Golden State Gouge

The Summer of Record Refining Profits

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ConsumerWatchdog.org

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EXECUTIVE SUMMARY

In the six months since California's record gasoline price spike began in February, Californians have paid $4.8 billion more than the rest of the country for regular gasoline at the pump, according to a Consumer Watchdog analysis of state and federal data. That amounts to over $200 extra for each California driver.

Refiner margins—the amount of money refiners collect for each gallon of gasoline—set a record for California in July, according to the California Energy Commission (CEC). The margin stands at $1.61 for branded stations-- triple their typical returns of 48 cents per gallon.

The cost of crude oil has dropped in half since August of 2014, which has allowed refiners to increase the amount of returns they receive per gallon of gasoline, rather than passing the savings on to consumers. California's oil refiners have had a profitable first half of 2015. Second quarter profits in one case—Valero—exceeded its California refining profits by 1,100 percent over the same quarter last year.

Refiners in California have seen a series of planned and unplanned refinery outages, exported gasoline in the middle of a price spike, and used their leverage over branded stations to artificially keep gas prices high. State and company documents analyzed in this report display the profits these companies have made at the expense of Californians.

FINDINGS

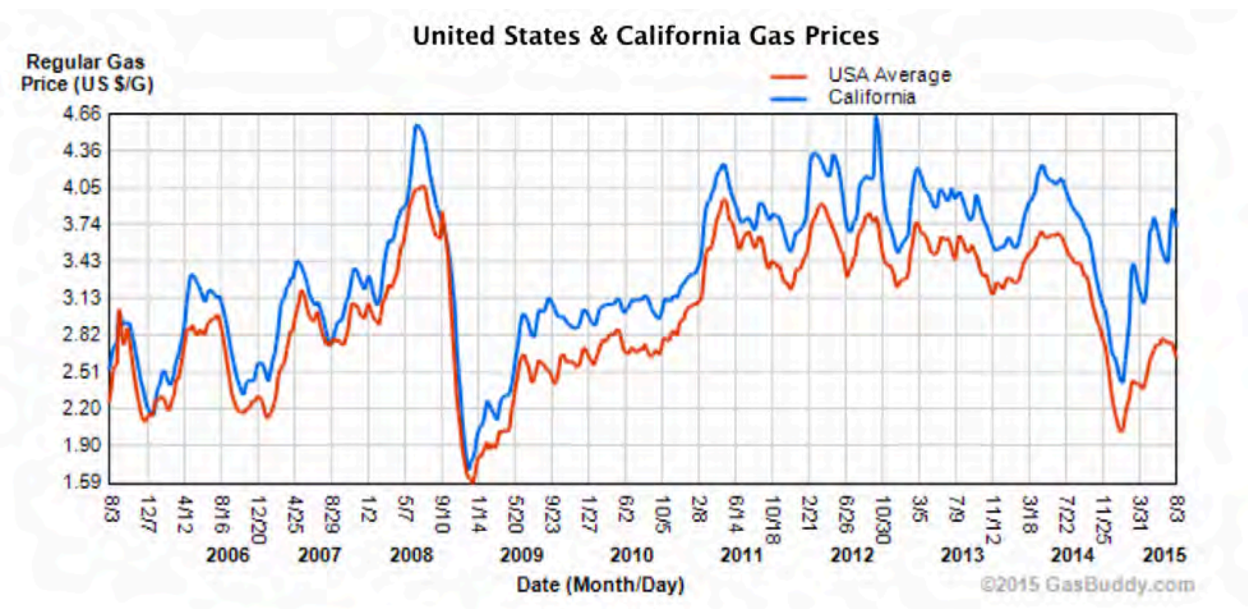
The report finds:

- California drivers paid $1.2 billion extra for their gasoline in July alone, the most ever recorded, compared to U.S. average prices. This is based on the amount of gallons Californians typically consume, and the amount higher than the national average that Californians pay for a gallon of regular gasoline.
- Refiner margins (the amount refiners receive for each gallon of gasoline) reached a record high of $1.61 in the second week of July. More than triple their average margin of 48 cents per gallon.
- According to the California Energy Commission, the refiner margin has averaged $1.05 per gallon since the price spike began in February, double their 48 cent per gallon average margin.
- In the 2nd quarter of 2015 Chevron made $731 Million in profit on their United States refining. This was an increase of $214 Million, or 41% over the same quarter last year. It is double their average quarterly profits since 2005, $351 Million.

- Valero's California profits were 11 times higher in the second quarter of 2015 than the same quarter in 2014. The company made $294 Million, up from $24 Million.
- Valero's California profits per barrel increased by more than 10 times their prior year, from $0.99 to $11.23.
- Tesoro made a record $668 million on California refining, their best quarter ever by double their previous high of $334 million. The quarter is four times higher than their average California profits. These profits are calculated by Consumer Watchdog using information Tesoro provides to the SEC, such as the amount of barrels refined in California per day, and the cost & margins of those barrels.
- Valero has averaged $100 million in profit per quarter over the last ten years. During seven quarters with spiking gas prices, the refiner averaged $220 million per quarter – an increase of 120%.[1]

GOUGE GAP

Since February of 2015, Californians have paid a huge premium on their gasoline. Since then, the price Californians pay for a gallon of gasoline has often been over a dollar more than the national average, shattering prior records. With Los Angelenos paying $1.30 more than the national average, how much is this costing California consumers?



Over the course of July California drivers paid an extra $1.2 billion for their gasoline. This figure is based on statewide typical consumption and the difference in price

1 www.consuerwatchdog.org/resources/refiningprofits.pdf

between California and the rest of the nation, subtracting the 15 cents tax differential in California.[2]

CA July Gas Price:	$3.75
US July Gas Price:	$2.79
Price Difference:	$0.81 (after 15 cents taxes removed)
Cost to Californians	$1,245,000,000

Based on Energy Information Administration pricing data,[3] California Board of Equalization Consumption data[4]

In the six months following California's record price spike that began in February, Californians paid $4.8 billion more compared to the rest of the nation. That amounts to $200 extra for each California driver.

CA 6-month Gas Price:	$3.38
US 6-month Gas Price:	$2.57
Price Difference:	$0.66 (15 cents after taxes removed)
Cost to Californians"	$4,836,000,000

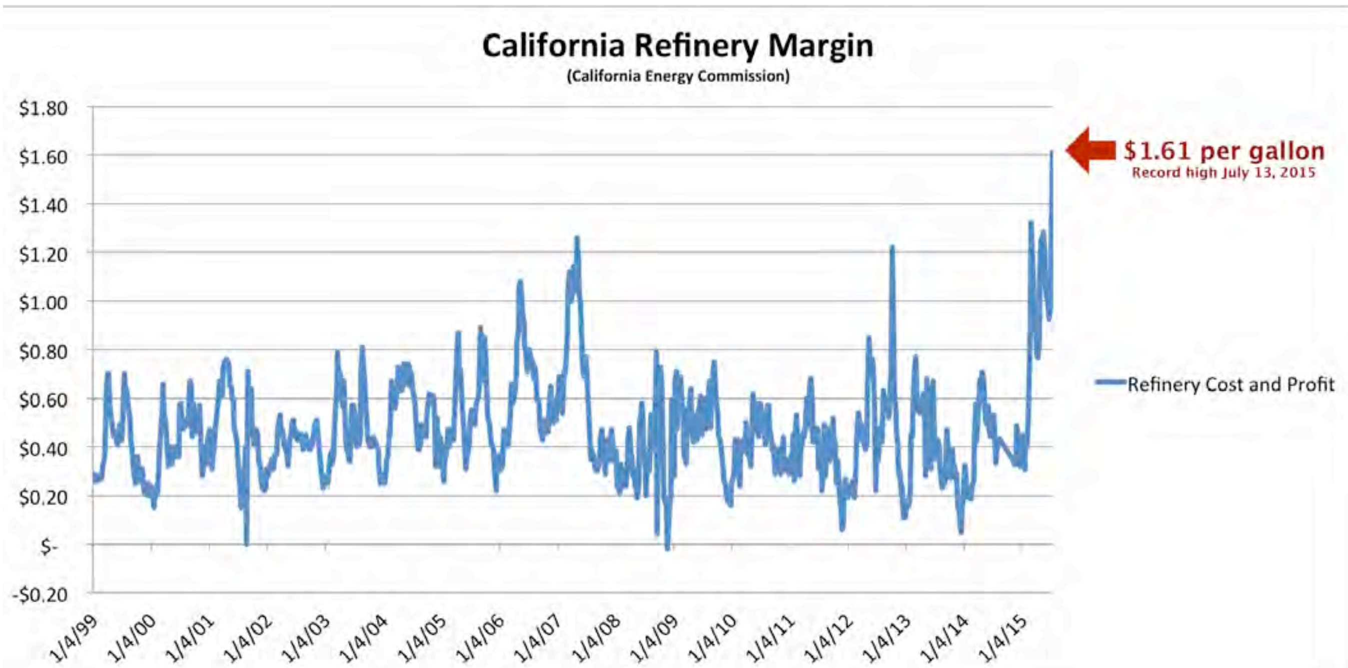
CEC MARGINS

The California Energy Commission provides data on where every penny a consumer spends on a gallon of gasoline goes each week.[5] Updated data shows that during the week of July 13, 2015, oil refiners made more than they ever have per gallon of gasoline, a record $1.61 per gallon. The average amount refiners have received per gallon since 1999 has been 48 cents, meaning the current returns are more than three times higher than average.

Time Period	Refiner Margin Per Gallon
July 13, 2015	$1.61
July 14, 2014	$0.47
16-year Average	$0.48

2 http://seuc.senate.ca.gov/sites/seuc.senate.ca.gov/files/03-24-15_cec_presentation.pptx
3 http://www.eia.gov/dnav/pet/pet_pri_gnd_dcus_sca_w.htm
4 www.boe.ca.gov/sptaxprog/reports/mvf_10_year_report.pdf
5 http://energyalmanac.ca.gov/gasoline/margins/

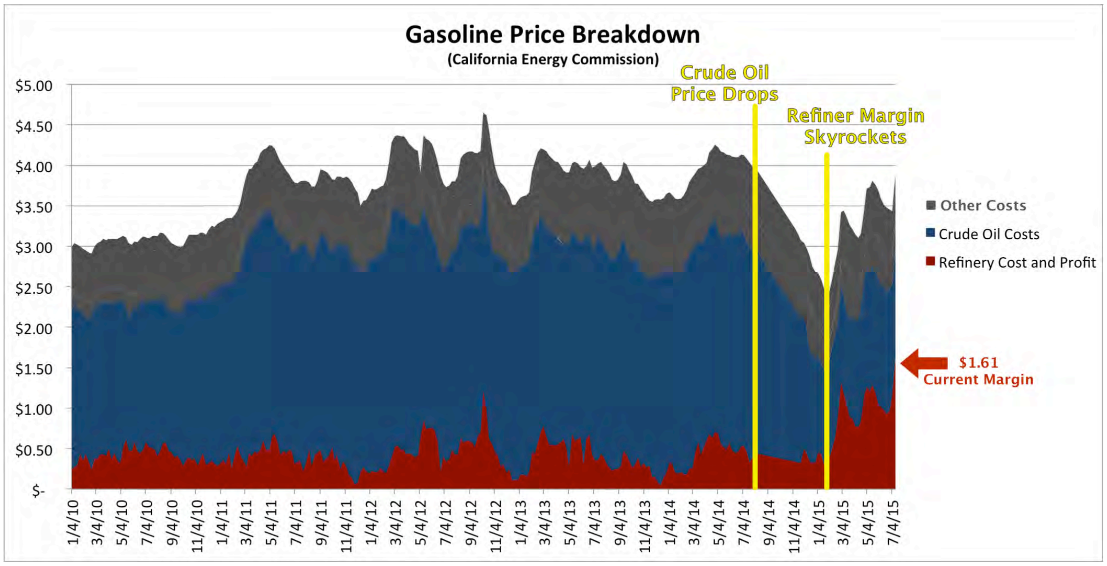
As you can see below, refining margin had never been above $1.30 per gallon until 2015.



Data from the California Energy Commission[6]

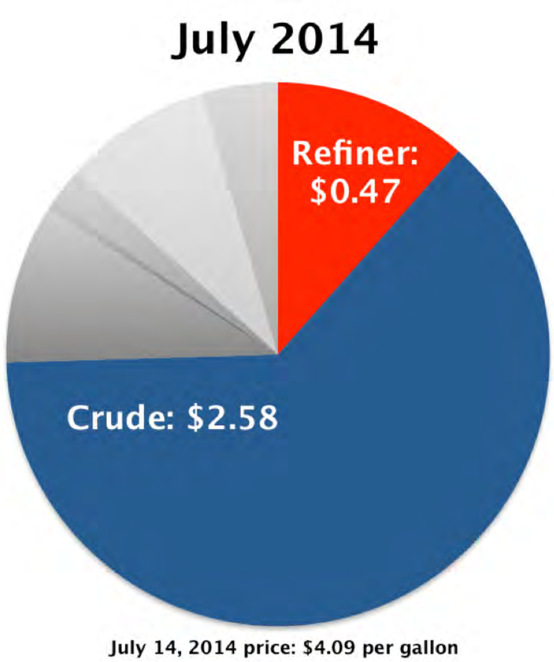
The precipitous drop in the price of crude oil has allowed oil refiners to bite off more profit. On the chart below, notice the significant drop in the cost of crude oil at the end of 2014 (blue). At first, the price of gasoline in California dropped. In February, refiners artificially raised the price of gasoline by increasing their margin (red), returning prices to their typical levels, but with much lower crude costs and higher refiner profits.

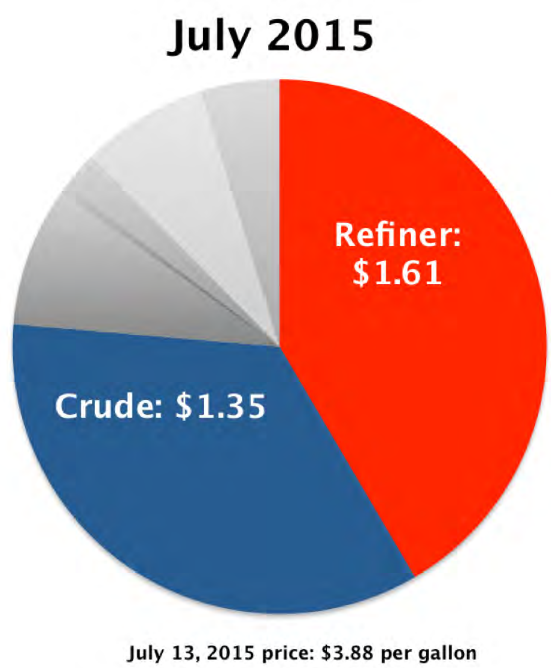
6 http://energyalmanac.ca.gov/gasoline/margins/



These margins indicate that refiners are taking in a substantial amount of money. Filings with the Securities and Exchange Commission show that this increased margin has led to higher profits for California's refiners.

The following chart shows the gasoline price breakdown from this time last year, followed by the price breakdown for the week of July 13 of this year.





California Energy Commission data[7]

SECOND QUARTER EARNINGS

7 http://energyalmanac.ca.gov/gasoline/margins/

Most companies that drill for oil saw huge profit losses due to the low price of crude. But the West Coast refining divisions of these companies made unexpected profits, saving these companies from even worse results. Companies with assets in California saw the greatest profits, generated from artificially high gas prices in the state.

Valero

Texas-based oil-refiner Valero is California's 4th largest gasoline refiner and one of the only companies that break out California profit information in their quarterly reports.

During California's record price spike that began in February, Valero has seen exponential profit growth. California refining profit for the company increased 10-fold over the same quarter last year, from $24 Million to $294 Million.

From Company Filings with the Securities and Exchange Commission, and Valero[8]

The company's per barrel refining profit also increased more than 10-fold, from just $0.99 to $11.23. In the chart below, when the red "profit" line passes below the blue "cost" line, the company made a loss on that barrel.

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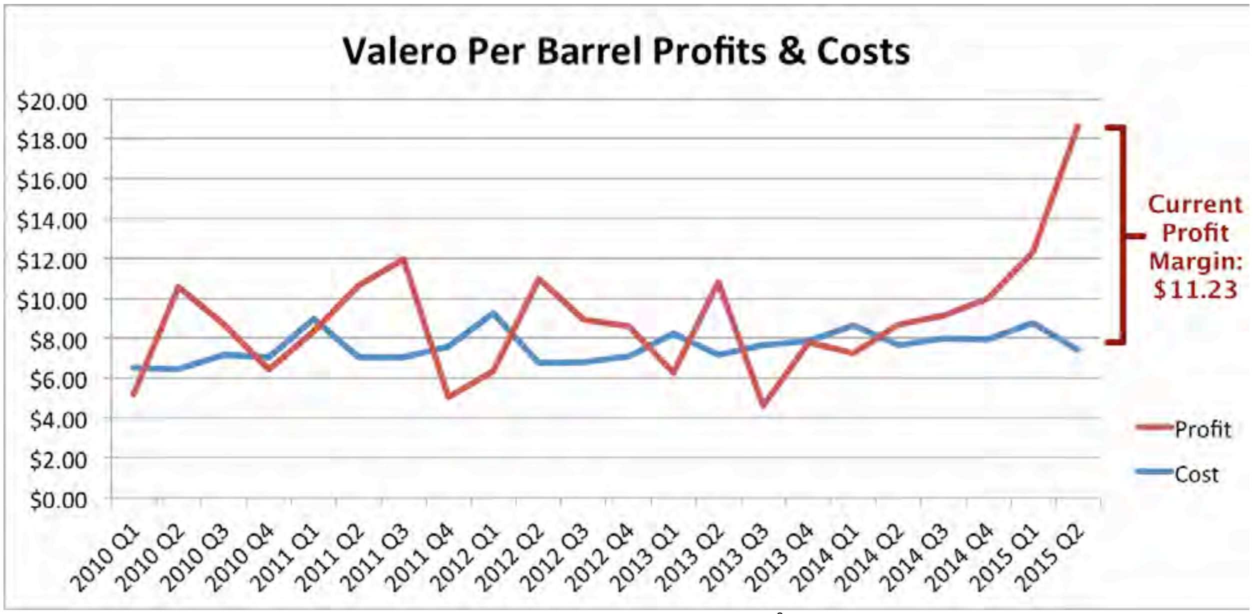
[8] http://www.valero.com/InvestorRelations/Pages/FinancialNews.aspx



From Company Filings with the Securities and Exchange Commission, and Valero[9]

On their Q2 investor call, the company acknowledged refinery downtime as having a positive impact on their West Coast profits. George K. Simmons, a Valero executive stated, “Some of these refinery outages that we've been seeing, will they continue or not will really determine how strong the West Coast market will be.”[10]

Simmons also acknowledged exports to Mexico that the company has refused to explain to California lawmakers: “We exported 76,000 barrels a day of gasoline. Most all of that volume went to Mexico and Latin America.”

Tesoro

California’s second largest oil refiner, Tesoro, breaks out state-specific refining information. The second quarter of 2015 was a record quarter for the Texas-based refiner.

According to a Consumer Watchdog analysis of their SEC filings, Tesoro made a record $668 million on California refining, their best quarter ever by double their previous high of $334 million. The quarter is four times higher than their average California profits. These profits are calculated using information Tesoro provides to the SEC, such as the amount of barrels refined in California per day, and the cost & margins of those barrels.

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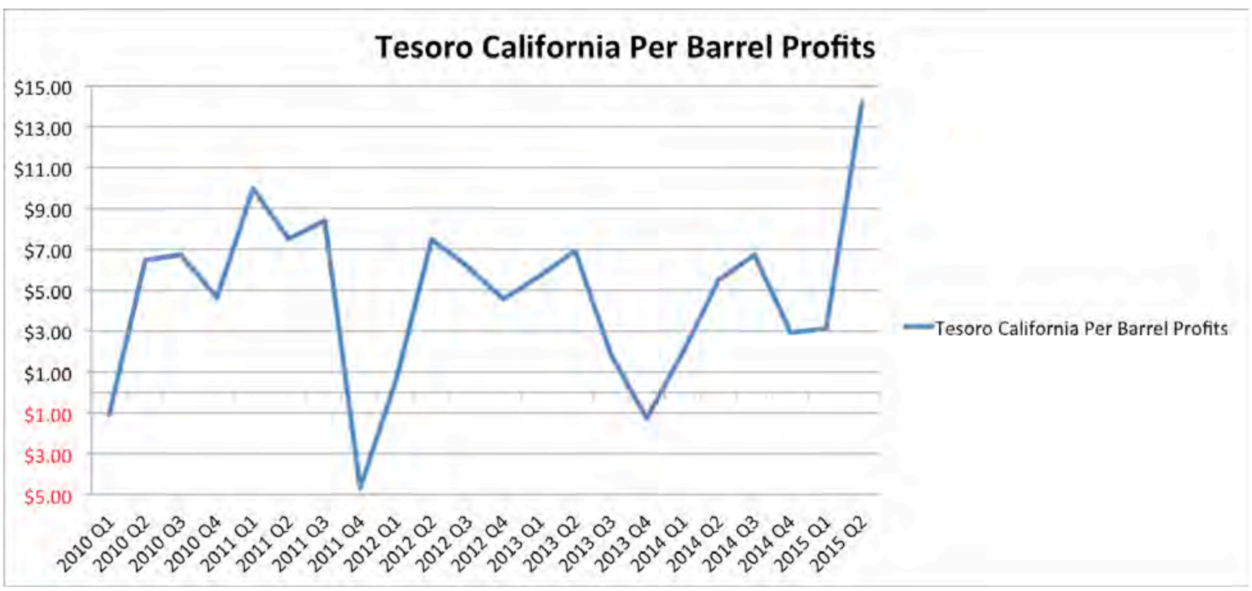
9 http://www.valero.com/InvestorRelations/Pages/FinancialNews.aspx
10 http://www.thestreet.com/story/13240490/1/valero-energy-vlo-earnings-report-q2-2015-conference-call-transcript.html

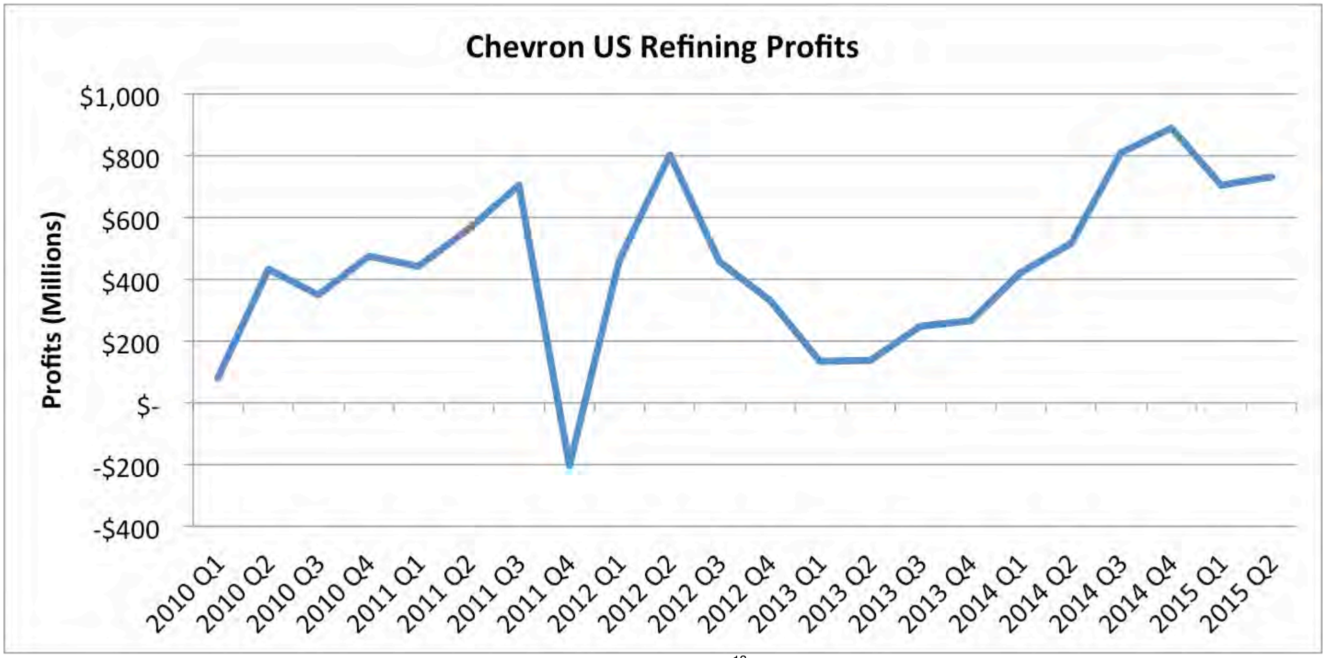
Tesoro provides their California margin per barrel, as well as costs per barrel. Subtracting the costs from the margin provides per barrel profits, which reached an eight-year high of $14 per gallon, more than twice their average quarterly profit over the last ten years.



Chevron

Chevron is California's largest refiner, with 28% of the state's refining capacity. Chevron does not break out their California profits, but a majority of the company's refining, 54%, takes place within the state.[11][12] This means their refining profits are heavily influenced by the strength of their California business.

In the 2nd quarter of 2015 Chevron made $731 Million in profit on their United States refining. This was an increase of $214 Million, or 41% over the same quarter last year. It is almost double their average quarterly profits since 2005.



Company filings with the Securities and Exchange Commission, and Chevron[13]

	Chevron Refining Profit (Millions)
2015 Q2:	$731
2014 Q2:	$517
10 Year Average:	$351

Company filings with the Securities and Exchange Commission, and Chevron[14]

On their second quarter investor call, Chevron executive Frank Mount spoke about the attractiveness of California's dysfunctional market: "US downstream results increased $25 million between quarters. Tight product supply, primarily on the West Coast,

[11] http://energyalmanac.ca.gov/petroleum/refineries.html
[12] http://www.chevron.com/countries/usa/
[13] http://phx.corporate-ir.net/External.File?item=UGFyZW50SUQ9NTg5MTA3fENoaWxkSUQ9Mjk3NTg2fFR5cGU9MQ==&t=1
[14] http://phx.corporate-ir.net/External.File?item=UGFyZW50SUQ9NTg5MTA3fENoaWxkSUQ9Mjk3NTg2fFR5cGU9MQ==&t=1

boosted refining and marketing margins and increased earnings by $165 million between quarters."[15]

Tesoro
Tesoro, California's second largest refiner, is set to reveal its quarterly report at the close of the New York Stock Exchange Wednesday, August 5th. The company is likely to follow Valero's pattern of abnormally high profits from their California refining operations. In the first quarter, the company increased its California per barrel profits by $3.14, despite a major labor dispute. Since its refineries ran more efficiently in the second quarter, Tesoro will likely see a profit leap much like Valero's.

Other Refiners
Other major California refiners Exxon, Shell, and Phillips 66 that have major operations in California do not specify California profits in their quarterly reports to investors. The companies compile the data but do not make it public.

CONCLUSION

California oil refiners have made landmark profits from the low inventories, tight supply and downed refineries in California. They have also used their market power to substantially increase the wholesale price of their gasoline to branded stations that are contracted to take the gas at whatever price the refiners set. That helps keep the price of gas high to consumers. The gap with U.S. gasoline prices and the cost to consumers have never been greater.

[15] http://www.thestreet.com/story/13240276/1/chevron-cvx-earnings-report-q2-2015-conference-call-transcript.html