



California Energy Commission Hearing on California Gasoline Price Spikes, Refinery Operations, and Transitioning to a Clean Transportation Future

David J. Hackett
Chairman
Stillwater Associates LLC
November 29, 2022



When California gasoline prices spike, everyone wants to know why

Why gas prices are shooting up in California and not in other states



San Francisco Examiner

California repeatedly warned about spiking gas prices, fragile supply. But fixes never came



Los Angeles Times

Severin and I know that gas prices have gotten too high when reporters call looking for an interview on the issue.

You are looking for answers



CALIFORNIA
ENERGY COMMISSION



As the state's primary energy policy and planning agency, the Energy Commission is committed to reducing energy costs and environmental impacts of energy use while ensuring a safe, resilient, and reliable supply of energy.

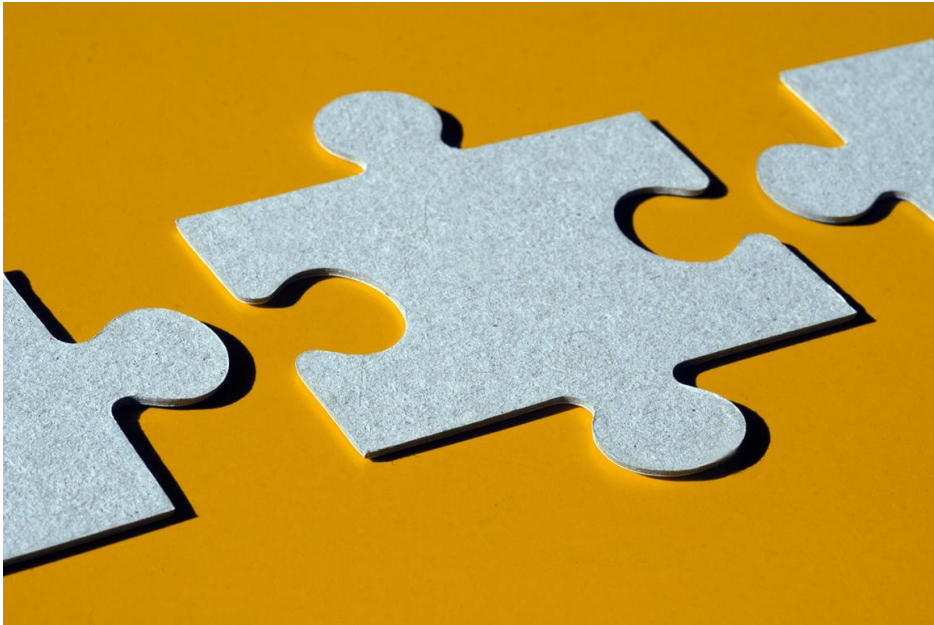
What to do about gasoline supply and price today and through the energy transition?



The issues include;

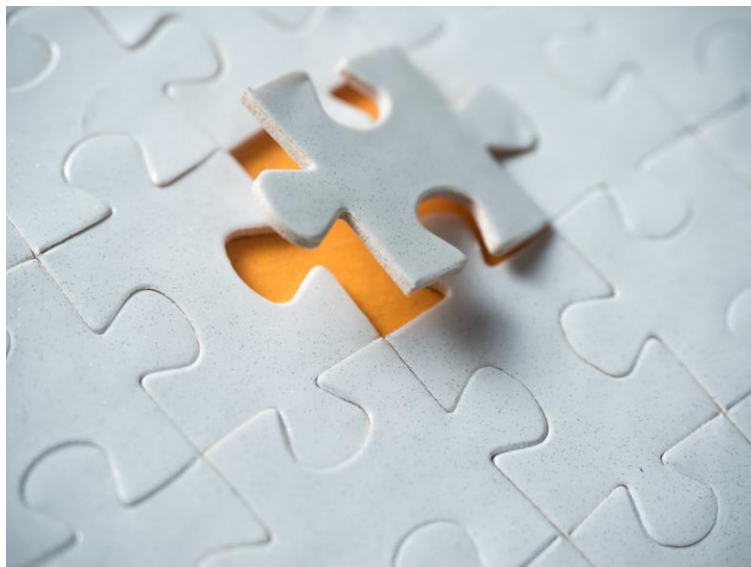
1. Everyday high gas prices.
2. Price spikes due to refinery issues and geographic isolation.
3. Historic rapid transition to a different form of transportation energy.

You want to understand today's problems and plan for the future



There are a lot of moving pieces.

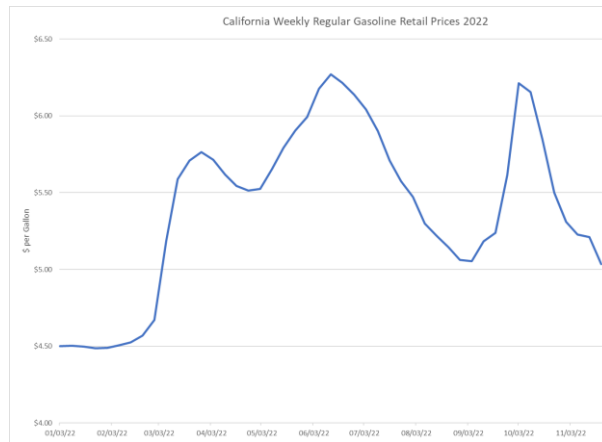
Today's session is designed to provide useful information about these critical issues



Important information will be presented today.

What caused the September price spike?

Retail prices rose dramatically



Source: EIA



The price spike was a supply issue caused by:

1. A reduction of refinery gasoline production by 88 kbd vs prior year. This is equivalent to a mid sized refinery's output. We think this is generally a Covid hangover, but there are other factors as well.
2. Gasoline imports were also lower than 2021, caused by a near tripling of freight rates.
3. This resulted in a strong inventory draw to decade record low inventory levels.
4. Consequently, spot prices rose as supply dried up, pushing retail prices up.

What are the recommendations to prevent spikes and reduce gasoline prices?

First, we need to understand the two basic issues.

There are two issues on the table:

1. Price spikes
2. Ongoing high retail prices

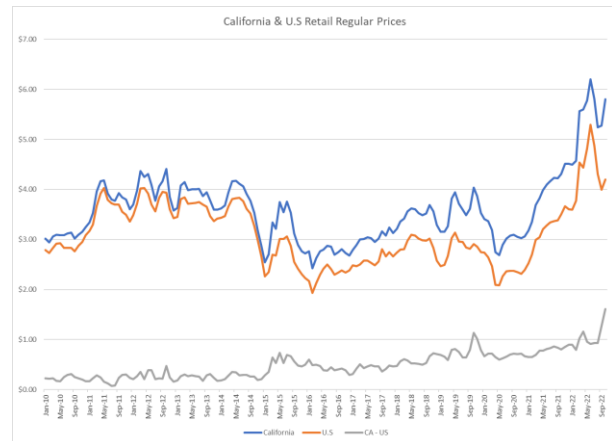
7 

The 2 basic issues are:

1. The Energy Commission needs to take a serious look at the impact of local and state regulations on the viability of the oil industry.
2. Gain an understanding of how oil is priced along the supply chain to ensure that any measures applied to pricing issues are applied at the right place in the supply chain from the well head to the consumer.
 - a. A component of the Mystery Gas Surcharge is the gross profit margin that can be defined as the difference between retail price and rack price. Stillwater's analysis indicates that this is higher than the rest of the country because of a lack of competition. One factor in the lack of competition is that California has twice as many licensed drivers per station as the rest of the country.
3. Finally, the CEC should review the work the Commission has done in the past in this area, especially including the work in 2002-2003 on the Strategic Fuel Reserve and related issues.

What is the impact on consumers?

California consumers pay more for fuel



Source: EIA

Price spikes occur around unplanned refinery maintenance and are more dramatic than in the rest of the country because of the isolation from alternative supplies.

After spot prices spike, retail prices are slow to return to prior levels

Not shown in this exercise, but other components of the higher prices include that California has higher excise, sales, and local taxes, plus the greenhouse gas fees that other states don't have.

What needs to be considered in the transition study?

This is an historic shift from oil & gas to electricity

What will it take to shift all the energy in the oil and gas pipelines to the wire?

We don't think anyone really knows.



1. Realistic assumptions on how fast transportation alternatives can come on-line are imperative. For example, according to Stillwater's analysis of ARB data, the real success story of the LCFS is renewable diesel which makes up about 37% of diesel energy, while Electric Vehicles only make up 0.5% of light duty vehicle energy.
2. We are concerned that the fuels refineries will shutter before the transition is complete, leaving the market import dependent. We don't want the state's energy policy to export its strategic refining capacity to Asia Pacific or Europe.



Stillwater Associates®
...experience runs deep

Thank you.
Questions?



A transportation energy consulting firm focused on policy, technology development, mergers & acquisitions, and litigation support.

888-643-0197

www.stillwaterassociates.com