



## DIVISION OF PETROLEUM MARKET OVERSIGHT



September 13, 2024

The Honorable Gavin Newsom  
Governor  
1021 O Street, Suite 9000  
Sacramento, CA 95814

The Honorable Mike McGuire  
Senate President pro Tempore  
1021 O Street, Suite 8518  
Sacramento, CA 95814

The Honorable Robert Rivas  
Speaker of the Assembly  
1021 O Street, Suite 8330  
Sacramento, CA 95814

### **Re: California Gasoline Market Update and Consumer Advisory**

Dear Governor Newsom, President pro Tempore McGuire, and Speaker Rivas:

The Division of Petroleum Market Oversight (DPMO) is providing this California Gasoline Market Update and Consumer Advisory pursuant to the independent market oversight function described in the California Gas Price Gouging and Transparency Law, Senate Bill X1-2 (Skinner, 2023).

California is once again seeing a significant spike in gasoline prices and a troubling lack of liquidity on the wholesale spot market in response to refinery maintenance.<sup>1</sup> These spot market prices have surged while both crude oil and national gasoline prices have been declining. So, while retail gasoline prices have not hit the record highs associated with previous price spikes in September 2022 and September 2023, the gap between prices in California and the rest of the United States is growing significantly larger.

### **Gasoline Refinery Maintenance and Market Update**

Due to new industry reporting requirements put in place by the California Gas Price Gouging and Transparency Law, the California Energy Commission (CEC)

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<sup>1</sup> DPMO, "Core Options for Reforming the California Gasoline Spot Market," Letter to the Governor (Jan. 31, 2024); see Oil Price Information Service (OPIS), "Volatility and Uncertainty in Bay Area Gasoline Market Deter Trade" (Sept. 12, 2024) (noting significant maintenance-based supply constraints).

## California Gasoline Market Update and Consumer Advisory

has greater visibility into supply disruptions caused by planned and unplanned maintenance. As has been publicly reported, there are several maintenance events at multiple refineries in different parts of the state. News of these refinery issues, along with reports of declining inventory numbers, is contributing to upward pricing pressures.

Unfortunately, undersupply during maintenance is not a new phenomenon. In late summer and early fall of 2023, refinery maintenance contributed to a significant price spike that cost Californians up to \$2.2 billion.<sup>2</sup> There was also a major price spike in September and October of 2022, which occurred when planned maintenance at four refineries significantly reduced production.<sup>3</sup>

In addition, it appears that there are insufficient inventories to protect consumers from the impacts of these supply disruptions. California gasoline and blendstock inventories have declined over the summer from 11.2 million barrels in late June to 9.9 million barrels last week – a 12% reduction.<sup>4</sup> This is consistent with refiners maintaining lower inventories in the critical late summer and early fall months, especially when compared to the winter months. As a reference point, California refiners had 12.3 million barrels in storage as recently as January of 2024.<sup>5</sup> This seasonal reduction in inventories exacerbates the impact of supply disruptions and leaves less of a buffer available for unplanned outages.

To be clear, there is more than enough gasoline to meet California's day-to-day needs. Nonetheless, a lack of liquidity at the spot market level<sup>6</sup> due to the supply disruptions is pushing prices upward. These price increases are highest in Northern California, where spot market prices for California gasoline have exceeded \$1 per gallon above the New York Mercantile Exchange (NYMEX) index for reformulated gasoline. The Los Angeles spot market has also jumped, though not as precipitously. While only a small fraction of California's gasoline is traded on the spot market, other large contracts are pegged to spot market prices and price increases are passed on to consumers at the pump.<sup>7</sup>

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<sup>2</sup> DPMO, "Conceptual Frameworks for Resupply and Minimum Inventory Requirements," (Aug. 22, 2024), <https://efiling.energy.ca.gov/GetDocument.aspx?tn=258640>.

<sup>3</sup> CEC, "CEC Holds Hearing on Recent Gasoline Price Spikes and Measures to Protect Consumers," (Nov. 30, 2022), <https://www.energy.ca.gov/news/2022-11/cec-holds-hearing-recent-gasoline-price-spikes-and-measures-protect-consumers>.

<sup>4</sup> CEC, "Refinery Stocks," <https://www.energy.ca.gov/data-reports/reports/weekly-fuels-watch/refinery-stocks>.

<sup>5</sup> See *id.*

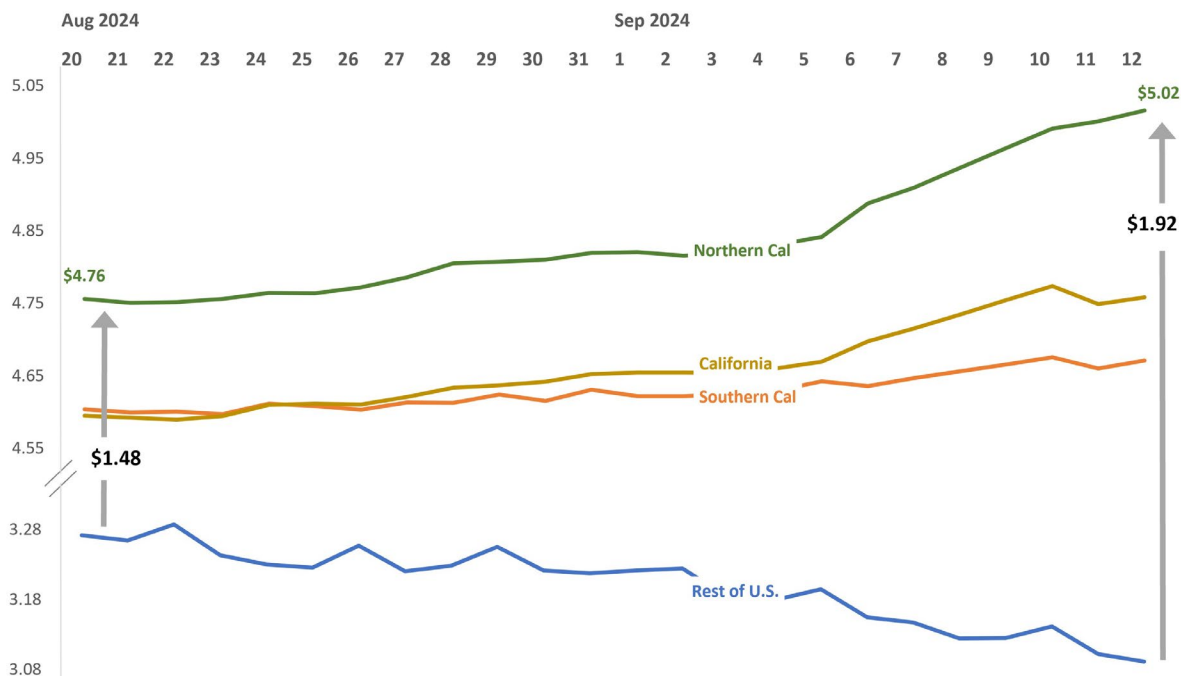
<sup>6</sup> DPMO, "Core Options for Reforming the California Gasoline Spot Market," Letter to the Governor (Jan. 31, 2024) <https://efiling.energy.ca.gov/GetDocument.aspx?tn=254283>.

<sup>7</sup> See DPMO, "Interim Update on California's Gasoline Market" (Sept. 2023), and "Core Options for Reforming the California Gasoline Spot Market" (Jan. 31, 2024).

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Because of supply disruptions, inadequate inventories, and spot market volatility, gasoline prices in California are increasing markedly. In the past month, statewide retail gas prices as reported by AAA have ticked up from \$4.60 to \$4.77 per gallon. This price spike is most pronounced in Northern California, where retail prices have jumped by more than 25 cents in numerous counties in the past week—to more than \$5 per gallon in most areas (and higher in many).

Average Price of Gasoline, \$/Gallon



This increase cannot be explained by crude oil prices, which have declined by about 25 cents per gallon in the same period—with benchmark crude prices at some of their lowest levels in more than three years.<sup>8</sup> Nor is it consistent with national gas prices, which have declined on average by more than 20 cents in the past month.<sup>9</sup> As a result, the gap in gasoline prices in California and the rest of the nation has ballooned by more than 30%, to a growing delta of \$1.54 per gallon statewide. Again, the impact is most severe in Northern California, where the short-term increase is more than 60% to a delta of \$1.92 over national prices.

<sup>8</sup> See McCartney, Georgina, REUTERS, “Oil Settles Near 3-Year Low” (Sept. 10, 2024).

<sup>9</sup> Graph and related datapoints from CEC and DPMO analysis of OPIS and AAA gas price data.

## **Consumer Advisory**

DPMO is concerned that excessive profit taking by refiners and major industry players in the current, constrained market will come at a huge cost for California consumers—as it has at this time of year in the past two years.

In current market conditions, California refiners may seek to sell gasoline at prices far exceeding any increase in their own input costs. The prices for crude oil are low, as are corresponding prices for reformulated gasoline sold on the NYMEX. Simply put, there is no reason to believe that the core operational costs of refining crude oil into gasoline in California are higher today than they have been in recent months. As a result, price spikes at the pump will once again yield profits spikes for the oil industry.

There is ample precedent for this concern. The California Gas Price Gouging and Transparency Law found that the 2022 gas price spike was “due in significant part to opportunistic price gouging by oil companies.”<sup>10</sup> In May 2024, DPMO reported that preliminary refiner margin data for August, September, and October 2022 was consistent with the Legislature’s findings in SBX1-2.<sup>11</sup> This preliminary assessment was based on publicly available data from the CEC’s Estimated Gas Price Breakdown and Margins dashboard.<sup>12</sup>

With prices on the rise, DPMO encourages Californians to shop around and compare prices for branded and generic gasoline. While some retail gas stations may charge significantly more for branded gasoline with proprietary detergents, all gasoline sold in California contains detergents and meets the state’s high standards for emissions control and engine performance.<sup>13</sup>

## **Conclusion**

DPMO will continue its consumer protection work by actively monitoring spot market trades, scrutinizing industry activity, and identifying profiteering behavior during this critical period. We look forward to working with you to ensure accountability and bring relief to Californians.

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<sup>10</sup> SBX1-2, the California Gas Price Gouging and Transparency Law.

<sup>11</sup> DPMO, “SBX1-2 Overview and Update on Oil and Gas Market Oversight Activities,” Assembly Committee on Utilities and Energy (May 15, 2024) <https://www.assembly.ca.gov/media/assembly-utilities-and-energy-committee-20240515>.

<sup>12</sup> California Energy Commission, “Estimated Gas Price Breakdown and Margins,” <https://www.energy.ca.gov/estimated-gasoline-price-breakdown-and-margins>.

<sup>13</sup> California Air Resources Board, “California Reformulated Gasoline,” <https://ww2.arb.ca.gov/our-work/programs/fuels-enforcement-program/california-reformulated-gasoline>; California Energy Commission “Additional Analysis on Gasoline Prices in California” [https://www.energy.ca.gov/sites/default/files/2019-11/Gas\\_Price\\_Report.pdf](https://www.energy.ca.gov/sites/default/files/2019-11/Gas_Price_Report.pdf)

California Gasoline Market Update and Consumer Advisory

Sincerely,



Tai Milder  
Director  
Division of Petroleum Market Oversight

CC: Members, Senate Committee on Energy, Utilities, and Communications  
Members, Assembly Committee on Utilities and Energy  
Members, Assembly Committee on Petroleum and Gasoline Supply  
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