documents/2003-07-10\\_600-03-010D.PDF](https://web.archive.org/web/20061001041634/http://www.energy.ca.gov/strategic_reserve/documents/2003-07-10_600-03-010D.PDF)

File Name: 2003-07-10\_600-03-010D.pdf

23 pages

### **Feasibility of a Strategic Fuels Reserve – Commission Report**

Publication Number P600-03-013CR

July 2003

Online July 31, 2003

[https://web.archive.org/web/20060926070356/http://www.energy.ca.gov/reports/2003-07-31\\_600-03-013.PDF](https://web.archive.org/web/20060926070356/http://www.energy.ca.gov/reports/2003-07-31_600-03-013.PDF)

File Name: 2003-07-31\_600-03-013.pdf

22 pages