

CALIFORNIA GAS PRICE FACTS

Some analysts have suggested that the transition to summer grade ethanol blends for the first time in California is partly to blame for the high California gasoline prices. While these claims might make for provocative headlines, such snapshots are misleading. **In fact, ethanol-RFG is selling for 10 cents less per gallon than MTBE-RFG at Los Angeles distribution terminals (“wholesale” rack prices).**¹

Current Market

1. Many stories refer to “spot prices” where CARBOB (prior to blending with ethanol) is currently priced higher than CARB (already blended with MTBE) gasoline. This is comparing apples to oranges. CARB is a finished product ready for sale. CARBOB must still be blended with ethanol. Ethanol used in California was locked in under year long contracts at very attractive prices that are lower than today’s wholesale gasoline price.² Therefore, blending ethanol with CARBOB actually lowers the cost of the finished product.
2. Platts, another gasoline pricing service, has listed finished ethanol-RFG at lower prices than MTBE-RFG during the entire month of March. Most recently, ethanol-RFG was listed at \$1.51 while MTBE-RFG was \$1.60 (wholesale rack price).³
3. While CARBOB is more expensive than CARB on the current spot market, it should be noted that this is a recent development mainly due to an unexpected refinery outage (see details on next page). For most of the year CARBOB had sold for 4 to 8 cents less than CARB.⁴
4. Further, the OPIS April futures prices for both CARBOB and CARB are currently 15 to 17 cents per gallon less than current prices – confirming that today’s “high priced” market reflects a temporary gasoline shortage that is expected to be corrected shortly, not a fundamentally higher cost summer gasoline.⁵
5. While many California refiners are producing summer grade CARBOB for the first time, there have been no major glitches reported. In fact, **ConocoPhillips** produced CARBOB statewide last summer.⁶ More recently, **BP** spokesman Dan Cummings stated: “The changeover...to fuels blended with ethanol is proceeding according to our expectations.”⁷ **Shell Oil Products US** spokesman Cameron Smyth said: “We knew going in that making the summer blend was going to be more challenging. However, Shell has not had any significant difficulties.”⁸

¹ Source: Oil Price Information Service (OPIS), Los Angeles average rack prices on March 12, 2003. Average price for CA RFG with MTBE was \$1.63, while average price for CA RFG with ethanol was \$1.53. Note: This is also before the taxes are paid and ethanol blends are taxed 3 cents lower than MTBE blends.

² Source: California Energy Commission spokesman, *Oakland Tribune*, March 11, 2003

³ Source: Platts West Coast daily average rack price (and factoring in the 3 cent tax saving) for March.

⁴ Source: *Reuters News Service*, February 24, 2003

⁵ Source: OPIS, March 12, 2003 price report

⁶ Source: Phillips Petroleum Company press release, July 22, 2002

⁷ Source: *Contra Costa Times*, March 9, 2003

⁸ Source: *Sacramento Bee*, March 12, 2003

California History: Tight Supplies + Unexpected Refinery Outages = High Prices

California has long been known for having the highest gasoline prices in the country because its unique state-mandated clean fuel rules isolate the refining market. Whether blending MTBE or ethanol, California is largely dependent on refineries within the state. Therefore, the state is more susceptible to gasoline price spikes due to unexpected refinery problems, especially during the switch to summer grade gasoline when gasoline inventories are at their lowest.

California Gas Price Spike – Deja Vu All Over Again

Far from being a new phenomenon linked with ethanol blending, the current California gasoline price situation mirrors a long history of such events. For example, in 1999, fires unexpectedly shut down two major California refineries in March, just as the switch to summer grade gasoline (all with MTBE) was occurring and inventories were at their lowest. The result: a nearly month long price spike of over 50 cents on the spot market. Later that year, a series of three refinery/pipeline fires limited gasoline supply in June and July. The result: spot market gasoline prices increased by roughly 30 cents over two months.⁹

In late February of this year (before the current price spike), California Energy Commission (CEC) Transportation Fuel Supply Manager Pat Perez stated: “If you look at the last three or four years we’ve had several times when refineries go down. We’re always very much concerned during the summer months. During this transition we hope we won’t see that. Typically, in California, when refineries have a problem we tend to see an immediate response in prices.”¹⁰ Unfortunately for California motorists, that’s exactly what we’re seeing now.

Several Factors Explain California’s Current High Gasoline Prices

1. Gasoline inventories were dangerously low, even before the switch to summer grade gasoline began. According to CEC figures, gasoline production in January and February was 12 percent below 2002 and inventories were 11.3 percent below last year.¹¹
2. High crude oil prices have been a disincentive for refiners to build inventories. Lack of crude oil supply also played a role. Political instability in Venezuela reduced world crude output. Also, California’s largest source of foreign crude oil had been Iraq.¹² However, recently ChevronTexaco, the largest importer of Iraqi crude into California, announced it would no longer load crude oil from Iraqi ports, further stretching crude supplies.¹³
3. With gasoline inventories already low, several refineries temporarily shut down for regular maintenance and to prepare for producing summer grade gasoline.¹⁴ Refiners must also drain their tanks of winter grade gasoline before filling them with summer grade. The difficulties in managing supplies at such low levels have impacted gasoline prices to some degree since the RFG program began in 1995. This situation occurs regardless of which oxygenate is being blended.

⁹ Stillwater Associates report, March 13, 2002, pages 60-61.

¹⁰ *Reuters News Service*, February 28, 2003

¹¹ California Energy Commission figures reported in *United Press International*, March 10, 2003

¹² *Los Angeles Times*, February 10, 2003

¹³ *Wall Street Journal*, March 10, 2003

¹⁴ Gordon Schremp, California Energy Commission, *Sacramento Bee*, February 20, 2003

The Predictably “Unexpected” Events Occur

4. With national gasoline prices already high and California inventories at record lows, a refinery “issue” leaked to the market. On March 5th, word spread that BP’s Carson refinery, which was undergoing routine spring maintenance, would not be restarting its fluid catalytic cracker (FCC) as scheduled.¹⁵ Little more than 24 hours later, spot CARBOB prices had risen 15 cents and spot CARB prices had risen 12 cents.¹⁶ Spot prices continue to creep up as unconfirmed reports circulate that the FCC may not restart this week as well.¹⁷ Note: BP’s Carson refinery does produce CARBOB. However, the FCC problem is unrelated to the switch to summer grade CARBOB.
5. Contributing to the increase in both CARBOB and CARB spot prices was news that two oil tankers were late with their deliveries to southern California the same week BP’s refinery problem surfaced.¹⁸ Because of the late tankers, one refiner producing MTBE RFG in southern California actually ran out of gasoline for a short time.

Bottom Line

California motorists are paying the highest gasoline prices in the country. They almost always do. Their prices have spiked the furthest and the fastest as a result of recent supply disruptions. They almost always do.

While California motorists are just plain mad about the prices, and understandably so, it’s important for policy makers and journalists to understand the forces behind these prices. This is not a new storyline driven by summer grade ethanol-blended gasoline. Quite the opposite. It’s a recycled event extremely similar to what occurred in 1999 and 2001. Neither MTBE nor ethanol are the culprits in this story.

The bottom line is that world events are driving gasoline prices up across the county. Heaped on top of that, California experienced another series of unpredictable supply disruptions at the worst possible time. The convergence of international, national and state specific events combined to form the “perfect gasoline price storm.”

But there is relief ahead. As mentioned earlier, April future spot market prices are well below current prices as marketers predict gasoline production will return to normal. While this alone will not return California gasoline prices to where they were last summer, it should at least return them to their normal relationship with national gasoline prices even as ethanol continues to be blended into California summer grade gasoline.

Note: As it has for the last three years, the net cost of ethanol to refiners continues to be well below that of MTBE on a gallon for gallon (not to mention oxygen content) basis.

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¹⁵ *Reuters News Service*, March 6, 2003

¹⁶ Platts price information

¹⁷ OPIS, West Coast Spot Market news, March 11, 2003

¹⁸ David Hackett, Stillwater Associates, as reported in the Sacramento Bee, March 12, 2003