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*Additional submitted attachment is included below.*



September 26, 2024

California Energy Commission

Docket Unit

Docket No. 23-SB-02

715 P Street, MS-4

Sacramento, CA 95814

**RE: Docket #23-SB-02 -- SB X1-2 Implementation: Minimum Inventories and Resupply Requirements**

Dear Commissioners:

The Energy Marketers of America (EMA) submits the following comments on the California Energy Commission's (CEC) proposed plan (the Proposal) to impose minimum motor fuel inventories for refineries in the State as a price spike mitigation mechanism. As an initial matter, EMA associates with, and supports, the comments of the California Fuels and Convenience Alliance (CFCA) in its letter, dated August 26, 2024. We agree with CFCA's expressed, significant concerns about the Proposal's unintended consequences. As outlined by CFCA, a refinery inventory mandate would destabilize the California and neighboring states' fuels markets, adversely affecting small to mid-sized businesses and consumers.

EMA's marketers represent a vital link in the motor and heating fuels distribution chain. The diagram<sup>1</sup> of the refined products distribution system highlights the participants in the upstream, midstream and downstream oil and refined products industry. EMA member companies are downstream below the terminal rack — such as distributors, jobbers, small tankers, small bulk plants, and gas stations. EMA's member companies supply 80 percent of all finished motor and heating fuel products sold nationwide. Of the 150,000 retail gas stations in the U.S., the majority are independently owned and operated by small-to-medium sized businesses.

When discussing policy alternatives to mitigate price increases or spikes from supply disruptions or shortages, the CEC's Petroleum Market Advisory Committee noted the importance of considering the "unintended consequences" of any new policy mechanism.<sup>2</sup> In this regard, the CEC needs to consider the systemic impacts a fuel reserve mandate would have on the motor fuel supply chain, which would ultimately negate the intended benefits of the proposal. Indeed, state regulators should not overlook the proposal's effects on (1) the already high operational costs of refining due to the state's unique fuel specifications, (2) the burden of restricting fuel availability to marketers, and (3) the introduction of new pass-through compliance costs that would result in increased retail prices.

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<sup>1</sup> [https://www.energymarketersofamerica.org/pdfs/EMA\\_LB\\_SupChain3-24.pdf](https://www.energymarketersofamerica.org/pdfs/EMA_LB_SupChain3-24.pdf)

<sup>2</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.

EMA acknowledges that refined product reserves can be an effective strategy for mitigating supply disruptions during natural disasters, ensuring that essential services and communities can access critical fuel supplies when distribution networks are compromised. Importantly, emergency fuel reserves are intended to be a short-term crisis management tool, functioning as market stabilizers. However, stockpiling motor fuels on a continuous basis above normal inventories destabilizes market dynamics, yielding problematic outcomes.

### **1. Contingency Fuel Reserves are Likely to Destabilize the Downstream Supply Chain Leading to Higher Retail Prices.**

Mandating California refineries to stockpile fuel supplies as a policy to curb retail gas prices in the State introduces multiple inefficiencies that disrupt the energy supply chain downstream and has the opposite result. Instead of mitigating price spikes, minimum contingency fuel reserves are likely to destabilize markets and increase prices for consumers, even without unplanned refinery shutdowns. The costs of the stockpiles will be passed through to the market.

Refineries in California already operate in a burdensome regulatory landscape. Adding inventory requirements will impose more operational burdens involving additional capital expenditures in many instances for storage capacity. There are also ongoing costs associated with maintaining these reserves, including monitoring and security. Ultimately, these costs are likely to be passed down the supply chain to consumers at the pump, thereby undermining the intended goal of reducing retail fuel prices.

Holding supplies in reserve rather than making them available on the open market also restricts liquidity in fuel markets, affecting energy marketers and consumers. Fuel marketers rely on liquid markets to manage price risks and secure stable fuel supplies for their customers. Lower liquidity, brought by stockpiling mandates, can lead to increased risk and price volatility. Small to mid-sized businesses are more vulnerable to the effects of reduced liquidity. Ultimately, these impacts to fuel market liquidity would be felt by consumers in the form of higher retail prices.

Importantly, the impacts are not contained within California. Unfortunately, neighboring states like Nevada and Arizona, which depend on California refineries for a significant portion of their fuel supplies, would be directly affected by the artificial bottleneck being created by the CEC. Disruptions in the supply chain could cause delays in fuel shipments, limiting the availability of gasoline in these states and exacerbating local price volatility.

All the roads lead to higher consumer prices.

### **2. Emergency Fuel Reserves are Intended to be Short-Term Market Stabilizers.**

Emergency fuel reserves are best suited for short-term crisis management, not for addressing the complexities of long-term market dynamics. For instance, the Northeast Home Heating Oil Reserve (NEHHOR)—the only refined product reserve currently operating in the United States—was established to avoid supply disruptions in the event of major winter storms. Further, the discontinued Northeast Gasoline Supply Reserve (NGSR) was created in 2014 following Superstorm Sandy's catastrophic damage to refineries and terminals in New York harbor. Both emergency reserves were created to buy time for industry to respond to supply disruptions due to natural disasters, not planned refinery outages or to reduce fuel prices.

In the fuels marketing industry, disaster recovery typically takes two to three times longer than the duration of the disaster itself. When fuel supply is disrupted, emergency fuel supplies, hours-of-service (HOS) waivers, and fuel volatility waivers are essential to restore the flow of finished fuel products to downstream users. The HOS waiver increases the number of loads that can be delivered and extends the distance traveled to reach distant supplies during emergency declarations. Additionally, when a terminal or pipeline outage occurs, normal inventories of finished fuel products take time to work their way back through the distribution chain to storage terminals. Emergency stockpile fuel reserves act as an insurance policy in case a major disaster strikes. The usefulness of emergency reserves, as market stabilizers, cannot be extrapolated to address price spikes long-term.

EMA appreciates this opportunity to comment.

Sincerely,

A handwritten signature in black ink, appearing to read "Rob Underwood". The signature is fluid and cursive, with the first name "Rob" being more prominent than the last name "Underwood".

Rob Underwood  
President