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Dear California Legislators:

Californians are both worried and angry about the near $3.50 price of gasoline in California, and frustrated at their inability to do anything about it. They are looking to Sacramento, and wondering why their elected officials have no plan for action.

The Foundation for Taxpayer and Consumer Rights and OilWatchdog.org offer the following outline of a plan to reduce gasoline prices and prevent new price spikes; to give Californians a fair measure of gasoline for their dollars; and encourage commercial development of biofuels.

We urge you to act before prices rise again at the onset of the summer driving season.

Here are what we see as the chief points to be addressed:

A. Supply. Controlling gasoline supplies so that they are adequate to prevent price spikes is more efficient and palatable than price controls or a windfall profits tax. New regulation should:

1. *Require refiners to expand capacity and manage utilization.* EIA data shows that West Coast refineries ran at about 76% of capacity in 1985. Outages at one refinery could be covered by increased production at other refineries. Now, West Coast refineries must run at 92% of capacity to meet ordinary demand. Even scheduled maintenance spikes retail prices. The state should require expansions of capacity (new refineries would not be necessary to do this) to meet demand, the state should also conduct oversight and inspections of refineries to assess timing and necessity of refinery outages.

2. *Increase statewide days of supply.* Regulators should require maintenance of days of supply of gasoline equal to or greater than the national average. This can be accomplished through better planning, and finished-gasoline imports from Canada and other states, as well as through capacity increases.

3. *Expand state oversight.* An enlarged and empowered Energy Commission or Public Utilities Commission, or a new oversight agency, would be necessary to develop and enforce supply regulation.

4. *Demand much greater transparency in reporting, to the state and to the public, the costs and profits of refining.* The broad "trade secrets" exceptions in current law are antiquated in a business that is too concentrated to be competitive. More transparent reporting would allow the public to be a partner in pressuring companies to keep prices to fair levels.

B. Hot Fuels. California is among the coastal and southern states in which the federal temperature "standard" of 60 degrees Fahrenheit causes drivers to pay more for fuel that expands at higher temperatures, losing commensurate energy. California drivers are cheated of at least $450 million dollars a year worth of gasoline, according to an August 2006 investigative study by the Kansas City Star. The state also loses out because its tax collections are based on the assumption of gasoline sold at 60 degrees. Solutions for this could include:

1. *Installation of temperature-measuring pumps that correct the price for the actual fuel temperature.* Such pumps are voluntarily employed across Canada, where "cold fuel" would otherwise pinch oil company profits. The costs of installation in California could be amortized, possibly with state assistance, over several years, or...

2. *Sale of gasoline at an average "real" temperature.* To fix the "hot fuel" problem more cheaply, adjust the sale price to match the state's average gasoline temperature, via a study that Dennis Johanes of the state weights and measures bureaus is now conducting or using a previous study by the National Institute of Standards and Technology (e-mailed separately) that set California's average at 74 degrees. This method, already used in Hawaii, would provide overall fairness to the state's motorists without installation of new equipment. Such measurements could also be set regionally, adjusting for cooler northern/coastal regions and warmer interior/southern regions.

3. *Through negotiation or regulation, establish wholesale gasoline pricing that removes temperature deception yet allows retailers to make a fair profit on temperature-adjusted gasoline.*

C. Biofuels. Ultimately, the state's goal is to use less petroleum, and oil companies should expedite rather than inhibit this goal. The state should require:

1. *That oil company brands aid and encourage the sale of renewable fuels at their retail stations.* Currently, oil company contracts with independent sellers (the great majority of their stations) put substantial cost barriers on such sales. Restrictions include requirements that dealers sell all three grades of a supplier's gasoline, that they in most cases install new pumps, fueling stations and underground tanks to sell E85 or other fuels, and that they not advertise the availability or price of alternative fuels on their main price signs. If such restrictions were lifted, dealers in urban areas with high rents and restricted space could afford to test the market for alternatives. Even better, oil companies should be asked to develop their own brands of biofuels.

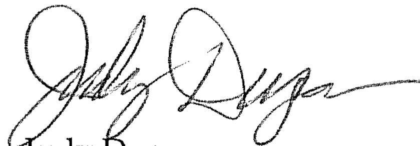
2. *That oil companies doing business in California fund commercial development of renewable fuels.* This could take the form of a tax or fee, with resulting funds directed by the state. Part of such monies should aid and encourage retail sales of renewables, including E85 and refined biodiesel. For instance, dealers could receive rebates on the sale of each gallon of renewables while the market develops.

D. "Big Oil U." Limit and control public university partnerships with oil companies:

1. If BP and UC Berkeley decide upon a partnership, the University of California should control the direction and the results of that research. Any patented discoveries should be licensed to all comers on a non-exclusive basis. Secret proprietary research has no place on campus. Any BP marketing efforts using the UC's name should be approved on a case-by-case basis by the Regents themselves.

2. These guidelines should be applied to all California university deals with oil companies.

Sincerely,



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