A photograph of the Teapot Dome in Wyoming, a prominent sandstone rock formation. The formation is centered in the background, with a clear blue sky and scattered white clouds above it. The foreground shows a sandy, light-colored hillside.

California Gasoline Margins

Testimony Before the California Assembly Committee on Utilities and Energy

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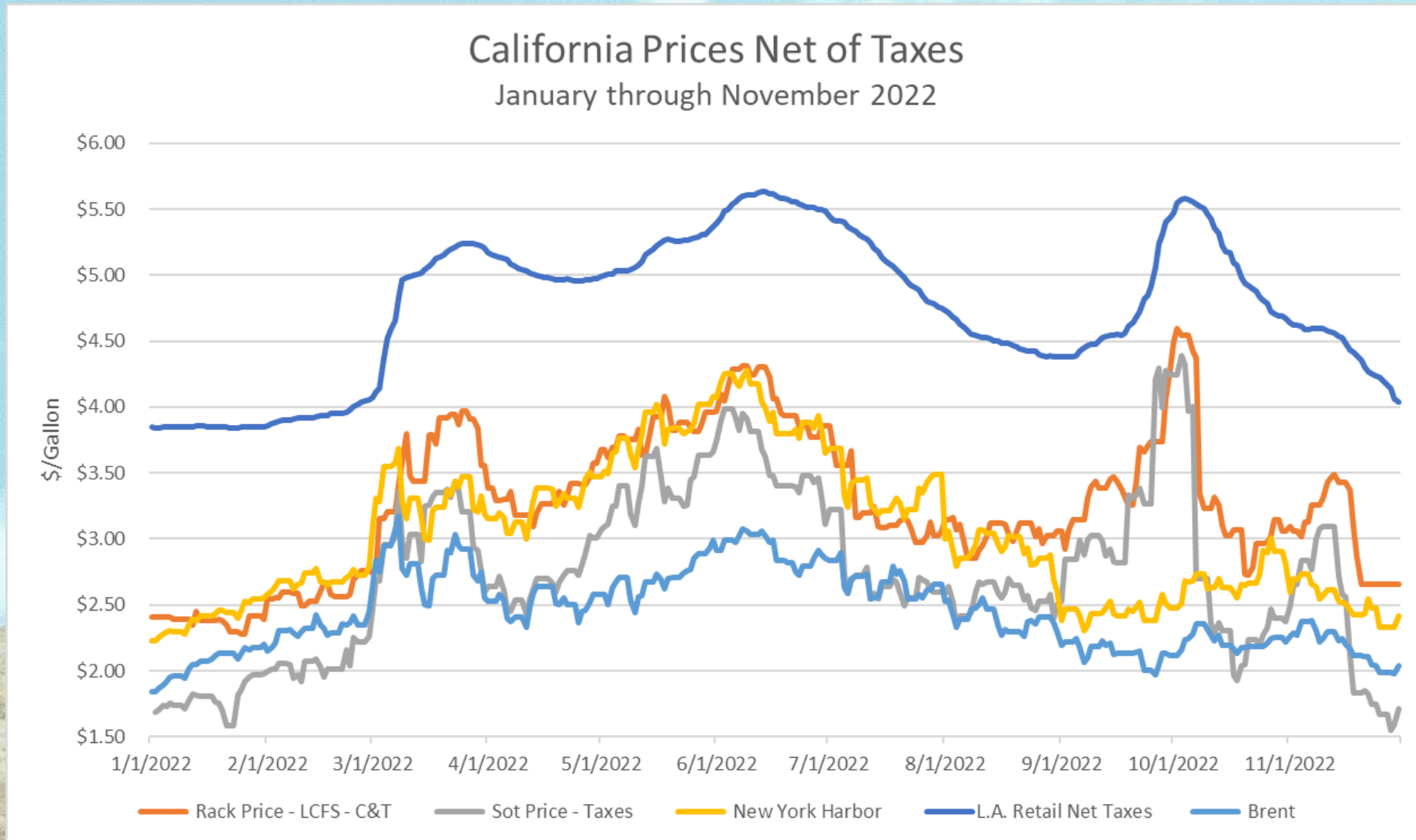
Bottom Line

- Refiners set the prices at gas stations based on contracts with retailers tied to the gasoline spot market.
- The spot market price is set in an obscure market based on a limited number of trades – self-reported trades at that.
- The calculation of the spot market price is neither transparent nor subject to any official review.
- The spot market price bears no direct relationship to the cost of production.
- In 2022, this price was inexplicably high and cost Californians billions of dollars.
- This is why California needs a limit on price gouging.

Background

- West Coast California markets are dominated by trading at the Los Angeles terminus of the Kinder Morgan West pipeline.
- The Oil Price Information Service (OPIS) reports the “Basis Differential” for the two California markets (L.A. and San Francisco) on a daily basis.
- Contracts across the West Coast reference the OPIS indices.
- As far as I know, no external agency subscribes to or performs market surveillance on this critical index.
- Inexplicable changes in the index are common and have immediate impacts on wholesale and retail gasoline prices in California and other West Coast state
- U.S. Senator Maria Cantwell has often remarked that we know more about the market for soybeans than the markets for oil and gasoline.

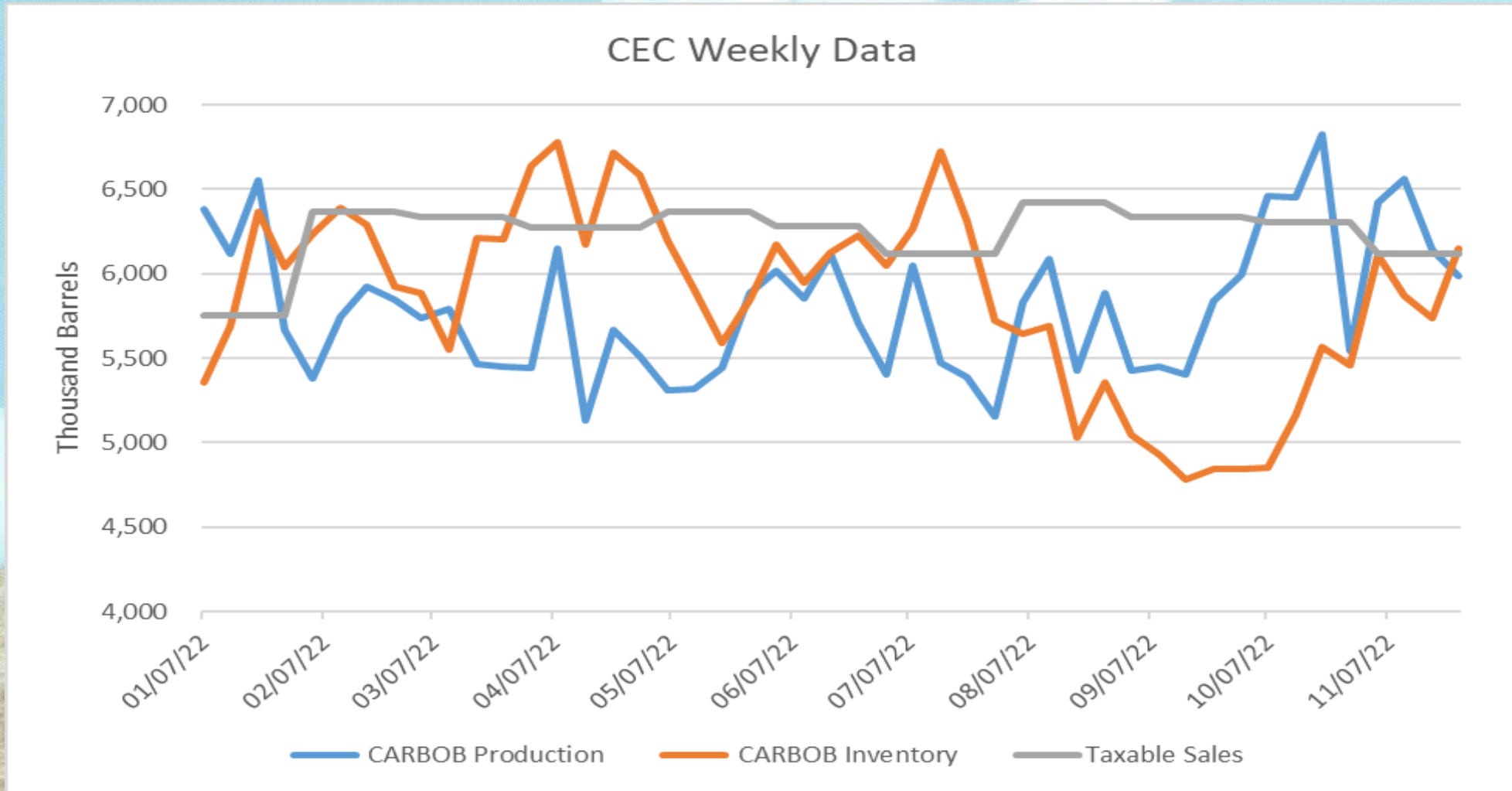
Whither 2022: Spot Increases Drive Retail



What Happened in 2022?

- In March, OPIS reported an unchanged index on two sequential weeks – think of the uproar if this occurred at the DJI Industrial index. According to OPIS only one completed trade took place during this two week period.
- In September and October, the OPIS index exploded even though OPIS itself had questioned the importance of refinery operations.
- The OPIS index triggered staggering changes in retail gasoline prices.

California CARBOB Production, inventories, and Consumption



Takeaways:

1. California consumers paid \$4.7 billion more for CARBOB gasoline in 2022 than in 2021 – even after the costs are corrected for inflation. This is an inflation adjusted increase of 7.1%.
2. The wholesale markup – the difference between the price of oil and the prompt price at the pipeline in L.A. – increased by \$10.0 billion. This was an increase of 30.6% in real terms.
3. The cost of crude oil added \$55.6 billion to consumers bills in 2022. The crisis in Ukraine added less – both in absolute terms and in percentage terms than wholesalers' margins in California. The percentage increase to the cost of crude oil was 25.5%.
4. The retail margin actually fell by \$5.2 billion in 2022 – a decrease of 15.4%. The wholesale margin surged upwards by 46.8%.

There are few connections between prices and fundamentals in California

SUMMARY OUTPUT

<i>Regression Statistics</i>	
Multiple R	0.39271254
R Square	0.15422314
Adjusted R Square	0.09521545
Standard Error	0.51536225
Observations	47


ANOVA

	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	Significance F
Regression	3	2.082511	0.69417	2.613611	0.063369
Residual	43	11.42072	0.265598		
Total	46	13.50324			

	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>	<i>Lower 99.0%</i>	<i>Upper 99.0%</i>
Intercept	-4.1255816	3.776777	-1.09236	0.28076	-11.7422	3.491016	-14.3044	6.053219
CARBOB Production	5.1503E-05	0.000199	0.259437	0.796536	-0.00035	0.000452	-0.00048	0.000587
CARBOB Inventory	0.00014261	0.000145	0.98598	0.329659	-0.00015	0.000434	-0.00025	0.000532
Taxable Sales	0.00124414	0.000464	2.6786	0.010431	0.000307	0.002181	-7.7E-06	0.002496

We need both transparency and price stability

- There is substantial evidence of market power and gaming in California gasoline markets.
- Market surveillance exists for other fuels and markets.
- Simply put, streetlights reduce crime.
- Windfall profit caps and price gouging limits remove the incentive for market misbehavior and protect consumers.



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