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COMMITTEE HEARING
 BEFORE THE
 ENERGY RESOURCES CONSERVATION AND DEVELOPMENT
 COMMISSION OF THE STATE OF CALIFORNIA

In the matter of,)
) Docket No. 15-PMAC-1
)
 Petroleum Market Advisory)
Committee Meeting)

ENERGY INSTITUTE AT HAAS
 2547 CHANNING WAY
 UNIVERSITY OF CALIFORNIA, BERKELEY
 BERKELEY, CALIFORNIA

TUESDAY, JUNE 30, 2015

1:17 P.M.

Reported By:
 Julie Link

APPEARANCES

Commissioners

Commissioner Janea Scott, Lead Commissioner for IEPR and
Transportation

CEC Staff Present

Ivin Rhyne, Supply Analysis Office Manager, Energy
Assessments Division

Gordon Schremp, Senior Fuels Specialist, Energy
Assessments Division

Samantha Arens, Counsel, Chief Counsel's Office

Ryan Eggers, Supervisor, Transportation Fuels Data Unit,
Supply Analysis Office

ARB Staff Present

Sam Wade, Chief, Transportation Fuels Branch, California
Environmental Agency, Air Resources Board

Petroleum Market Advisory Committee

James Sweeney, Chair, Director of the Stanford
University Precourt Energy Efficiency Center

Severin Borenstein, Professor, Haas School of Business
Economic Analysis and Policy Group at University of
California, Berkeley

Kathleen Foote, Senior Assistant Attorney General and
Antitrust Chief at the California Attorney General's
Office

Dave Hackett, President, Stillwater Associates

Public Present

Jamie Court, President, Consumer Watchdog

Cody Rosenfield, Consumer Watchdog

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P R O C E E D I N G S

1
2 JUNE 30, 2015

1:17 P.M.

3 CHAIR SWEENEY: Okay, I'd like to call this
4 meeting to order and note that we have a much better
5 attended meeting. Other than the members of the
6 Committee, I'm glad that we have a group of other people
7 who will be participating in the meeting.

8 We will have public comments as we go along. My
9 proposal, subject to the objection from the other
10 Committee members is to after each major item have
11 public comments at that time, rather than try to lump
12 them all at the end. I think it will be a more
13 meaningful set of public comments.

14 For those of you who plan to make a comment,
15 please go to the back table, fill out one of these
16 request to speak cards so we'll make sure you are able
17 to get an opportunity for comments.

18 And if you do it soon, that would help me
19 because we need to figure out how much time is
20 available. The more people we have, the more we might
21 have to limit time. I hope we won't have to. But if
22 there's a large number of people, we're going to have to
23 pay more attention to that.

24 So, the first item of business is the approval
25 of minutes. You should have all seen those minutes, but

1 you have it in front of you.

2 Are there any comments by members of the
3 Advisory Committee about the minutes, as written? Any
4 comments or corrections?

5 If not, I need to hear a motion and a second for
6 approval of the minutes.

7 COMMITTEE MEMBER FOOTE: Move approval.

8 CHAIR SWEENEY: Moved.

9 COMMITTEE MEMBER BORENSTEIN: Second.

10 CHAIR SWEENEY: Second.

11 All in favor?

12 (Ayes)

13 CHAIR SWEENEY: Opposed?

14 Abstentions?

15 It will be recorded that it was unanimously
16 approved, but with one of the Committee Members, Amy
17 Jaffe, is still missing so she was not voting.

18 The next item of business is -- needs a bit of
19 explanation. The schedule set up for the meetings of
20 the Petroleum Market Advisory Committee is once a
21 quarter. I felt, and other people felt the same way,
22 that it's really important that work be done in between
23 those meetings.

24 And after consultation with the members of the
25 California Energy Committee and their legal staff, they

1 proposed that we -- it would be acceptable, under the
2 Bagley-Keene Open Meeting rule for us to get an informal
3 working group of two members that would work together to
4 try to get some of the data that would make this meeting
5 more effective, so we made progress in between the two
6 meetings.

7 I asked Professor Severin Borenstein to join me
8 on that informal working group. And we moved forward on
9 two fronts. We wanted to get as much price data as
10 would be available from the California Energy
11 Commission, or the Department of Energy, or any other
12 sources and we were able to receive a significant amount
13 of that data. We wanted to see where the margins were
14 up the supply chain, from the crude oil prices up to the
15 final point as a starting point for the analysis of
16 petroleum markets.

17 In addition, we've had a number of
18 conversations, to which we'll return, about how we can
19 get access to more complete sets of data than would be
20 available. And we'll return to that discussion at a
21 later point.

22 I'd like to, right now, go through the materials
23 that Severin Borenstein and I, or Professor Severin
24 Borenstein and I have put together looking at gasoline
25 price margins.

1 There is a handout and this is on the webpage.

2 COMMITTEE MEMBER HACKETT: Jim, can I interrupt
3 you for a second?

4 CHAIR SWEENEY: Yes.

5 COMMITTEE MEMBER HACKETT: Ivin, we've got folks
6 who are not able to get into the WebEx. Evidently,
7 they've got problems with the password.

8 MR. RHYNE: The password requires a capital H.

9 COMMITTEE MEMBER HACKETT: A capital H.

10 MR. RHYNE: Instead of a lowercase H.

11 COMMITTEE MEMBER HACKETT: Okay, got it.

12 Thanks.

13 COMMISSIONER SCOTT: And maybe you could do the
14 whole password over the phone, just so people can hear
15 in case they are listening in.

16 MR. RHYNE: Absolutely. Thank you, Commissioner
17 Scott. So, those of you who have managed to call in,
18 but are having a hard time getting online to the WebEx,
19 the password in the notice is incorrect. The letters
20 and number combination is correct. However, the first
21 letter of Haas should be capitalized. And so the
22 password is Haas@63015.

23 So, if you're having a hard time getting in,
24 capitalize the H and that should do it for you.

25 CHAIR SWEENEY: Okay, I'd like to turn to the

1 slides we have here and, again, these are just to get
2 the basic data on the table about gasoline prices up and
3 down the supply chain. We have not dealt with diesel
4 prices, but limited it to gasoline prices.

5 The first thing that we note from this graph is
6 that we had a drop of gasoline prices from the
7 prevailing prices in the order of \$4.00, down to about
8 \$2.50 around January 15th. From which time they've gone
9 up, not monotonically, but gone up significantly to
10 about \$3.50.

11 Notice in this graph we have Northern versus
12 Southern California and there's some difference between
13 the two, with Southern California having prices that
14 are, on the average, somewhat higher.

15 At the same time, we notice that crude oil
16 prices have dropped and we put the crude oil prices in
17 dollars per gallon on order to keep all the same. Crude
18 oil prices in the United States have dropped about
19 between \$1.00 and \$1.50 per gallon. Gone up a slight
20 amount, but they're down to a point where they are in
21 the order of a dollar lower per gallon than they were in
22 the 2011 to early -- until mid-2014 price trends.

23 Notice we put two different prices, WTI, the
24 Western Texas Intermediate price and the Brent FOB
25 price. It is a judgment that the Brent price is a more

1 appropriate price for looking at the margins, but both
2 of them are there for your reference.

3 The third issue is how these stack up versus
4 prices in the rest of the United States. On this graph
5 I've just plotted from January 2014. Notice that there
6 was a drop with the crude oil price dropping down
7 significantly, really following with the California and
8 following the U.S. prices fairly -- on an almost one-
9 for-one basis until the end of January 2015.

10 Notice that on this graph we have several data
11 series. All of these come from the Energy Information
12 Administration.

13 The U.S. regular all formulations is blue, the
14 red is the reformulated gasoline price. And in the
15 United States the reformulated price is typically,
16 significantly higher than all formulations.

17 In other to get people calibrated, those
18 vertical grid lines are 20 cents a gallon in between
19 each grid line. So, this makes it a little bit easier
20 to see the difference.

21 So at the end of the time -- through the U.S.,
22 as a whole, the differential between all formulations
23 and the reformulated has gone up somewhat, from in the
24 order of what may be in the order of 10 cents, or so, up
25 to 20 cents.

1 However, if you notice up above, we have three
2 series of California. One, all California regular
3 reformulated, and then an average price in Los Angeles
4 and in San Francisco.

5 And as you notice, after the end of January
6 2015, those prices have diverged significantly from the
7 U.S. prices. It's not been a monotonic diversion.
8 We've had two time periods, one in early March and the
9 other in May, in which the price has been -- the price
10 difference has been much higher and it's moved down to a
11 point where now we have the average of California is
12 about 40 cents higher than the average of the United
13 States for the reformulated gasoline.

14 That's somewhat higher than what we've had
15 before. If you've looked at the history earlier in
16 2014, you can look at the numbers yourself, but
17 ebullient is -- the difference has been about 30 cents
18 in the past and it's about 40 cents, now.

19 So, the question is, that we as a Committee are
20 going to have to address, is why haven't the California
21 retail prices dropped nearly as large as the reduction
22 in the crude oil price?

23 But to get to that, we decided the first steps
24 is to look at the differentials in the supply chain.
25 The informal working group has not answered why these

1 differentials are as they are. That's the job of our
2 overall Committee, if we can. And we'll get back to if
3 we can.

4 So, the first step is the primary ingredient of
5 reformulated gasoline. ARBOB or California CARBOB
6 prices, as you notice the CARBOB prices have quite
7 recently increased, much more significantly than the
8 crude oil prices have increased.

9 So, the way we want to look at that is the
10 differential between the CARBOB price and the crude oil
11 price in dollars per gallon. And if you look at the
12 time period from January 1st, 2014 up until recently,
13 that price has varied significantly from no difference
14 or a negative difference up to 40 cents a gallon.

15 But recently, we've had the differential has
16 high as \$1.40 per gallon. And if you look at, in
17 comparison to what I'll call typical 30 to 40 cents a
18 gallon, we have had the price 50 cents to \$1.00 a gallon
19 higher than during the last two years.

20 Currently, the differential is down to about 50
21 cents a gallon, which is still higher than what we've
22 had in the past.

23 We've used Brent crude oil price as the
24 comparison for the crude oil price here.

25 Just for the same graph, over a longer time

1 frame, just to make it clear that we haven't been cherry
2 picking a short period of time, you'll notice that this
3 differential has varied very sharply over time periods,
4 with times in 2006 and 2007 where the price differential
5 has been as high as \$1.20 a gallon. Even then, it's not
6 as high as we've gotten recently.

7 Although, in the mid-2012 we had even larger
8 price spikes, but for a very short time period. That's
9 based on Brent.

10 The picture looks very similar if we base it on
11 WTI crude.

12 So, now, we thought, well, it's useful to
13 compare this to gasoline prices in the two other major
14 trading areas of gas, New York Harbor and the Gulf
15 Coast. And if you again are looking at this 2014 to
16 current price period, you'll see that there was a two-
17 month time period in which the differential between Los
18 Angeles -- well, first let me step back.

19 The blue is the differential between Los Angeles
20 and the New York Harbor. The red is the differential
21 between Los Angeles and the Gulf Coast. Notice that
22 that differential has been up to as high as 90 cents per
23 gallon. And it was over 50 cents a gallon for over a
24 month time period. And it's over 30 cents a gallon for
25 about a two-month time period.

1 It is now that differential between -- is in the
2 order, now, of 10 to 25 cents a gallon differential,
3 back to what it used to be during that early period of
4 time that I've plotted here.

5 So, we've had two intervals in this year, in
6 which the California ARBOB price or CARBOB price has
7 been significantly higher than the prices in the Gulf
8 Coast or the New York Harbor.

9 If you look at the longer time series of this
10 same data, you'll see these are numbers that have jumped
11 around and there have been other time periods in which
12 the differential was this high. But, quite typically,
13 the differential that you've had is in the order of 15
14 cents a gallon, not nearly as high as we've had
15 recently.

16 So the next thing is CARBOB to Rack
17 differential. And here we see a very fundamental
18 difference between Northern California and Southern
19 California. Again, what I've plotted here, the blue is
20 Northern California. The differential on the Rack price
21 to the CARBOB price, the red is Southern California.

22 And as you notice, over time this bounces
23 around. But my eyeballing it is in about the 10
24 cents -- about a 10 cents a gallon range.

25 Except recently, in Southern California, we have

1 a differential between CARBOB and the average Rack price
2 is going up to in the order of 50 cents a gallon. That
3 was a roughly one-month time period where it exceeded 30
4 cents a gallon and is now down to the 20 cents a gallon,
5 similar to what we've had before.

6 So, one of the things, as you look on the supply
7 chain, we notice that there is, at this differential, a
8 significant different between Northern California and
9 Southern California.

10 If you look at the long-term supply chain
11 picture, it just shows that what we've seen earlier in
12 the 2014 through mid-2015 time period is not atypical
13 from the time period we've had earlier. So, it is the
14 more recent high prices that is the atypical prices.

15 The next is the question between Rack to retail
16 prices and we have Northern California versus Southern
17 California. And here, at least, without any formal
18 statistical work, there's been a secular trend upward.
19 We've had movements up and down in that trend.

20 But if we notice, that around 2011 we had 80 to
21 90 cents differential and now we're about \$1.10 to
22 \$1.20. And so, the difference between the Rack and the
23 retail prices on the average in California, although
24 very volatile, seems to have secularly increased over
25 time.

1 Notice in very early 2015, we've had a
2 significant drop in that and then followed by a very
3 large increase in the gap. We have had the differential
4 as low as 70 cents, jumping over several weeks' period
5 to as high as \$1.35 per gallon. So, large variations,
6 but a secular trend upward.

7 Finally, there's a longer-term perspective,
8 which I'll go through very quickly. Crude oil prices,
9 no surprise to anybody on the long-term trend.

10 Longer-term trend on CARBOB prices following
11 crude oil prices, other than the recent changes.

12 So in summary, as we look at the price
13 differentials, increased throughout much of the supply
14 chain, but the largest increase is in the difference
15 between the crude oil price and the CARBOB price.

16 Retail differentials generally increased.
17 CARBOB through Rack price have been quite different in
18 Southern California than in Northern California. But
19 the informal working group has not determined the
20 reasons for those differentials.

21 So, that's basically my report and I turn it
22 over to my partner in this discussion, Professor
23 Borenstein, who might want to add, subtract, alter what
24 I've said in this.

25 And by the way, although I presented, we worked

1 together on these things.

2 COMMITTEE MEMBER BORENSTEIN: You covered it
3 all. I have nothing more to add to that.

4 CHAIR SWEENEY: Okay. Are there comments and
5 discussions by the Committee and then we -- it is at
6 this item that we have one public comment to be made.
7 Any Committee members have any comments or discussion on
8 this?

9 Yes?

10 COMMITTEE MEMBER HACKETT: Yeah, Jim, I have --

11 CHAIR SWEENEY: And please, for the camera and
12 for the people on, just identify yourself by name.

13 COMMITTEE MEMBER HACKETT: Dave Hackett, here.
14 You guys crunched a lot of numbers. I think there's a
15 lot of good stuff there. I don't have any criticism at
16 all. I would say that from an analytical perspective,
17 sort of the favored basis for looking at California spot
18 gasoline prices is the New York Mercantile Exchange.

19 And so, the industry tends to look at the dif to
20 the merc as opposed -- for reformulated gasoline as
21 opposed to crude oil. So, that's one minor point.

22 Another minor point is --

23 COMMITTEE MEMBER BORENSTEIN: Wait, could I just
24 ask you?

25 COMMITTEE MEMBER HACKETT: Yeah.

1 COMMITTEE MEMBER BORENSTEIN: You mean the
2 differential to the WTI futures contract or the
3 differential to the New York Harbor Gasoline contract.

4 COMMITTEE MEMBER HACKETT: The New York Harbor
5 Gasoline contract.

6 CHAIR SWEENEY: Now, is that significantly
7 different from the instant spot price in the New York
8 Harbor?

9 COMMITTEE MEMBER HACKETT: It can -- they can be
10 different. Because in the instant New York Harbor spot
11 price can be affected by supply and demand issues in the
12 New York Harbor. It gets cold in the winter and the
13 place ices up.

14 CHAIR SWEENEY: Right. Do you know that they've
15 been different this time or are you suggesting we look
16 at those data more fully and present them, maybe, at
17 next meeting?

18 COMMITTEE MEMBER HACKETT: I would -- it's my
19 view that you don't need to focus on the differential of
20 the crude oil, either Brent or TWI, it's really the dif
21 to the reformulated gas on the screen.

22 Also, West Texas Intermediate doesn't have the
23 strong relationship to gasoline in California that it
24 used to have. And you saw that in the data. Although,
25 lately, because the flows of crude in mid-continent have

1 improved, the relationship between WTI and Brent is a
2 little better now, than it was a few years ago.

3 CHAIR SWEENEY: And that, by the way, is why we
4 used as a differential to Brent crude when we showed the
5 differential. The first graphs of the oil price showed
6 them both. But for the most part, the differentials
7 were with Brent crude for exactly the reason that you
8 pointed out.

9 COMMITTEE MEMBER HACKETT: And Brent's the
10 better benchmark if you're going to go to crude.

11 CHAIR SWEENEY: Right, which is the one we used.

12 COMMITTEE MEMBER HACKETT: Right. And I guess
13 we're going to see this in some of the staff
14 presentation, but some of the variance in these spreads
15 is seasonal. For example, the wintertime, typically, is
16 a season with low margins. It didn't happen -- you saw
17 that in January. In January '15, the margins got to be
18 pretty low. But once the Torrance Refinery had its
19 explosion, it all went in the other direction.

20 CHAIR SWEENEY: Right. Are there other comments
21 from Committee members. Okay, we do have --

22 COMMITTEE MEMBER HACKETT: Jim, I have one more
23 question.

24 CHAIR SWEENEY: Yeah.

25 COMMITTEE MEMBER HACKETT: What Rack price did

1 you use in this analysis?

2 CHAIR SWEENEY: I am not a hundred percent sure
3 because it was the one supplied by -- we can get more
4 complete knowledge.

5 MR. EGGERS: These were averaged Rack prices of
6 the Rack terminals from the OPIS database.

7 COMMITTEE MEMBER HACKETT: So, it's branded and
8 non-branded averaged together?

9 MR. EGGERS: Just branded.

10 COMMITTEE MEMBER HACKETT: Just branded, okay.

11 CHAIR SWEENEY: Okay, thank you.

12 We have one public comment, a request to speak,
13 Jamie Court. And, Jamie, do you have an estimate of how
14 long you want to --

15 MR. COURT: Just about three to five minutes.

16 CHAIR SWEENEY: That's perfectly fine.

17 MR. COURT: So, I'm Jamie Court. I'm President
18 of Consumer Watchdog and I was -- had the good fortune
19 to be on the Lockyer Task Force on Gas Pricing in '99,
20 with Kathleen Foote, and some others, to see what's gone
21 on in this market.

22 And back then, they identified or we identified
23 some very, you know, consolidation, limited West Coast
24 inventories, limited refining capacity, the special
25 brand of gasoline as this larger picture of what was

1 going wrong.

2 We've since looked a lot more at this market.

3 And what I'd like to say is we'd like to throw a few
4 issues onto the working group's take.

5 We've looked really closely, including sitting
6 here in March, at this problem. And this is the
7 narrative we've established for what's gone on in
8 California.

9 We've obviously seen crude oil prices go really
10 low in the end of December. Following the crude oil
11 prices, gas prices started to drop. And then in
12 December, according to the CEC's own data, we had the
13 largest export of gasoline, finished gasoline to a
14 foreign nation as to any time before that.

15 I was just looking a little at the CEC's charts,
16 it looks like January is a big export season, as well,
17 here. So, the well was dried.

18 February, we started seeing unprecedented amount
19 of refineries go offline. A lot of them for planned
20 maintenance. Not unplanned maintenance. Planned
21 maintenance. We can't really see why. I don't know if
22 this Committee could see why.

23 And that's why we've asked, today, that the
24 Attorney General send some investigators to check the
25 reasons why.

1 So, obviously, we had a market that was tight on
2 fuel. Because if you look at the first quarter profit
3 reports from all the major refiners, they all say we
4 love the west, literally. And I've put in our
5 testimony, that you all have here today, some of the
6 quotes from these first quarter profit calls.

7 "West Coast refining margins are the biggest,"
8 Chevron says. Tesoro and Valero are extoling these West
9 Coast refining margins. So, it's all profit.

10 This is all public knowledge, but some of the
11 evidence I'm going to present to you right now isn't,
12 something that we've just found recently, and it's
13 something really very unusual.

14 As supplies started to come in, in May, to
15 backfill these refinery outages and potentially drop the
16 price of gas, and at that point we had -- if you look at
17 Rack prices, we had branded and unbranded stations where
18 branded stations were paying actually a little bit more,
19 and it's called inverted rack for gasoline.

20 Usually, the difference between branded and
21 unbranded stations, nationally now, it's four cents. In
22 California, over the last 15 years, according to CEC
23 data, it's been about 5 cents.

24 So, this is the difference in the wholesale
25 price sold at the rack, two branded stations by the oil

1 refiners, and the difference sold at the rack, wholesale
2 prices to unbranded stations. It's usually about 5
3 cents more, or 3 to 5 cents more for the branded
4 stations.

5 Today, it's 30 cents. Oil refiners are
6 leveraging these contracts they have with branded
7 stations to drive up prices at the branded rack to
8 unprecedented levels.

9 This is based on OPIS data. It's confirmed by
10 Bloomberg data. And it's incontrovertible. It started
11 at the end of May and it's increased through June.

12 And if you look at the last 16 years, based on
13 CEC data, we've only had 34 weeks, out of 815, since
14 1999, where that gap between the branded and the
15 unbranded price was 20 cents or more.

16 And during the last 16 years we've never had a
17 time where there was a 30-cent differential for more
18 than a week between the branded and unbranded prices.
19 It's only happened three times in the last 16 years.

20 Well, for the last two weeks we've had more than
21 30 cents statewide, in the branded and unbranded. And
22 some of the racks, because they're all different
23 regionally, are even higher, 35 cents.

24 This is a way for the oil refiners to
25 artificially raise prices at their branded stations.

1 And when they unbranded stations undercut them, they may
2 undercut them by 8 cents, not undercut them by 30. It's
3 a way to artificially keep the prices high.

4 Now, why would they do this? This goes back to
5 what happened this year. These are all extraordinary
6 circumstances, the refinery outages, the exporting, the
7 leveraging of these unbranded contracts. And it goes
8 back to why this Committee was formed. In November,
9 Bloomberg released a memo from the Western State
10 Petroleum Association, saying, the oil refiners had a
11 political plan to undermine global warming laws by
12 claiming it would raise gas prices by 75 cents. They
13 were outed on that political front.

14 But they've been doing in the market what they
15 haven't really been able to do in the court of public
16 opinion or politics. They've been raising prices. And
17 they've been doing them for reasons that are not
18 precedented.

19 I would ask you to put on your table the idea of
20 exports and exports, as they've been unprecedented in
21 this -- we know in December they were. The CEC probably
22 has more recent data from the chart. It looked like
23 January exports of finished gasoline were high.

24 We'd ask you to put on the table the issue of
25 whether oil refiners are unreasonably charging this 30-

1 cent delta, and how they're doing it, and why they're
2 doing it. Because we know the answers, and we'd ask you
3 to ask them.

4 But more importantly, we'd say that I'm glad
5 you're looking at this data but, you know, this price
6 spike started in February.

7 This is the next meeting. We're all very busy.
8 But if we're going to get some justice for the people of
9 California, who've literally paid more than \$3 billion
10 extra for their gasoline than we've paid nationally, if
11 you look at the difference between our CARB price and
12 national prices, which has gone as much as a buck 30
13 over the national price in this time period, over the
14 spring.

15 If we're going to get justice, it's on the
16 Attorney General. We need a special investigator, a
17 special prosecutor.

18 This Committee is well-intentioned, but the pace
19 the data moves is not what we need. When refineries
20 close and the reasons don't jive with the facts, someone
21 needs to go and figure it out.

22 We lived through this before, with the
23 electricity crisis. We need to act quicker and we need
24 to act at the moment.

25 And so, today, we've sent this letter, that I've

1 already given to Ms. Foote, to the Attorney General,
2 asking them to supplement your efforts with a special
3 investigator and, potentially, a special prosecutor.

4 There's one thing I should note on this branded
5 rack price, from a legal point of view, when Tesoro
6 bought BP, in 2013, it agreed to maintain ARCO brand,
7 which was at the time BP's brand, as a low-cost fuel
8 service provider. In a side letter to the Attorney
9 General is a condition of that sale.

10 Well we know, from the OPIS data, that Tesoro
11 was charging 30 cents more to branded ARCO stations on
12 the rack. We believe that may be a violation of the
13 agreement and we hope that, specifically, will get some
14 attention.

15 We also know that there is a Federal law called
16 the Robinson Patman Act, which says that you have to
17 charge a similar price for a similar product, if your
18 costs are different. And this 30-cent delta is so rare
19 because I believe it's probably a violation of Federal
20 Anti-trust Law.

21 It's gone on for about two or three weeks and
22 maybe it's going to temper, but we're still well over 20
23 cents, I think, for the next few weeks.

24 This is an extraordinary period and someone
25 really needs some answers as to why we're here.

1 So, I thank you for meeting and deliberating and
2 if I can help, please let me know.

3 CHAIR SWEENEY: Thank you for the comments. Do
4 any of the Committee members have questions?

5 I just have one clarification. Is your data
6 that you communicate for both Northern and Southern
7 California or is it blended --

8 MR. COURT: The OPIS data is for Southern. But
9 the Northern data, we're told, and I couldn't get the
10 OPIS data for the North, as you know, data is not always
11 easy to come by, so I hope you'll use your resources to
12 do it, mirrors this.

13 This information, by the way, was brought to us
14 by some insiders in the industry who said, this has
15 never happened, it's really outrageous.

16 So, we understand that this is mirrored in the
17 North, with the South. But the data we have from OPIS
18 is for Southern California.

19 CHAIR SWEENEY: Thank you.

20 MR. COURT: Thank you.

21 CHAIR SWEENEY: Are there other questions or
22 comments?

23 Well, thank you for your efforts and your
24 communication of it. And I take it that you have made
25 this report and the data publicly available on --

1 MR. COURT: It's on our website and we've shared
2 it with the Attorney General's Office.

3 CHAIR SWEENEY: Great. Thank you very much.

4 MR. COURT: Thank you.

5 CHAIR SWEENEY: Okay, are there other people who
6 have comments on this item who are, say, on the
7 telephone or would like to call it in? And I turn to
8 the Public Adviser. No, there are --

9 COMMISSIONER SCOTT: There are no more comments
10 here, right?

11 CHAIR SWEENEY: No more on this topic.

12 Okay, the next item is the update by Energy
13 Commission on the petroleum market news. I turn to you.

14 MR. RHYNE: If you'll give me just a moment,
15 I'll bring that up.

16 COMMISSIONER SCOTT: Ivin, was there anyone on
17 the WebEx who wanted to comment on that?

18 MR. RHYNE: Let me double check that.

19 COMMISSIONER SCOTT: Alana's got the people in
20 the room and Ivin has the folks on the phone.

21 CHAIR SWEENEY: Oh, okay, I misunderstood that.

22 MR. RHYNE: Oh, sorry. So, I'll ask if there is
23 anyone who had a comment or question can send it to me
24 via the chat box. And I can see that there's no one in
25 here right now.

1 COMMISSIONER SCOTT: Okay.

2 MR. RHYNE: So, I see nothing online as far as
3 comments.

4 COMMISSIONER SCOTT: Thank you for checking.

5 CHAIR SWEENEY: You're on.

6 MR. SCHREMP: Thank you, Chair Sweeny. My name
7 is Gordon Schremp. I'm the Senior Fuel Specialist at
8 the California Energy Commission. Thank you for the
9 opportunity to present some information to the Committee
10 members today.

11 As part of my area of work and the team that's
12 in our Reporting Unit, we collect an awful lot of
13 information from the oil companies and other market
14 participants. We purchase a great deal of pricing
15 information, some of those data sources mentioned here
16 today.

17 And we monitor developments in the marketplace,
18 especially during times of elevated or price spikes in
19 the marketplace. So, we're very interested to see what
20 is happening with the refineries, what's happening with
21 inventory levels, imports and exports, all issues
22 mentioned this afternoon here. We believe they're all
23 relevant to providing some insight and explanation as to
24 what's been going on in the market, recently.

25 So, we're going to advance my presentation.

1 MR. RHYNE: There we go, now it works.

2 MR. SCHREMP: Thank you, Ivin.

3 So, today what I plan on covering is, clearly,
4 we're here to provide information to the Committee
5 members. We're here to be a resource, respond to
6 questions they may have at this time, or after today's
7 meeting.

8 So, I want to go through all that information.
9 We'll talk about, clearly, where prices are right now.
10 We all know California prices are more expensive. This
11 is especially the case for gasoline. I'll walk through
12 a little bit of that.

13 We'll look at what these trends have been, some
14 of which have been covered by Chair Sweeney, already.

15 And we want to talk about the markets. The West
16 Coast is one whole market, California and the Pacific
17 Northwest, and there are relative -- relevant
18 differences between other regions of the country.

19 And, most importantly, what are some of the
20 primary factors that we believe are responsible for a
21 tightening of the California gassing market, especially
22 and to a lesser extent, the diesel market, and why it
23 has been sustained for so long.

24 And, finally, are fuels under the CAP tracking.
25 We'll review some of that information, an update from

1 our February meeting and where those price differences
2 stand.

3 So, first of all, a snapshot. Prices are
4 extremely high in California. They remain higher than
5 the U.S. And this is a snapshot from yesterday. As of
6 this morning, the prices have continued to come down,
7 albeit begrudgingly slow. I think about a half a penny,
8 it's down a little bit more.

9 So what is the good news, a continued gradual
10 decline, 27 cents lower than it was a month ago, and
11 lower than it was a year ago primarily because of what's
12 already been covered, a drop in crude oil prices.

13 As you can see, Washington, another area on the
14 West Coast, part of the isolated market, also has
15 significant refining capacity. Their prices have
16 declined from a year ago, crude oil driven, more so than
17 California.

18 But recently, we've seen a rise in prices over
19 the last month. And just recently, they've had some
20 other refinery issues that are not just, you know,
21 something in the purview of California. These refinery
22 issues do happen in other parts of the country.

23 So, gasoline is more expensive. Here are some
24 different comparatives. I'm looking at retail price,
25 regular grade in California. It is a reformulated

1 gasoline market for all of the gasoline. We looked at
2 both the U.S., including all types of gasoline, as well
3 as just the reformulated gasoline regions, which is
4 about a third of the United States' gassing supply.

5 So as you can see, if you compare California to
6 the U.S., you get a higher average difference. It's
7 been, you know, 17 cents a gallon. Only a dime,
8 compared to the reformulated gasoline market.

9 So, one could argue that looking at the
10 California reformulated gasoline versus other
11 reformulated gasoline markets, you're correcting for
12 fuel differentials in quality, in cost to make the fuel
13 mostly.

14 And the other part of that differential can be,
15 in large part, due to isolation of the California market
16 and the refinery issues we've had over the years, until
17 very recently.

18 And so, more recently you see that that
19 differential has been greater, 2009 through 2014. And,
20 clearly, it's been some of the highest differentials
21 ever for this year. So, this is the California retail
22 minus the U.S. average retail. And we're well above any
23 of those annual average differentials. And it's likely
24 we'll end up with the largest differential over this
25 period of time, when all is said and done, because of

1 how high prices are right now, halfway through the year.

2 COMMITTEE MEMBER HACKETT: Hang on, Gordon. And
3 so, we pay attention to the differentials, how does
4 California look relative to the rest of the country.

5 And so, last year sometime we went and looked at
6 it again, and I mentally had 25 or 30 cents a gallon as
7 the spread between California and the rest of the
8 country.

9 CHAIR SWEENEY: Is this all gasoline, regulated
10 and not reformulated, and California is reformulated.

11 COMMITTEE MEMBER HACKETT: I interrupted you a
12 slide too soon. Let's do the reformulated.

13 MR. SCHREMP: So, yes, Chair Sweeney, this slide
14 number five is all types of gasoline in the United
15 States compared to California's reformulated, so it does
16 include both conventional gasolines and reformulated.

17 The next slide only looks at those areas that
18 are marketing reformulated gasoline meeting Federal
19 standard.

20 So as you can see, the same relative change, if
21 you will. Today's year-to-date differential is, you
22 know, essentially double than what it's been for any
23 annual period and here we are halfway through the year.

24 So, if you want to look at just sort of more
25 apples-to-apples, you see this kind of differential.

1 And so, something else is clearly going on in the
2 marketplace, in California, to create this kind of
3 differential.

4 Looking at diesel prices, we're seeing that what
5 they are year to date, we've had another period, in
6 2004, where they have been this high. And so, it's not
7 an extreme or a doubling of what it's been.

8 And that's because from what we see in these
9 refinery issues in California, especially, they're
10 gasoline-related issues.

11 So, part of the higher price is certainly the
12 quantity of tax on fuel in California, relative to other
13 states.

14 In this snapshot from April 1st, for all states,
15 provided by API, you see California is number two. And
16 so that difference, compared to the average level of
17 taxation is about 17 cents a gallon, on April 1st. It
18 was a little bit less, I think, earlier in the year.
19 And API does this snapshot of looking at all the states'
20 tax levels about every quarter.

21 So, we look at diesel fuel. It's not as great,
22 it's about 8 cents a gallon in this most recent
23 snapshot. So, here is one reason why gasoline and
24 diesel prices in California should be higher than the
25 U.S. average because of the level of taxation.

1 Oh, and a bit of good news for everybody,
2 tomorrow taxes are going down on fuel. Gasoline,
3 specifically. The gasoline tax will change and drop by
4 six cents per gallon. That's 6.0 cents per gallon. And
5 diesel fuel will go up by 2.0 cents.

6 Why the change? As part of the Board of
7 Equalization Tax Board's concept for making sure the
8 revenue coming in from taxes is sort of equivalent one
9 year to the next. So, based on the high prices and the
10 taxes that came in last year, they lowered the price.
11 So, that goes into effect each year on July 1. So,
12 that's the change that's coming up, so there should be a
13 little bit of a drop.

14 So now, what have the prices been doing since
15 the beginning of the year? And as Chair Sweeney covered
16 before, clearly two areas that you see that deviate
17 upward, the red line and the blue markers spike up on a
18 couple of occasions. While the yellow markers, which
19 are the price of crude oil, and not just Brent crude
20 oil, as Chair Sweeney mentioned, it's a combination. We
21 look at Brent, we look at California crude oil prices,
22 and we look at Alaska crude oil prices. And we take a
23 ratio of those different prices, based on their relative
24 contribution to California refining.

25 And so, Alaska's about 10, 11 percent, foreign

1 is about 50 percent so we take about 50 percent of the
2 Brent price in California is the balance. So, we have a
3 mixed price of crude oil for our basket of crude, if you
4 will, for those yellow numbers.

5 But the takeaway is, basically lowest point, you
6 know, mid-January rebounded a bit, but flat line. So,
7 those elevations in wholesale prices, rack price, the
8 little red markers and the refinery wholesale price, the
9 blue markers, have been spiking up not related to crude
10 oil and certainly not related to fuels under the CAP
11 fee, which was January 1st and really hasn't changed all
12 year.

13 So, what else is going on that's pushing these
14 prices up, unrelated to crude oil and fuels under the
15 CAP? So, we'll walk through those.

16 But as you can clearly see, rapid increase in
17 wholesale, followed by rapid increase in retail, and
18 wholesale prices do come off rather quickly, especially
19 for the wholesale price at the refinery level, but
20 retail will lag. Up like a rocket, down like a feather,
21 as famously stated by some other Committee members here.

22 So, let's look at this, sort of break this down.
23 And we looked at a couple of different snapshots. And
24 you can see the bottom is the crude oil, not much
25 change. And then the refinery cost in profit, that's

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1 just basically the difference between the wholesale
2 price and the crude oil price.

3 And what we've done is we've taken the crude oil
4 price and we use an average over the previous seven days
5 because, clearly, that price does elevate. But they
6 receive crude oil into storage and so we're taking sort
7 of an average of each previous week.

8 We see taxes for State excise and Federal really
9 don't change all that much. The sales tax will vary
10 based on the retail finish price. And new, this year,
11 is the fuels under the CAP obligation, a fee that's
12 quantified in there.

13 And so, you see a couple of things. When
14 there's a price spike or a significant elevation because
15 crude oil's not changing, you see the refinery cost and
16 profit box, a combination of both, does increase.

17 And so one can argue, when it goes from the
18 period close by to a recent period, and that's a big
19 jump, a lot of that is refining profits, incremental
20 profits because they haven't changed their employee cost
21 structure, the crude oil prices are similar, their
22 energy costs are the same. So, that's a temporary
23 increase in the amount of profits they're getting.

24 And then you see whereby distribution and dealer
25 costs do expand, increase out and go back down. So

1 right now, we're seeing that those levels, as of
2 Saturday, are about a quarter, 26 cents at the
3 distribution level and about a dollar at the refinery
4 level at this time. So, a lot higher than they were
5 back on December 29th.

6 But should point out that in December we had a
7 great deal of gasoline supply in California. We would
8 characterize that as long or excess gasoline by what the
9 spot price was. You can't see that from this chart, but
10 I will show you. When everyone was operating well,
11 that's a low point for demand for gasoline throughout
12 the year. As Mr. Hackett mentioned, you know, the
13 seasonal demand shift and price relationship throughout
14 the year. And so, the market was very long in gasoline.

15 And lo and behold, what happened, as was pointed
16 out by Mr. Court, very large amount of gasoline exports.
17 And so, this is very understandable when the market is
18 long or excess, based on these pricing relationships, to
19 see that kind of export increase for California, the
20 Pacific Northwest, other regions of the United States.

21 That means the refiners' ability to export
22 competitively to nearby markets, Western South America,
23 Western Mexico, Western Canada, from California, is
24 better than other times of the year when their local
25 prices are high, have risen relative to those other

1 markets.

2 So, I want to just briefly touch on wholesale
3 structure, if you will is -- you know, people have been
4 talking about rack prices, branded prices, unbranded
5 prices. I think there was a mention of dealer tank
6 wagon.

7 So, I want to just sort of compare and contrast.
8 The U.S. market, as a whole, this is EIA data that
9 anybody can go out and look at, and you'll see that rack
10 or distribution of terminal, where they load the tanker
11 trucks, is the dominant wholesale transaction. Dealer
12 tank wagon is sort of an arcane phrase, when they
13 actually had gasoline in the wagon being towed to be
14 delivered, is very small. It has shrunk as sort of one
15 of the categories of wholesale transaction. That's a
16 delivered price to the service station, so all delivered
17 costs. So, that price is usually higher because you
18 have to pay to deliver the fuel.

19 And so, rack prices don't have that and so,
20 delivered into the station will have to have an
21 additional charge on top of that.

22 And company outlet, those are company owned and
23 operated outlets. That's a separate charge and so
24 that's pretty small. And bulk sales can be the spot
25 basis, that's pretty small, as well.

1 COMMITTEE MEMBER HACKETT: Gordon?

2 MR. SCHREMP: Yes, Mr. Hackett?

3 COMMITTEE MEMBER HACKETT: And so the red DTW
4 Far, does that represent -- see if I can say this
5 correctly. Does that represent the price that, and I
6 think these EIA data are refiner prices, is that the
7 price that refiners charge gas stations that are run by
8 dealers that are flying their flag?

9 CHAIR SWEENEY: Is this quantities or --

10 COMMITTEE MEMBER HACKETT: These are quantities.

11 MR. SCHREMP: Percent of total.

12 COMMITTEE MEMBER HACKETT: Percent of total
13 stations.

14 CHAIR SWEENEY: Yeah, percent of total stations
15 as total gallons. In other words, what are the units
16 that you're using in that?

17 MR. SCHREMP: So, how EIA presents the
18 information, they provide what the total sales volume
19 was by class of transaction.

20 COMMITTEE MEMBER HACKETT: Okay.

21 MR. SCHREMP: And so, I've taken that total and
22 said, okay, what percent for that particular year is
23 this class of wholesale.

24 To answer Mr. Hackett's question, you know,
25 company owned and operated sales by the refiner, that

1 would be the blue company outlet line. And the Dealer
2 Tank Wagon is another type of refiner direct sale, it's
3 just a delivered all-in-price to a location. And the
4 recipient has a supply contract that tells them, well,
5 you will receive this from the refiner. You can't
6 dictate where it's coming from or what you will pay,
7 it's what your contract says.

8 COMMITTEE MEMBER HACKETT: So, the blue bar,
9 which is company outlets, and the red bar, which is
10 Dealer Tank Wagon, if you add those together that pretty
11 much represents the amount of gallons that a refiner
12 directly prices to a gas station?

13 MR. SCHREMP: Yes, I'd say that would be fair,
14 yes.

15 COMMITTEE MEMBER HACKETT: Okay.

16 MR. SCHREMP: So, is California different? I
17 think so. Just by using my eyeball here. And 85
18 percent is this rack Dealer Tank Wagon structure.
19 Certainly, DTW much, much more significant. It has been
20 declining a little bit, like the U.S. average, but very
21 significant nonetheless. So, one can look at this and
22 conclude, possibly, that there's a little bit greater
23 direct control, as Mr. Hackett was pointing out, the
24 blue and the red portions together, and that's over 50
25 percent of the market here.

1 So, it is a different structure for wholesale
2 transactions than in the U.S., on average.

3 And then I assume if one were to take out the
4 California effect, then it would be a bit more
5 pronounced from that data.

6 COMMITTEE MEMBER HACKETT: And so these are --
7 these are five state, and that's not PADD 5, this is
8 California?

9 MR. SCHREMP: Yes, this is only the State of
10 California.

11 COMMITTEE MEMBER HACKETT: Okay.

12 MR. SCHREMP: And one can go on to the website
13 and you can look at individual states.

14 COMMITTEE MEMBER HACKETT: Okay.

15 MR. SCHREMP: So, speaking of other states,
16 Western States, this is basically a system of supply.
17 Refiners do send product down from the Pacific Northwest
18 to California, as part of the supply obligations.
19 Refiners in Southern California do supply into Phoenix
20 and Las Vegas. About 90 percent of the fuel going into
21 Nevada is from refineries in California. And a little
22 less than 50 percent going to the Phoenix market in
23 Arizona.

24 So, this is a supply region and as other people,
25 some on this Committee have pointed out in the past,

1 this market is isolated by, I characterize, time and
2 distance. So, if you have a significant problem and
3 want to bring some additional fuel from outside this
4 system, that's weeks away. It's not days away, it's
5 weeks away.

6 And usually what can happen, if you want to
7 bring some additional gasoline from, say, the Pacific
8 Northwest, you can't always do that. Why? Scarcity of
9 Jones Act Marine vessels. All of them on term charters,
10 or spot charters taken up and so you really can't --
11 there's not excess Jones Act. And that Jones Act is a
12 requirement that moving goods from one U.S. port to
13 another must be a U.S. marine vessel built in the U.S.,
14 crude by the U.S., owned by a U.S. company and insured
15 by U.S. companies.

16 So, isolated market by time and distance. So,
17 that has a consequence when we have significant supply
18 problems. The time to get resupply, that's meaningful,
19 does result in elevated wholesale prices, quickly
20 translated through retail.

21 Now, is that the same in other parts of the
22 country? Well, the answer is no. And the reason is the
23 structure is markedly different.

24 So, let's look at the Gulf Coast. This is PADD
25 3, a large net exporting region. Well, to the tune of

1 they're producing gasoline three times greater quantity
2 that is consumed in all of those states. So, they are a
3 huge exporting machine. Which is why, when there's a
4 big refinery problem there, the market essentially
5 yawns. It says, why, that's a very small percentage and
6 it's no big deal locally. And that's the case unless,
7 of course, you shut down many, many, many coastal
8 refineries in advance of the approach of a hurricane,
9 and they stay down for a significant period of time,
10 incur some flooding damage, and the pipelines don't
11 operate. Then you can see some price spikes. Not
12 necessarily there, but further downstream on the
13 pipeline system, the Eastern Seaboard, off into Florida.

14 Florida, huge net importing. No refineries.
15 Even in most of the Eastern Seaboard. So, refining
16 problem is a very small portion of total supply. So
17 that's why -- why do we have such big price spikes here,
18 with a significant unplanned outage and, yet, none other
19 regions. So, this is a major explanation as to why.

20 So, I just want to quickly touch on some factors
21 that can move prices. Certainly, crude oil is the
22 biggest driver. As we've seen, not an issue here, it's
23 been flat. And it's a global commodity, affected by
24 these other factors you see on the screen.

25 And I'll quickly move on. The takeaway from

1 slide 18 is look at the arrows and the direction they
2 point, and that's what can happen to the market price if
3 those kinds of things do occur. And so, really, it's
4 unplanned outages that are significant and that's the
5 biggest driver we've seen over the years.

6 Another was mentioned, planned maintenance.
7 Yes, there is lots of planned maintenance. I think Mr.
8 Court mentioned planned maintenance in February. Why so
9 much, as an open question to the Committee?

10 Well, a lot of maintenance occurs in January,
11 February, March, and one would say why? There are two
12 important reasons this occurs. One is lowest demand for
13 gasoline at that time of year. The second reason is
14 inventory of gasoline usually builds through the fall,
15 into January and February, and peaks at that time.

16 Why, because refineries are still operating and
17 their demand went down. So, they squirrel away more
18 fuel. Because why? They're going to be doing planned
19 maintenance and draw from those inventories as they
20 reduce certain process units.

21 So, it makes a lot of sense to see this planned
22 kind of maintenance, on average, occur at this lower
23 demand time of year, but not always the case. And we'll
24 look at some information on refinery outages.

25 So, those are some of the most important things.

1 We have a new environmental theme, but like we said,
2 nothing whatsoever to do with these price spikes.

3 So, I'll move on. Here's a scorecard. Here are
4 the different things we looked at. As have been
5 mentioned, all of them are important categories. And we
6 see a couple on the right-hand side placing downward
7 pressure on prices. That's good.

8 And on the left-hand side we see a significant
9 greater number putting upward pressure on prices.

10 So, seasonal aspect. Another reason turnarounds
11 can happen in January and February is they haven't quite
12 switched over from their winter recipe to the summer
13 recipe. The consequence of that is they can't quite
14 make as much gasoline for every barrel of crude oil
15 processed.

16 Why? One of the ingredients, butane, can't
17 really be used to create gasoline because it will
18 increase the vapor pressure or the ability to evaporate
19 gasoline too much, and can result in increased air
20 pollution, as well as problems starting your carbureted
21 engine.

22 So, this kind of summer/winter nexus recipe
23 switch is all over the United States, just different
24 starting points. And in California, we have the longest
25 season. It starts the second week of February in

1 Southern California and a month later in Northern
2 California, and goes back to winter November 1st, in
3 both locations.

4 So that means the refiners can't quite make as
5 much gasoline during that period of time which is, oh,
6 by the way, higher demand. So, this will put upward
7 pressure on prices. Everything else being equal, almost
8 every single season we switch in the spring, without
9 exception. So, it is a factor and does elevate prices
10 on a seasonal basis.

11 So, refinery issues. There was a strike at a
12 refinery. And you may ask yourself, well, there were
13 strikes at several refineries and that's correct.
14 However, of all the refineries that were struck earlier
15 this year, only one refinery was doing significant
16 planned maintenance of almost half of the process units
17 in its facility. And the workers that left are the ones
18 that are supposed to bring up the idle units, as well as
19 a couple hundred additional workers.

20 So, Tesoro made a business decision to not try
21 to do that with replacement workers.

22 Clearly, the other facilities were able to
23 operate, continue operations with replacement workers.
24 Why, they were operating. So, you just have to have
25 your supervisor stay on the job, which they weren't part

1 of the striking workforce, as well as your engineers.
2 And so, this is very typical. That's why all of the
3 other refineries that struck were able to continue
4 operating, except for Tesoro Golden Eagle.

5 So, Exxon Mobile, we all know the explosion in
6 their air pollution control equipment, the electrostatic
7 precipitator or ESP, 8.3 percent of refining capacity,
8 based on crude oil processing. Yet, as the company has
9 publicly stated, 10 percent of the gassing supply from
10 California refineries, very significant. And, you know,
11 that percent being greater than 8.3 is because this
12 facility is a disproportionately greater gasoline
13 producer than, say, a typical California refinery.

14 So, other refinery operation issues as well,
15 they're not the only one. And here are some significant
16 ones, I would say. There are others, less significant.
17 And it has been a very busy, unplanned, planned outage
18 season thus far to date.

19 So, Cherry Point, a very large facility in
20 Washington State, restart delayed almost three weeks.
21 This is very significant. So, what happens when the
22 refinery doesn't come back as planned -- planned is
23 okay, I build up my inventories, I purchase some
24 additional supplies, they come in and I start on time,
25 no harm, no foul. I go about making the rest of my

1 gasoline and meeting my contractual obligations.

2 When they come out late, I didn't plan for that.

3 I didn't get as much inventory as I needed for that.

4 Now, what am I doing? I'm in the wholesale market, that

5 spot refinery market, purchasing to cover my

6 obligations.

7 And so, this is something that did happen back

8 in 2006. We had a significant Southern California

9 refinery come back weeks late from planned work, buying

10 in the market and not able to produce as much gasoline

11 when they thought they were going to come back. And

12 that tightened the market and led to a price spike.

13 So, we look at planned maintenance and when they

14 come back, and don't come back, as an important factor.

15 And where is this information? We do not collect, we

16 don't have the authority at this point to collect

17 information from the refineries on both their planned

18 maintenance schedules, as well as unplanned maintenance

19 impacts on production.

20 So, we don't have that. So, what we do is we

21 purchase information from -- I have it on the slide, so

22 I don't want to -- it's IIR, it's an acronym, but I have

23 it spelled on a subsequent slide. So, I'll wait for

24 that, not to mispronounce. And we purchase this

25 information.

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1 So, this organization does their best to
2 quantify what the loss of production capability is based
3 on what type of unit is undergoing maintenance or has
4 experienced an unplanned outage. So, not only can you
5 look recently at what that quantification is, you can go
6 back in time and see is this a lot now? Is it normal?
7 Is it way more than normal? And I'll show you that.

8 So, these are some important issues. The top
9 two facilities are in the Pacific Northwest, Washington
10 State. And Phillips 66, Wilmington, and Chevron El
11 Segundo, certainly Southern California.

12 I think one of the questions, or a point Chair
13 Sweeney made, was why is the price of CARBOB in Southern
14 California elevated more than the other? I would offer
15 that the refinery problems in Southern California have
16 been greater than they have in Northern California by a
17 long shot.

18 A pipeline, crude oil pipeline is on here. This
19 is the Plains All American. Why would that impact
20 supply? Well, it's actually crude oil going to the
21 Phillips 66 refineries in Santa Maria, then indirectly
22 on up to Rodeo. So, that has had an impact on their
23 operations. But we'll have to see how long the pipeline
24 system is going to be down and what the company can do
25 to work around this issue to determine whether or not

1 this might determine into a bit of a gasoline and diesel
2 supply issue. But, currently, it's not part of what has
3 spiked prices at this time.

4 So, here is the name of the company, Industrial
5 Information Resources, IIR. This is a graphic. So,
6 another two gold bars, but it's the one in the far
7 right, that's for this year, 2015. So, the takeaway is,
8 wow, the gold bar is like higher than it was, well,
9 almost any other year for that particular month. And,
10 certainly, significantly higher for same month last
11 year. And a quantification of that is an average of
12 130,000 barrels per day over the March, April, May and
13 June period.

14 This is very significant. That 130,000 barrels
15 a day of loss of gasoline production capability is about
16 13 to 15 percent of California production. So, that
17 is -- yes, Mr. Hackett?

18 COMMITTEE MEMBER HACKETT: So, Gordon, over the
19 130-day lower capacity than a year ago, how much of
20 that's Torrance?

21 MR. SCHREMP: I'd say probably more than half is
22 Torrance. Yeah, that's fair.

23 COMMITTEE MEMBER HACKETT: Okay.

24 MR. SCHREMP: So, I gave you the average is 130.
25 But look at that final bullet, April, 180, May 175.

1 You're approaching 20 percent of California gasoline
2 production capability. And no surprise, we believe,
3 when you see a secondary significant price spike for
4 wholesale gasoline prices. That's the refineries bought
5 price.

6 So, this is the production. And what you'll
7 note here is, well, Gordon, you talked about refinery
8 issues and, yet, where is the -- how come it doesn't
9 drop off the bottom of this chart? This is production
10 of gasoline, right? Yes, it is. And it does sort of
11 meander around almost on a level basis and then sort of
12 jumps back up after what? Imports start to arrive. An
13 armada of ships.

14 COMMITTEE MEMBER BORENSTEIN: So, this is in-
15 state production, it's production plus imports?

16 MR. SCHREMP: Right. Gasoline is produced a
17 couple of different ways. You can cook the crude oil,
18 make your ingredients, blend them together. Gasoline is
19 an amalgamation of seven, eight, nine, ten different
20 types of gasoline blending components. Or, you can
21 import gasoline blending components and mix up your own
22 gasoline.

23 How can Florida make gasoline, or the Northeast
24 United States? They have many importers bringing in
25 components and they blend them together and create

1 gasoline blended at those distribution terminals, or
2 racks.

3 So, you can also augment gasoline production by
4 doing something sort of in between. You can bring in
5 unfinished oils, vacuum gas oils and feed that into some
6 of your other refinery process equipment that is
7 downstream of the crude oil unit. So, that means I can
8 make even more gasoline, if the price is pretty good.

9 And so we understand, and I don't have a slide
10 for that here, that these gas oil import cargos have
11 gone up, too, as refineries try to increase the capacity
12 of like their gasoline producing equipment to even
13 maximize more gasoline, in a very high priced
14 environment.

15 So, that's what they're able to do. And so,
16 yes, Exxon Mobile is down, gassing production is up. A
17 combination of imports and other refiners eking out more
18 output that they can. So, this is something that
19 refiners do. When there is a significant unplanned
20 outage, they will run a little bit harder, if they're
21 able to. They will import some gas oils, if it's going
22 to be a significant issue. And there will certainly be
23 some imports of components to create additional
24 gasoline. Because why? The economic opportunity is
25 there by the significant rise of California prices

1 relative to other places where the gasoline is
2 originating.

3 CHAIR SWEENEY: Before you go ahead, I just want
4 to be clear on this definition. Because this is labeled
5 gasoline production and some of them, I think, for -- if
6 you turn CARBOB into gasoline by flash flooding at the
7 refineries does that count as production of gasoline?
8 If you produce CARBOB, is that not production of
9 gasoline. I mean, what is your definition of
10 production?

11 Because the reason I ask is because you have a
12 lot of imports of something and those imports are not --
13 are you calling that production? So, that must be
14 imports of a large amount of the blending stock or is
15 this not gasoline production?

16 MR. SCHREMP: So, we don't refer to the imports
17 of blending components as production. We just monitor
18 that they are occurring, quantify them a little bit
19 after the fact, due to a delay in the data. But we know
20 that they're being utilized by the refineries to put
21 into their storage tank. They're used by the gassing
22 blenders to create the finished gasoline which, as
23 you've stated, Chair Sweeney, CARBOB, the base gasoline
24 that is then mixed with the ethanol at the distribution
25 terminals. That's where it's mixed and that's where it

1 becomes actually finished gasoline.

2 So what we've done here, to be consistent with
3 earlier periods in our long data stream, is to add the
4 ethanol to the CARBOB production to get finished
5 gasoline.

6 So to your point, EIA, in their monitoring and
7 production of statistics, will show a decline in
8 production of finished gasoline from refineries because
9 of that point it's not yet finished gasoline. And they
10 show an increase in production from where? Distribution
11 terminals that aren't refineries. But it's just
12 basically what's your definition of finished gasoline,
13 where is the ethanol added.

14 So, we sort of jump ahead and we add the ethanol
15 to make sure we're looking at total production that will
16 eventually occur.

17 CHAIR SWEENEY: I'm not sure I queried the
18 question correctly, then. You see a lot of March, the
19 middle of March you have a note that said marine imports
20 of gasoline start rising. And you have a jump in the
21 red line. And is that -- it looked like you're saying
22 the additional imports coming in is somehow counted as
23 increased production. Is that counted as increased
24 production, the increase of exports? Or is it just
25 those have just happened simultaneously?

1 MR. SCHREMP: No, it's one follows the other.
2 The imports of the gassing components came in. The
3 refiners used those, as well as components they're using
4 from processing crude oil, to produce even more gasoline
5 the following weeks.

6 COMMITTEE MEMBER HACKETT: Gordon, would I be
7 incorrect to say that down there it says "marine imports
8 of gasoline start arriving", you're talking about a
9 gassing in general. But probably, more correctly, these
10 are gasoline blending components or what the EIA have
11 called motor gasoline blending components, rather than
12 finished CARBOB that would be ready to go out.

13 MR. SCHREMP: First of all, I'll explain our
14 import tracking. We obtain monthly import information
15 from a variety of sources. Our own import/export form,
16 reporting mechanism, we purchase information from PIERS,
17 which is foreign imports and exports. We obtain
18 information from the State Lands Commission, discharge
19 and loading of cargos by individual marine terminals.
20 We also obtain information, periodically, from the
21 California Air Resources Board, who does track CARBOB
22 imports as part of their regulation.

23 And so, we use all of that information to
24 distill down to what we believe is sort of a master
25 quality-controlled dataset. So, that whole process

1 takes a couple of months. And so, we usually are about
2 three months in arrears to doing the analysis to
3 properly quantify, characterize to Mr. Hackett's
4 question, was that blending components? Was it CARBOB,
5 ready to splash with ethanol? Was it finished,
6 conventional gasoline that, say, was exported to Reno?
7 We don't know, yet.

8 So, what we do know is looking at tracking some
9 of the vessels that were reported to be carrying
10 gasoline, looking at EIA's import data on a weekly
11 basis, they have characterized those volumes as
12 gasoline. So, we don't know precisely what type.

13 But when all is said and done, it ends up
14 getting to the distribution terminal and the retail
15 station as finished gasoline, but not all of it created
16 by processing crude oil locally.

17 COMMITTEE MEMBER HACKETT: And then, one other
18 thing here. Exxon Mobile had their problem in the
19 middle of February and your annotation shows marine
20 imports of gassing start arriving, it looks like, the
21 middle of March. So, it took about a month before the
22 ship showed up?

23 MR. SCHREMP: Yes. Not because they were
24 sitting around, because of the sailing distances. It's
25 about 17 days to 21 days across the Pacific. If you

1 want to come from the east, Eastern Canada or the United
2 Kingdom, it's about that long. So, it's several weeks
3 to begin with before, as characterized by the trade
4 press, the armada starts to come in.

5 So, inventory data, shifting gears. We track
6 information on a weekly, monthly basis. We look at
7 inventory at distribution terminals. We look at the
8 inventory at refineries. We have online, on our
9 inventory, our weekly data is from this, the subset.
10 It's the refinery data.

11 So, EIA looks at inventory information, as well,
12 in a variety of locations. Refineries, distribution
13 terminals, and pipeline fill. What's in the pipeline at
14 any point in time when they say that's the cutoff point
15 to report. It's like, well, there's always product in
16 the pipeline. Well, yes, there is. And so, it's just a
17 matter of how much.

18 And at the distribution terminals you always,
19 basically have in those storage tanks, tied to that
20 distribution system, they always have fuel in them. And
21 they rise and fall based on the cycle in the pipeline
22 each week to eight days.

23 So, we don't publish the distribution terminals
24 or pipeline fill information like EIA does because, to
25 us, that's really a less relevant metric to look at and

1 say, wow, do they have some extra supply hanging around
2 just in case there's a problem. You won't find it at
3 distribution terminals or pipelines.

4 So, that's why when we do days of supply
5 calculations, we look at this refinery level inventory
6 holding, which has been consistent over our period of
7 time.

8 So, that inventory is in this chart and it's a
9 combination of this CARBOB, as well as gasoline blend
10 stocks. And so, the blue line is the high/low, over a
11 five-year period of time. So, clearly, the red line was
12 not only below, well below when the refinery issues
13 happened.

14 And what we've seen over the years, if there's a
15 significant unplanned outage at the same time as lower
16 than normal inventory, that's when you can have a more
17 severe price spike reaction.

18 So, what's happened is, inventory starts to
19 decline, there's some other refineries coming out of
20 turnaround, and now inventory's slowly rising, back into
21 the blue, the five-year high/low band. In fact, most
22 recently, almost at the top.

23 So, inventories have greatly improved in
24 California, good news. And so, when the refineries all
25 come back, even better news.

1 So, this is to show you how we were low compared
2 to not the five-year high/low band, but last year the
3 green line, 2014, and 2013, the year before. So, we
4 were significantly lower when the Exxon Mobile explosion
5 happened. And now, not only recovery, higher. In fact,
6 12 percent higher than same time last year. A good
7 development, but this is primarily a consequence of
8 significant imports.

9 COMMITTEE MEMBER BORENSTEIN: Gordon, do we know
10 who holds these inventories? Are there data? Do you
11 have data?

12 MR. SCHREMP: Dr. Borenstein, we have data by
13 company, on how much they're holding at these refinery
14 locations. Clearly, that's theirs. But we do not have
15 a characterization of the inventory into something like,
16 say, strategic stock inventory and working inventory.

17 And what I mean by that is some companies, even
18 some traders will hold some gasoline components, like
19 alkyd, in storage and they're not using it. And it will
20 sit there for months, maybe even half a year. And when
21 a price spike happens, they will sell to the refiners.
22 Or a refiner, conversely, will utilize this. It's sort
23 of a little bit of insurance, if you will, if they lose
24 their most important gassing producing equipment, the
25 alkylation unit.

1 And so, that characterization, is it strategic?
2 Who owns it, actually? Or is it just working inventory?
3 No, our regulations do not collect the data in that
4 manner. But that would be, I think, insightful to be
5 able to do that.

6 CHAIR SWEENEY: And, Gordon, just to let me
7 clarify, the definition of inventory then includes
8 CARBOB, other blend stocks, and all of these petroleum
9 products that together are components of gasoline. It
10 is not just the finished gasoline inventory?

11 I want to make sure I have the definitions
12 clearly in mind of what this is.

13 MR. SCHREMP: Yes, Chair Sweeney, this would not
14 be finished gasoline containing the ethanol because that
15 would be in the tanker truck, only, and then in the
16 retail station level, which we are not showing that
17 inventory.

18 CHAIR SWEENEY: I guess I shouldn't have said
19 finished gasoline. Does this include the various blend
20 stocks, as well as CARBOB, all of these refined
21 petroleum products as gasoline inventories or is it
22 just, essentially, all CARBOB?

23 MR. SCHREMP: No, it's a combination of CARBOB,
24 ready to go to a distribution terminal, and gasoline
25 blending components. It's a combination of the two.

1 CHAIR SWEENEY: That's fine.

2 COMMITTEE MEMBER HACKETT: And that's the
3 standard convention.

4 CHAIR SWEENEY: Yeah, I just wanted to clarify.

5 MR. SCHREMP: But anyone can go to our website,
6 and we actually break the number into the two pieces.
7 Actually, there's three pieces. There's export
8 gasoline, California CARBOB, and gassing blending
9 components. So, you can actually only look, if one
10 would want, at CARBOB or gassing blending components on
11 a weekly basis.

12 So, this days-of-supply calculation, using the
13 refinery level storage, which we think is the
14 appropriate metric, and then what we see is what's held
15 in California is basically higher than everywhere else.
16 Except where? PADD 3. That's the Gulf Coast. And what
17 I told you is they produce three times more gasoline --
18 three times as much gasoline as they use locally. So,
19 no surprise, the days of supply calculation will be much
20 higher for PADD 3. And so, California looks well-
21 positioned on what they're holding. And it's been
22 rather consistent, I think as most of the locations
23 have, throughout this period going back to 2010.

24 So, imports. Looking at the blue would be 2015
25 and the green last year. So, the quick takeaway is,

1 wow, the blue bars look bigger than the green bars.
2 Yes, they do, by a significant margin. That's about
3 82,000 barrels per day. There is a large quantity that
4 helped allow refiners to show greater total gasoline
5 production.

6 And as Mr. Hackett was pointing out, wow, they
7 don't really start until when? Yeah, they don't start
8 until late March because that's the time it takes to
9 bring them in.

10 An interesting point is the attraction is a very
11 high price signal for the refinery wholesale price and
12 then the armada comes in. And if you're the last one,
13 or one of the last ones, you show up and what's happened
14 to the wholesale price? It's collapsed at the refinery
15 level. Not at the retail level. And you don't get paid
16 what the price was, you get paid for what the price is
17 when you're ready to unload.

18 In fact, there was a marine vessel, the Histria
19 Perla, that anchored off of Long Beach, sat there for
20 about five, six days, and then pulled up anchor and left
21 without discharging their cargo because the price had
22 dropped so far, and went down to Mexico.

23 So, that's an example of the ARB or the
24 arbitration opportunity shutting down.

25 So, exports. There was a mention of diesel --

1 sorry, gassing exports in December, apologize not on
2 this chart, were very high relative to the previous
3 year. And as I explained, lots of gasoline as exhibited
4 by a very low spot refinery wholesale price. In fact
5 one that, as Mr. Hackett was pointing out, the
6 difference to the dye mix was actually negative by 22
7 cents.

8 So, we see later that exports are going -- we're
9 higher in February, but then dropped in March and April.
10 It makes perfect sense, when you have very high local
11 prices you want to keep that volume here. And let's put
12 that into perspective, the relative volumes, 20,000
13 barrels per day, when gasoline consumption could be 900,
14 950 thousand barrels per day in California. So,
15 relatively small in the grand scheme of gasoline leaving
16 the supply region.

17 COMMITTEE MEMBER HACKETT: Gordon?

18 MR. SCHREMP: Yes.

19 COMMITTEE MEMBER HACKETT: Do you know anything
20 about the quality of this export gasoline relative to
21 California CARBOB?

22 MR. SCHREMP: No, we don't see the quality
23 information. In our data, it will state that it's -- it
24 can be export gasoline.

25 This particular information, it comes from the

1 Interactive Tariff and Trade Data Web, so anyone can go
2 out here and pull this information. You have to figure
3 out what the appropriate ten-digit harmonized codes are.
4 But you'll see that there's combinations of what they
5 call finished gasoline, and it will be conventional
6 gasoline they'll oxygenate, like ethanol. And it will
7 be blend stocks. It's the combination of the two.

8 And so, I've added all of those up and put that
9 together.

10 So, to Mr. Hackett's point, what a refiner is
11 exporting is not, oh, let's take some CARB gasoline and
12 let's send that down to Chile. Why would you do that?
13 Not only is it very valuable here, but Chile doesn't
14 have a California specification.

15 However, you can take some very high sulfur
16 gasoline blend stock, and mix that with something else,
17 and that gasoline meets the conventional standard for
18 Chile, and send it down there. And that's what refiners
19 do. It's a home for some gassing components that are
20 less desirable to blend to create California gasoline.

21 And I don't have a slide for this, I apologize,
22 but, yes, as I mentioned earlier, pipelines export
23 gasoline to Nevada and Arizona.

24 So, did refiners export more gasoline when
25 prices spiked in California, than they did last year?

1 And the answer to that is, no, actually.

2 So, in Southern California, after the Exxon
3 Mobile explosion, until a week ago, the quantity of
4 gasoline exported via pipeline to Arizona and Las Vegas
5 was down 3 percent, compared to the same period last
6 year. So, we didn't see a large jump, if you will, in
7 exports leaving the State that would maybe tighten the
8 market. We saw a little bit of a decline.

9 And in fact, Arizona, that can be supplied from
10 both the west and the east, West Texas, we saw a
11 significant increase in deliveries from the east.
12 Meaning the refiners said, well, gosh, California's
13 probably not going to supply us much, or even more, we
14 can send more from the east. And so, that's another way
15 that the refiners make sure they meet their contractual
16 obligations by looking at different supply options.

17 So, looking at -- so, back up one slide.
18 California-only exports, over by marine vessel to
19 foreign destinations, and here is from Pacific
20 Northwest. Similar, you don't see a large jump or
21 change over this January through April period because
22 they, too, were having refinery issues up in the Pacific
23 Northwest and so you would want to keep your gas.

24 Oh, by the way, the refinery wholesale price of
25 gasoline in Washington, higher than that of California.

1 I'll repeat that. Higher than the California wholesale
2 price. Not retail, because their level of taxation is a
3 lot less than California.

4 So, I'll shift gears the last few slides. This
5 is sort of a recap and update of the material we
6 presented back in February. So, fuels under the CAP,
7 it's an obligation at that distribution sale point. It
8 is rather simplistic. It's based on what's the price of
9 carbon in the market. What's the carbon intensity of
10 the gasoline that the user is selling, as calculated by
11 the Air Resources Board. Put that together and you get
12 what that price is. And it's been rather modest. And
13 not only rather modest, 10 cents for gasoline. Stable,
14 very, very, very stable, 10.1, 10.17, 10.12, 10.09.
15 It's stable. It's not changing, it's not increasing,
16 it's not contributing to wholesale and retail price
17 rises.

18 CHAIR SWEENEY: Excuse me, I missed it. What is
19 stable? The quantities or the price?

20 MR. SCHREMP: The price.

21 COMMITTEE MEMBER BORENSTEIN: The price.

22 CHAIR SWEENEY: The price that each formulated
23 gasoline is racked. Has the ethanol price, has that
24 been changing? Because that's part of the refined, the
25 finished gasoline price.

1 MR. SCHREMP: The price of ethanol has actually
2 declined a little bit, rebounded, but isn't a strong
3 factor. And it's less than that of gasoline and it's
4 only 10 percent of the finished gallon. So, that's not
5 part of it.

6 But back to your original question, this is
7 based on the price of carbon. And so, the price of
8 carbon hasn't really changed in the auctions, it's been
9 rather stable. So, the calculation on how much per
10 gallon, based on the carbon intensity, is the same. So,
11 no change in there whatsoever.

12 CHAIR SWEENEY: Okay.

13 MR. SCHREMP: So, let's look at the retail price
14 compared to the U.S. as a whole but, more importantly,
15 neighboring states. After all, some of the gasoline in
16 these neighboring states comes from refineries in
17 California. So, we would expect to see some
18 similarities in price rise and price decline.

19 And what we see here, over this period of time,
20 yes, the prices have gone up even higher than the
21 beginning of the year, they're relative hierarchy.
22 They've spiked twice, by no coincidence, to be when we
23 had periods of spikes at the refinery wholesale level.
24 And they begrudgingly declined these differences. But
25 they are continuing to come down, but you don't see them

1 coming back down to where they were at the beginning of
2 the year.

3 And we believe part of that explanation, or most
4 of that explanation, is because there's now a new
5 obligation of fuels under the CAP, but it's only a dime.
6 And that's why we don't expect it to fully get back down
7 to where it was at the beginning of the year.

8 So, let's take a look at these refinery spot
9 prices. And as Mr. Hackett was pointing out, this is
10 not their whole price. This is a calculation of taking
11 what the refinery wholesale spot price is and
12 subtracting what? The futures contract for reformulated
13 gasoline, as Dr. Borenstein was pointing out.

14 And so, that's called a differential or basis.
15 And this is very important because it tells you that the
16 market participants believe that, wow, it is a premium
17 in the refinery wholesale market or go back to the
18 beginning of the year, not so much.

19 And so, we look at these kinds of things on a
20 daily basis to say, okay, something's going on in that
21 particular market, or not. And so, this is a very
22 important measure. And, clearly, we see a rise in this
23 differential does occur.

24 And so, what this takes out of the equation is,
25 as Mr. Hackett was pointing out, the futures contract

1 for gasoline can elevate and contract based on
2 geopolitical, hurricanes, nothing to do with what's
3 going on in California, yet it will impact the total
4 refinery wholesale price because that's two pieces.
5 It's the non-mix price that closes that afternoon and
6 whatever the basis is that the market participants think
7 is appropriate for transactions that day, as reported by
8 OPIS.

9 So, what's happened now is you see a
10 convergence. Those prices, Pacific Northwest,
11 California, L.A., San Francisco, back to a tighter
12 gripping as is usually normal for the West Coast market,
13 but not this kind of deviation.

14 And you see the deviation has been for the green
15 and the gray boxes, elevating away from what? The
16 yellow triangles, which is the Pacific Northwest. So,
17 that tells us, we believe, that there are greater
18 refinery problems in California, than the Pacific
19 Northwest.

20 So diesel, we've seen it's a little bit
21 different here. We've seen prices elevate, not as much
22 because the refinery problems are primarily gasoline
23 related. And we've seen them go back down. And as you
24 can see, in some cases a little bit below where they
25 were at the beginning of the year.

1 And this is about, almost my last slide. A
2 difference here, same construct, the basis or
3 differential to the futures contract for ultralow sulfur
4 diesel. And what do you see? A premium where? Not in
5 California, the Pacific Northwest. The significant
6 refinery problems have been some gasoline, mostly diesel
7 centric. So, that market is very expensive. The most
8 expensive in the United States for ultralow sulfur
9 diesel.

10 So, the markets have leveled out in California.
11 And, actually, one could say a bit long in diesel at the
12 refinery wholesale level.

13 So, in summation, for Fuels under the Cap
14 tracking, neighboring states between 11 and 27 cent rise
15 from the beginning, and a little bit above what the 10.1
16 cent is for Fuels under the Cap. We believe that's
17 refinery related issues, making it a higher differential
18 or rise.

19 Diesel, in between. You look at a decrease of
20 11 to an increase of 25.6. It's right in between.

21 So, some closing remarks. I won't really go
22 through them. You can read them yourselves. But we
23 think this is a refinery problem-related series of price
24 spikes. And the bottom line is, don't believe the
25 market will go back to what we consider a normal

1 relationship until Exxon Mobile beings to produce
2 gasoline, again, from its gasoline-producing equipment.
3 Hopefully, sometime later this month.

4 CHAIR SWEENEY: Thank you. Are there any of the
5 Committee members that have questions at this time or
6 comments?

7 COMMITTEE MEMBER FOOTE: Yeah, I have one
8 question, Gordon, just kind of going back to your page
9 28, where you showed -- yeah, there we go, that one. I
10 mean, going back to a year ago, the inventory levels had
11 been well below normal pretty well all straight through.
12 No, it was the other one, actually.

13 MR. SCHREMP: Yeah, so third quarter --

14 COMMITTEE MEMBER FOOTE: All the way through, I
15 mean, except for right now. I mean, the last two or
16 three months where you said there hasn't been any real
17 explanation for why, now that we're getting along again,
18 the prices haven't gone down more than they have.

19 But is there any -- essentially, going into all
20 these problems with the outages, inventories were
21 still -- I mean, they've been low for a very long time,
22 even going into those shortages. And is there any -- I
23 mean, is there anything from when or how they got that
24 low that kind of sheds any light on that?

25 MR. SCHREMP: I have answers for many questions.

1 But I don't think I have a -- I don't have a really good
2 answer for this. We haven't looked at -- I mean, one
3 approach is to look at individual locations and see if
4 there is a particular stakeholder or refiner who had a
5 lot lower inventories consistently over this period, or
6 is it a mixture of companies? Some company that is much
7 lower for a period of time and then has gone back up? I
8 don't know.

9 I do know that over the years, as an industry,
10 there's efforts to reduce the amount of inventory you
11 have. It's a cost and it's a potential liability. And,
12 in some cases, a shifting to other, third party
13 providers.

14 COMMITTEE MEMBER FOOTE: And it may actually
15 reflect the fact that supply overall -- or, rather, the
16 demand is lower, now, than it was five years ago.

17 MR. SCHREMP: Or even, say, the ability to
18 respond to temporary imbalances may be easier.

19 COMMITTEE MEMBER FOOTE: Yeah.

20 MR. SCHREMP: And, therefore, maybe you don't
21 have to hold as much. So, no, I don't have a good
22 answer as to why it's been chronically low over most of
23 this period.

24 COMMITTEE MEMBER FOOTE: Okay. And then I guess
25 my next question is would -- I mean, this is -- you

1 know, maybe there aren't any answers to this, either.
2 But what I'm wondering is when you're talking about the
3 futures prices as having an impact on the actual prices
4 being paid today, kind of order of magnitude.
5 Historically, is that comparable to the supply changes
6 in terms of -- I mean, if the futures prices sort of go
7 wild, is the impact similar to if there's suddenly an
8 outage?

9 MR. SCHREMP: It can be worse. Case in point,
10 Hurricane Katrina makes landfall. The NIMEX market
11 spikes 50 cents in one day. And calls come in from the
12 Governor's office, we lost supply from the Gulf Coast?
13 No, sir, but those spot prices in California, the
14 Pacific Northwest, the Gulf Coast, they're linked to
15 what? That futures contract. That went up 50 cents in
16 one day, everyone's spot refinery wholesale price went
17 up 50 cents in one day, all throughout the country.

18 And so, there's that instantaneous linkage. And
19 you would ask yourself why would they do that or want
20 that? The reason is to have this relationship of how
21 they do deals for the spot market is you can enter into
22 hedging instruments that protect your downside, whether
23 you're a buyer or a seller. And so that -- and this has
24 been going on, as far as I could tell, for at least ten
25 years. And maybe, Mr. Hackett can shed a little light

1 on sort of how long.

2 But we've noticed that there's been -- this is
3 more of a recent change to this kind of relationship.
4 So, yes, other issues that affect that contract now
5 affect the price in California and other regions. And
6 nothing else went on in the refineries.

7 COMMITTEE MEMBER FOOTE: Yeah, and that's what I
8 was thinking is, I mean historically, on this,
9 historically there's -- until recently, there hadn't
10 been any -- there hadn't been any wiggle room in terms
11 of refinery capacity. And so, the whole industry in
12 California has kind of been on an extremely tight
13 turnaround kind of supply and demand situation.

14 And in a way, I'm just kind of curious about,
15 you know, the fact that everything was lower for such a
16 long time, in what we really thought was like a normal
17 market and, yet, the inventories were lower. Maybe
18 that's a reflection of the fact that there are
19 alternative fuels, et cetera, et cetera, and the market
20 is kind of moving towards that kind of instant --
21 essentially, keeping supply right at the demand level.

22 COMMITTEE MEMBER HACKETT: I would say that we
23 did some analysis for the EIA on inventories for PADD 5
24 and for California, and looked at this issue. Saw the
25 same issue. And what I think is probably warranting

1 some follow up is that EIA's got the same sort of look
2 as California does, they should be the same data, or
3 pretty much the same data.

4 And so, it probably is worthwhile to go back and
5 take a look at that time period and see if we're missing
6 something. Did some reporting entity drop out or is
7 something else going on?

8 CHAIR SWEENEY: Questions? I find this a very
9 useful set of data. One thing I didn't see here, that I
10 was wondering if you have put together, and that is you
11 have supply -- you have production, and imports and
12 exports, and inventories, but you don't have consumption
13 of gasoline, the demand side.

14 We know in the U.S., as an average, it's not
15 exactly production, but the U.S. product supply to the
16 stations has been about five percent up from the year
17 before, starting in about December of this last year.
18 And pretty, almost on a month-by-month basis has been
19 U.S. demand has been up about five percent.

20 Do you have data on that, that you have pulled
21 together or you can pull together, so we can complete
22 the picture of supply, demand, import, exports, and
23 inventory changes?

24 MR. SCHREMP: Yes, Chair Sweeney, we do collect
25 and calculate, collect information and calculate

1 apparent consumption of diesel and gasoline. We use
2 information from the California State Board of
3 Equalization.

4 So, the gasoline demand or consumption we
5 calculate is very, very similar to what's on the
6 website. Slight changes for some refunds that we get
7 through a separate data dump, from the Board of
8 Equalization.

9 On the diesel side, the numbers that one would
10 see on the Board of Equalization site would be markedly
11 different than our monthly consumption numbers. Why?
12 We're looking at all diesel fuel consumption for all
13 purposes. The Board of Equalization is looking at
14 taxable events.

15 So, what is not included in their numbers? Dyed
16 diesel, red dye diesel. And it is significant, anywhere
17 from 25 to 30 percent of total diesel use is dyed
18 diesel. It will not show up in the public data from the
19 Board of Equalization.

20 But we do get separate information and we
21 construct monthly consumption. We would be happy to
22 provide that information to the Committee members, and
23 it goes back many years.

24 And further, we have some annual numbers that go
25 back at least to the 1970s for diesel for annual demand

1 or consumption in California, and it goes back to 1945
2 for consumption of gasoline in California. So, I'd be
3 happy to provide that.

4 CHAIR SWEENEY: Okay. So, now, just to clarify,
5 at what time frequency do you have the published
6 apparent demand data for California?

7 MR. SCHREMP: The monthly data does have a lag
8 from when it becomes available from the Board of
9 Equalization. The same for EIA, for their monthly data.

10 So right now, I think we have through February,
11 for sure. I think the March data has just become
12 available from Board of Equalization. Haven't done the
13 analysis on both the gas and diesel, yet.

14 But to your point, a change in consumption, a
15 rise, yes. The first two months of 2015 are up for both
16 diesel and gasoline, especially for gasoline in the BOE
17 data. I believe it's up about 3 to 3 and a half
18 percent. So, with a significant drop in the price of
19 retail gasoline, until more recently, and an improvement
20 in the economy, it does appear that there's a demand or
21 a consumption rebound occurring, at least with the early
22 data.

23 CHAIR SWEENEY: Okay. But that will be posted
24 on the web, on your webpage as soon as it's available,
25 right?

1 MR. SCHREMP: We can, to hurry up that process,
2 provide to the Committee before that and work to get
3 that on the web for others to see as well, yes.

4 CHAIR SWEENEY: Thank you, that would be
5 helpful.

6 Other questions here?

7 COMMITTEE MEMBER BORENSTEIN: Jim, I'm just
8 concerned on timing here. It's 3:05 and I was thinking
9 we were going to spend most of this meeting on point 5,
10 which is what the PMAC is supposed to be doing.

11 CHAIR SWEENEY: Okay.

12 COMMITTEE MEMBER BORENSTEIN: As much as I
13 appreciate information, and no offense to Gordon at all,
14 I appreciate his efforts. A lot of this, probably, we
15 could get beforehand, and read, because I feel like
16 we're -- we get people in one room and we're spending
17 our time -- we need to spend it as efficiently as
18 possible.

19 CHAIR SWEENEY: However, we still have requests
20 to speak and we must -- and that's important.

21 And Cody Rosenfield, also of Consumer Watchdog.
22 And how long do you intend to speak?

23 MR. ROSENFELD: Just a couple of minutes, very
24 brief.

25 CHAIR SWEENEY: That's fine.

1 MR. ROSENFELD: On consumptions, briefly, in
2 the last ten years, according to the Board of
3 Equalization, it's down by 8 percent in California.
4 That's gasoline consumption.

5 CHAIR SWEENEY: From when?

6 MR. ROSENFELD: From 2005, in the last ten
7 years, down 8 percent.

8 CHAIR SWEENEY: Okay.

9 MR. ROSENFELD: So, even if there's a small
10 rebound this year, from last year, it's still down
11 compared to where we were ten years ago.

12 But I'm actually -- I want to talk a little bit
13 about the reporting requirements of the refineries.
14 Gordon showed us a list of refinery outages and,
15 actually, the CEC is not required to get that
16 information. So, the CEC is not -- I don't know if you
17 got that information through private phone calls with
18 refiners? Is that how that goes down?

19 MR. SCHREMP: The information on --

20 MR. ROSENFELD: On updates of those refinery
21 outages, which are not public?

22 MR. SCHREMP: It's from a combination of
23 proprietary data services we purchase, OPIS is one. IRR
24 is another. Royers and Bloomberg will have, maybe
25 they'll note something.

1 MR. ROSENFELD: Correct.

2 MR. SCHREMP: But they won't provide a lot of
3 substance of specificity to that.

4 And then what we don't have, currently in our
5 regulatory structure for the data we collect, it's not
6 spelled out we can collect this kind of information on a
7 routine basis. On an ad hoc basis, yes, but not on a
8 routine basis.

9 MR. ROSENFELD: Yeah, we actually believe the
10 CEC should be gathering that data. And we would
11 recommend to this Committee that part of your
12 recommendations to the State be that the CEC gets the
13 type of information that those type of industry
14 services, like OPIS, receive. Because why should they
15 get it, but not the people of California?

16 And on top of that, we also believe that the
17 type of inventory, like you were saying, you don't see
18 what's strategic inventory and what's operating
19 inventory. You guys should also be receiving that kind
20 of information and making it public, as much as you can.

21 When we rely on the industry, we're putting a
22 lot of trust in the industry who is responsible for all
23 this. And they're responsible for putting the
24 refineries out of commission, and then the price rises
25 and we have to trust that they were actually offline,

1 and that they actually needed that maintenance done.

2 So, we think that should be provided to the
3 State and we hope that you can recommend that.

4 Lastly, we notice that the CEC stopped providing
5 a breakdown of the price of gasoline in August. There's
6 16 years' worth of data and then, suddenly, it stopped
7 in August. And that information helps you see who's
8 making all the money. Like in this price spike, you can
9 see if it's the refiners, or if they're making it on the
10 price of crude, or if they're making it on the rack.
11 You know, you can tell a lot of information.

12 So, we're curious why that was stopped being
13 provided and whether you guys have any plan to bring
14 that up to date? It says there's no time table for
15 continuing to do that.

16 CHAIR SWEENEY: Yeah, I think I'd like public
17 comment, rather than inquiry of --

18 MR. ROSENFELD: Questions. Yeah, well, think
19 about it.

20 CHAIR SWEENEY: If you want to answer, you can,
21 but I think --

22 MR. SCHREMP: Two quick responses, Cody. And if
23 I misspeak, Mr. Eggers will jump in here.

24 So, apologize for that being off. This is
25 basically a software issue of how the data was being

1 aggregated, put together and put there. Apologies for
2 that. We are working to put that back on the web.
3 That's our intention is to have that available to the
4 public. So, apologies it's not there, now.

5 And did I mess anything up?

6 MR. EGGERS: No.

7 MR. SCHREMP: Okay.

8 MR. ROSENFELD: All right, thank you.

9 CHAIR SWEENEY: Thank you for your comments.
10 Are there any comments from people who are
11 listening on the system?

12 MR. RHYNE: I'm checking the chat.

13 CHAIR SWEENEY: Okay.

14 MR. RHYNE: So, the only comment is that Dr.
15 Borenstein and Mr. Hackett, when you speak, we'll just
16 need you to speak a little louder. But there are no
17 questions from the public, online.

18 CHAIR SWEENEY: Are we done with this?

19 MR. RHYNE: Correct.

20 CHAIR SWEENEY: Then I'd like to go to the next
21 topic. In line with the timing, I suggest that those
22 who want a coffee break or a cookie break get up, get
23 the cookies here, get the coffee there, and we continue
24 on and not have a break because of the timing.

25 So, an issue has been what data access

1 permissions do we have? And Energy Commission legal
2 staff must have some comments on this.

3 And just as a sort of background, the staff has
4 heard some, I think, significant grumpiness from a
5 couple of us who felt that we were being more severely
6 limited on the ability for us to get the data that we
7 would need to do the job. And we communicated that at
8 many points.

9 And we'd like to hear from the staff what we
10 know, and what we can do, and what limits us.

11 MS. ARENS: This is Samantha Arens. I'm a Staff
12 Attorney in the Energy Commission's Chief Counsel's
13 Office.

14 So, there are a couple of questions that arose
15 in the last meeting about what data we can share with
16 you. First, on the PIIRA, or Petroleum Industry
17 Information Reporting Act data, the answer there is that
18 the PIIRA statute or the law contains some very real
19 limitations.

20 And so, the Chief Counsel's Office has
21 determined that the law allows us to share with members
22 of this Committee only the aggregated PIIRA data.

23 On the subscription data, our subscription
24 agreements, as they're written, do not allow us to
25 provide the Committee members with direct access to the

1 subscription service data.

2 All that being said, however, there may be other
3 solutions available to assist the Committee with its
4 work, which we can discuss in the next agenda item.

5 And I'd also offer one other legal point before
6 we go into that discussion, which is on the working
7 groups. And this may be a minor point, but I just
8 wanted to let you all know that there can be more than
9 one working group under Bagley-Keene, on a particular
10 topic, as long as the two groups don't communicate
11 outside of a public meeting.

12 So, for example, Chair Sweeney and Professor
13 Borenstein just paired up on a question and Committee
14 Members Foote and Hackett, for example, could pair up
15 and work on the same issue together, so long as the two
16 working groups work independently. They could then
17 discuss their findings together at a public meeting.

18 That's all I have.

19 CHAIR SWEENEY: Okay, and so I think the answer
20 is, if I understand, when you say there are some other
21 ways, will we learn about those other ways or are we
22 going to continue operating in a way that we essentially
23 don't have any data, other than what we could have
24 gotten ourselves, if we spent a large amount of time
25 working at it?

1 MS. ARENS: So, again, the data that you can --
2 that we are allowed to share with you is the aggregated
3 data. And we can talk, and I don't know that it's a
4 point for legal to speak on. It may be more appropriate
5 for staff or Commissioner Scott to speak on some of the
6 solutions that we've thought of to help you get done
7 what you need to get done. For example, using our staff
8 as a tool, directing methodology of very specific
9 questions.

10 But I will leave that until the next agenda item
11 because that -- I don't know that is a legal call.

12 CHAIR SWEENEY: Well, if you're ending that,
13 let's merge directly into this next agenda item, since
14 it is the same issue. And maybe we should turn to the
15 Commissioner here, Janea.

16 COMMISSIONER SCOTT: Sure. So, for those folks
17 on the phone, this is Commissioner Janea Scott, from the
18 California Energy Commission.

19 And one of the questions that we have been
20 talking about, and this is Item Number 5, is the focus
21 of the Petroleum Market Advisory Committee.

22 And I think that you all have either the charter
23 or the bylaws in your packets.

24 CHAIR SWEENEY: I don't think that they arrived
25 in our packets.

1 COMMISSIONER SCOTT: Oh, dear. Okay.

2 MS. ARENS: I have copies.

3 COMMISSIONER SCOTT: Excellent. And one of the
4 reasons I point us back to -- and it's also in the roles
5 and responsibilities. So, it's kind of listed out and I
6 can share my copies, as well. You got it, okay.

7 And we kind of -- we list out, in the roles and
8 responsibilities, the background and purpose. And in
9 the charter, we do the scope of responsibility. And I
10 think that that is still the appropriate focus for the
11 Commission -- for the Committee.

12 And basically, what we say is that the Energy
13 Commission would like to better understand the factors
14 and conditions related to petroleum price fluctuations
15 and their impacts, and policy options that may affect
16 petroleum markets.

17 And I'll read it, since I'm not sure everybody
18 has it. And that, "We therefore convene the Petroleum
19 Market Advisory Committee to help us with expert
20 knowledge in existing and emerging petroleum market
21 trends and factors that lead the price fluctuations,
22 including local, regional, and global events, and
23 changes in State and Federal policies that may affect
24 prices for petroleum-based fuels. We want to look at
25 impacts of significant and/or set in price movements in

1 petroleum fuel markets to market participants,
2 California consumers, participants in the interdependent
3 energy markets in vulnerable California economic
4 sectors. And we're also looking at other petroleum
5 fuels market issues that the Committee and the Energy
6 Commission determine to be important".

7 And so, that could be something like we just
8 talked about, which is that the gas prices have been
9 potentially higher over the summer than we thought that
10 they might be, and having the Committee take a look at
11 that and give us their best expertise and insight on why
12 they think that that might be happening.

13 And so, the presentation, Chair Sweeney, that
14 you and Professor Borenstein put together is kind of a
15 good example of looking at things that are taking place
16 currently.

17 And so, I really think about it as helping us to
18 evaluate market trends. Helping us, with your expertise
19 and insight, on ways that we can respond to, or making
20 recommendations about ways we can respond to price
21 volatility. And we might be broader than the Energy
22 Commission.

23 As you know, the Energy Commission, we collect
24 the data. We have Gordon and Ryan, and others who do a
25 great job helping us analyze the data, and that's kind

1 of our role in this space.

2 But I think recommendations could be for the
3 Energy Commission or for other State agencies.

4 And again, it's just kind of coming back to
5 helping us better understand the oil price fluctuations,
6 the spikes, and then kind of devising strategies for how
7 we would minimize this on the people of California.

8 So, a little bit of it is what's your best take
9 on what we see happening in the market? And then, based
10 on that, what are some recommendations that you all
11 would make to help avoid price spikes, to help avoid
12 some of the volatility that we see in this market.

13 And I think it's written -- I think the charter
14 and the roles and responsibility kind of capture it. I
15 think it's a little bit abstract, if we're not looking
16 at a specific policy. Like when the LCFS comes online,
17 what do we see happening in the market?

18 Over the summer, the prices have stayed high, so
19 what do we see happening in the market, like the one
20 that we just talked through.

21 CHAIR SWEENEY: Well, let me respond a little
22 bit and other people may have some response. We
23 observed --

24 COMMISSIONER SCOTT: So, the microphones, I
25 think, are for the court reporter and then the phone

1 people are actually listening to us on the --

2 CHAIR SWEENEY: Oh, okay.

3 COMMISSIONER SCOTT: So, as long as both of them
4 can kind of -- yeah, as long as both of them can kind of
5 hear you, it should be good.

6 CHAIR SWEENEY: We can observe that there were
7 prices particularly high in California. We can look
8 down the supply chain during public data. We could,
9 from one public comment that said they are high because
10 of the exercise of market power.

11 Also, the assertion is that they were high
12 because the oil industry wanted to make them high. It
13 could also be they're high, in principle, because of the
14 working of the Low Carbon Fuel Standard, or because of
15 the Cap and Trade system. It could be because of supply
16 and demand balances.

17 I, for one, don't know how to give advice as to
18 which of those have some very likely to be the case,
19 without a much more complete set of data. And any of
20 those could be totally consistent, in my mind, with the
21 charter of what are the trends and the factors leading
22 to high prices.

23 So, that was my data concern. Other people?

24 COMMITTEE MEMBER BORENSTEIN: Yeah, this is
25 Severin Borenstein. I would just second that. I think

1 that while in the abstract a discussion of what's going
2 on is a little difficult to sort of put your finger on,
3 I mean in practice. In the media, and I think around
4 the Energy Commission, and certainly consumer groups,
5 the concern is are these -- is this the result of a
6 competitive market or is it the result of firms able to,
7 in some way, control price.

8 COMMISSIONER SCOTT: Uh-hum.

9 COMMITTEE MEMBER BORENSTEIN: And that is a
10 question I'm not aware of a way to evaluate without
11 having firm level data. If we can't dig down and
12 actually look at firm level behavior, it's very hard to
13 figure out what's going on in these markets, in any
14 market when -- in any commodity market, when it's
15 unclear who's doing what, and whether the firms are able
16 to profit from producing less, or putting less on the
17 market.

18 And while there are probably recommendations
19 that could result from the -- well, no, there probably
20 aren't good public policy recommendations, that would be
21 the same either way. Because, actually, if you think
22 the market is functionally competitive, then there
23 probably isn't much role for government intervention to
24 do something. For instance, like try to reduce the
25 barriers to imports. Because if the market's already

1 functionally competitive, there's already that
2 opportunity.

3 On the other hand if, purely hypothetically, you
4 were to find out that one firm owns all the import
5 terminals in the State and is reducing the ability of
6 them to receive imports. This is speaking purely
7 hypothetically. That would be -- that would suggest
8 different policy interventions.

9 But I'm not aware of how one can actually do
10 that sort of analysis without far more detailed data
11 than we have access to.

12 And I am frustrated, I have to say, that this
13 Committee seems to be being treated with all the negatives
14 of being part of the government and none of the
15 positives. So, we're subject to Bagley-Keene, we are --
16 all the just talking to each other is greatly
17 restricted.

18 But on the flip side, we don't have access to
19 any data or any staff support, you know, to do the work.
20 And so, I feel like we're supposed to just magically
21 infer what's going on in the market.

22 CHAIR SWEENEY: Before I turn to other people, I
23 just want to add one thing. Even if we had all of the
24 publicly available data -- or the private data on what
25 the companies did, I'm not convinced that I could tell

1 with market power -- because I've been in enough
2 litigations, I know how difficult it is to sort that
3 out.

4 But if it's difficult to sort it out with
5 complete access to data, then it's impossible to sort it
6 out without complete access to data.

7 MR. RHYNE: So, Chair Sweeney, and Professor
8 Borenstein, this is Ivin Rhyne. This actually gets to
9 the heart of one of the things that I think we should
10 probably reassess. Is while what you're asking for is
11 data, I would suggest that perhaps what you need is
12 analysis.

13 In other words, you want to be able to ask
14 particular questions and we, obviously, are going to
15 need data in order to answer those questions. But one
16 of the nice things about this meeting is that we have
17 with us -- we have with us a new staff member, one who I
18 think you've had a little bit of interaction, and who
19 will be taking more of the reins of the logistics of
20 these meetings over, Ysbrand van der Werf.

21 And he will also -- he's also a Ph.D. economist
22 and a staff member who we can devote a significant
23 portion of his time to helping do analysis that you
24 specify.

25 So, for example, we might be able to share with

1 you what classes of data, the data fields that we have
2 over particular time frames. You might be able to
3 specify a piece of analysis that you would like done.
4 And then we could work with you in a similar way to what
5 you've been able to work with him over the last couple
6 of weeks, one-on-one, directly over the phone, via e-
7 mail. And we can work with you to actually perform the
8 analysis as staff, and then share with you the results
9 of that analysis.

10 It's the results of those analyses that you
11 specify, understanding the data availability, that I
12 think are what you ultimately are going to need to
13 inform any recommendations you might need.

14 It's not necessarily the raw data, itself, to
15 chew on. It's the analysis of what that data might say.

16 CHAIR SWEENEY: I want to get some of the other
17 Committee members in. I think that you were -- you
18 looked like you were going to say something. Maybe not.

19 Maybe Kathleen also did.

20 COMMITTEE MEMBER FOOTE: I looked like Dave,
21 wanting to say something, right.

22 I mean, certainly from my stand point, that
23 strikes me as something very valuable. But that's
24 because I don't spend a lot of time looking at raw data
25 and spotting things. I think you guys do. And so,

1 that's one thing that you still won't have.

2 And, I guess, it's certainly better than it was
3 before, but it does still leave you without the ability
4 to just kind of mess around in raw data to see if
5 something -- if there's some lag, you know, flags that
6 get raised that way, that might not happen just relying
7 on the publicly available data.

8 COMMITTEE MEMBER HACKETT: Well, I guess what I
9 would say is that what we've seen so far today is sort
10 of Gordon gets all of the flows and the big issues,
11 refineries blow up or don't start up, and that makes the
12 market tighten and it sends prices skyrocketing.

13 We kind of got away from that for a long time.
14 And that was generally because demand came off and the
15 market ran fairly comfortably.

16 Then, we've had a couple of big events, lately,
17 two at Exxon Mobile over the last few years that have
18 tightened everything up again.

19 And so, you can see the flows, the imports and
20 the exports, and the rest of it, but what you can't see
21 are the dynamics of the retail market.

22 So they don't collect, these guys don't collect
23 the right data when it comes to looking at those
24 segments of the market.

25 Dare I say, Consumer Watchdog's issues, branded

1 prices being a lot higher than unbranded prices, for
2 example, because they don't have the company level data
3 and we don't have BO Tank Wagon, which we saw earlier as
4 a pretty big component of the market in California.
5 Because they don't have those data, they don't have a
6 good way to, you know, pull it apart.

7 So, two issues. One, you've got to have the
8 right data. They don't have quite everything they need.
9 They've got a lot, but they don't have everything.

10 And then, if they've got it, you know, how do
11 you share it?

12 And I think what Kathleen may have been
13 suggesting is that once we're sure these guys have got
14 the tools, we can tell them how to use the tools, and
15 then they can give you the aggregated results back.

16 But the way PIIRA is set up, we don't get to
17 play in the data.

18 COMMITTEE MEMBER BORENSTEIN: I gotta say a
19 couple things. One is, actually, there's a huge
20 difference between giving instructions with a blindfold
21 on and actually looking at the data. And I have
22 tremendous respect for Ysbrand, but I would still want
23 to do my own analysis.

24 I also think it would be virtually impossible
25 for Ysbrand to communicate results without revealing

1 confidential data. There are only a few refiners here
2 who are in the market. So, if he said somebody seems to
3 have -- somebody's reductions in production seem to be
4 correlated with tight markets, but I can't tell you who,
5 but it's one of the firms that's big enough that it
6 would move the market, I've just narrowed it down to a
7 couple.

8 As far as sort of Gordon's discussion. You
9 know, this came up during the California electricity
10 crisis. There is no distinction between competitive
11 behavior driving prices high and market power driving
12 prices high, simply because it happens when there are
13 natural outages. Those, in themselves, will drive price
14 up and they also create a situation where it is
15 particularly attractive to exercise market power because
16 the demand -- the residual demand elasticity a firm
17 faces is more in-elastic

18 So, I think that in practice, if this Committee
19 is going to -- in practice, I think first of all, if the
20 State is serious about pursuing concerns about
21 noncompetitive behavior in this market, it's time to
22 pony up whatever money it takes, which I suspect is not
23 in the millions, but in the hundreds of thousands, at
24 most, to buy the data that the private industry has.

25 The idea that we're talking about billions of

1 dollars and scrimping on hundreds of thousands is
2 ridiculous.

3 And secondly, I don't know if it would take a
4 legislative act, or what, if we are going to have a
5 Committee like this and then draw bright lines between
6 Ysbrand, who is an employee of the California Energy
7 Commission and I, who am on a committee of the
8 California Energy Commission, I think that we're tying
9 our hands behind our back.

10 Now, maybe legally, that's what's there right
11 now. But maybe someone in the Legislature needs to be
12 told, you know, either stop whining about price fights
13 or pony up the not-very-much-money to get the data you
14 need to actually explore it, and create rules that can
15 actually let people explore it.

16 Because, otherwise, I think we're really just
17 not -- this isn't a good use of anyone's time.

18 COMMISSIONER SCOTT: Let me further point out
19 two difficulties. One, when we say specify the analysis
20 that you want and let somebody else do it, I've never
21 been smart enough to be able to do that.

22 Sometimes I work with research assistants and
23 then it's a back and forth, continuing operation. It's
24 not -- I give them the information and say, three months
25 later, we get analysis. It's an organic process and I'm

1 just not smart enough to define this analysis and that
2 analysis, as needed, and now do it and give us the
3 result.

4 Second, it's a mechanical issue. We say we can
5 get that. Now, is "we" meaning the whole Committee
6 operating in our infrequent meetings can decide and
7 define what information we're going to want an analysis,
8 and then wait until the next infrequent meeting to get
9 them back?

10 Or are we talking about what can be at most two
11 subgroups. We have five members. So, you can't have
12 informal working groups overlap with one another, I
13 understand. So, that means somebody's left out and the
14 other two will -- the other four would be in those
15 informal working groups.

16 Well, each one of them, I guess, can do the
17 continuing process of analysis. But then you can't
18 communicate anything you learn until the meeting,
19 infrequently.

20 So, I just don't know, although in principle it
21 sounds great to have somebody else be able to do the
22 analysis, given the structure of meetings, and the
23 structure of how you can have subcommittees, and at
24 least my inability to say this is the analysis you need.
25 You need this econometrics and I want you to have all of

1 these control variables, and instrument it the following
2 way. I don't even know the data, so I don't even know
3 how to define that.

4 So, I'm feeling very much at a loss.

5 COMMISSIONER SCOTT: So, I have a couple
6 thoughts on that. I want to say to all of you, how much
7 we, at the Energy Commission, do appreciate your
8 willingness to work with us on this, and to provide your
9 expertise and your insight to us on this topic. I think
10 that you have all a little bit different backgrounds and
11 a different approach to all of this, and that's really
12 helpful, I think, for us when we're going through and
13 trying to analyze things.

14 And so, I wanted to make sure that you know that
15 we appreciate you and we are glad to get the opportunity
16 to work with you.

17 And as you all were speaking, I had a couple of
18 thoughts. And I'm wondering that you have other sources
19 of data that are out there, that you can use, that could
20 then be supplemented, potentially, by something that
21 Ysbrand, or Ryan, or Gordon have with -- so, Gordon went
22 through and he mentioned some EIA data, he mentioned
23 some other places where the data might be, something
24 that you could get and -- and I don't know how strong
25 those sources are, compared to PIIRA, and how that might

1 work. But I wanted to put that out there for you to
2 think about.

3 I think the staff is willing to do some back and
4 forth with you on a type of analysis like you described
5 with a grad student. We do have the capacity to do
6 that. I think they would be willing and happy to do
7 that, to work with you all.

8 The other thought I had was maybe we want to
9 think about changing up the structure of how we meet.
10 We don't have to meet in person quarterly. We could do
11 a phone call for two hours every month because we really
12 want to talk through -- I've got a set of data and we
13 think it's going to take three months to analyze. But
14 we need to see where we are this month. Something new
15 happened the next month and we want to talk about it. I
16 think we could -- if we want to add that kind of
17 flexibility into this, that's something else that we
18 could do here.

19 And then, I think the Energy Commission does buy
20 quite a bit of data. And so, maybe, I don't know,
21 Gordon or Ryan, it might not be appropriate right this
22 minute, but if we could get a list of that? You did a
23 presentation at the last meeting, Ryan, that had some of
24 that listed out, to make sure that the Committee members
25 know what information it is that we do have at the

1 Commission.

2 And then, if there's something key that's
3 missing, that you think we ought to buy, I think that's
4 a great recommendation for us to think about, to help
5 fill in some of the gaps that we may have at the
6 Commission.

7 CHAIR SWEENEY: But many of the things that you
8 buy or have, we've been told we cannot look at.

9 COMMISSIONER SCOTT: Right.

10 CHAIR SWEENEY: So, you have to buy it in a way
11 that we can actually have access to it. But then, if we
12 have access to it, that probably means the public has
13 access to it, right. I don't know, I ask the legal
14 staff.

15 MS. ARENS: On the subscription service data,
16 basically our contracts are specific to Energy
17 Commission employees. And as they are written, they
18 allow us to share data with Energy Commission employees.

19 Now, adding in another user to those agreements
20 may not be just as simple as just adding an additional
21 user. You know, there might be an associated cost,
22 which would be a larger decision as to whether we would
23 do that. But it would also require renegotiation of the
24 standard terms and conditions of the contract.

25 So, what I was saying is that as they are

1 currently written, they do not allow for additional
2 users. But just, if we were to pay and renegotiate the
3 terms, if that were possible, to have additional users
4 that wouldn't necessarily make it publicly available.

5 The publicly available, that's really the PIIRA
6 data issue, as opposed to the subscription service.

7 COMMITTEE MEMBER BORENSTEIN: I would like to
8 recommend that we go down that road.

9 COMMITTEE MEMBER HACKETT: Yes.

10 COMMITTEE MEMBER BORENSTEIN: And that the
11 Energy Commission make the decision, and the
12 Legislature, that either it's worth it given the time
13 that we are putting in, without being compensated,
14 either it's worth it for the Energy Commission to pay
15 for the access to the data, to allow us our time to be
16 productive, or it just doesn't make sense to go forward
17 with this.

18 Because I think that the idea, and I mean this
19 to no one in particular here, but it is a bit insulting
20 to be told we'd like you to spend your time on this but,
21 no, we're not going to put up the resources to actually
22 make your time productive.

23 And if the Energy Commission's view is it's not
24 worth it to spend money on this, or we can't afford it,
25 and the Legislature won't budge, then it suggests that

1 it's not really that valuable an activity and we should
2 do other things with our time.

3 COMMITTEE MEMBER FOOTE: Well, may I ask a
4 question? My understanding is there's a certain amount
5 of information that the CEC collects, itself. And I
6 assume that the collection is -- that that particular
7 universe of data is established in regulations,
8 legislative, which?

9 MR. EGGERS: That would be the PIIRA data,
10 correct.

11 COMMITTEE MEMBER FOOTE: The PIIRA data?

12 MR. EGGERS: Yes.

13 COMMITTEE MEMBER FOOTE: And that's it. But
14 that's a regulatory -- that's regulation.

15 MR. EGGERS: That's in regulation.

16 COMMITTEE MEMBER FOOTE: So, and what's
17 constraining us, now, is the -- is the private data
18 that's purchased is all the various streams of obtaining
19 it. If similar data, I won't say the same data, but
20 similar data were actually gathered directly by the CEC,
21 under some expanded regulatory thing, then wouldn't that
22 take care of the problem or a lot of the problem?

23 MR. EGGERS: No.

24 COMMITTEE MEMBER FOOTE: No.

25 COMMITTEE MEMBER BORENSTEIN: No, the CEC

1 collects lots of data that we do not have access to.

2 The CEC is receiving data --

3 COMMITTEE MEMBER FOOTE: And that's not because
4 of private regulation. That's because of something
5 else?

6 COMMITTEE MEMBER BORENSTEIN: Well, part of it,
7 we have been told, is that the refiners are giving data
8 to the CEC under an agreement that the CEC will use them
9 very, very narrowly. And our using them would be a
10 violation of that.

11 COMMITTEE MEMBER FOOTE: Yeah, because I --

12 MR. EGGERS: Yeah, this is Ryan Eggers from the
13 California Energy Commission. I think it's a two-part
14 problem. I mean, we're looking at very -- multiple
15 different data sets. Most of the PIIRA data is mostly
16 flow information. Whereas inventories, productions,
17 transfers, import, exports --

18 COMMITTEE MEMBER FOOTE: So, it's not price.

19 MR. EGGERS: It's not price.

20 COMMITTEE MEMBER FOOTE: It's flow and supply.

21 MR. EGGERS: Yeah, it's all supply numbers.

22 And, yeah, at the firm level, as Samantha said, we are
23 not able to release that information.

24 I mean, we do publish aggregated versions of it,
25 and even a north/south split on our Energy Almanac

1 website. But, you know, just transferring over the firm
2 level data, we can't do.

3 On the flip side, we also have price
4 information, which is mostly the stuff we are getting
5 via subscription. And this, too, at it's very rawest
6 form, we're not able to just turn over.

7 In a lot of cases, we do do analysis on that
8 information and then, it is our understanding, we can
9 give that analysis, in an aggregated form of this
10 information back to other users, and we have.

11 But again, that's part of our own analysis,
12 where we're doing our own data transformation and it
13 becomes different data at that point.

14 COMMISSIONER SCOTT: But I think, so Professor
15 Borenstein's point on that, and what Samantha was saying
16 about the subscription service, we should -- I would
17 like for us to just take it back and look and see
18 whether or not those subscription services can be
19 written in a way that the Petroleum Market Advisory
20 Committee would also be able to utilize that data.

21 And I don't know what the answer is. I mean, we
22 need to kind of look and see. And my guess would be
23 every single one of those contracts is different, and
24 not standard. So, we need to look through and see what
25 we can do there. So, we'll take that back and come back

1 to you with an answer.

2 COMMITTEE MEMBER BORENSTEIN: And that's great.

3 But the PIIRA data are the gold mine here, just to be
4 clear. The PIIRA data are -- if somebody said, I want
5 you to think about market power in California's gasoline
6 market, the first data I'd ask for are firm-level
7 quantities of production, inventories, imports, exports.

8 And absent that, I'd be pretty stumped. Even
9 with that, as Jim said --

10 CHAIR SWEENEY: In pricing.

11 COMMITTEE MEMBER BORENSTEIN: Pricing, too. But
12 in some ways quantities are really -- the prices are
13 going to be pretty uniform. The quantities are what are
14 going to really differ across firms. And I'd be pretty
15 hard-pressed to say anything about the fundamental
16 question, is this a competitive market and these are
17 normal competitive operations or is there a lot of
18 market power here, and that's what's going on, unless
19 you could see firm level quantity data.

20 And so, in some ways I feel like that task,
21 which I think is underlying the charter, is a huge lift,
22 even with all the right data. It's a really hard thing
23 to do and is likely not to be very -- yield something
24 that's very dispositive.

25 But without the right data, it's just

1 impossible.

2 Ryan, I think I cut you off. Sorry.

3 MR. EGGERS: No. Just to be clear, we do
4 understand your frustration and we are trying to look
5 for as much publicly accessible information, as closely
6 down to the firm as possible.

7 We have made, you know, sort of recent
8 discoveries that I believe Gordon might want to talk to,
9 about import/export information.

10 MR. SCHREMP: Well, I think there's -- this is
11 Gordon Schrempp, Energy Commission.

12 There's been some discussion of data we collect
13 under regulation, PIRRA data. There's been discussion
14 of proprietary information we purchase, that anyone else
15 can do, also, but it is copyright protected.

16 There is another element, public information or
17 non-confidential information that is available, but may
18 not be readily apparent.

19 Certainly, EIA is in that category, but not to
20 Professor Borenstein's point of firm level.

21 On the imports and exports, you can look at
22 individual marine terminal information of loading and
23 discharge from the State Lands Commission. That data is
24 publicly available and it's by individual event, by
25 specific marine terminals.

1 Where it goes or where it came from is not as
2 easy. That information is not available. We have to do
3 additional analysis to make those kinds of
4 determinations.

5 So, but that's an example of some information
6 that's public, but not readily known, but does have firm
7 level or facility level specificity.

8 COMMITTEE MEMBER BORENSTEIN: That's great. I
9 mean, firm level is more important than facility level
10 on that. And so, we'll have to -- we should talk
11 offline about exactly what information's in that
12 database.

13 MR. RHYNE: So, I'd like to also, maybe, expand
14 the conversation just a little bit. I think
15 Commissioner Scott opened this portion of the agenda
16 with a discussion of what that -- what's in that
17 charter. And I think that charter is broader than
18 simply questions of market power.

19 And so, while the data you're looking for is
20 specific to market power, my question to you, as a
21 Committee, would then be absent that firm level data
22 what other elements of your charter do you think you can
23 still tackle, and be productive at in terms of helping
24 us address questions and issues of relevance in a
25 petroleum market?

1 COMMITTEE MEMBER BORENSTEIN: It's tough. I
2 gotta say, it's very difficult. What you see in the
3 market is the sum of all effects. And market power is
4 either none of it, or a big chunk of it, depending on
5 the opinions of various people. And so, you're trying
6 to explain the sum, without being able to analyze what
7 may be a big chunk of it is very, very hard to happen.

8 CHAIR SWEENEY: We can qualitatively say
9 demand's up. There were refinery outages. But those
10 qualitative statements really don't tell you whether
11 either one of those were a significant part of it. And
12 it doesn't tell you about -- until you quantify those.

13 But even when you quantify that, without knowing
14 what individual companies are choosing to do, you don't
15 know whether this is pure competition or something else,
16 and it could be the regulations, and it could be market
17 power.

18 And we've got at least three or four different
19 factors, and all we know is that it adds up to a higher
20 price sometimes. And I guess, in looking at these price
21 data, again, I'd be stumped going beyond it.

22 I think there's a second issue, which is a
23 little more mechanical and maybe can be fixed more.
24 There was a lot of the very useful information that
25 Gordon presented to us at this meeting. Those clearly

1 can be made public. Is there a way that we can get
2 these data, individual committee members getting the
3 data prior to the meeting?

4 COMMISSIONER SCOTT: Sure.

5 CHAIR SWEENEY: Knowing that they're all -- and
6 so, in the future, every time we're going to have a
7 presentation of this type, have the data, whatever is
8 available, given to us enough in advance so we have some
9 opportunity to think about it and go forward, rather
10 than being on the fly. We can do that, at least.

11 COMMISSIONER SCOTT: Yes.

12 CHAIR SWEENEY: And then, in addition, I know
13 the way I work, I like to have the slides and the words,
14 but I also like to have it in terms of spread sheets and
15 numbers so I can further manipulate it, if I need to.
16 So, those might be a helpful thing.

17 COMMISSIONER SCOTT: Okay. Are you thinking a
18 week, like a week in advance or --

19 CHAIR SWEENEY: Well --

20 COMMISSIONER SCOTT: I mean, we can definitely
21 get you the information in advance. I just want to make
22 sure we get it to you enough in advance that you have a
23 chance to dig into it.

24 CHAIR SWEENEY: Look it, I've been a -- I've
25 been in the position of having to provide data to

1 people, and the answer is as early ahead as he could get
2 them, or she could get them, or whoever's going to be
3 doing it. Recognizing that sometimes it's going to be
4 very last minute and sometimes it can be earlier.

5 But as it becomes available, make it available
6 to us, rather than wait until just to the last minute
7 before the meeting.

8 COMMISSIONER SCOTT: Yeah, absolutely, we can do
9 that.

10 COMMITTEE MEMBER FOOTE: A couple of requests,
11 sort of working with what we've got here. And you're
12 already starting to -- I mean, you've been doing some of
13 this. Obviously, if we're going to look for market
14 power, it's the manifestations of that are traditionally
15 what's happening here compared with what's happening in
16 an unconstrained market.

17 So, we're comparing to Washington, we're
18 comparing to, you know, several other markets. We don't
19 really know -- you know, I guess maybe we're assuming
20 that those are unconstrained markets and California is
21 not. I don't know if that's a valid assumption but,
22 maybe.

23 And then the other thing, but to kind of be more
24 specific about those, rather than just having -- having
25 more analysis of those comparisons. The fact that the

1 curve might be similar doesn't necessarily mean that the
2 analysis is the same.

3 And then the other thing is to the extent that
4 there's a baseline of any sort than can be used, for any
5 particular thing. And, you know, maybe that's a
6 baseline over time, or maybe it's a baseline of
7 something else, something that -- I mean, particularly
8 because the sales -- I think that's one of the concerns.
9 The fact that there's so much more of the rack sales in
10 California.

11 That everyone, today, was talking about how
12 that's a significant difference. And why is that or
13 might that be such a significant -- does the analysis
14 completely change? Anyway, that kind of analysis would
15 be really helpful.

16 MR. EGGERS: So, when you're talking about
17 baselines, though, are we looking for a baseline on
18 production, or are you looking for multiple?

19 COMMITTEE MEMBER FOOTE: I think that is going
20 to depend on the situation. Maybe it's a baseline on
21 the relationship between price and production.

22 MR. EGGERS: Okay. Is that something we want to
23 work through, where you guys suggest certain baselines
24 for us, or is it something you want us to present to you
25 as our first cut, and then you guys give us feedback on?

1 You're smiling, Severin.

2 COMMITTEE MEMBER BORENSTEIN: This is one of
3 those situations where I really want to see the data
4 and --

5 (Laughter)

6 COMMITTEE MEMBER FOOTE: That's right.

7 COMMITTEE MEMBER BORENSTEIN: -- to find what
8 would be a useful baseline.

9 COMMITTEE MEMBER FOOTE: Yeah, we maybe have to
10 start with your folks and --

11 COMMITTEE MEMBER BORENSTEIN: And we have to
12 think about what a baseline means here and how we would
13 deal with a separate -- the separation of markets.

14 Jim, I had this in my book as 1:00 to 4:00, and
15 I actually have to leave at 4:15.

16 CHAIR SWEENEY: Okay, let's see what else we
17 have to --

18 COMMITTEE MEMBER BORENSTEIN: And I suspect
19 other people do, too, and the poor CEC staff.

20 CHAIR SWEENEY: I want to make sure we have time
21 for any additional public comment. I don't know if
22 there is any. So, let's take an inventory.

23 Is there any additional public comment there?

24 PHONE MONITOR: There was two inquiries on how
25 members of the public can provide information for future

1 meetings. So, if they're not able to get on the agenda,
2 at least we could get more information.

3 COMMISSIONER SCOTT: Don't we have a docket?

4 MR. RHYNE: We do have a docket for this.

5 Samantha, do you know the docket number offhand?

6 MS. ARENS: Oh, it's 15-OIR-02. And there is,
7 in the notice for this meeting, and for future meetings,
8 there's information on how to submit comments to the
9 docket.

10 COMMISSIONER SCOTT: So, we're addressing the
11 question that came in, over the WebEx, about how do you
12 get information to the Committee? There is a docket for
13 this Committee and Samantha is explaining that you can
14 find the information in the notice, the public notice
15 about the meeting. It tells you where the docket is and
16 helps explain how to get into there.

17 MS. ARENS: And how to send in written comments,
18 which may be posted on the Energy Commission's website
19 prior to the meeting.

20 And then, in addition, there is opportunity for
21 public comment after each agenda item.

22 COMMISSIONER SCOTT: And what was the second
23 question?

24 PHONE MONITOR: The second question was will all
25 of the materials -- I know the CEC had -- I think there

1 was some --

2 COMMISSIONER SCOTT: Yes, they'll be online.

3 Was that the question?

4 PHONE MONITOR: Yes.

5 COMMISSIONER SCOTT: Yeah, so the second
6 question is will the materials be online. And, yes,
7 they will be posted and the materials from previous
8 meetings are also up on the webpage.

9 So, how many days does it usually take after the
10 meeting to get information up?

11 MR. RHYNE: The presentations are already
12 posted.

13 COMMISSIONER SCOTT: Oh, the presentations are
14 already posted.

15 PHONE MONITOR: So, the recording, the WebEx
16 recording --

17 COMMISSIONER SCOTT: The WebEx recording? I
18 don't know how long those usually take.

19 MR. RHYNE: I believe that it is and we should
20 have that recording going on right now. I'd have to
21 check with our IT folks, back at the Energy Commission.
22 But I believe that was the request that we made, yes.

23 COMMISSIONER SCOTT: And we posted it from -- we
24 posted a WebEx recording from the previous meeting.

25 MR. RHYNE: Yes.

1 COMMISSIONER SCOTT: I just don't know how many
2 days it took between the meeting and the posting. But
3 it will be on --

4 MR. RHYNE: Yeah, the WebEx recording typically
5 goes up very quickly, anywhere -- typically, in less
6 than a week we have it posted.

7 The transcript, however, takes longer and that
8 can take several weeks.

9 COMMISSIONER SCOTT: Were those the only two you
10 had?

11 CHAIR SWEENEY: Okay, so that's all. And we
12 have -- we can read, ourselves, the one --

13 MR. RHYNE: We do have a question regarding the
14 meeting. And I'm not sure, quite honestly, if everyone
15 online can read that, as well.

16 CHAIR SWEENEY: It's more of a statement.

17 MR. RHYNE: So, I'm going to go ahead and read
18 out loud, just to make sure that everyone online can see
19 it.

20 This is from John Shears, who said, "My
21 understanding is that every ship leaving a port has to
22 file a trip report with either a local harbormaster, or
23 the U.S. Coast Guard, just like every flight has to file
24 a flight plan. This, combined with Gordon's observation
25 about info on delivery at the marine terminal, might be

1 a way to reconstruct what is going on. Assuming, of
2 course, that the entire cargo is being delivered to the
3 next destination port reported to the harbor
4 master/Coast Guard".

5 And I believe that that type of information is
6 actually -- is used to help us reconstruct some of that
7 data. I think, as Gordon mentioned, there's further
8 analysis that goes on in order to figure out where all
9 of those loads are going, all that marine loading and
10 unloading.

11 CHAIR SWEENEY: Okay, so I still have one
12 process issue about the whole thing. How can we set up
13 a process so between Committees each of the five members
14 of the Advisory Committee can be involved in doing some
15 sort of analysis, given that I understand it can only be
16 two people per subgroup, and they can't be overlapping?

17 COMMISSIONER SCOTT: I would -- I would pick,
18 and Sam I'll let you weigh in on this, too. From a
19 Commissioner, we have to do this, too, with the five
20 Commissioners. And so, a lot of times we call them our
21 Bagley-Keene buddy. And so, on a particular topic I
22 might work with the Chair, and in transportation for
23 example.

24 But then on planning in the desert, for where
25 renewables go, Commissioner Douglas and I are the buddy.

1 And so, I think what you could do is probably
2 outline a set of questions or topics, and then you could
3 just decide. Okay, on this one it will be Professor
4 Borenstein and Dave Hackett. And on the next one it
5 will be Kathleen Foote and Amy. And on the next one it
6 can be Amy and me. But they'll be different topics and
7 you can just decide which two are most interested in
8 that topic and they can dig into it. Is that --

9 MS. ARENS: Yeah. And in addition to that, you
10 know, I think information can go out before the meeting,
11 like docket materials for the meeting can go out to all
12 Committee members in advance.

13 You could each communicate directly with
14 Ysbrand, or Ivin, or whoever, so long as that staff
15 member doesn't serve as a conduit for you to communicate
16 with each other. He doesn't say, oh, Chair Sweeney, you
17 know, Committee Member Foote said to tell you this, that
18 type of thing.

19 But you could each communicate with our staff.

20 CHAIR SWEENEY: Could we have, you know, for
21 future reference, those price things that our subgroup
22 had done, completed, could those have been sent out to
23 all Committee members two weeks before the meeting?

24 MS. ARENS: I don't know. So, staff what --
25 yes, they could have been.

1 CHAIR SWEENEY: WE could have done.

2 MS. ARENS: If staff could do that.

3 CHAIR SWEENEY: What do you mean if staff can do
4 that?

5 MS. ARENS: If staff can get it out two weeks in
6 advance.

7 CHAIR SWEENEY: No, I mean can -- if Professor
8 Borenstein and I prepared these graphs, could we have
9 sent it to all the Committee members two weeks before
10 this meeting?

11 MS. ARENS: If there is information that's
12 posted as docket material, that's made publicly
13 available, that may be all right to post that along
14 with, for example, the notice in advance of the meeting.
15 But you can't communicate with other members outside of
16 the public meeting about what you and Professor
17 Borenstein are working on.

18 CHAIR SWEENEY: I'm not sure whether that's a
19 yes or a no.

20 COMMITTEE MEMBER BORENSTEIN: It's a no, if it's
21 private communication. It's a yes if you just posted
22 it. We can show it to them when we show it to the
23 world.

24 CHAIR SWEENEY: Okay, so we could have -- we
25 could have communicated to the world by posting it all.

1 That would work.

2 COMMISSIONER SCOTT: So as an example, your
3 slide presentation that you gave at the beginning --

4 CHAIR SWEENEY: Yes.

5 COMMISSIONER SCOTT: -- if it was ready two
6 weeks ago, you sent it to Ivin, he posted it on the
7 webpage, and the rest of the members also can see it
8 early.

9 CHAIR SWEENEY: That will be a helpful thing to
10 do. So, we can do this. If we can identify a set of
11 separate questions, all related to whether there's
12 market power, or regulatory impact, or supply and demand
13 in the market, if we can carve this up into separate
14 questions and have different members deal with it. I
15 have no clue how we can do it, but in principle, we can
16 have separate groups dealing with it, each publishing
17 their partial results as they go along.

18 MS. ARENS: I believe that's correct and I will
19 double check on that. And if I find otherwise, I will
20 let you know as soon as possible.

21 CHAIR SWEENEY: Okay.

22 COMMITTEE MEMBER FOOTE: And from the stand
23 point of analysis, if stuff is posted two weeks in
24 advance and you guys, for example, decide that it
25 provokes a bunch of questions that you have, do they

1 have to wait until the meeting to ask staff those
2 questions? Or can they say, staff, these are the
3 questions we're going to have, can you be prepared to
4 answer them at the meeting?

5 MS. ARENS: A working group could communicate
6 with our staff members, but not with other members of
7 the Committee.

8 COMMITTEE MEMBER FOOTE: Okay.

9 CHAIR SWEENEY: But if we put it up on the web,
10 to make it available for the public, while we're asking
11 them to do something, then we could do it, as I
12 understand from the last question.

13 MS. ARENS: I --

14 CHAIR SWEENEY: I want to push the boundaries
15 because I feel handcuffed.

16 MS. ARENS: So, I believe that you could put up,
17 as a backup document for the meeting, something that you
18 have been working on, but I will double check on that
19 and get back to you.

20 CHAIR SWEENEY: Okay. Okay, is there anything
21 in these other topics?

22 Then, Commissioner Scott, would you like to --
23 are there any last comments that you'd like to make on
24 this whole thing, as to have to do with what is --
25 should be the focus of what the Commission expects of

1 this Committee?

2 COMMISSIONER SCOTT: Right. And I --

3 CHAIR SWEENEY: We agree within the broad
4 statement but --

5 COMMISSIONER SCOTT: Yeah. No, I think the
6 broad statement is it. I think specific questions will
7 come up that we would want you to look into, like the
8 continued high level of gas prices throughout, you know,
9 May and June.

10 And I do think that both the Chair, and I
11 recognize that our hands are tied in as much data as
12 we're able to give you, and so we recognize that that
13 limits the types of analysis that you might be able to
14 do. But I don't think it limits the kind of insights
15 and the advice that you have in that space. And so, I
16 just kind of want to reiterate that, as well.

17 I mean, I think specific questions, I think
18 things may happen where a specific question comes up
19 that we really want you to help us take a look at.

20 So, I'd kind of go back to the general charter,
21 the general focus and I don't really have anything to
22 add beyond what I said earlier. But we will do a dig
23 and see what the subscriptions look like, and if it's
24 possible to add you all to those. And there's a few
25 other suggestions that you made, that we'll make sure

1 that we take back and get done for you.

2 CHAIR SWEENEY: Thank you.

3 COMMITTEE MEMBER BORENSTEIN: I don't mean to be
4 disrespectful, but I would challenge you to come up with
5 a question you would have for us that does not involve
6 the possibility of market power.

7 COMMITTEE MEMBER FOOTE: Yeah.

8 COMMITTEE MEMBER BORENSTEIN: Every question
9 that I think generally comes up about these markets is,
10 is this normal competitive, cost-driven, scarcity-
11 driven, or is somebody doing something they're not -- we
12 would wish they -- I was going to say they're not
13 supposed to, but it may actually be completely legal
14 and, yet, not what we hope the market would do.

15 CHAIR SWEENEY: Good. So, I have a couple of --

16 COMMITTEE MEMBER FOOTE: Or has the ability to
17 press their thumb on the scale. If the question is, is
18 there an incentive to do that?

19 CHAIR SWEENEY: Yeah, sure.

20 COMMITTEE MEMBER FOOTE: Or would they lose more
21 by doing it, than they would gain?

22 COMMITTEE MEMBER BORENSTEIN: Right.

23 COMMISSIONER SCOTT: I understand.

24 CHAIR SWEENEY: I have a couple process-oriented
25 questions, given the time. We have several other items

1 on the agenda. I'm going to ask whether each one of
2 these is important to be dealt with here or, if so, is
3 there a very nominal subset of the things that can be
4 dealt with, and can be left off.

5 And I'll start with my own guesses about the
6 answer. On the Low Carbon Fuel Standard, my guess is
7 that we don't have to be briefed at this meeting for the
8 Low Carbon Fuel Standard.

9 Is there a different answer?

10 MR. RHYNE: Well, we do have a representative
11 from the Air Resources Board here. He's provided a
12 slide deck, which is posted online. If you have any
13 specific questions, I think he'd be happy to answer
14 them. But absent specific --

15 COMMITTEE MEMBER HACKETT: I do have some
16 questions on that.

17 MR. RHYNE: Okay, there we go.

18 CHAIR SWEENEY: Good.

19 MR. RHYNE: So, perhaps that might be the more
20 efficient way to deal with that particular topic.

21 COMMITTEE MEMBER HACKETT: And then not to cut
22 in --

23 CHAIR SWEENEY: Actually, before we do that, let
24 me go through the -- figure out for all the rest. The
25 discussion of the bylaws and approval, is there a reason

1 that has to be done at this meeting?

2 MR. RHYNE: Not that I'm aware of, no.

3 CHAIR SWEENEY: Good. General topics. Is there
4 a reason any of them have to be dealt with at this
5 meeting? No.

6 MR. RHYNE: No.

7 CHAIR SWEENEY: Public comment, we've been doing
8 it all along and we'll give any opportunity.

9 Action items. I think we had a lot of action
10 items all along, so we can add those on at the end.

11 So, I think it's really what we have is the
12 questions on Low Carbon Fuel Standard.

13 COMMITTEE MEMBER HACKETT: And so, maybe this
14 comes back to market power. But I guess my only
15 question is the credit price is double in the last
16 couple of weeks. So, what's up with that?

17 MR. WADE: Yeah, I mean we don't comment on the
18 underlying fundamentals, but I did want it to the
19 Committee's attention. That's why the presentation
20 opens with that issue.

21 You know, the market had been relatively calm
22 for a period here, shown on slide two, in the \$22 range.
23 And then on slide three, you'll see the action in June.
24 The most recent quote that I've seen from OPIS is \$60
25 per metric ton. So, a significant increase over the

1 last month.

2 But as I said, I'm not going to get into ARB's
3 opinion as to what the drivers of that might be.

4 COMMITTEE MEMBER BORENSTEIN: Why not?

5 MR. WADE: Well, because we don't comment on the
6 underlying fundamentals of the system because we have
7 the ability to impact those fundamentals as the
8 regulator, right. If we say, we think the price should
9 be this, and we can change the rules to drive the price
10 up or down --

11 COMMITTEE MEMBER HACKETT: Well, I'm not asking
12 you what you think the price should be. I'm asking you
13 what do you think the drivers of the price are?

14 MR. WADE: Right. You know, as I said, we work
15 too close to the information in the system to --

16 COMMITTEE MEMBER BORENSTEIN: Let me ask you a
17 different question. Has OPIS expressed a view on what's
18 driving us?

19 MR. WADE: Yeah, certainly they're --

20 COMMITTEE MEMBER BORENSTEIN: And do you feel
21 comfortable just telling us what OPIS says. They say no
22 one's quite sure. And you can read that in the most
23 recent article from OPIS.

24 COMMITTEE MEMBER BORENSTEIN: I feel comfortable
25 reporting that.

1 MR. WADE: Yeah, that's exactly what the most
2 recent write-ups say. You know, because this is
3 happening very quickly, no one -- there hasn't been sort
4 of a story that the market can solidify around as to the
5 primary drivers.

6 The main thing that people threw out there in
7 the write-up is the re-adoption of the program, which I
8 get into in some of my slides, has become real in the
9 minds of some of the market participants. And,
10 therefore, that means that prices are realigning under
11 that assumption that the program has longevity and will
12 continue under the rules, as laid out in our proposals.

13 COMMITTEE MEMBER HACKETT: Thanks for that.

14 MR. WADE: Yeah, sure.

15 COMMITTEE MEMBER BORENSTEIN: And can you
16 just -- is there a quick translation of the credit price
17 to the price of gasoline?

18 MR. WADE: Yeah, so that is another thing that I
19 wanted to touch on really quickly. Because in the last
20 time I briefed you folks, you know, I presented this
21 slide and explained that we had an estimate of the
22 credit price impact on gasoline and diesel, in the 2020
23 time frame.

24 And the question was raised, well, what does
25 that mean in the more near term years, and that's what

1 the following slide is.

2 So, just as there is a, you know, Cap-at-the-
3 rack, sort of back-of-the-envelope way of assessing what
4 the Cap and Trade credit price impact is, that Gordon
5 mentioned, the LCFS has something similar. It's on
6 slide five. And it's, you know, reported by OPIS in
7 their publications.

8 So, for the current credit price of around \$6
9 per ton, that's less than a cent per gallon, at the one
10 percent current carbon intensity target.

11 But as you see, out to 2020, the carbon
12 intensity targets get more steep and so the impact of a
13 \$57-per-ton credit price would be different at those
14 various carbon intensity targets.

15 CHAIR SWEENEY: And your cost containment number
16 is \$100?

17 MR. WADE: It's \$200.

18 CHAIR SWEENEY: \$200 per ton, I mean. So, as of
19 2020, reaching that would be at most, in these
20 estimates, \$2.40 a gallon of gasoline?

21 MR. WADE: No, 25 cents, yeah.

22 CHAIR SWEENEY: I'm sorry, two times 12, 24
23 cents.

24 MR. WADE: That's right, yeah.

25 So, yeah, I thought that was important to share

1 with the Committee members. And again, both this
2 calculation and the Cap-at-the-rack assessment are, we
3 feel, sort of simplifications of some sort of complex
4 market dynamics. But they're useful rules of thumb.
5 You know, and so this is how we think about it. We're
6 open to talk to the Committee more about the underlying
7 calculation there.

8 CHAIR SWEENEY: And you stop at 2020. Does the
9 requirement get more tighter after 2020 or it levels out
10 at 2020?

11 MR. WADE: Right, it levels out under the
12 current proposed regulations. That will be back in
13 front of our Board for readoption in July. But, of
14 course, the Governor's Petroleum Reduction Target, for
15 2030, you know, ARB has commented that the LCFS could be
16 a major contributor to achieving that Petroleum
17 Reduction Target.

18 CHAIR SWEENEY: Right. But that's something
19 that has not yet been determined?

20 MR. WADE: Right.

21 CHAIR SWEENEY: Okay. Other questions on this?

22 Okay, the other --

23 COMMITTEE MEMBER HACKETT: Thanks for coming.

24 MR. WADE: Sure.

25 CHAIR SWEENEY: Yeah, and thanks for being

1 gracious about the -- after putting in all the work, it
2 being squeezed out this way.

3 I want to make sure there's no public comment is
4 squeezed out. Is there any from either source? No
5 other public comment?

6 MR. RHYNE: I have no other comments online.

7 CHAIR SWEENEY: Then unless there's objection,
8 I'd like to declare this meeting adjourned. Adjourned.

9 (Thereupon, the Committee was adjourned at
10 4:15 p.m.)

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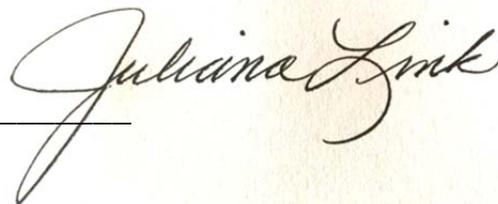
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Juliana Link
CER-830

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