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September 22, 2023

The Honorable Gavin Newsom
Governor
1303 10th Street, Suite 1173
Sacramento, CA 95814

The Honorable Toni Atkins
Senate President pro Tempore
1021 O Street, Suite 8518
Sacramento, CA 95814

The Honorable Robert Rivas
Speaker
California State Assembly
1020 O Street, Suite 8330
Sacramento, CA 95814

Re: Interim Update on California's Gasoline Market

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

In light of recent increases in gasoline prices across California, the Division of Petroleum Market Oversight (DPMO) is providing this interim update pursuant to the independent market oversight function described in Public Resources Code section 25372.2(a)(1).

Following a period of stability from roughly March 1 through August 1, 2023, gasoline prices have been steadily increasing in California over the past several weeks. As of September 22, the average price of regular gas in the State is \$5.78 per gallon, which is 25 cents higher than one week ago, 52 cents higher than one month ago, and 26 cents higher than this time this year. The current California average price is \$1.92 higher than the U.S. average, compared with \$1.42 one month ago and \$2.61 during last fall's peak.

Unlike during last fall's price spike, however, the newly created DPMO has increased visibility into market conditions using additional information collected by the California Energy Commission because of the California Gas Price Gouging and Transparency Law, Senate Bill X1-2 (Skinner), enacted earlier this year.

Although DPMO's analysis is ongoing, it appears that the recent price spike is attributable to three main factors:

1. An increase in global crude oil prices.
2. Refinery maintenance events causing decreases in supply that refiners did not adequately prepare for by increasing inventories and imports, and
3. An unusual spot market transaction that has had an outsized impact on gas prices.

First, part of the price increase is due to the rising cost of crude oil that has driven up prices not just in California but across the world. For the last 18 months, Russia's invasion of Ukraine has caused crude oil prices to climb and remain volatile. As of September 20, 2023, crude oil obtained by California refiners from a global market cost \$2.27 per gallon, compared with \$2.25 one week ago, \$2.04 four weeks ago, and \$2.18 one year ago. Because the price of crude oil is determined by a global market, the global increase is outside the control of market participants in California, but those increases do not fully explain the increase in everyday prices that Californians pay at the pump or the increasing differential from national average prices.

Second, using new authority under SB X1-2, we can better understand how refinery outages from both planned and unplanned maintenance events are also contributing to price spikes. Such events decrease production capacity and lower supply availability. Based on our review of recent data, it appears that earlier this summer refiners did not maintain adequate levels of inventory of refined gasoline and blendstocks or import additional supplies to sufficiently backfill production shortfalls or to protect against the impact of unplanned maintenance or potential spot market distortion. When demand is high in the summer, undersupply can quickly lead to soaring prices at the pump.

Observing these dynamics in real time, we have reached out to the refineries requesting additional information on plans for future maintenance and plans to backfill and maintain adequate statewide supply. Nonetheless, prices have

spiked in the last week in a manner that does not appear to be completely explained even by these supply-and-demand fundamentals.

Third, on Friday, September 15, 2023, an unusual transaction took place on the California spot market that caused the price of gasoline to increase by nearly \$0.50 per gallon on the spot market, which ultimately gets passed on to consumers at the pump. One trade had that effect because many gasoline supply transactions are pegged to the most recent prices reported to the Oil Price Information Service (OPIS). Consequently, this one transaction led to price increases over the weekend and into this week.

This single transaction was the only trade reported that day to OPIS, a private company that reports spot market prices in California. The next two trading days, zero trades were reported to OPIS, meaning that prices remained at an elevated level for several days despite a complete lack of new trades. Following engagement with market participants, we observed spot market prices stabilize, fall briefly, and then increase again; the consequences of this volatility will be felt at the pump for some time. As the market is structured, the spot market price impacts a large volume of sales statewide at the bulk, rack, and retail levels. It is not an exaggeration to say that one trade likely cost California drivers many millions of dollars at the pump.

DMPO is monitoring for any other potential trading irregularities, as well as gathering additional information from the parties to this transaction. DPMO is also analyzing whether it is a market structure flaw that so many statewide gasoline sales are impacted by a volatile and illiquid spot market, and we may consider proposing additional policy solutions to protect Californians from market-distorting behavior between traders and refiners.

This situation appears to highlight several market flaws that make the California gasoline prices vulnerable to price spikes, including:

- Spot market volatility and its outsized impacts on prices.
- Lack of spot market liquidity.
- Inadequate inventories of gasoline and blend stocks.
- Refinery undersupply during maintenance.

The new market monitoring and analytical tools provided by SB X1-2 are critical levers that we will continue to use to identify any market abnormalities and inefficiencies. We are committed to shining light on petroleum market conditions, ensuring accountability and bringing relief to California families and businesses.

Sincerely,

A handwritten signature in black ink, appearing to read "Tai Milder". The signature is written in a cursive, fluid style.

Tai Milder
Director
Division of Petroleum Market Oversight

CC: Members, Senate Committee on Energy, Utilities, and Communications
Members, Assembly Committee on Utilities and Energy
David Hochschild, Chair, California Energy Commission
Miranda Flores, Deputy Secretary for Legislation, California Natural Resources Agency
Kip Lipper, Chief Policy Advisor, Office of the Senate President pro Tempore
Chase Hopkins, Policy Consultant, Office of the Speaker of the Assembly
Nidia Bautista, Chief Consultant, Senate Committee on Energy, Utilities, and Communications
Laura Shybut, Chief Consultant, Assembly Committee on Utilities and Energy