

Date of Hearing: March 26, 2025

ASSEMBLY COMMITTEE ON UTILITIES AND ENERGY

Cottie Petrie-Norris, Chair

AB 406 (Bennett) – As Amended March 4, 2025

SUBJECT: Energy: transportation fuels assessment

SUMMARY: Requires the California Energy Commission (CEC) to propose recommendations to implement solutions for mitigating impacts to the transportation fuels market outlined in the CEC’s Transportation Fuels Assessment. Additionally requires the California Air Resources Board (CARB), the California Geologic Energy Management Division (CalGEM), or other relevant state agencies to provide to the CEC any information the CEC deems necessary for preparing the Fuels Assessment.

EXISTING LAW:

- 1) Requires the CEC to submit an analysis every three years assessing the transportation fuels market in California, known as the Transportation Fuels Assessment. (Public Resources Code §§ 25371-25371.3).
- 2) Requires the CEC and CARB to produce, by December 31, 2024, a transportation fuels transition plan on how to maintain affordable, reliable, equitable, and adequate fuels supply as in-state petroleum demand declines. (Public Resources Code § 25371.3).
- 3) Requires, under the California Global Warming Solutions Act of 2006 (also known as AB 32), CARB to determine the 1990 statewide greenhouse gas (GHG) emissions level and approve a statewide GHG emissions limit that is equivalent to that level to be achieved by 2020. (Health and Safety Code §§ 38500, et seq.)
- 4) Requires CARB to ensure that statewide GHG emissions are reduced to at least 40% below the 1990 level by December 31, 2030. (Health and Safety Code § 38566)

FISCAL EFFECT: Unknown. This bill is keyed fiscal and will be referred to the Assembly Committee on Appropriations for its review.

CONSUMER COST IMPACTS: This bill seeks to reduce gasoline prices by identifying methods to ensure a reliable supply of affordable transportation fuel, such as options to mitigate gasoline price spikes.

BACKGROUND:

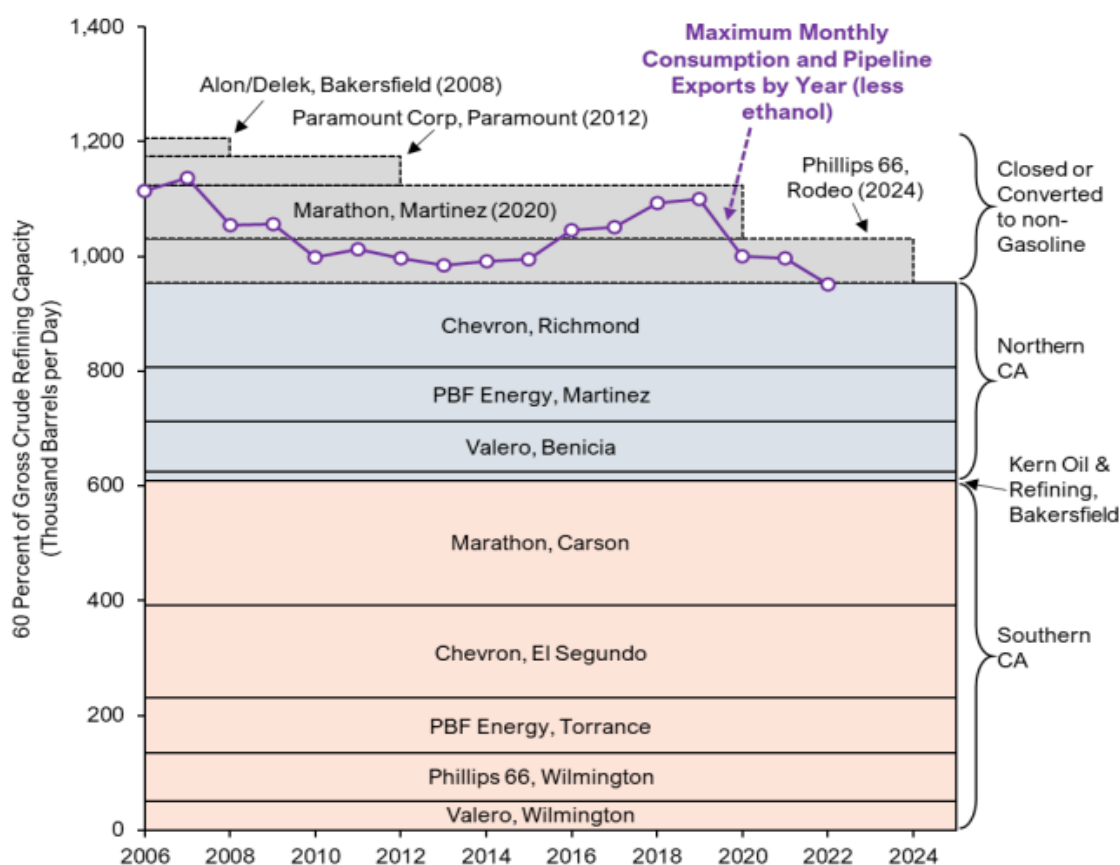
The Californian Fuel Market – California’s transportation fuels market is currently dominated by gasoline and diesel, both with challenges that affect the stability of their pricing. Moreover, California’s fuel market is in a period of transition.¹ Supply is tightening, as demand is declining. These trends are unlikely to subside. Rather, more volatility in the market is likely if the state does not strategize and appropriately plan for smoothing the transition. These challenges are

¹ See informational hearings of this committee on September 18th and 19th, 2024, during the 2nd Extraordinary Session that discusses the state’s transportation fuel market.

exacerbated in California due to our specific fuels market structure and infrastructure limitations.²

Broadly speaking, California’s petroleum production operates with little headroom: the state’s refining capacity is comparable with its demand. As shown in Figure 1,³ as of March 2024, nine refineries in the state produce the California-specific, California Reformulated Blendstocks for Oxygenate Blending (CARBOB) gasoline. Figure 1 shows the capacity of CARBOB generated by in-state gas refiners every year. The salmon bars are southern California refineries and the blue bars are northern California refineries. The purple line shows demand for CARBOB gas every year in the state. The figure only records demand until 2022 (the purple line) but it shows that the 2022 demand has met the projected supply in 2024 (the top of the blue box). Adding to issues of refinery capacity, in October 2024, Phillips 66 announced a planned closure of its Wilmington refinery in 2025⁴ and in February 2025, the PBF refinery in Martinez, CA, caught

Figure 1 – Peak CARBOB Gasoline Refinery Capacity (approximate) Overlaid with Maximum Monthly Consumption (purple line), with northern California (blue bars), southern California (salmon bars), and closed or converted (grey bars) refineries identified.



² See the background document and discussion prepared on September 18, 2024, “California’s Petroleum Economy: The Current Market and the Future Fuels Transition Plan,” for more detail on this market structure and its limitations.

³ Figure ES-2, pg 2; CEC *Transportation Fuels Assessment*; August 2024 | CEC-200-2024-003-CMF; <https://efiling.energy.ca.gov/GetDocument.aspx?tn=258521&DocumentContentId=94552>

⁴ Phillips 66 news release; “Phillips 66 provides notice of its plan to cease operations at Los Angeles-area refinery;” October 16, 2024; <https://investor.phillips66.com/financial-information/news-releases/news-release-details/2024/Phillips-66-provides-notice-of-its-plan-to-cease-operations-at-Los-Angeles-area-refinery/default.aspx>.

fire and remains offline.⁵

An additional concern to decreased supply is the regional nature of the California refineries. Except for one small refinery in central California (Kern Oil), nearly all instate supply will come from two refineries in northern California and four refineries in southern California. These regions are not connected via pipeline; thus, any temporary reduction of refining capacity at a single refinery in either the north or the south would represent a critical reduction for each respective region.⁶

As also demonstrated in Figure 1, demand has been trending downward over the last two decades. As this occurs, supply has adjusted to match. This can be a bumpy process where sharp drops in supply occur when refineries close or convert. If demand continues to decline, the market is likely to further thin, leading to less in-state capacity and more reliance on imports. This could lead to a market mismatch, where supply does not meet demand, which would have consequences, such as enhanced price volatility.

Challenges for California's Fuel Market – This trend of thinner margins between supply and demand may come to dominate the landscape of California petroleum operations in the decades to come. As a result, absent intervention, pricing volatility may be a likely consequence. Moments where a mismatch between supply and demand are likely to occur – either from force majeure or intentional behavior – should be closely evaluated in order to develop potential mitigation or buffering strategies. These “pinch points” can fit into three categories:

- 1) Easily manageable and foreseeable – such as turnaround events at refineries that are planned years in advance.
- 2) More costly to manage, but foreseeable events or policies – such as shipping constraints,⁷ or changing state policies.⁸
- 3) Difficult to manage and to foresee – such as catastrophic events resulting in unplanned outages (such as the power loss at Benicia in 2017⁹ or the fire at PBF Martinez this February) or geopolitical developments (such as the Russia-Ukraine war or the COVID pandemic).

The Transportation Fuels Assessment – These pinch points highlight the difficulty state agencies, local communities, the industry, and its workforce face in developing solutions that 1) help smooth the decarbonization transition; 2) protect consumers and keep costs low; 3) maintain the workforce; and 4) ensure the health and safety of both the workforce and the public. One of the requirements under SBX1-2 (Skinner, Chapter 1, Statutes of 2023) was a report – the Transportation Fuels Assessment – that the CEC must submit every three years to identify methods to ensure a reliable supply of affordable and safe transportation fuels in California. The

⁵ Bay City News; “Over 7,000 gallons spilled during Martinez Refining Company fire last month, report says;” ABC7; March 5, 2025; <https://abc7news.com/post/martinez-refining-company-says-7000-gallons-hydrocarbon-materials-released-during-february-fire-new-report/15980905/>

⁶ Though, the CEC notes, waterborne transportation is available; though presumably subject to Jones Act shipping limitations and not often utilized as a viable option.

⁷ like the federal Jones Act which places strict requirements on the vessels that may be used between US ports

⁸ such as permitting limitations for new port berths or tankage, or emission-reduction strategies like CARB's ocean-going vessels regulation

⁹ Ted Goldberg, “CPUC Probe Says PG&E Mistakes Led to Benicia Refinery Outage,” *KQED*, July 19, 2018. <https://www.kqed.org/news/11681218/cpuc-probe-says-pge-mistakes-led-to-benicia-refinery-outage>

Assessment shall evaluate the price of transportation fuels, and consider market demand at regular intervals, out to 20 years. It shall also include an analysis of refinery maintenance operations, and evaluate ways to manage necessary maintenance among the various facilities.¹⁰

In August 2024, the CEC submitted their Fuels Assessment.¹¹ The final chapter, “Policy Options to Mitigate Price Spikes,” offered a discussion of potential ideas to help stabilize, or mitigate impacts to, California’s fuel market. The ideas ranged from targeting supply or demand to ideas that would be substantially more difficult to implement. These include, media alerts of potential fuel shortages to move consumers to conserve; setting up a strategic reserve; or state ownership of a Jones Act tanker¹² to provide “stand-by” support to move fuel between domestic ports.¹³

COMMENTS:

- 1) *Author’s statement.* According to the author, “Transitioning to carbonless fuel alternatives that will result in less pollution and cleaner air means having to plan for scenarios where gasoline demand and supply are mismatched. As more consumers adopt zero-emission vehicles, including hybrids, we will see a stair-step decline in supply, and we will need as much information as possible to ensure that we do everything we can to contain soaring gas prices. The Legislature tasked the California Energy Commission with providing that vital information. AB 406 ensures that the commission has what it needs to deliver a thoughtful Transportation Fuels Assessment report, and accompanying recommendations, for elected leaders to continue combatting rising gas prices.”
- 2) *A More Detailed Assessment.* As noted above, the CEC issued its first Transportation Fuels Assessment in August 2024, as required by SBX1-2 (Skinner, Chapter 1, Statutes of 2023). The assessment included several potential strategies worthy of further analysis that could increase availability of gasoline, including:
 - State-owned product reserve;
 - Increasing ethanol blending to 15% of fuel volume;
 - Modifying the timing of summer-blend gasoline requirements;
 - Allowing in-state use of non-CARBOB-compliant gasoline with a mitigation fee;
 - Sending CARBOB fuel to Reno through its pipeline connection to California;
 - Compensation to companies or traders to stimulate transport of CARBOB during a fuel shortage.

It is these potential policies on which this bill seeks to require the CEC to produce timely recommendations to the Legislature on how to implement. This legislative direction would accelerate work underway, as the CEC is required in statute to update their report

¹⁰ Public Resources Code §§ 25371-25371.1

¹¹ CEC, *Transportation Fuels Assessment*, August 2024; CEC-200-2024-003-CMF.
<https://efiling.energy.ca.gov/GetDocument.aspx?tn=258521&DocumentContentId=94552>

¹² The Jones Act requires that any cargo traveling by sea between two U.S. ports must be built in the U.S. and be crewed by mostly U.S. citizens.

¹³ See the tables on pgs. 57-76 of the Transportation Fuels Assessment for the exhaustive list of ideas; CEC, *Transportation Fuels Assessment*, August 2024; CEC-200-2024-003-CMF.
<https://efiling.energy.ca.gov/GetDocument.aspx?tn=258521&DocumentContentId=94552>

every three years, without prescribing an outcome. Moreover, this bill requires state agencies, specifically CARB and CalGEM, to provide to the CEC any data deemed necessary by the CEC; presumably in aid of ensuring updates to the Fuels Assessment are as robust and informed as possible.

3) *Prior legislation.*

ABX2-9 (Petrie-Norris, 2024) required the CEC to report to the Legislature by July 1, 2025, on specified potential solutions to increase the supply of gasoline identified by the 2024 CEC Transportation Fuels Assessment. Status: Died – Senate.

SBX1-2 (Skinner) requires wide-ranging data reporting to the CEC by various specified entities in the California petroleum and transportation fuels supply chain, authorizes the CEC to establish a maximum gross gasoline refining margin and penalty on gasoline sold in the state, creates an independent Division of Petroleum Market Oversight, and required reporting to the Legislature, including a recurring transportation fuels assessment and a one-time transportation fuels transition plan. Status: Chapter 1, Statutes of 2023.

REGISTERED SUPPORT / OPPOSITION:

Support

None on file.

Opposition

None on file.

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