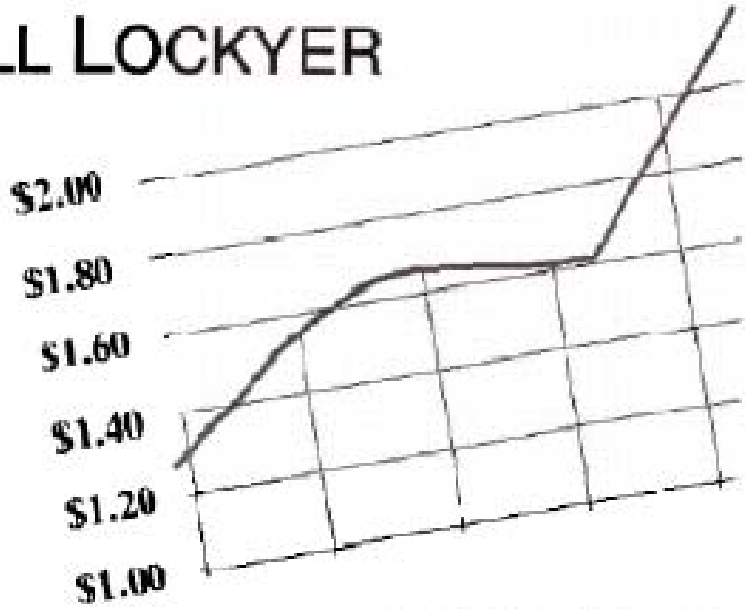
ATTORNEY GENERAL
BILL LOCKYER



REPORT ON GASOLINE PRICING IN CALIFORNIA

May 2000

Update March 2004

Report on California Gasoline Prices
Attorney General Bill Lockyer
March 2004

During the first three months of this year, California's history of gasoline price spikes has repeated itself – again.

Prices in California reached records levels in the first week of March. The average price of regular gasoline climbed to an all-time high of $2.20 a gallon in Los Angeles, with Bay Area prices close behind at an average of $2.16 a gallon. Nationally, prices also have risen to an average of over $1.70 a gallon, nearing the record of $1.75. Still, $1.70 is more than 30 percent below the price paid by some California drivers.

In November 1999, after gasoline prices in California rose dramatically to peak at $1.62 a gallon, the Attorney General convened a special Task Force on Gasoline Pricing in California. The Task Force issued its report in May 2000. The report focused both on market structure and supply issues. While surrounding circumstances have changed, the market conditions described in the report still exist – most notably tight supplies of refined gasoline and a lack of competition among the companies that produce and sell gasoline. These conditions continue to make California susceptible to chronic price spikes.

High gasoline prices drain from the pockets of working families money that could be used for food, clothing and health care. Additionally, they erode the competitiveness of California's industries. A recent analysis of gasoline prices by the Attorney General's Office suggests the following:

- California's gasoline market remains more concentrated and less competitive than the key refining areas east of the Rocky Mountains that supply the rest of the United States. Seven oil companies now control 98 percent of California's refining capacity, and market 90 percent of the gasoline they refine through their own retail networks.

- Short-term supply problems make California especially vulnerable to price spikes. West Coast refiners maintain lower inventory levels relative to consumption than refiners in the rest of the United States and have reduced inventories in recent years.

- The change over from MTBE to ethanol has reduced California's gasoline supply by as much as 10%. Supplies also can decrease as refiners switch from making their winter blend to their summer blend of gasoline.

- The price of crude oil has been trending upward. According to the federal Energy Information Administration, spot-market crude traded at $36.08 barrel on February 27 of this year, compared to $22.37 on March 1, 2002.

- There have been several refinery outages in California, reducing supply and driving up prices.

- Demand for gasoline in California continues to rise. The California Energy Commission projects that by 2013 annual gas consumption will increase by 14 percent, topping 17 billion gallons.

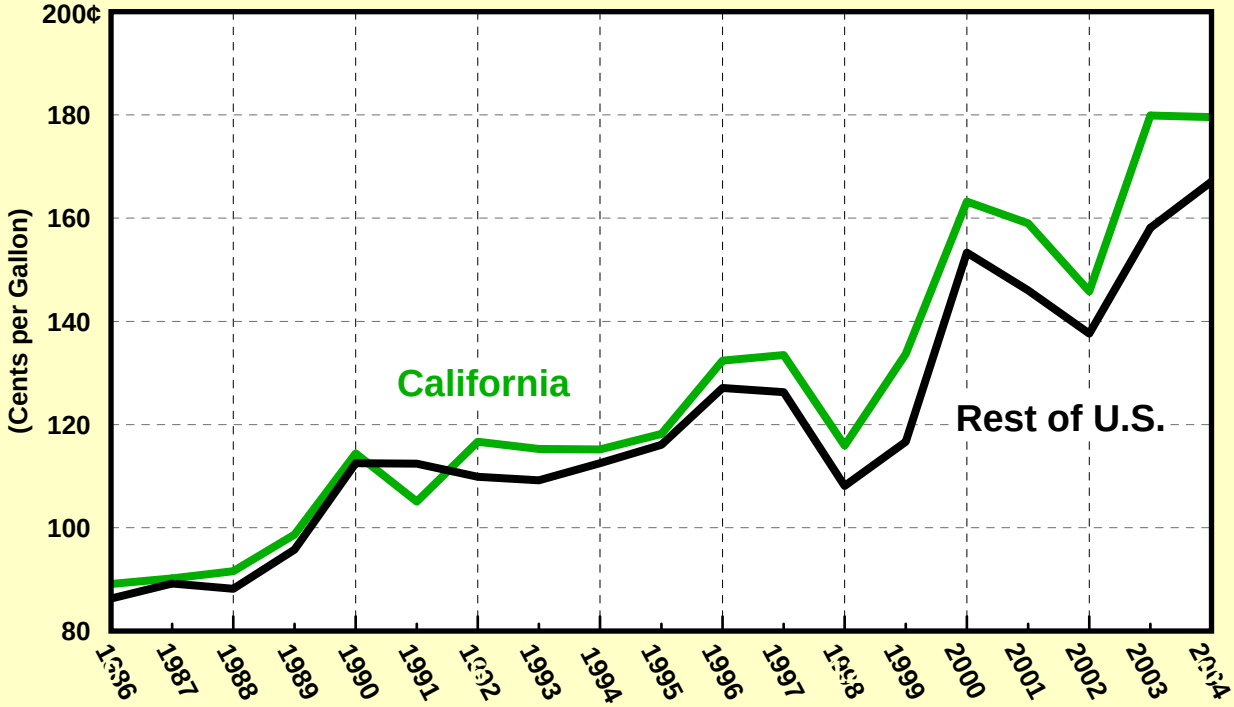
- Oil companies' margins (costs-plus-profit) in California continue to far surpass the national average, especially at the refining stage. And the margins in California jump dramatically in the first three months of the year.

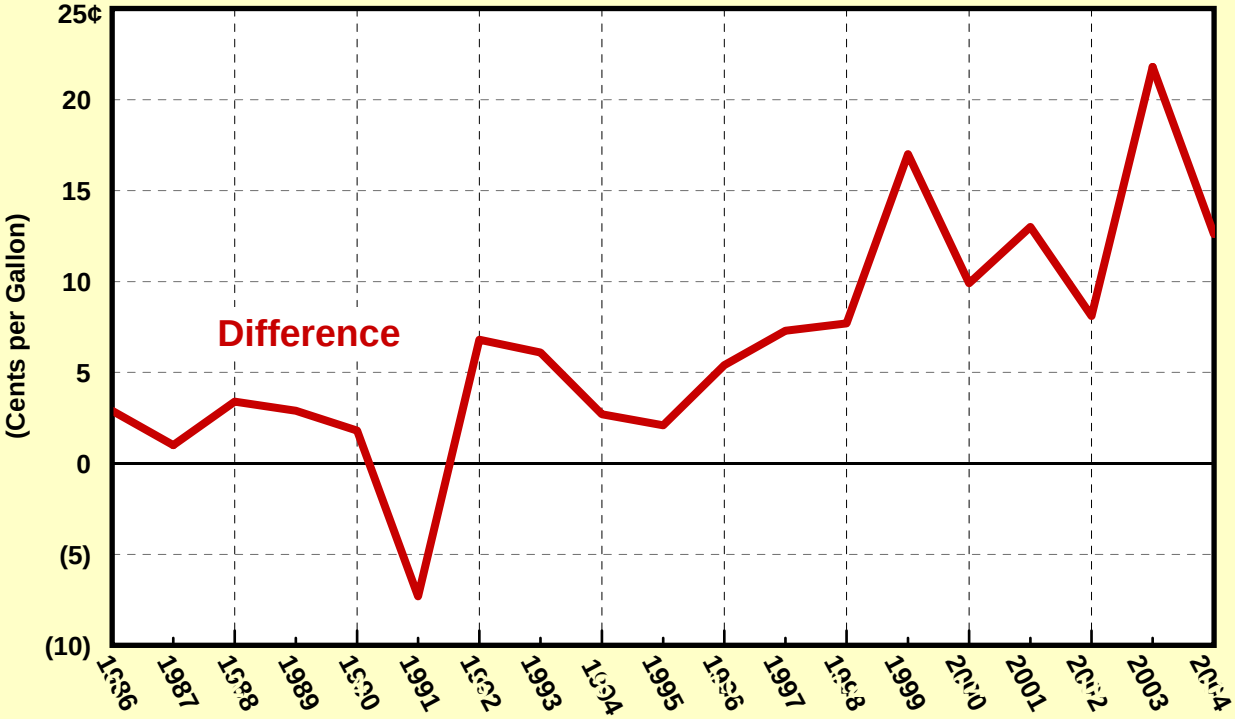
- California faces long-term supply problems as demand for gasoline rises. California has shifted from being a net exporter to a net importer of refined gasoline. Meanwhile, the state's geographic isolation from other refining centers creates challenges for meeting the state's import needs.

The market conditions driving high gasoline prices in California are deeply rooted. It is unrealistic to suggest there is a quick fix. To the extent possible under existing laws, the Attorney General has sought to prevent oil company mergers and unfair business practices from making the marketplace even more concentrated and less competitive. The Attorney General will continue to investigate any unlawful conduct that arises in California's gasoline market.

The Attorney General's reports on gasoline pricing practices also have sought to broaden understanding of the problems facing the state. Without changes in public policy that address market conditions, California will not rid itself of high gasoline prices. Policymakers must begin taking the steps necessary to increase competitiveness, supplies and fuel conservation. They should continue to examine ways to cheaply and expeditiously import refined gasoline into the state, via pipeline or other means, and to reduce California's petroleum dependence through increased fuel economy and non-gasoline based technology.

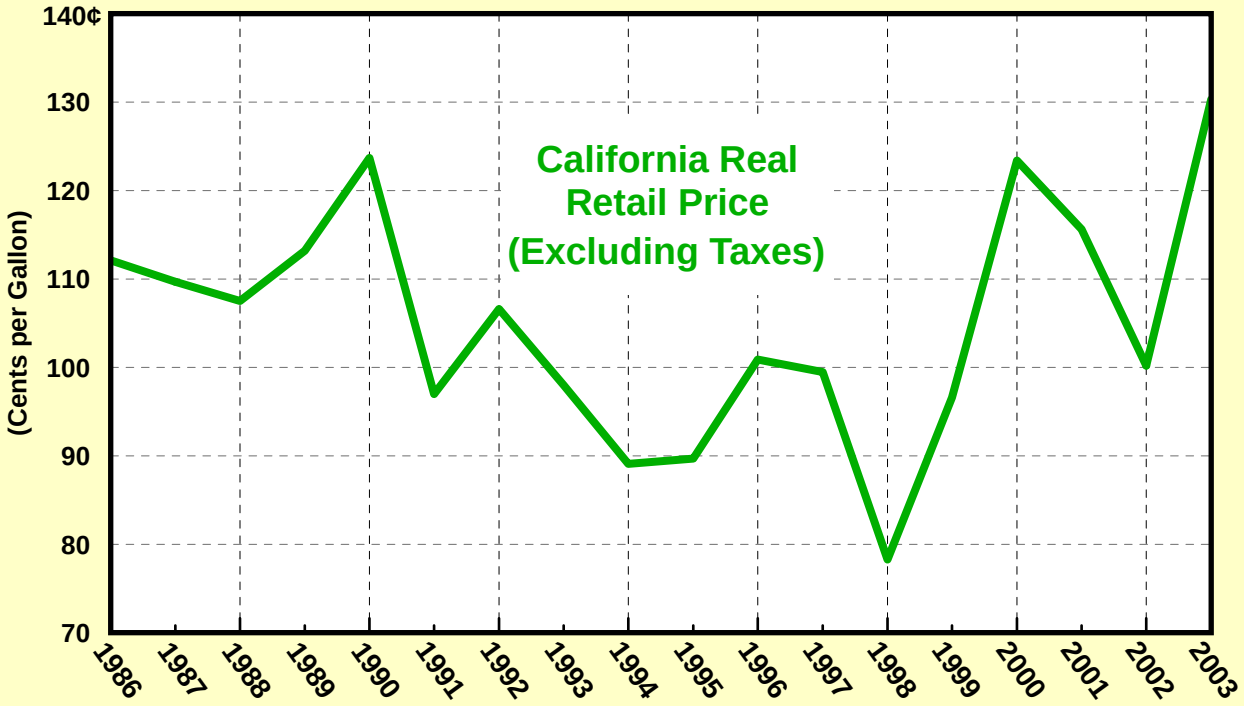
Annual Average Retail Regular Grade Gasoline Prices
California vs. Rest of U.S.
1986 - 2004

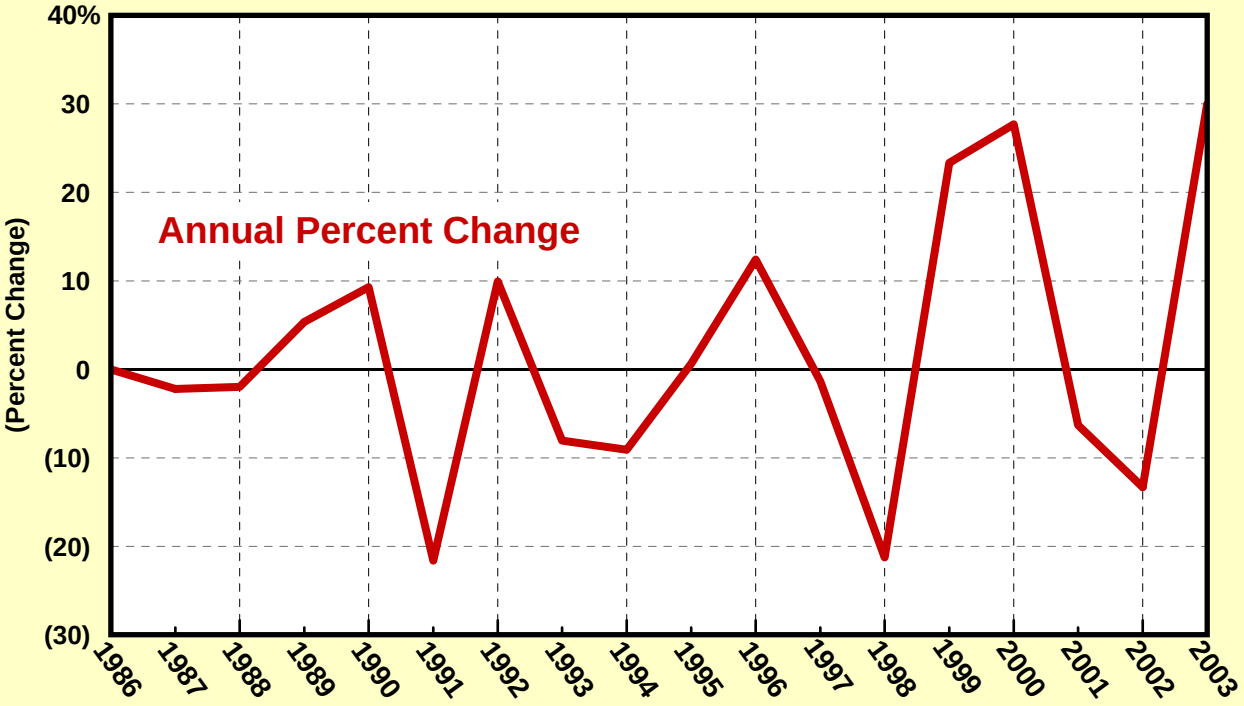




Note: All figures include taxes on a California basis. Data through February 2004.
Source: API; CEC; EIA; OGJ.

Annual Average Retail Regular Grade Gasoline Prices In 2003 Dollars* 1986 - 2003

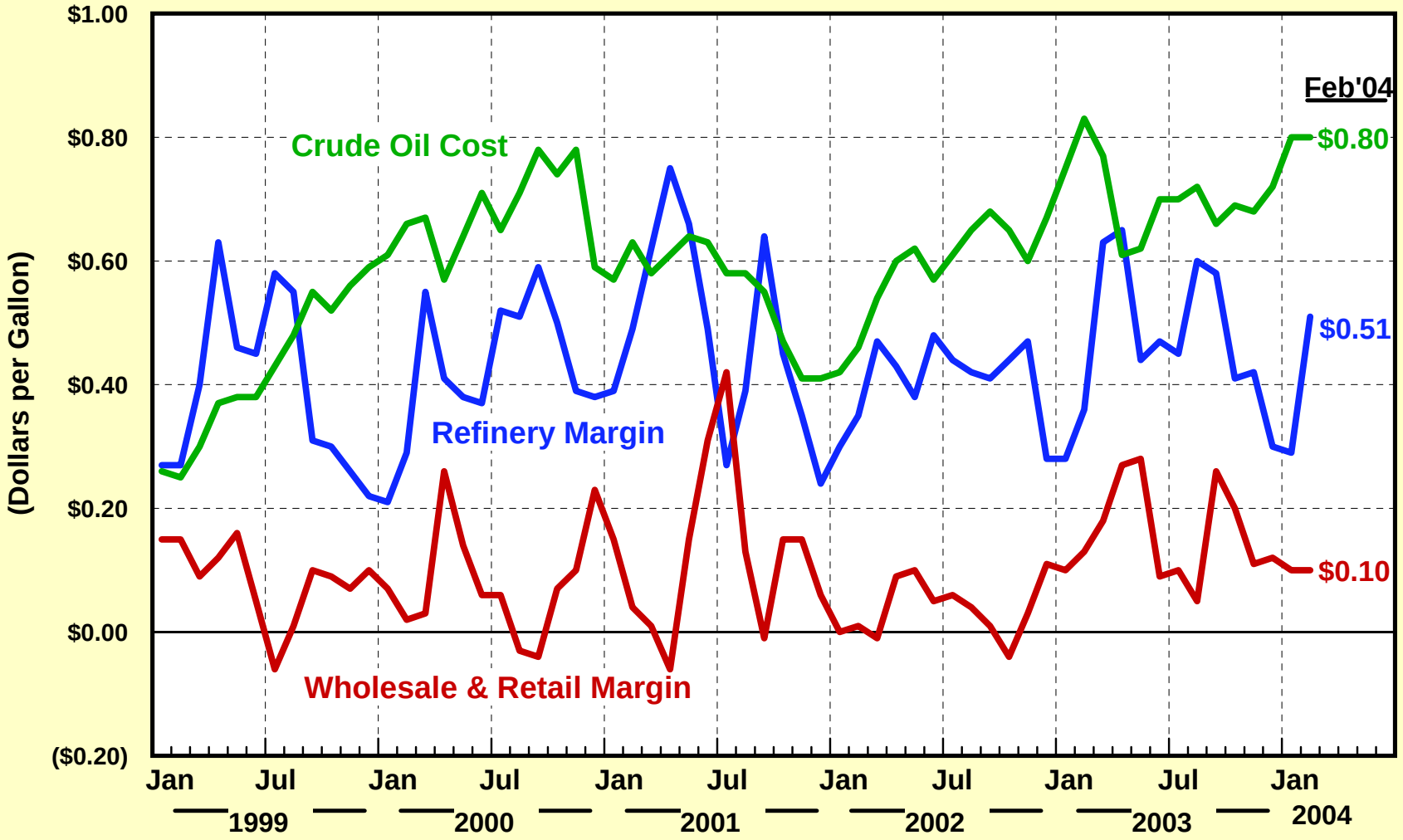




*Adjusted for inflation using CPI for all items, US city average, base period 1982-1984 recalculated for 2003 dollars.

Source: BLS; EIA.

Estimated Breakdown of Gasoline Costs and Margins*
January 1999 - February 2004



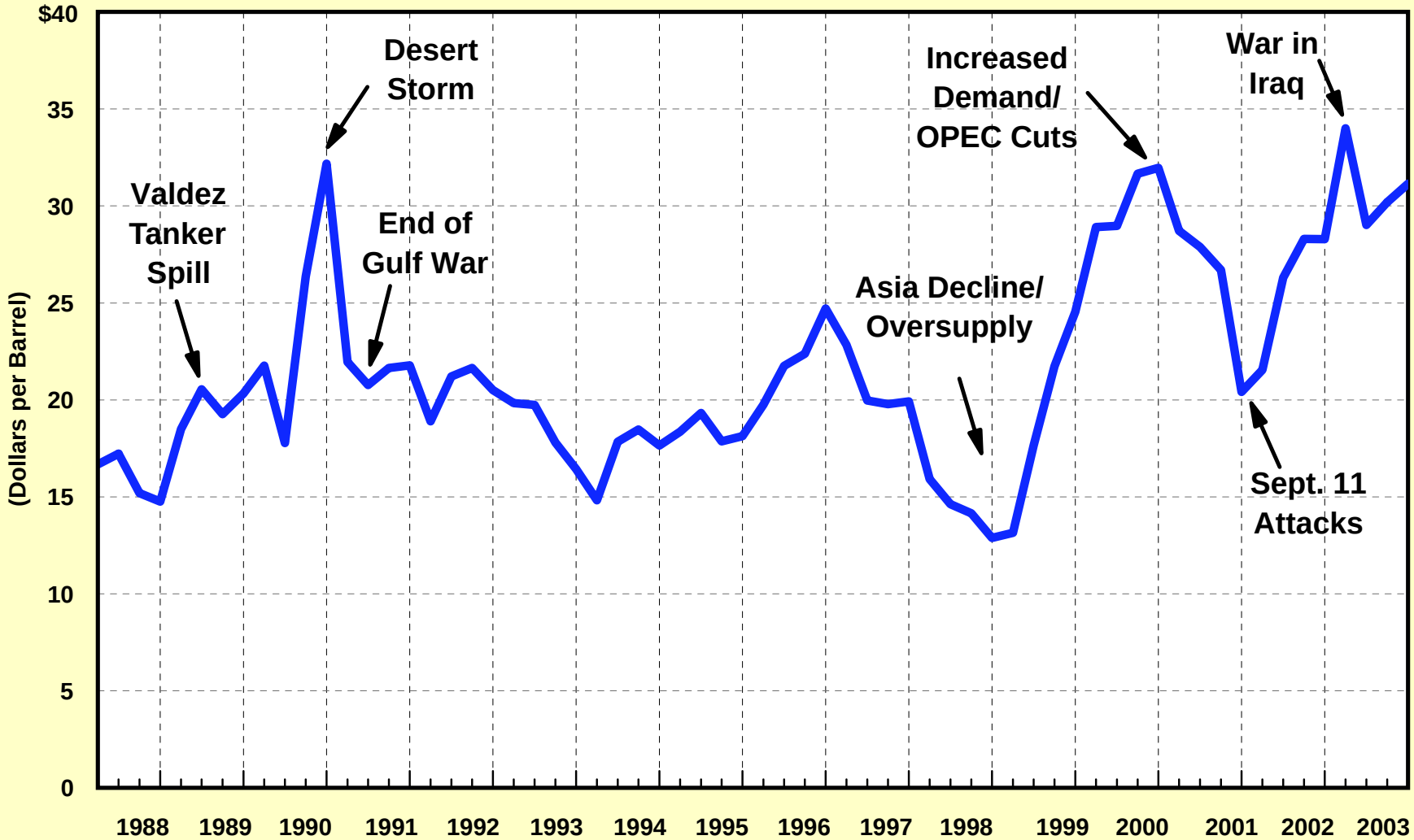
* Regular Grade.

Note: "Wholesale & Retail Margin" includes distribution costs, marketing costs, and profits.

Source: CEC.

CHART 3

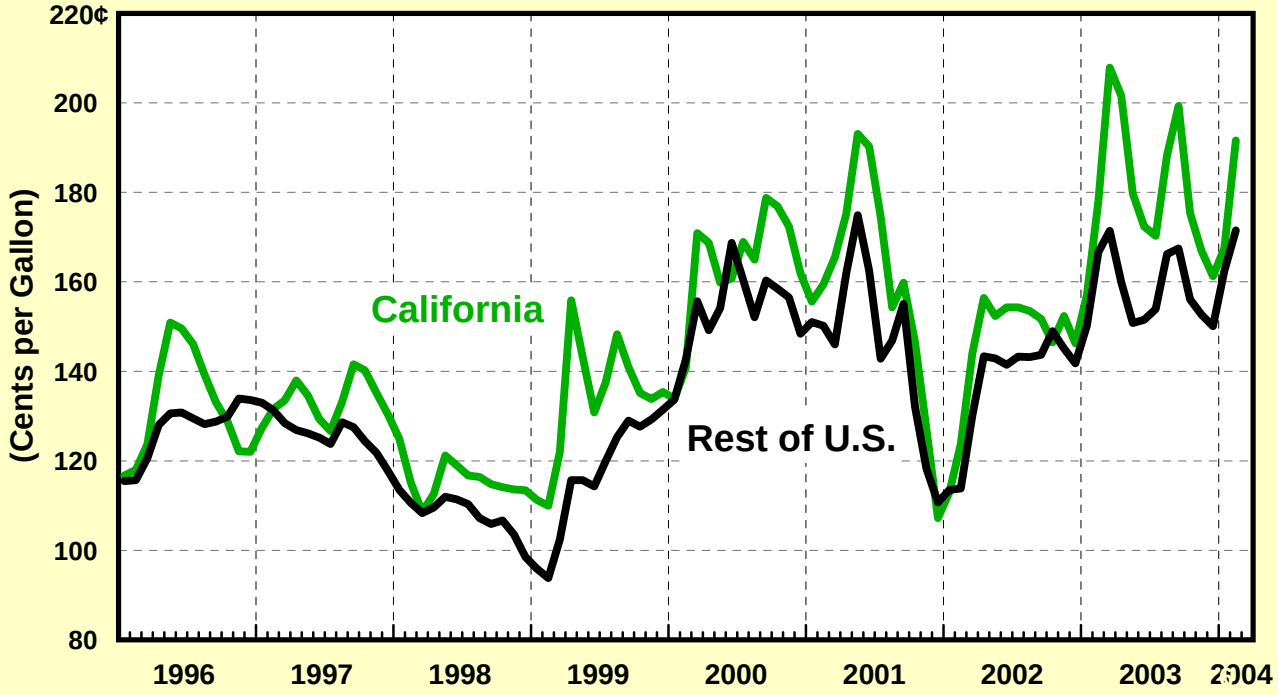
Quarterly Average WTI Crude Oil Spot Prices
1988 - 2003

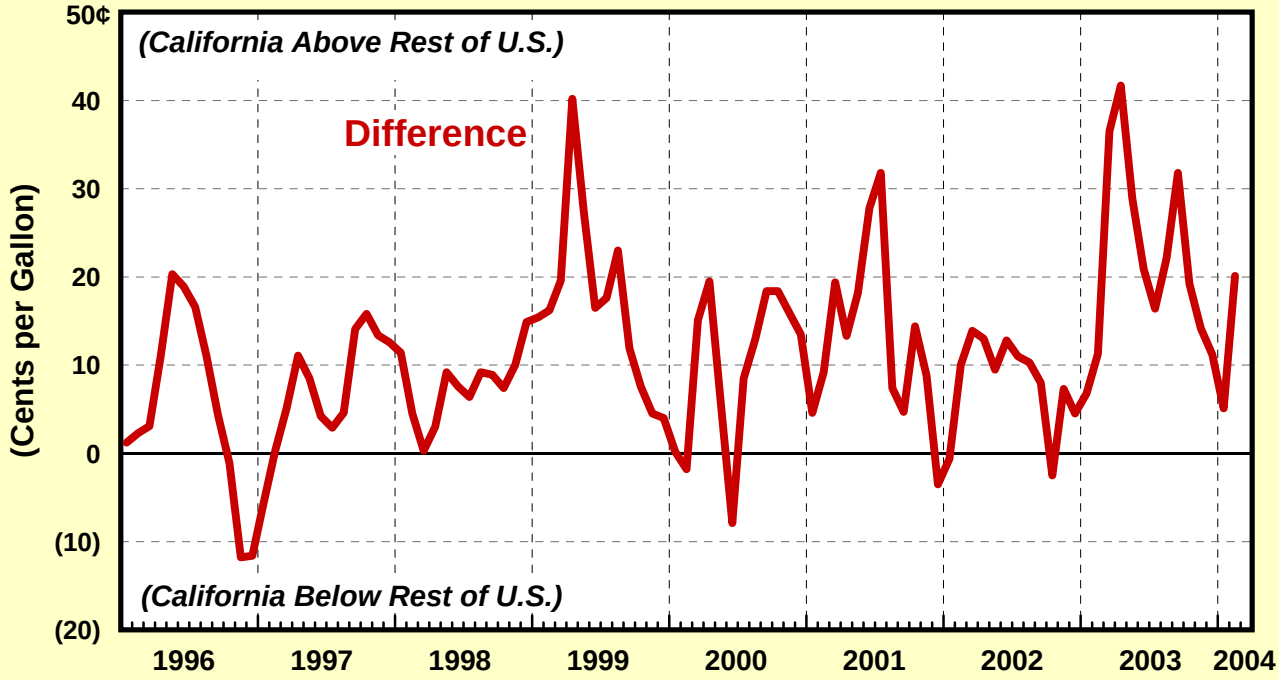


Source: Platts.

CHART 4

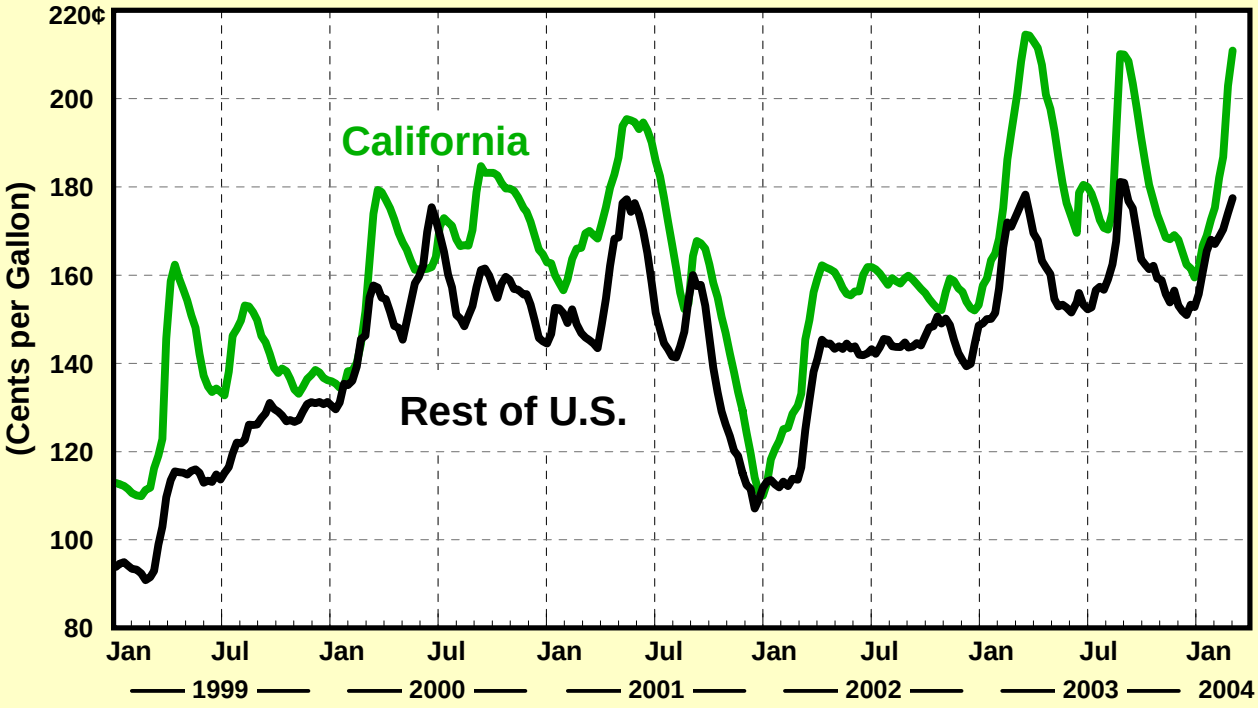
Monthly Average Retail Regular Grade Gasoline Prices
California vs. Rest of U.S.
January 1996 - February 2004

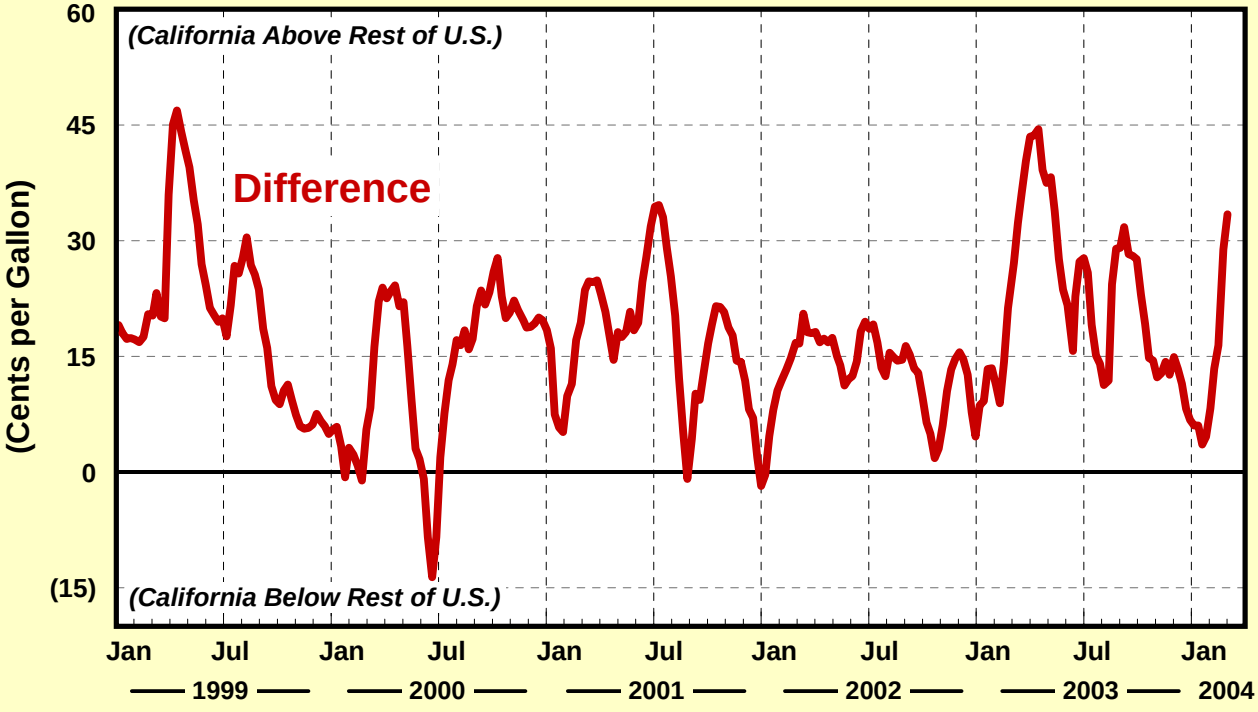




Note: All figures include taxes on a California basis.
Source: API; CEC; EIA; OGJ.

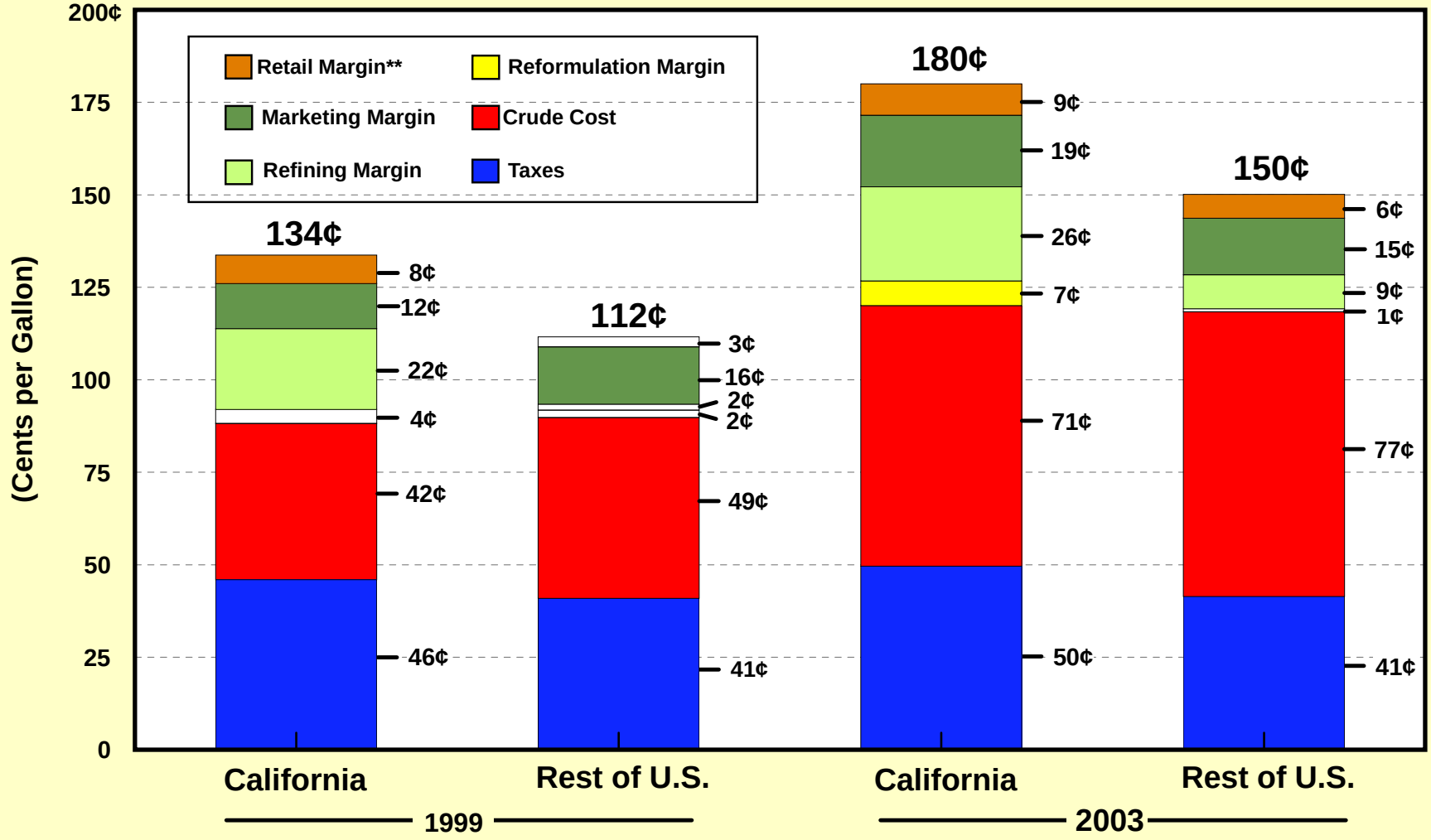
Weekly Average Retail Regular Grade Gasoline Prices
California vs. Rest of U.S.
January 1999 - February 2004





Note: All figures include taxes on a California basis.
Source: API; CEC; EIA.

Composition of a Gallon of Gasoline*
California vs. Rest of U.S.
1999 vs. 2003



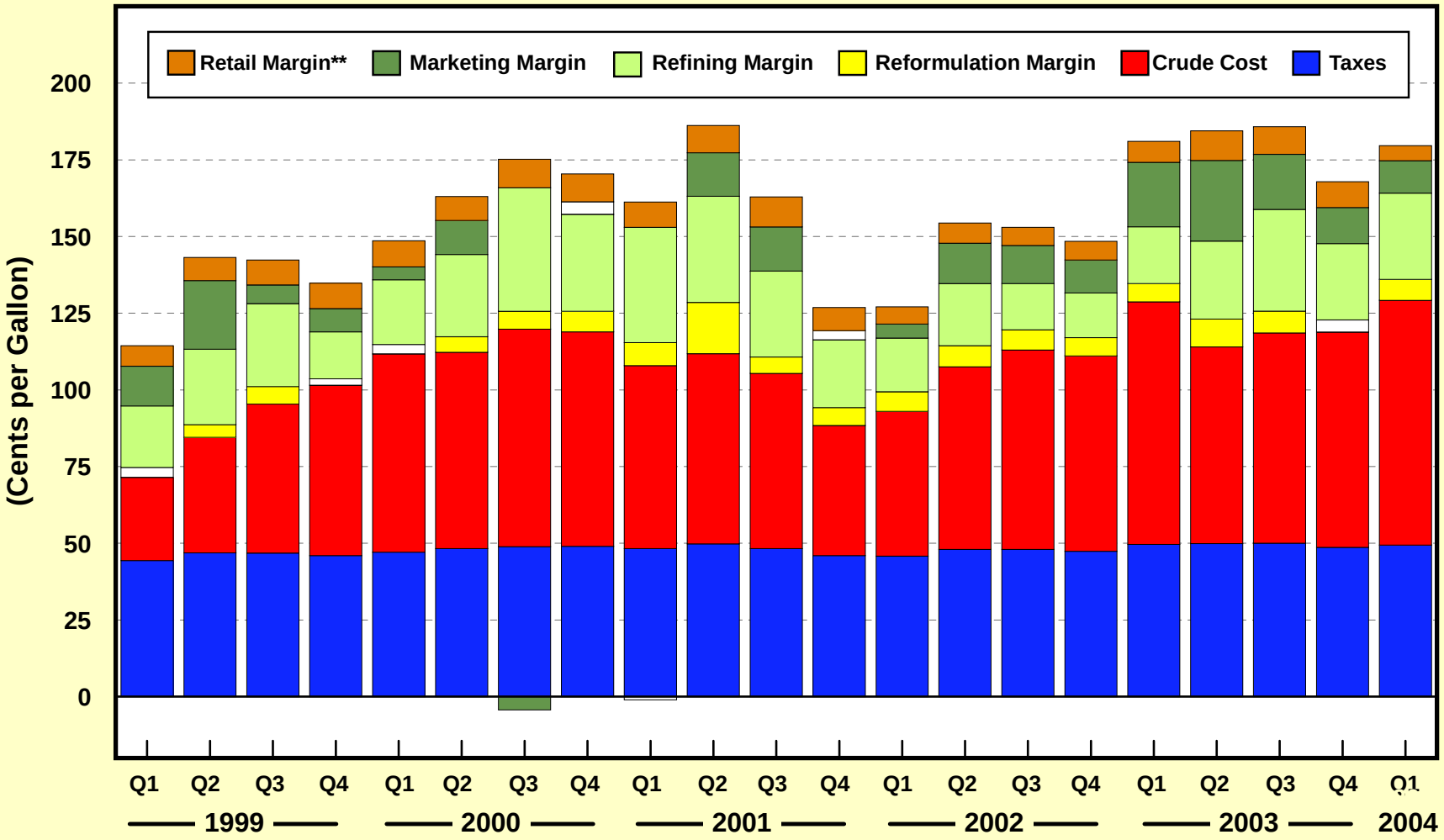
* Regular grade.

** Retail margins generally are higher for midgrade and premium grade gasoline.

Source: CEC; EIA; Lundberg; Platts.

CHART 7

Composition of a Gallon of Gasoline*
State of California
January 1999 - February 2004



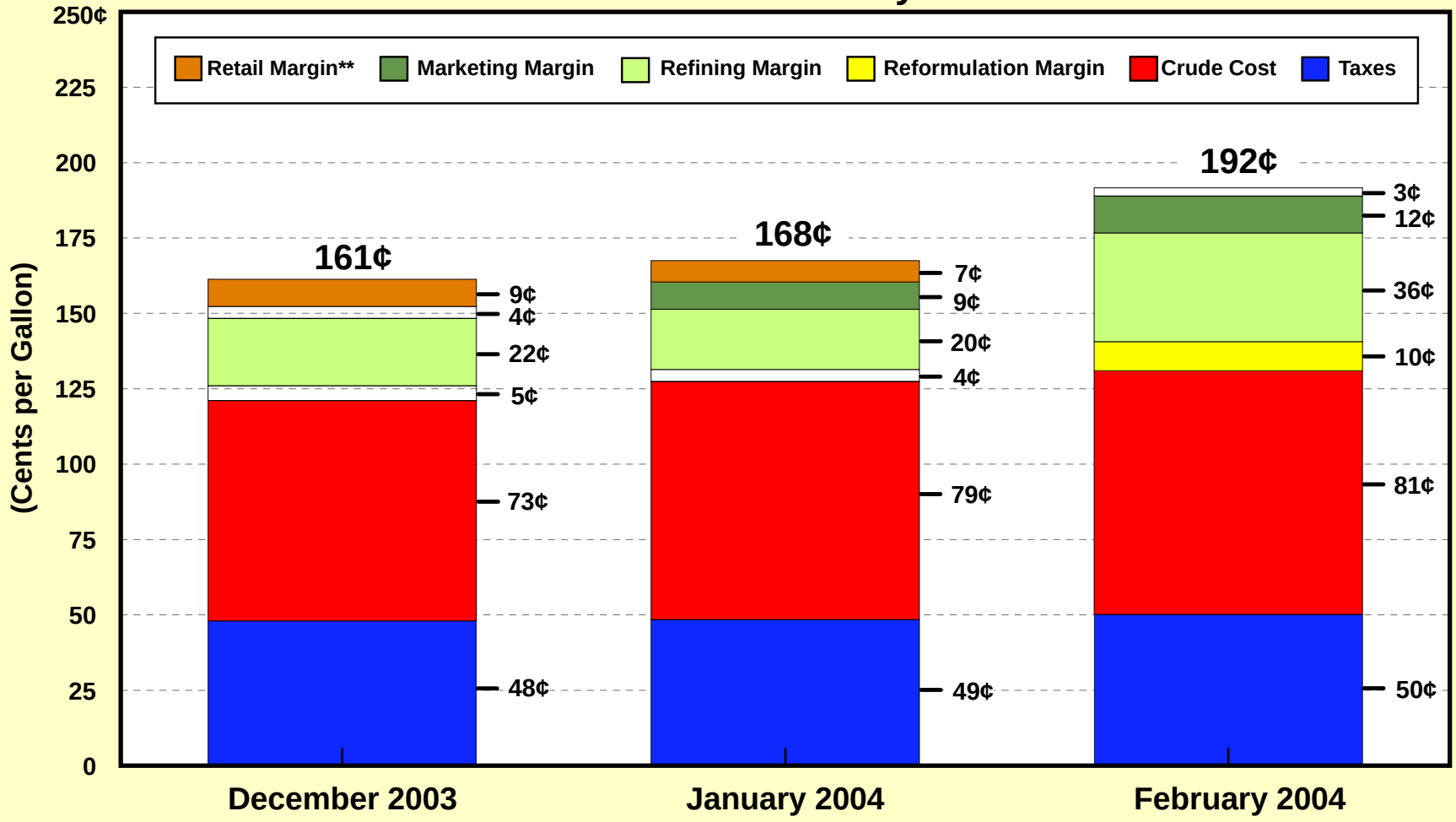
* Regular grade.

** Retail margins generally are higher for midgrade and premium grade gasoline.

Source: CEC; EIA; Lundberg; Platts.

CHART 8

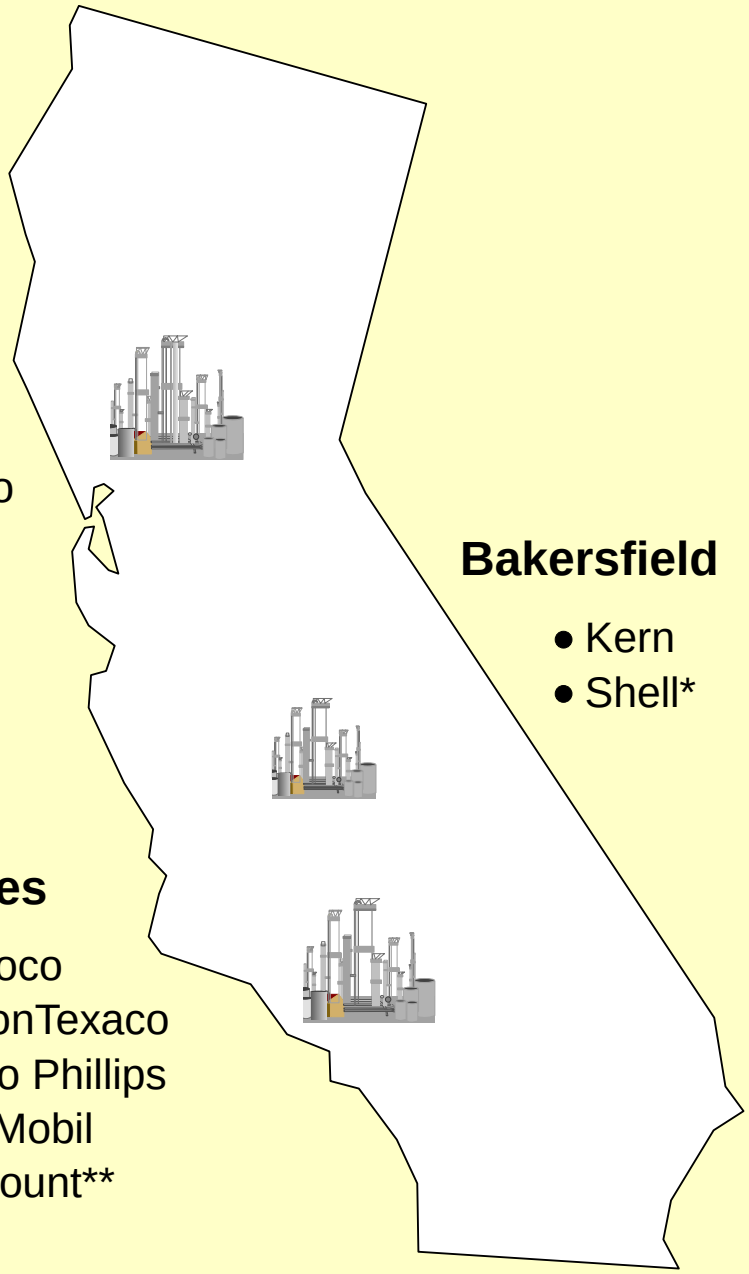
Composition of a Gallon of Gasoline*
State of California
December 2003 - February 2004



* Regular grade.
** Retail margins generally are higher for midgrade and premium grade gasoline.
Source: CEC; EIA; Lundberg; Platts.

CHART 9

California Refiners of Motor Vehicle Transportation Fuels 2003



SF Bay Area

- ChevronTexaco
- ConocoPhillips
- Shell
- Tesoro
- Valero

Bakersfield

- Kern
- Shell*

Los Angeles

- BPAmoco
- ChevronTexaco
- Conoco Phillips
- ExxonMobil
- Paramount**
- Shell
- Valero

* Refinery is scheduled to close on October 1, 2004.
** Does not manufacture finished gasoline.
Source: OGJ.

California Refiners That Produce Gasoline
As of January 1, 2004

		Refining Capacity	Percent of Total	Cumulative Percent of Total
		(Barrels/Day)	(Percent)	
		(1)	(2)	(3)
1.	ChevronTexaco	485,000	26.1%	26.1%
2.	Shell*	316,300	17.0	43.1
3.	ConocoPhillips	253,000	13.6	56.7
4.	BP	247,000	13.3	70.0
5.	Valero	223,500	12.0	82.0
6.	Tesoro	161,000	8.7	90.6
7.	ExxonMobil	149,000	8.0	98.7
8.	Kern	25,000	1.3	100.0
	Total	*1,859,800*	*100.0%*	*100.0%*

* Capacity will be reduced by 65 MBD upon closure of Shell's Bakersfield refinery on Oct. 1, 2004.
Source: OGJ.

California Motor Gasoline Marketers
2003*

	Gallons Sold**	Percent of Total	Cumulative Percent of Total
	(000 Gallons)	(Percent)	
	(1)	(2)	(3)
1. BPAmoco	3,010,310	20.3%	20.3%
2. ChevronTexaco	2,712,080	18.3	38.6
3. Shell	2,234,503	15.1	53.7
4. ConocoPhillips	2,180,476	14.7	68.5
5. Valero	1,380,302	9.3	77.8
6. ExxonMobil	1,017,834	6.9	84.7
7. Tesoro	699,028	4.7	89.4
8. Tower Energy	363,238	2.5	91.8
9. Petro-Diamond	273,734	1.8	93.7
10. New West Petroleum	250,556	1.7	95.4
11. Kern Oil & Refining	110,255	0.7	96.1
12. W.A. Dwelle	103,682	0.7	96.8
13. TNB, Inc.	75,331	0.5	97.3
Others	395,144	2.7	100.0
Total	*14,806,474*	*100.0%*	*100.0%*

* Estimated. Actual data available through October 2003. November and December 2003 estimated based on share of those months' volumes of total volumes for the period 1999 - 2002.

** These volumes are based on "Taxable Sales" as defined by the State of California. Because taxes are recorded prior to final sales to retailers and consumers, the volumes reported by the State do not match perfectly with sales to retail dealers or consumers.

Source: Pac West.

Projected California Gasoline Supply Loss Due to Switch to Ethanol 2004

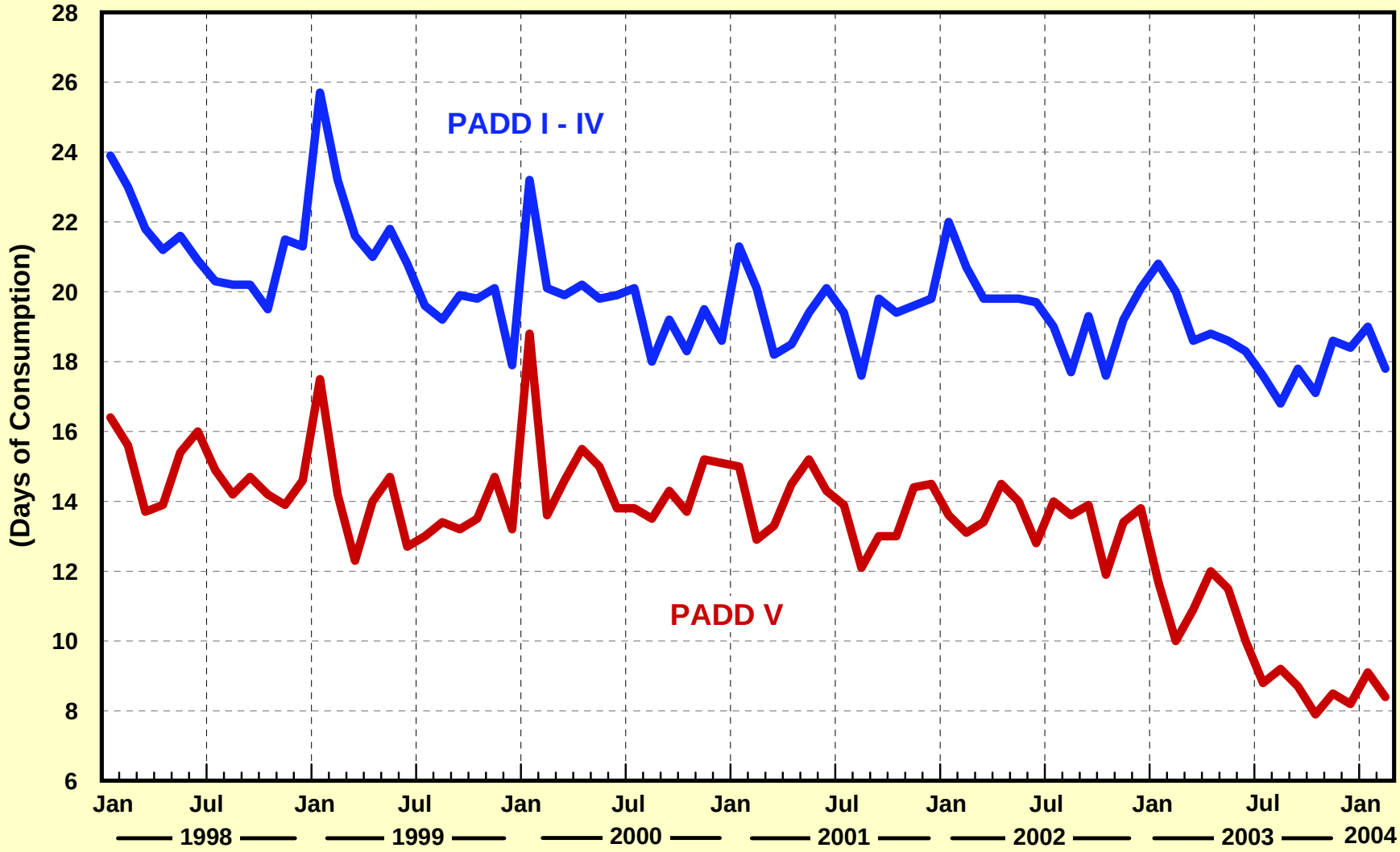
	Projected Impact (MB/D)	Projected Impact (Percent)
	(1)	(2)
Gasoline Demand (e)	980	
Loss of MTBE	(108)	(11%)
Gain from Ethanol	59	6%
Loss of Components	(49)	(5%)
Net Loss	**(98)**	**(10%)**

(e) = Estimated.

Source: CEC; EIA.

Inventories of Finished Motor Gasoline*

January 1998 - February 2004



* Due to EIA reporting, Finished Motor Gasoline includes MTBE blended into reformulated gasoline. Does not include ethanol.

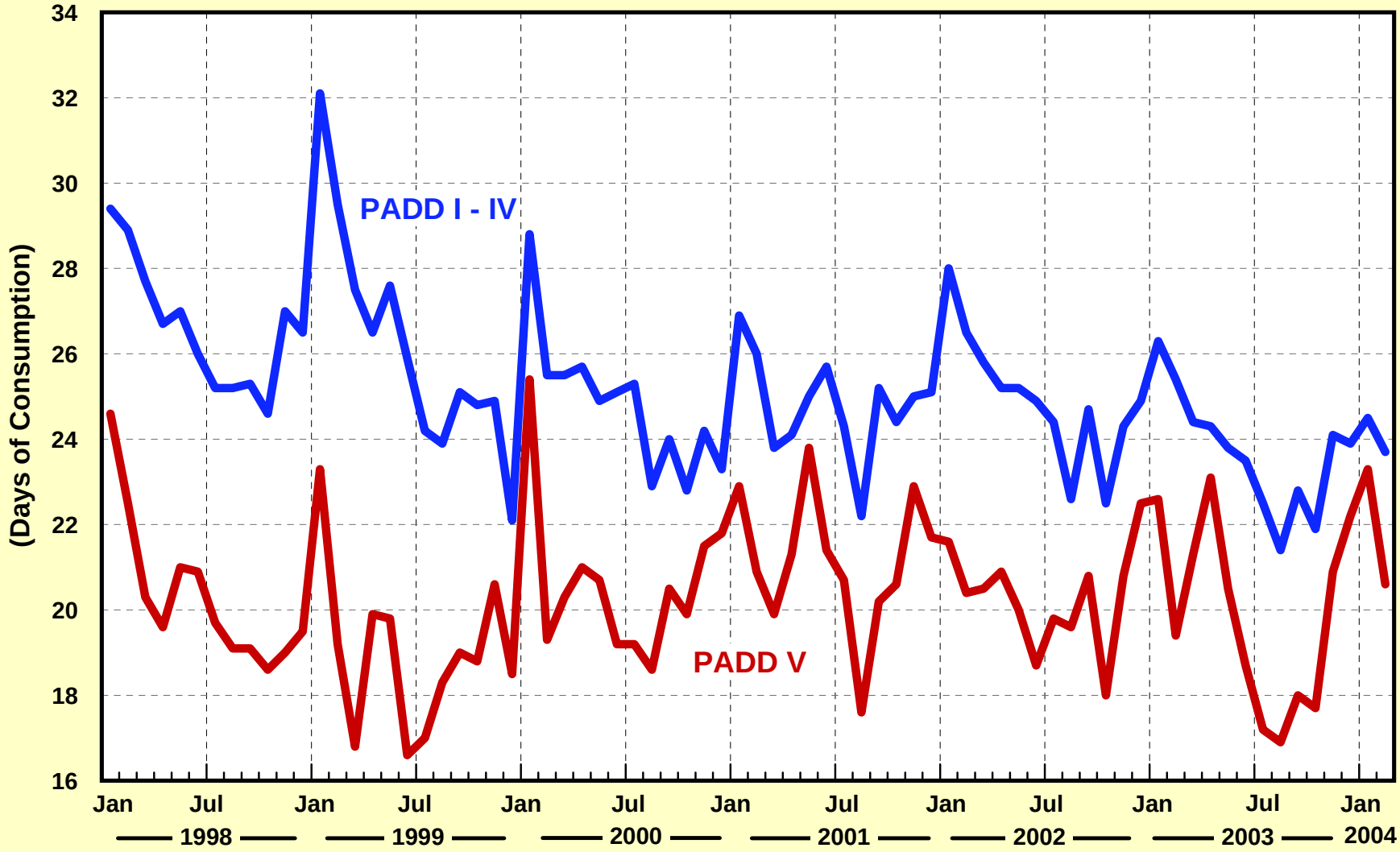
Note: PADD V is comprised of AK, AZ,CA, HI, NV, OR, and WA. PADD I - IV includes all other states.

Source: EIA.

CHART 14

Inventories of Total Motor Gasoline*

January 1998 - February 2004



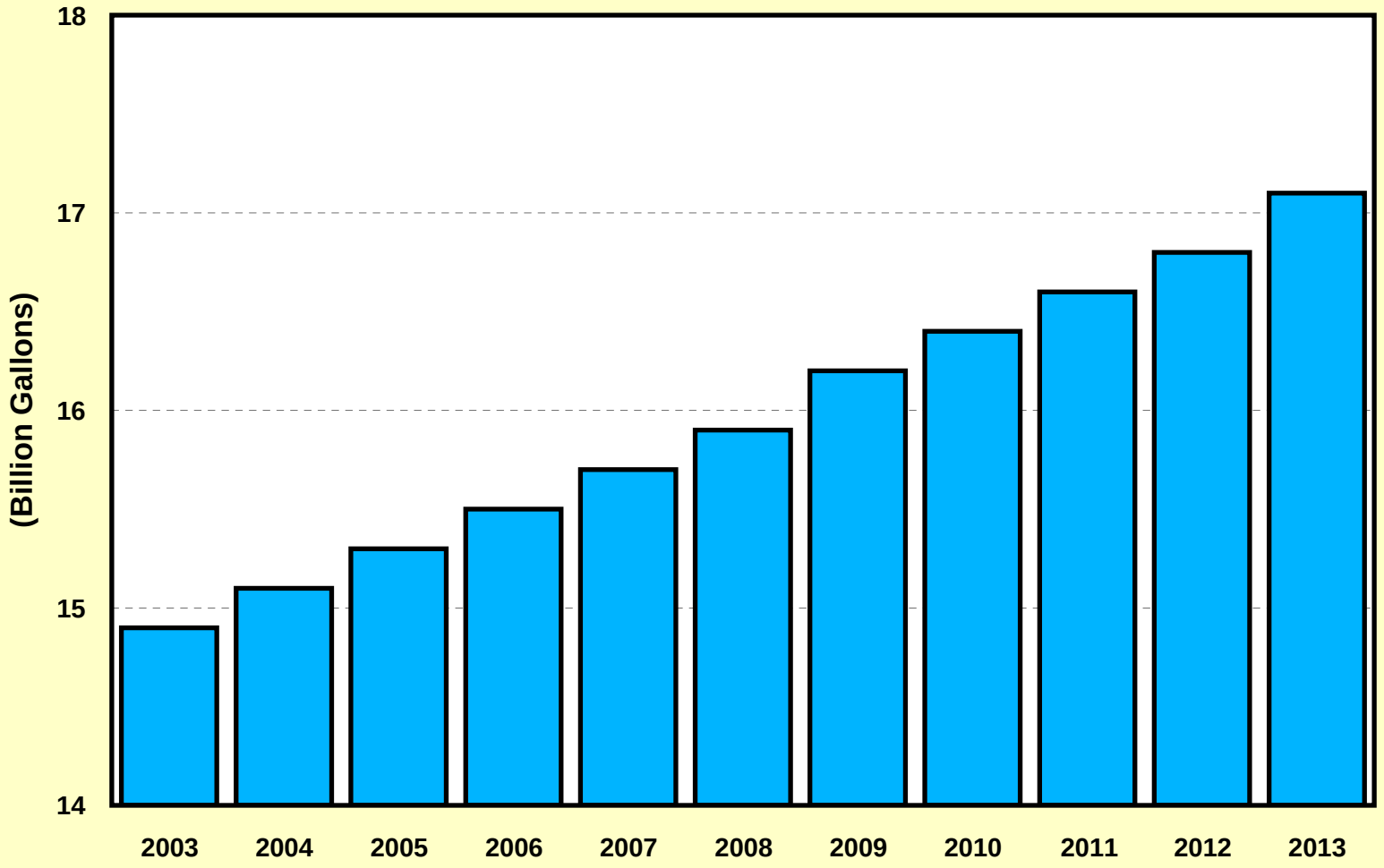
* Includes Finished Motor Gasoline and Motor Gasoline Blending Components. Does not include ethanol.

Note: PADD V is comprised of AK, AZ,CA, HI, NV, OR, and WA. PADD I - IV includes all other states.

Source: EIA.

CHART 15

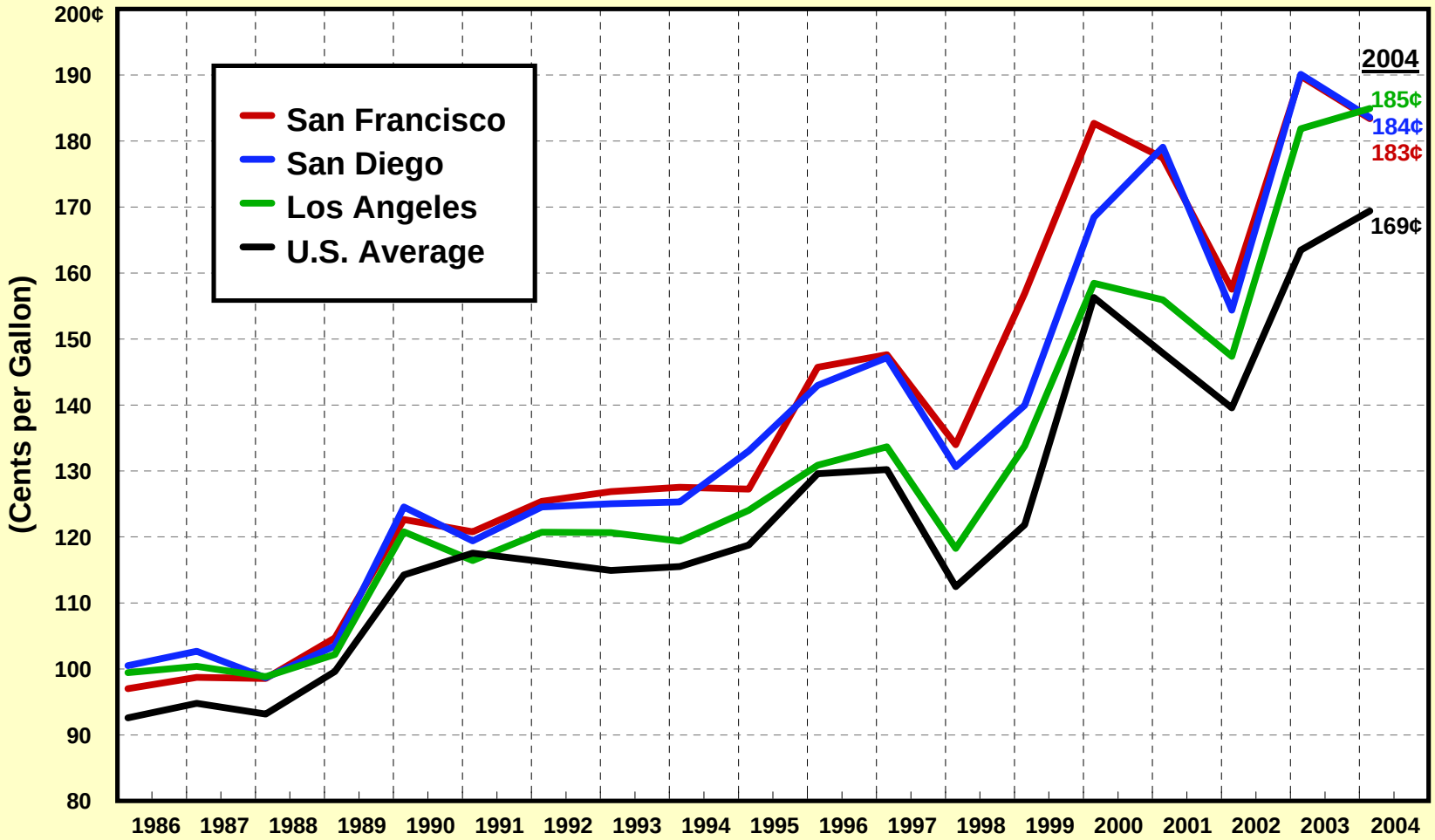
Projected California Gasoline Consumption
2003* - 2013



* Data for 2003 is actual, not projected.
Source: CEC; EIA.

CHART 16

Annual Unleaded Regular Grade Gasoline Pump Prices
1986 - 2004*



* Data through February 2004.
Note: U.S. Average includes taxes on a California basis.
Source: CEC; EIA; OGJ.

CHART 17

Pipeline Link to U.S. Gulf Coast

Refined Product Pipeline Systems

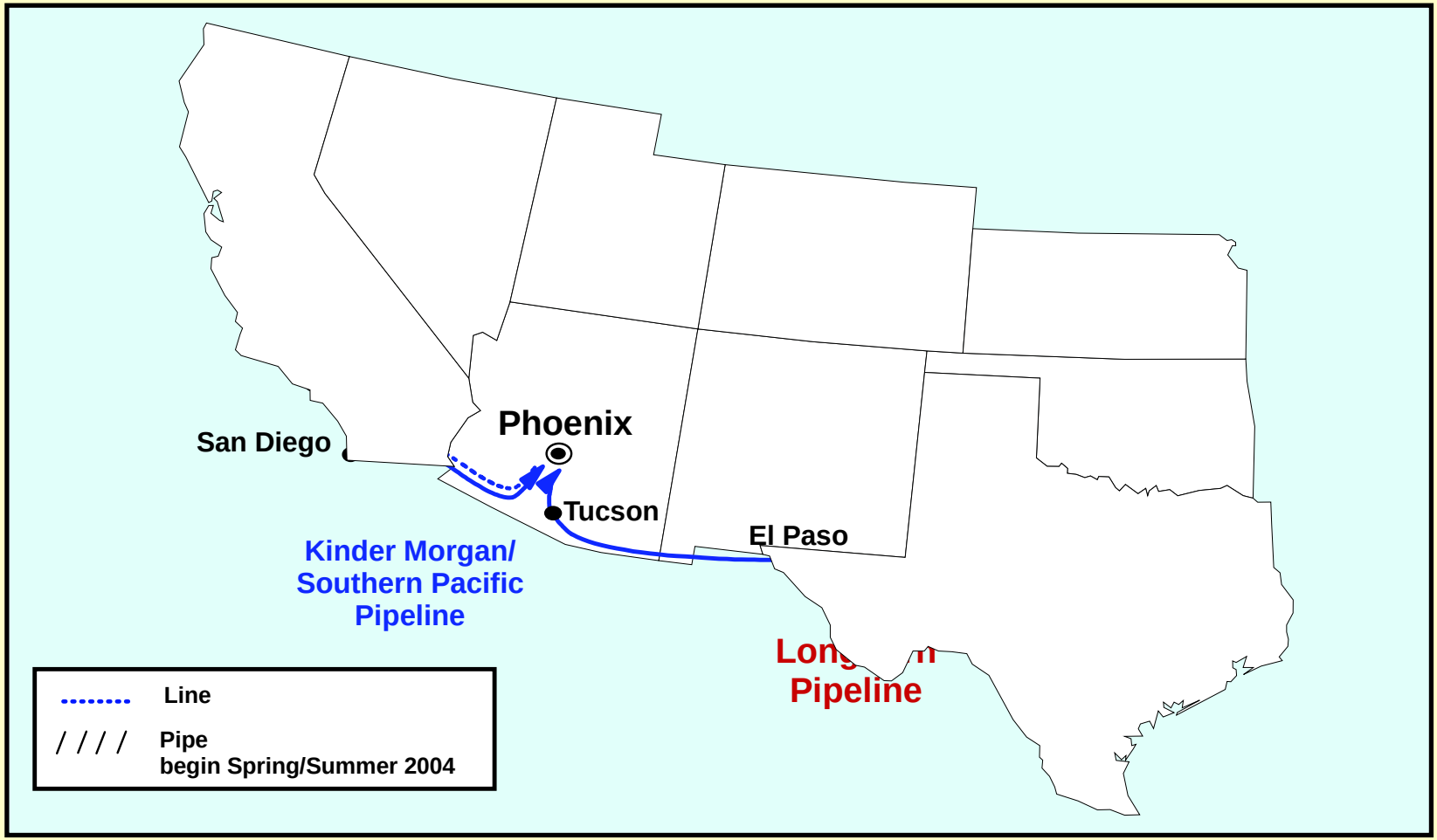


CHART 18