CALIFORNIA LEGISLATURE

Senate

STATE CAPITOL
SACRAMENTO, CALIFORNIA
95814

May 7, 2015

Mr. Joseph W. Gorder
Chairman, President and Chief Executive Officer
Valero Energy
One Valero Way
San Antonio, TX 78249

Dear Mr. Gorder:

On March 24, the Senate Committee on Energy, Utilities and Communications and the Senate Committee on Transportation and Housing held a joint oversight hearing to better understand the California gasoline market, in general, and the record retail gasoline price spike that followed the February 18th explosion at the ExxonMobil refinery in Torrance, California. During the hearing, the committees received expert information from the California Energy Commission, the Office of the California Attorney General, and the California Independent Oil Marketers Association. Despite an invitation from the committees, representatives of the oil industry were not present at the hearing. (The committees did hear testimony from Phillip K. Verleger, who was flown to Sacramento by the Western States Petroleum Association for the hearing; however, Mr. Verleger stated, early on and explicitly, that he speaks for himself, not the oil industry.)

Following the hearing, the committees were left with a number of questions, either as a result of information presented during the hearing or because there were no industry representative present to answer them. Committee staff has compiled those questions below. We respectfully request that you review the questions and prepare a response so that the committees may have a more complete understanding of the California gasoline market and all too common price spikes that occur in our state following incidents at oil refineries.

Refined Product Reserves. Much of the information provided during the hearing concerned the level of refined petroleum product inventories available in California and its relation to retail price spikes. It seems that retail price spikes frequently coincide with a combination of low refined product reserves and unplanned refinery outages. Of course, it is impossible to prevent all unplanned outages; however, your company can control the amount of refined products you keep on hand. In fact, one of the principal recommendations made to the committees was to require the refineries to maintain larger quantities of refined product in order to blunt supply shocks.

- *How many days coverage of gasoline and diesel does each of your California refineries currently maintain?*
- *How does this California reserve compare with other PADDs, especially PADDs 1 and 3?*
- *Are your refineries subject to any reserve requirements in any state or region or by the federal government? If so, what are those requirements?*

Product Mix and Exports. Some contend that California refineries are exporting greater amounts of refined products, especially diesel, and that this activity has exacerbated supply constraints in California.

- *What is the relative percentage of diesel and gasoline being produced at your California refineries?*
- *How does this production level, and the ratio of the diesel-gasoline production split, compare to recent years?*
- *What percentage of diesel and gasoline produced at your California refineries is exported?*
- *How does this export level compare to recent years?*

Bottlenecking and Throughput. Some contend that the considerable consolidation that has occurred in the California petroleum refinery industry has increased production choke points: fewer facilities increase the likelihood of production delays.

- *How does your capacity for gasoline refining in California compare with that capacity five years ago?*
- *Has your company taken any specific steps to reduce the potential for production delays – outages or slowdowns – at California refineries?*
- *Has your company lost refining capacity, due to accidents or other incidents in the last five years? If so, how has your company compensated for this loss?*

Maintenance, Outages and Prices Spikes. A number of factors can lead to unplanned refinery outages. For instance, California refineries have stopped or slowed gasoline or diesel production because of unexpectedly lengthy maintenance, labor disputes and mandatory flaring. Unplanned refinery outages oftentimes lead to retail price spikes, a phenomenon confirmed again in California this year, first in February and then again in April.

- *How do you decide when to schedule refinery maintenance? What factors do you consider when scheduling such maintenance, and how does that consideration affect your decision?*
- *How often, during the past ten years, has actual maintenance at a refinery taken longer than the time originally scheduled for maintenance at that refinery?*

- *Why, when one of your competitors experiences a refinery outage, do retail gasoline prices increase, in general?*

Since the March hearing, California has experienced another retail price spike related to incidents at California refineries. Such price spikes cost Californians dearly. The committees are committed to better understanding the operation and dynamics of the California gasoline market so they can adequately assess proposals that might allow California to minimize or mitigate gasoline price spikes in the future. We appreciate your prompt response to our questions. If you have any questions or need clarification, please contact Jay M. Dickenson of the Senate Committee on Energy, Utilities and Communications at (916) 651-4401 or Randy Chinn of the Senate Committee on Transportation and Housing at (916) 651-4121.

Sincerely,

Jim Beall

JIM BEALL
Chair, Senate Transportation and Housing Committee

BEN HUESO
Chair, Senate Energy, Utilities and Communications Committee