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**WSPA Response to DPMO 9-13-2024 Letter 9-19-2024 [Docket #23-SB-02]**

*Additional submitted attachment is included below.*



**Catherine H. Reheis-Boyd**

President and CEO

September 19, 2024

Mr. Tai Milder  
Division of Petroleum Market Oversight, Director  
1516 9th Street  
Sacramento, CA 95814

**WSPA RESPONSE TO THE DIVISION OF PETROLEUM MARKET OVERSIGHT'S (DPMO) SEPTEMBER 13, 2024, GASOLINE MARKET UPDATE AND CONSUMER ADVISORY**

Dear Director Milder,

I am writing on behalf of the Western States Petroleum Association (WSPA) to address and correct assertions made in your September 13, 2024, letter to Governor Newsom, Assembly Speaker Rivas, and Senate pro tempore McGuire and in follow-on media briefing statements.

First, you claim that there is more than enough gasoline to meet California's fuel demand. But this is false. Years of State policies have discouraged investments and decreased refining capacity by reducing the number of in-state refineries available to produce California's unique gasoline blend. California had 30 refineries in the 1990's. Today we have nine. In fact, that was largely the *purpose* of these policies – to move California to different energy sources and to discourage the production and sale of gasoline. As a result, **California lacks the very infrastructure it needs to meet ongoing gasoline demand**, and it must turn to out-of-state imports when supply is impacted by unplanned refinery outages. After the many refinery closures over many decades, there is no additional capacity to bring online. Additional policy burdens on the few remaining refiners would only exacerbate this situation by disincentivizing investments in existing refineries – which could force more frequent unit shutdowns, thereby limiting supply and driving up prices – or cause more refiners to leave the State.

Second, you state that California needs to require the industry to have more supply during the busy driving seasons to help slow a run-up in gasoline prices. This assertion ignores two key capacity constraints: 1) daily gasoline production by California refineries equals driver consumption, meaning all gasoline produced is needed to supply the market, as was explained by the California Energy Commission's (CEC) own consultants, ICF and Stillwater Associates, in recent workshops and hearings – that refiners already produce as much fuel as they can reliably and safely produce; and 2) even if the gasoline was available, there is a lack of tankage at refineries to store supply, and building new tanks is not a feasible solution given that it takes the better part of a decade to build just one tank (at a cost in the tens of millions of dollars each) due to California's myriad of environmental requirements, and its well-known elongated permitting timelines, and subsequent legal challenges. A new policy that offers no solutions to these issues will not help Californians and would likely continue to discourage investment, which would likely lead to less fuel production and higher prices.

Third, you asserted that refiners have more storage capacity and simply choose to store less gasoline in the summertime. What this fails to recognize is that refiners have more *production capacity in the wintertime* given the easier-to-produce winter RVP specification and the generally lower driving demand. It also fails to recognize that refineries have a finite amount of gasoline tanks, which are actively used and needed in the gasoline production process. Thus, the combination of summer RVP gasoline specifications and increased driving demand impact supply – not refiner production or storage. What the CEC and DPMO staff have repeatedly failed to understand is that the logistics system for California’s fuel supply system is dynamic, constantly moving gasoline components to blend them into finished products that are required to be certified and then sent via pipelines to terminals where they are transported to gasoline stations to meet market demand. It is NOT a static system of expensive tanks containing finished products waiting to enter the market.

Fourth, you sought to discredit the influence of crude oil prices on rising gasoline prices, noting the stark price difference between California’s retail prices and the rest of the nation. But, as you know, California faces unique supply challenges. We have previously explained that there are many variables, in addition to global oil prices, in play. These include supply and demand of global gasoline and blend components, which are necessary for California’s unique fuel blend (i.e., as global inventories move, so does the cost to purchase, ship, and blend California’s gasoline), and California’s fundamentally constrained production capacity. California’s fuel supply chain is now structurally short and subject to short-term volatility given that California is a “fuel island,” with resupplies from Asia taking approximately 3-4 weeks to arrive in California.

Fifth, you have stated that California refiners may seek to sell gasoline at prices far exceeding any increase in their own input costs. However, you neglect to include the costs associated with obtaining imports. If the California gasoline spot market value becomes decoupled from the market value, crude oil and refined gasoline exporters may have reason to send their product elsewhere to ensure they can cover their production costs. And if California refiners are unable to recover their high operational costs, in this State, it may disincentivize them from investing here and potentially shift capital to other regions.

Lastly, you advised Californians to compare fuel prices. WSPA fully supports this. As an industry composed of private competitors, our retail members uniquely display prices on large, street-facing signs allowing consumers to make informed choices. Similarly, consumers should demand transparency from their representatives regarding the policies they support. The DPMO’s proposed policies pose risks to gasoline supply without guaranteeing stable prices. We suggest that consumers contact their representatives to request an estimated cost per gallon of gasoline in California, seek more information on policy proposals, including minimum inventory bills, and inquire about regulations under consideration for amendments like the Advanced Clean Cars II Regulation, the Low Carbon Fuel Standard, and the Cap-and-Trade program.

I hope this information is helpful in your ongoing efforts to better understand California’s complicated fuel supply market. Please do not hesitate to contact me for further information.

Sincerely,



Catherine H. Reheis-Boyd  
President and CEO