Consumer Watchdog

Feb. 6, 2015

Attorney General Kamala Harris
Senior Assistant Attorney General Kathleen Foote
455 Golden Gate, Suite 11000
San Francisco, CA 94102-7004
Fax: 916-323-5341

Robert B. Weisenmiller, Ph.D., Chair
California Energy Commission
Media and Public Communications Office
1516 Ninth Street, MS-29
Sacramento, CA 95814
Fax: 916-653-9040

RE: Steelworkers' strike, refinery capacity, and price of gas

Dear Attorney General Harris, Ms. Foote, and Mr. Weisenmiller,

We write to draw your attention to suspicious refinery behavior. As steelworkers began a nationwide strike at nine refineries at the beginning of this week, Tesoro announced that its Martinez refinery was in the midst of planned maintenance work and that it had decided to fully shut down the plant. This decision takes offline 8 percent of the state's processing capacity.

This is an inopportune time for Tesoro to be shutting down a refinery. We ask that you investigate immediately the reasons for this unnecessary decision in order to rule out a concerted refinery effort to drive up the price of gasoline in California. We understand that refineries must get ready to produce California's special summer blend of gasoline. But it makes little sense to shut the plant down entirely *right now*, in the midst of a national strike the likes of which we haven't seen in 30 years—unless it is a measure being taken by Tesoro to intentionally affect the price of gasoline.

As it is, California keeps only 10 to 12 days' supply of gasoline on hand, according to data from the Board of Equalization and the Energy Almanac. That is less than half of the 24-day historical average for other states. Since its peak in mid-December, the production of California's special blend of gasoline has dropped a precipitous 33 percent, according to the Energy Almanac.

The spot price of California's special blend of gasoline has already jumped up almost 20 cents a gallon in a week. The US Energy Information Administration reports that the spot price of California's gasoline in Los Angeles rose from $1.47 a gallon on January 26 to $1.66 as of February 2. Given the sharp drop in production that will be compounded by the absence of Tesoro's Martinez production, prices are bound to keep rising while stockpiles begin to shrink.

Unfortunately, we have a record of California refineries trying to restrict supply to drive up prices. Whistleblower documents from the 1990s show deliberate attempts by major refineries and the American Petroleum Institute to reduce refinery capacity nationally and in California. In 2004, we had to fight Shell to prevent it from shuttering its Bakersfield refinery, and succeeded in forcing the oil company to sell the refinery instead. And in 2007, we found that refiners' "discretional refinery production drop" caused a spike in gasoline prices rivaling the price effects of Hurricane Katrina two years earlier.

California largely makes its own gasoline, so refineries' low supply of gasoline on hand is a function of their refusal to grow enough gasoline stocks to cushion market prices in case of emergency. Moreover, now that Tesoro has acquired BP's large southern California refinery in Carson and its ARCO stations, it now controls, together with Chevron, roughly half of the refining capacity in the state of California. With gas prices so low, it is logical that Tesoro would try to take advantage of this strike to restrict supply and drive up prices.

We ask that you prevent our refineries from taking advantage of this nationwide steelworkers' strike to manipulate the price of gasoline by restricting its supply.

Sincerely,

Liza Tucker, Consumer Advocate