



**DIVISION OF PETROLEUM
MARKET OVERSIGHT**

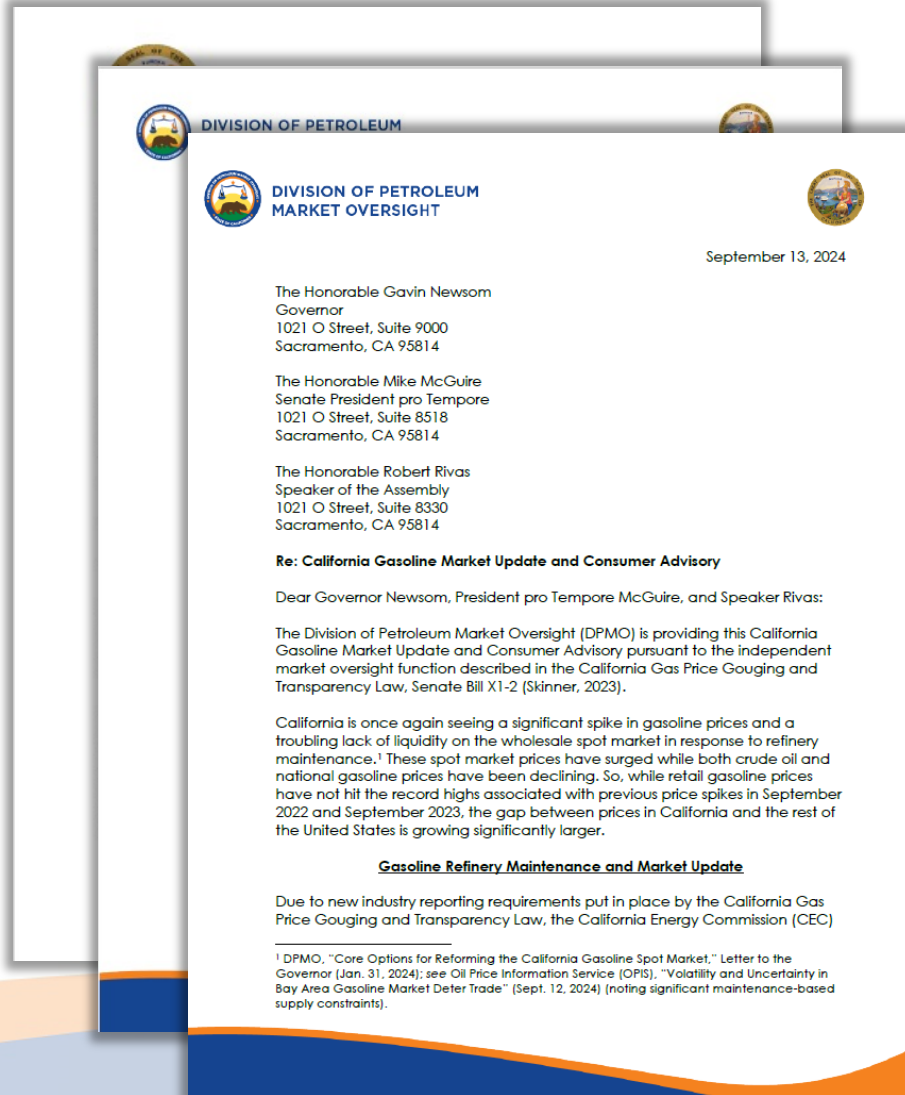
A Seller's Market: Resupply and Minimum Inventory Requirements

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DPMO's Public Letters have Flagged Key Issues



- ✓ Sept. 2023: *Interim Update on California's Gasoline Market*
- ✓ Jan. 2024: *Core Options for Reforming the Spot Market*
- ✓ Sept. 2024: *Market Update and Consumer Advisory*

As part of consumer protection and market oversight function, DPMO has consistently flagged root causes for price spikes:

- ❖ Low inventory levels busy demand periods
- ❖ Inadequate resupply during maintenance
- ❖ Lack of liquidity on the spot market



Best Practices for Resupply and Minimum Inventory Requirements

- ✓ Plan for the critical late summer and early fall months
- ✓ Utilize existing storage tanks
- ✓ Require greater resupply for maintenance planned for busy months
- ✓ Allow for phased inventory build-up when prices are low
- ✓ Have rules to inject liquidity during a disruption to stabilize prices
- ✓ Require plans to replenish stocks post-disruption (sell high, buy low)
- ✓ Consider counting inbound cargoes to add immediate liquidity



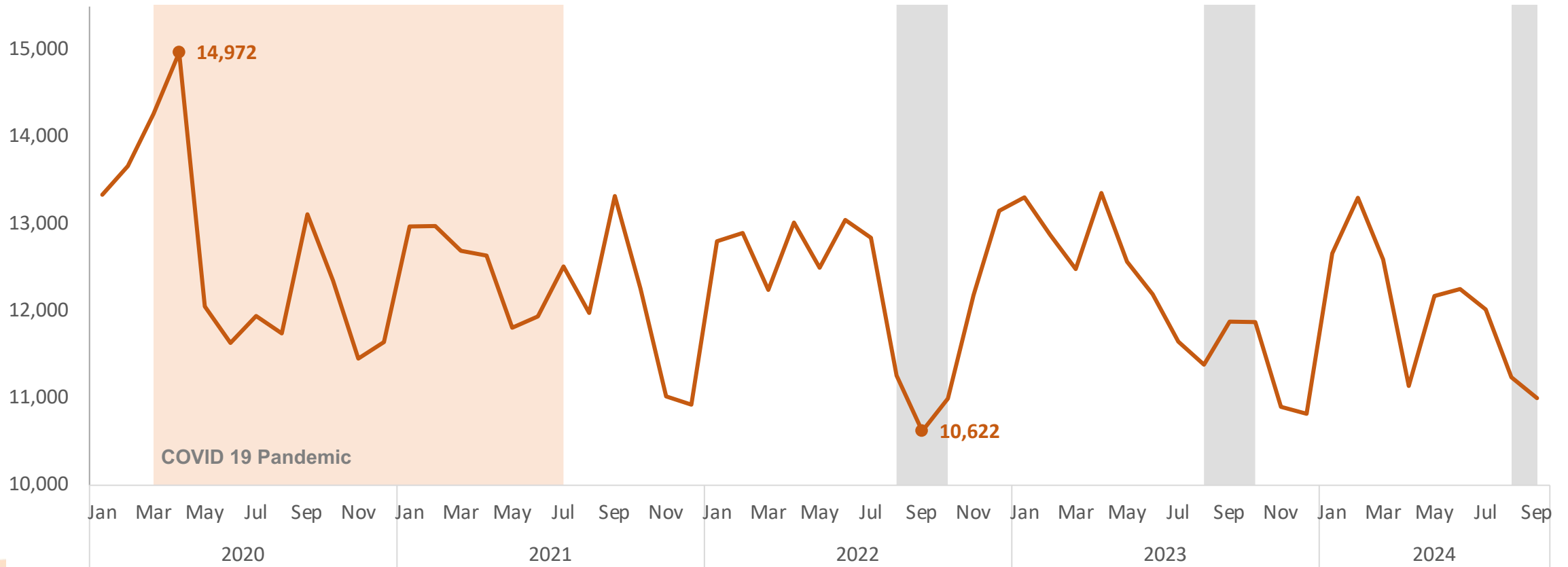
Statutory Requirements Prior to Requiring Minimum Inventory Levels

- (c) Notwithstanding subdivision (a), **the commission shall not adopt a regulation pursuant to this section unless it finds that the likely benefits to consumers from avoiding price volatility outweigh the potential costs to consumers.** In making that determination, the commission shall consider all of the following factors, but no single factor shall be determinative:
- (1) Whether it is likely that the minimum levels of inventories of refined transportation fuels will **lead to greater supply** in the California transportation fuels market than would exist without the minimum levels of inventories.
 - (2) Whether it is likely that the minimum levels of inventories of refined transportation fuels will **lead to lower average retail prices on an annual basis** than would exist without the minimum levels of inventories, and whether it is likely that the minimum levels of inventories will reduce the severity of retail price volatility.
 - (3) Whether **easing of supply chain inefficiencies or constraints** would lead to greater supply in the California transportation fuels market than requirements to establish minimum levels of inventories of refined transportation fuels.
 - (4) Whether it is likely that supply gains achieved through the adoption of the minimum levels of inventories of refined transportation fuels will be offset by **actions of market participants not subject to these regulations** and thereby have the effect of reducing supply in the market.
- (d) **One year after the adoption of any regulation pursuant to this section, and each year thereafter in which a regulation pursuant to this section is in effect, the commission shall submit a report to the Legislature,** in accordance with Section 9795 of the Government Code, that includes a reevaluation of the effectiveness of that regulation, including whether the regulation continues to meet the cost effectiveness test described in subdivision (c), and shall provide an update on the factors identified in subdivision (c) regarding the implemented regulation.



Refiners Store More in the Winter and Early Summer, Less in Late Summer and Early Fall

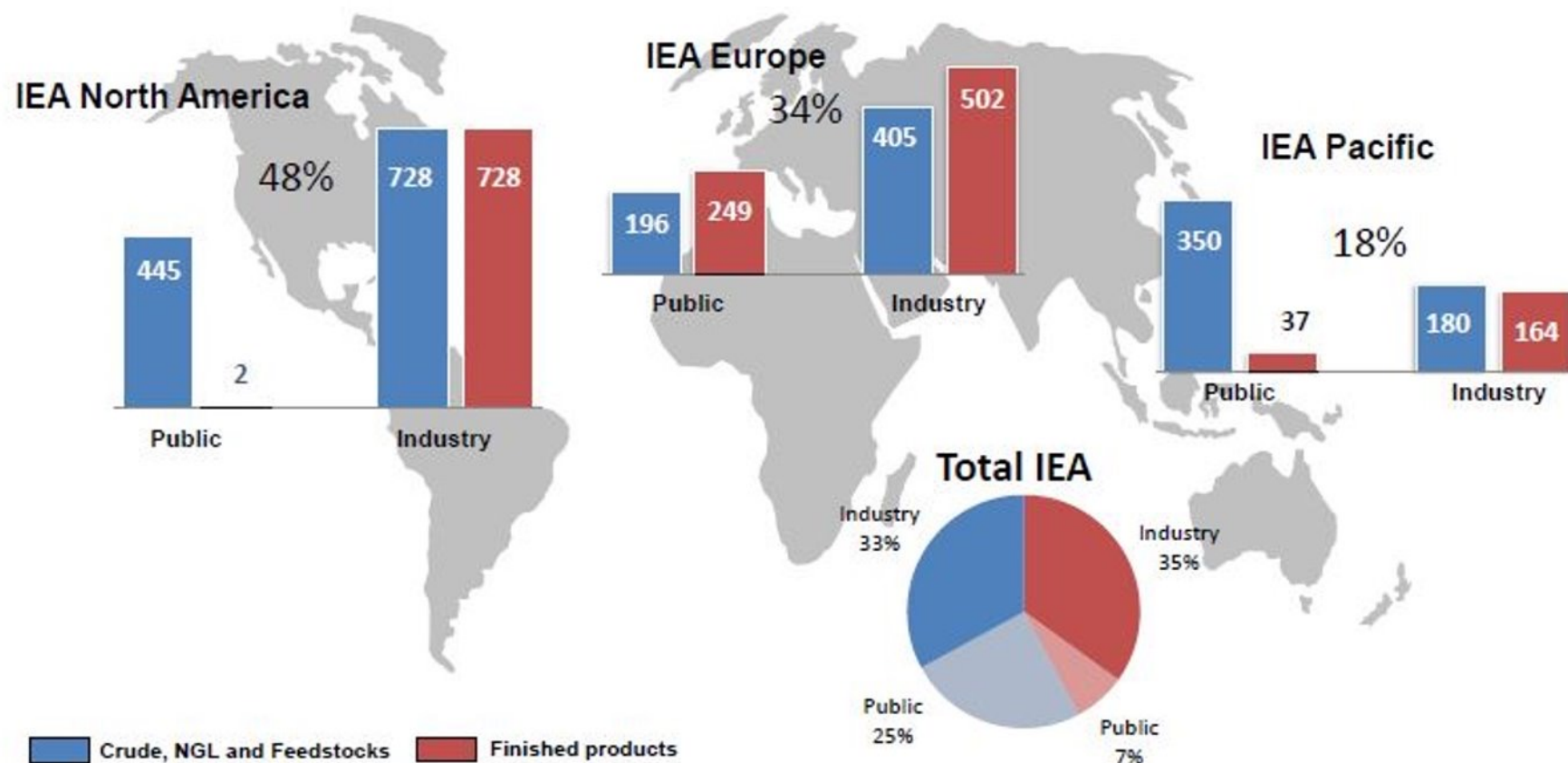
Monthly Average Refinery Stocks of Refined Gasoline and Blending Components, Thousands of Barrels



Source: CEC Weekly Fuels Watch.

Stocks levels by type in the IEA

Oil stocks of IEA member countries by region in million barrels, end-August 2022



4 billion barrels of oil stocks in IEA countries, including 1.3 billion barrels of public stocks

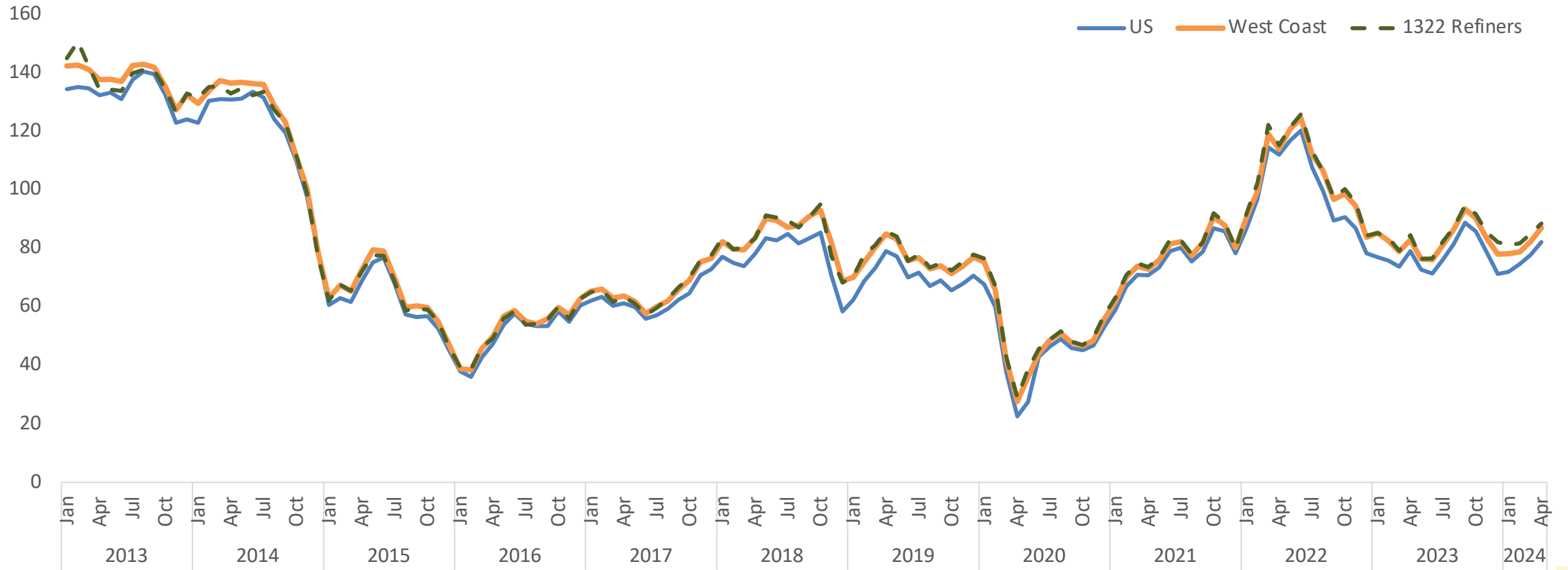


Thank you



Crude Oil Prices in the West Coast, California are Similar to the Rest of the U.S.

Producers Cost of Crude in West Coast (PADD 5), Rest of U.S., and California Refiners, 2023\$/Barrel

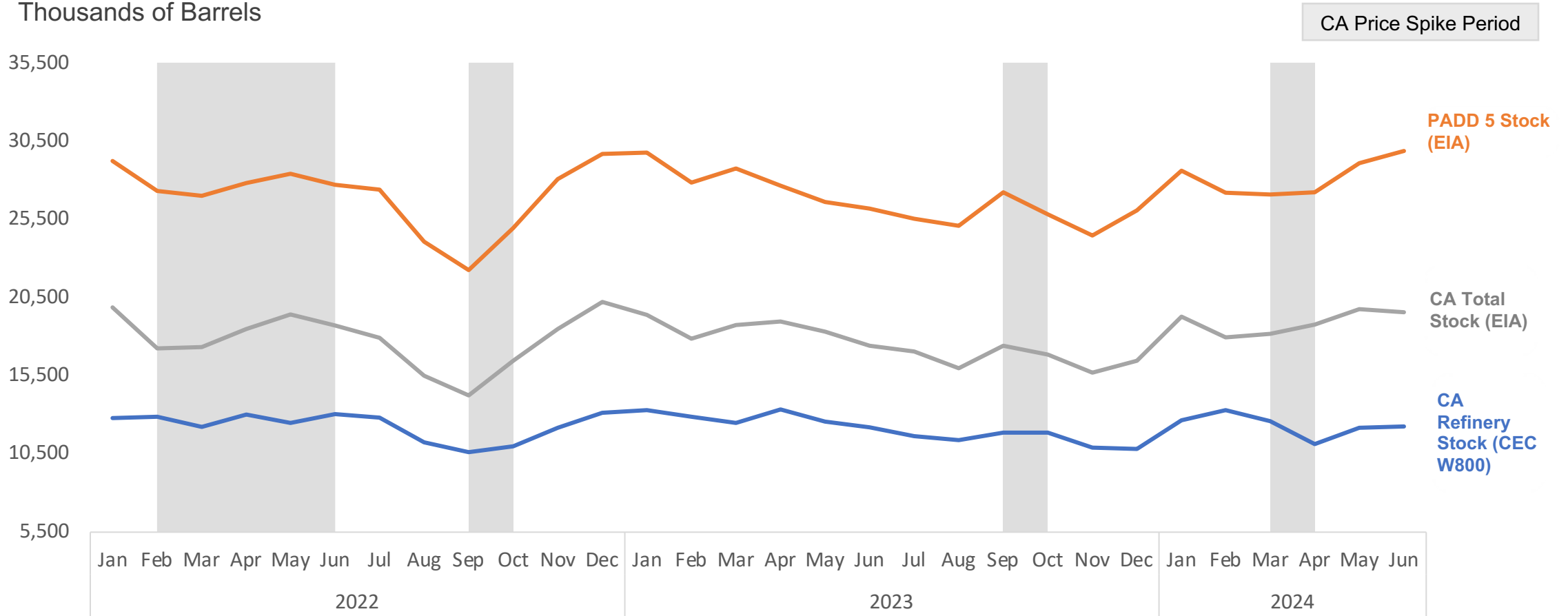


Source: EIA Producers Cost of Crude by PADD and CEC Form 1322 industry-reported data.



California Gasoline Stocks Trend with PADD 5 Stocks

Stocks of Refined Gasoline and Gasoline Blending Components in California and PADD 5 Strongly Co-Vary, Thousands of Barrels



Source: DPMO analysis of CEC W800 and EIA Refinery Stocks data.

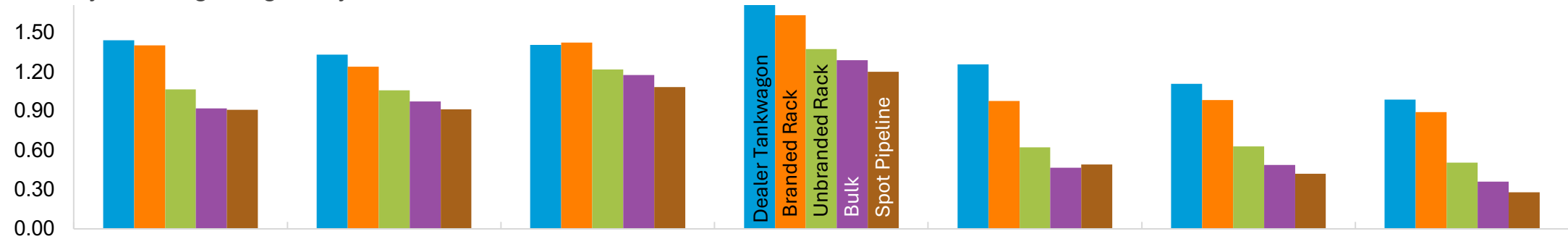


Refining Margins Increase with 2023 Price Spike

Weekly Retail Price, 2023\$/Gallon



Monthly Refining Margins By Distribution Channel, 2023\$/Gallon

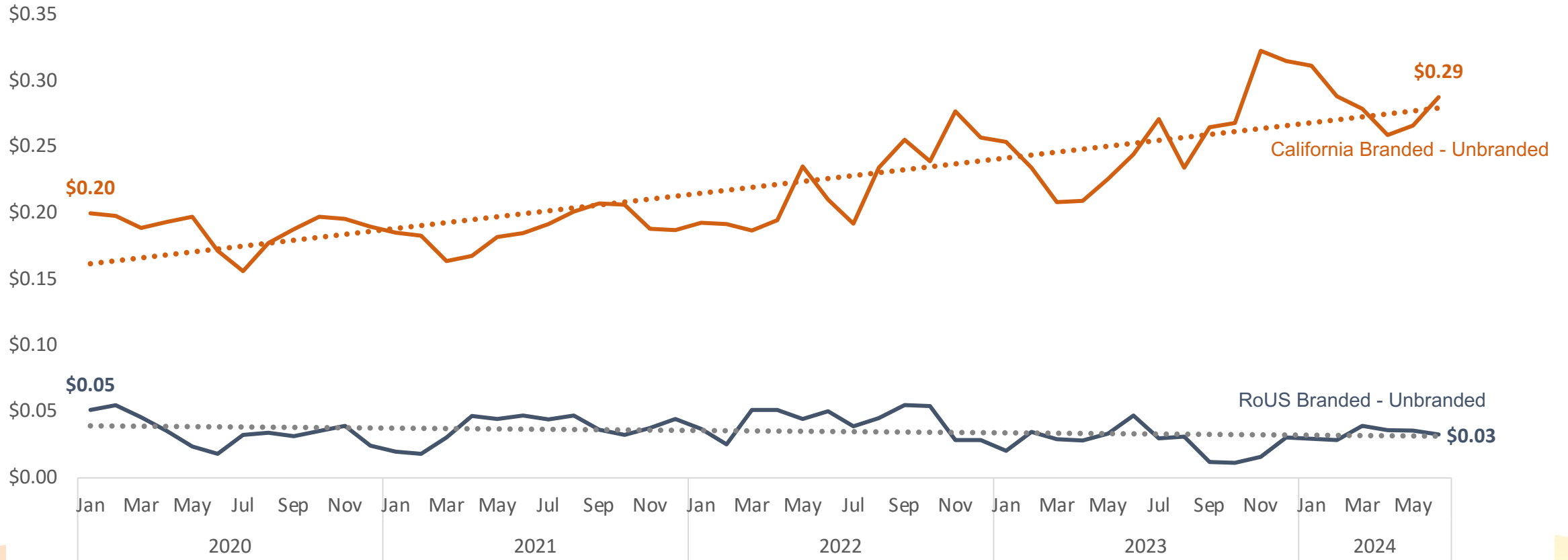


Source: M1322 (Industry-Reported) Data, U.S. Energy Information Administration



Growing Difference Between Branded and Unbranded Gas Prices

Difference between Branded and Unbranded Fuel Prices in California and Rest of U.S., \$2023/gallon



Source: DPMO analysis of OPIS retail price data.