Additional Proposals to Address Supply

Jamie Court, President, Consumer Watchdog

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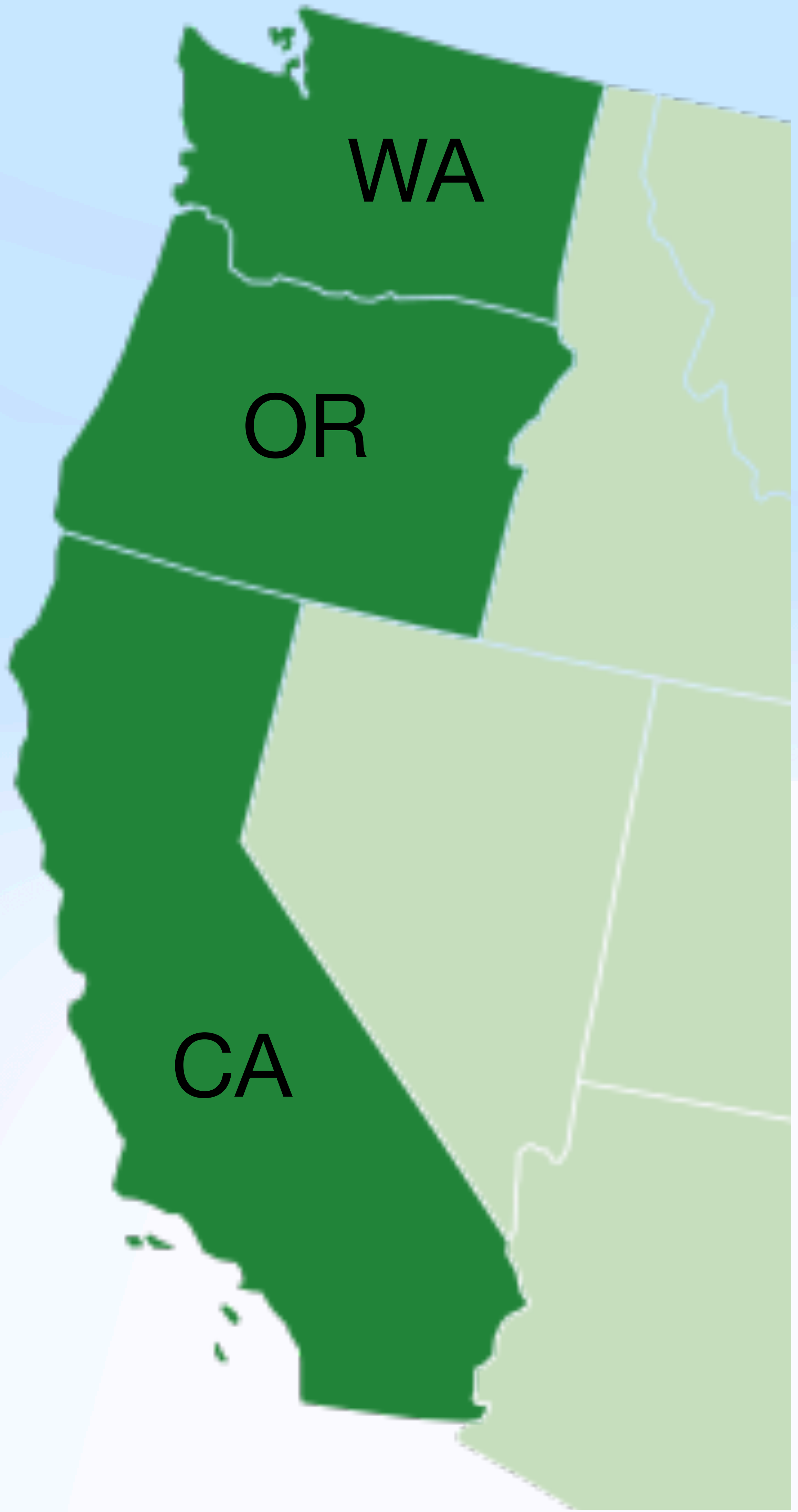
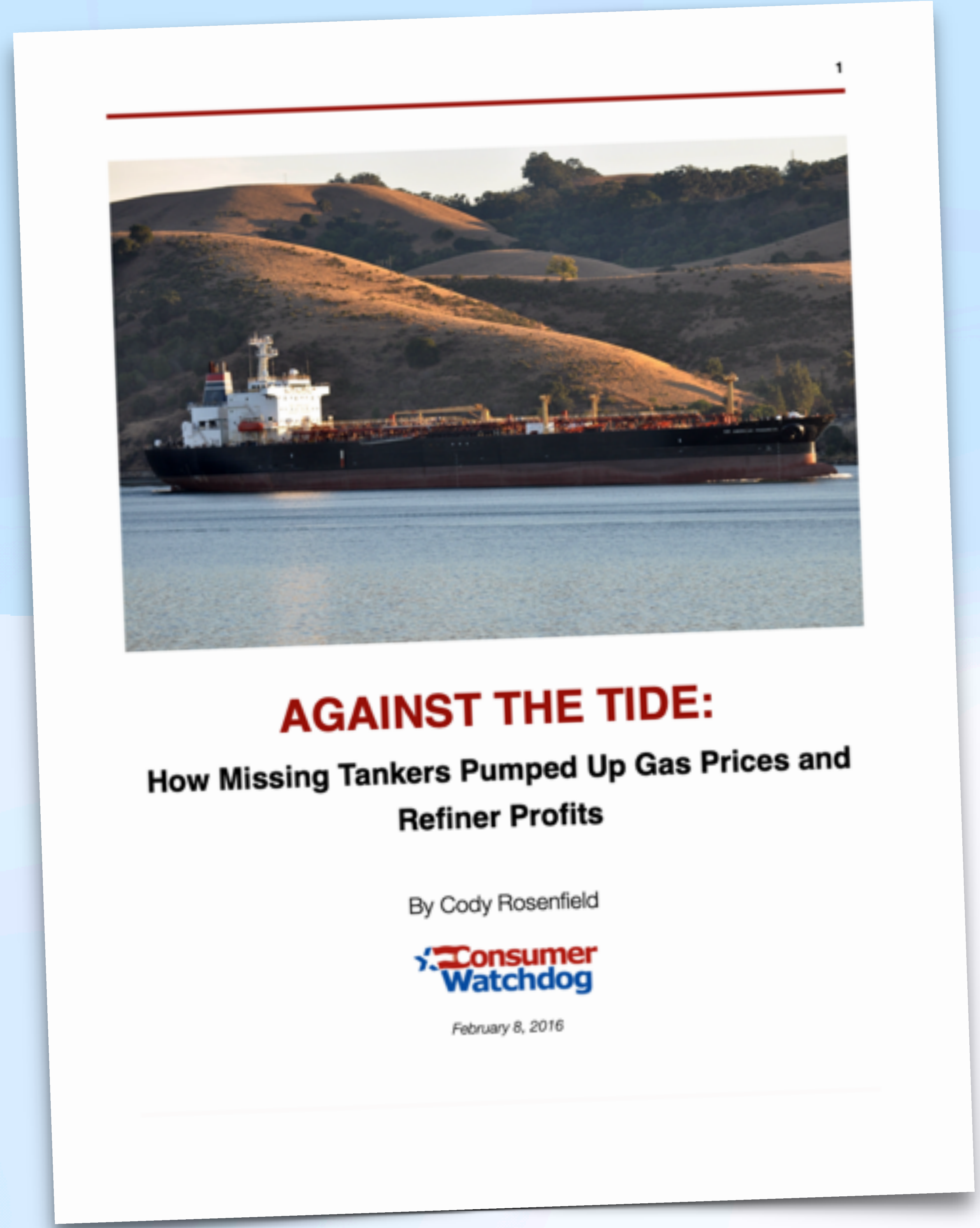
Consumer Watchdog

One West Coast CARB standard



Export Controls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AGAINST THE TIDE:

How Missing Tankers Pumped Up Gas Prices and Refiner Profits

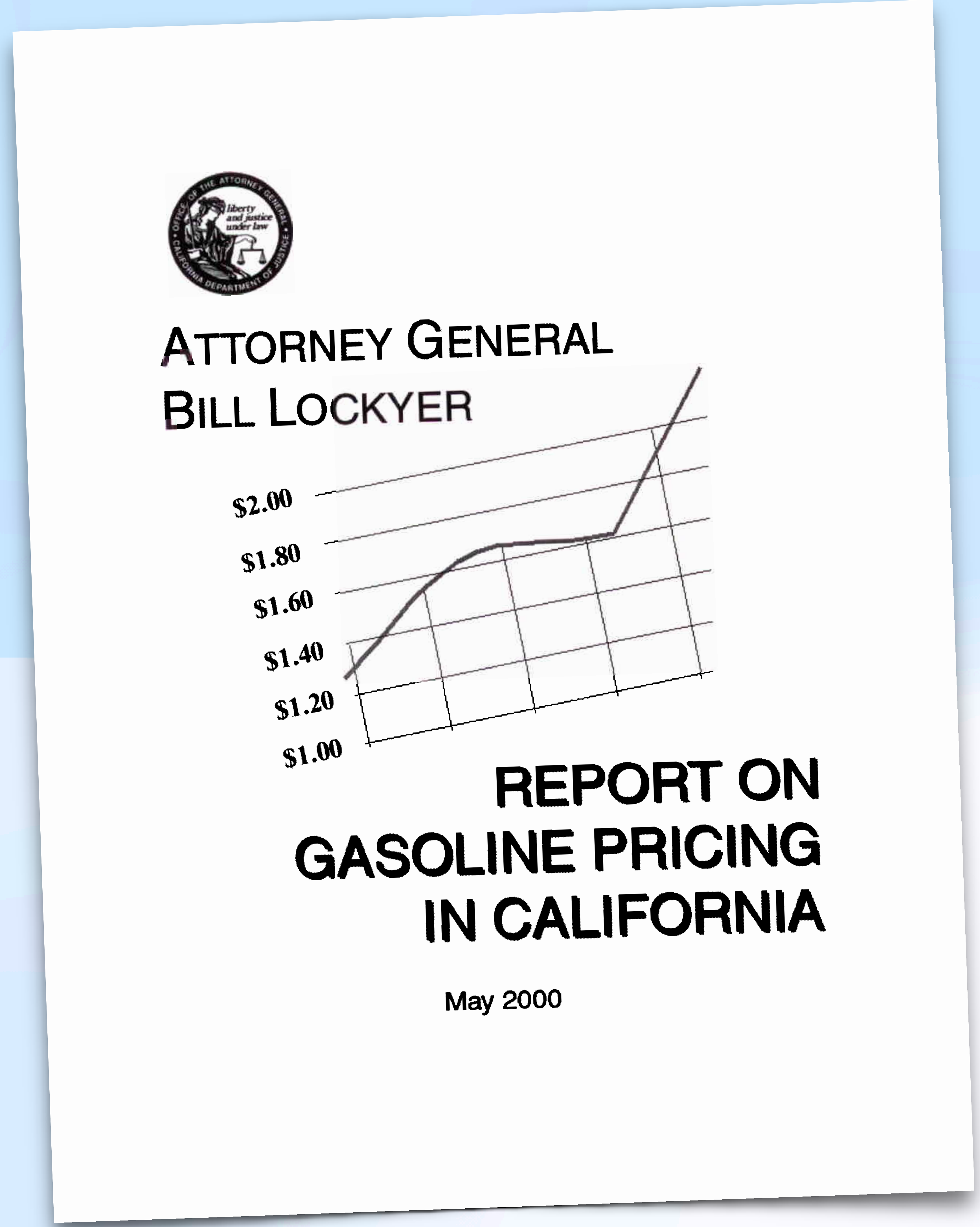
By Cody Rosenfield

Consumer Watchdog

February 8, 2016

“The study concludes that the largest oil refiners calibrated imports and exports of gasoline to artificially inflate gasoline prices"

State Gasoline Reserve



"Some members questioned whether CARB gasoline can be stored over long periods of time and stated that the product has a shelf life of weeks or a few months at most."

A. Branded Open Supply

The Attorney General supports a branded open supply proposal that would allow branded dealers that are currently supplied directly by refiners to purchase gasoline from any source selling the brand of gasoline they are required by the refiner to sell. In other words, a Chevron dealer could purchase its gasoline directly from Chevron as it does now, or it could purchase its gasoline from a Chevron jobber if the jobber offered a lower price. This proposal would increase competition in metropolitan areas that are currently the exclusive distribution territory of the major brand refiners, and thereby reduce prices to consumers. It would also reduce a refiner's ability to maintain discrete pricing zones within metropolitan areas.

Review of Issues

Refiners sell gasoline to their lessee-dealers and branded open dealers at a DTW price that includes delivery to the station. Jobbers purchase the same branded gasoline from refiners at the lower rack price. In areas such as San Francisco and San Diego, the difference between the DTW and the branded rack price can be 10 cents per gallon, a difference that is much larger than the cost of transportation from the terminal to the station.

Refiners do not allow their dealers the option of purchasing from the rack and thereby reducing their costs the way that jobbers can. Nor do they typically allow their jobbers to supply branded gasoline to lessee-dealers or open dealers in major metropolitan areas. Jobbers are typically limited to supplying a given set of stations in rural areas. As a result, refiners have carved out exclusive territories for themselves where they are insulated from any potential competition.

Jobbers would provide competition to refiners if they were allowed to sell gasoline to dealers in the refiner's direct-supply areas. Jobbers have more buying power than individual dealers and would be able to bargain for lower prices. This buying power comes from their control of retail stations in other areas and the fact that they have the ability to shop among refiners and switch brands periodically as their contracts permit. If jobbers were allowed to compete for the right to supply lessee-dealers and open branded stations in metropolitan areas, they would be able to use their buying power to obtain lower prices from refiners, which they could pass along to dealers.

Analysis of Industry Objections

WSPA and refiners oppose branded open supply. They claim it would actually increase prices to consumers in some areas. For example, they claim that if San Diego dealers were able to purchase gasoline at the lower Los Angeles rack price, then Los Angeles dealers would have to pay more, increasing prices to consumers in Los Angeles. They also claim that it would interfere with the current efficient operation of their distribution systems, resulting in increased costs and prices to all consumers. Others have argued that branded open supply would not reduce the average level of prices to consumers because

A. Branded Open Supply
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Attorney General's Comments

California's businesses and consumers regularly pay among the highest gasoline prices in the nation. Recent price "spikes" caused by refinery outages sent prices above $2.00 per gallon for self-serve regular gasoline. Regional pricing differences have San Francisco Bay Area motorists paying as much as 20 cents per gallon more than those in Los Angeles, even though the gasoline sold in Los Angeles may well have been refined in the San Francisco Bay area.

These high prices erode the competitiveness of California's industries and reduce the real income of our citizens. The confluence of factors that support high gasoline prices has been a long time in the making, and it is unrealistic to suggest that there is a quick fix to our problem. Even so, it is important to begin taking the steps necessary to increase competitiveness in California gasoline markets, increase gasoline supplies, and further conserve fuel. These initiatives include:

- **Increase Competition and Reduce Prices**: The Attorney General has some power to affect gasoline prices directly. I intend to aggressively use these powers. I have and will review mergers with an eye toward adding new competitors to the California market. I will take all reasonable steps to represent the public interest in disputes affecting gasoline prices. For example, my office recently challenged the legality of a Unocal patent claim to a gasoline formula that could, if enforced, increase prices five cents per gallon. I will act on any genuine opportunity to prevent gasoline prices from climbing higher. While the work of the Task Force is finished, other investigations of California's gasoline market continue.

- **Strategic Gasoline Reserve:** Refiners keep far less gasoline in storage than they did a decade ago. As a result, any refinery outage is now far more likely to cause a substantial price hike. Simply put, the industry's margin for error is smaller than ever. Even a brief disruption of production at a California refinery can spike gasoline prices. To blunt this problem, policy makers should consider a Strategic Gasoline Reserve to be tapped for release to the market when prices begin to spike.

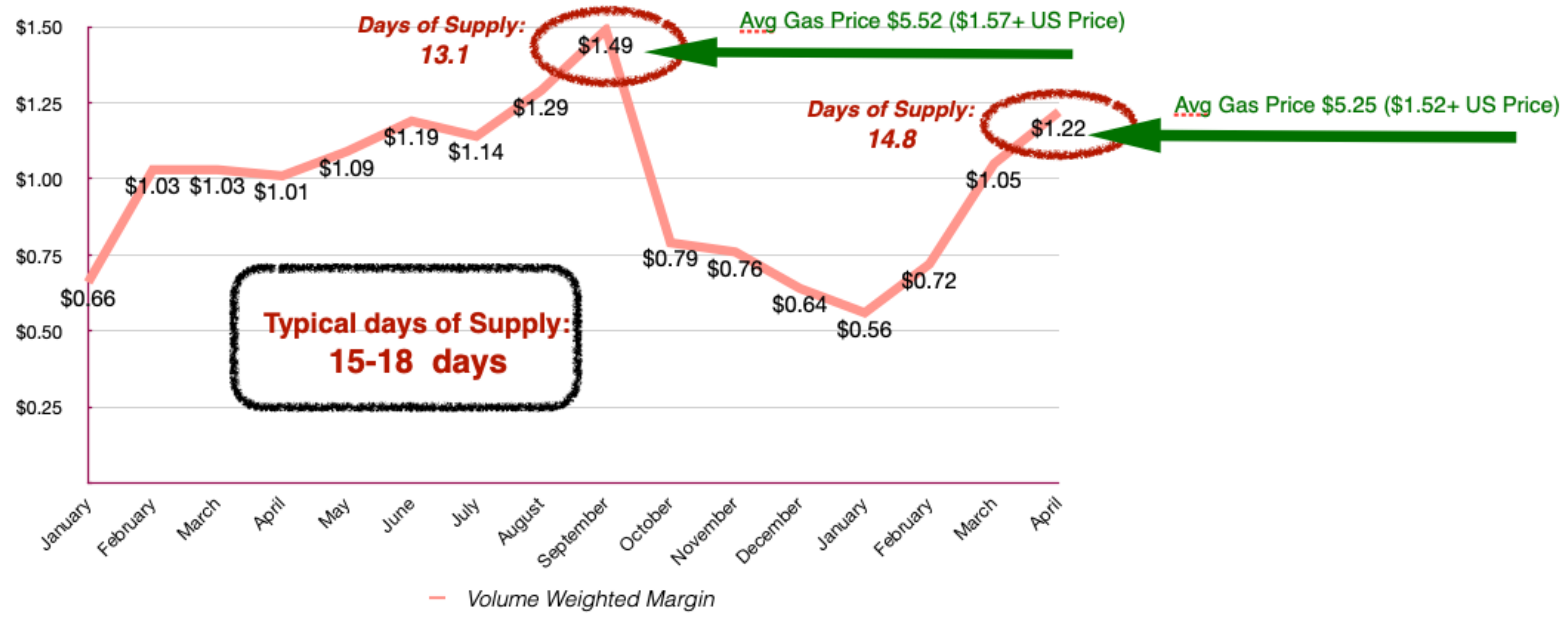
- **Require the State to Purchase Imported Supplies of Fuel for Its Own Use**: State and local governments consume significant amounts of gasoline in police cars, ambulances and other vehicles. By supplying their needs through imports or newly developed supplies in California, government agencies could augment gasoline supplies by two percent or more. This measure could save consumers hundreds of millions of dollars each year.

- **Take Aggressive Steps to Increase Fuel Economy and Use of Alternative Fuels:** There are a number of opportunities to increase fuel economy and to encourage non-gasoline-based technology. Every gallon of gasoline saved by economy or alternative fuel is one that need not be imported or produced in California. These initiatives are an essential part of California's response to supply interruptions, long-term supply needs, and high prices.

Require the State to Purchase Imported Supplies of Fuel for Its Own Use

Minimum Supply Requirements

Gross Refining Margin 2023 - 2024



Source: California Energy Commission and Division of Petroleum Market Oversight & EIA