



# BACKGROUND

## Fuel Supply

### Why Does California Gas Costs More?

**BECAUSE** gasoline taxes in California are about 11 cents per gallon higher than the national average. (API)

**BECAUSE** California requires the cleanest gasoline in the world, and it costs more to produce. (EIA)

**BECAUSE** California's ban on MTBE and its replacement with ethanol, which went into effect on January 1, 2004, raised the average production cost of California gasoline by 6 cents per gallon. (California Energy Commission)

**BECAUSE** California and the western states are a "fuel island" and don't have access to the pipelines and other sources available to states east of the Rockies. (EIA)

**BECAUSE** demand for gasoline is growing faster than California's production capacity which requires increased imports of gasoline and blend stocks. (EIA)

**BECAUSE** California's precarious supply-demand balance makes its gasoline market more vulnerable to immediate impacts of refinery upsets/outages or pipeline disruptions. (EIA, California Energy Commission)

### Milestones in California Gasoline Production Facilities & Supplies

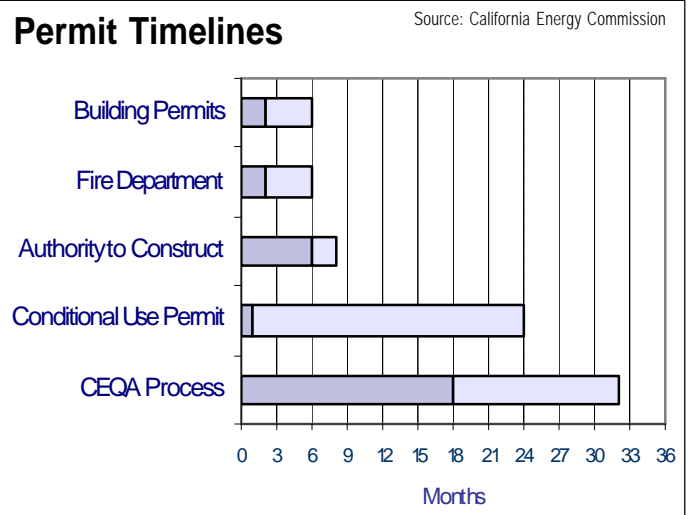
- No new refineries have been built in California since 1969.
- Transition to cleaner-burning gasoline in 1996 required an aggregate private investment of \$5 billion to upgrade California refineries, according to the California Air Resources Board. According to the California Attorney General's Report on Gasoline Pricing in California (May 2000): "In the early 1990s California's small refiners played a more significant role in supplying gasoline for use in California and other West Coast states. Capacity that traditionally was available from small independent refineries is no longer available today because most have either ceased operations or have not made the investments necessary to manufacture CARB gasoline."
- "The phaseout of MTBE will decrease California refinery production capability... This change alone represents a decline in total gasoline supply of 5%. (Transportation Fuels, Technologies and Infrastructure Assessment Report, California Energy Commission December 2003)
- Total in-state refinery production capacity is approximately two million barrels per day. Most of the time, all of the state's refineries are operating at 85% to 100% of capacity. (*ibid*, CEC December 2003 Report)
- California refining capacity has increased through improved processes by approximately 1.5% per year on average since 1996. (CEC)
- Since 1996, California petroleum production capacity has grown less than consumer demand which means the California marketplace is more reliant on imports of gasoline and blend stocks. The Energy Commission estimates there will be even greater reliance on such imports in the future. (CEC)



## Government Barriers to Petroleum Facilities Development

In its December 2003 Report (Transportation Fuels, Technologies and Infrastructure Assessment Report) the Energy Commission recognized that to provide Californians with adequate secure and cost-effective transportation fuels, the state would need to pursue a number of initiatives to remove government barriers to new petroleum infrastructure. Among the Report's findings and recommendations:

- "The high costs of the permitting process result in a shortage of storage capacity. These costs lead to higher lease and rental rates for tanks, so gasoline suppliers hold lower inventories than they might otherwise choose. This results in lower inventory available during a refinery outage and therefore more gasoline price volatility. In addition, higher lease and rental rates raise the operating costs to suppliers, resulting in higher average market prices."
- An Energy Commission study identified bottlenecks, redundancies and unnecessarily burdensome regulatory processes in the permitting process for petroleum storage facilities. The Commission used the study to recommend improvements to the permitting process, most notably providing statewide authority for implementing and enforcing the Permit Streamlining Act.
- To meet current gasoline demand, an additional 3.5 million gallons of gasoline and blend stocks must be imported daily. Marine imports are only possible if berths are available at docks, if access waterways are deep enough for the passage of large ships, and if storage for unloading and transferring materials is available. The Energy Commission is undertaking a comprehensive evaluation of



California's infrastructure needs for handling future crude oil and petroleum product imports, in consultation with the State Lands Commission, Ports of Los Angeles and Long Beach, Coastal Commission and the San Francisco Bay Conservation and Development Commission.

- The Energy Commission recommends implementing a streamlined process for petroleum infrastructure that expedites permits to increase supplies of transportation energy products including refineries, import and storage facilities and pipelines.

