

California's Gasoline Price Problem and Proposed Solutions

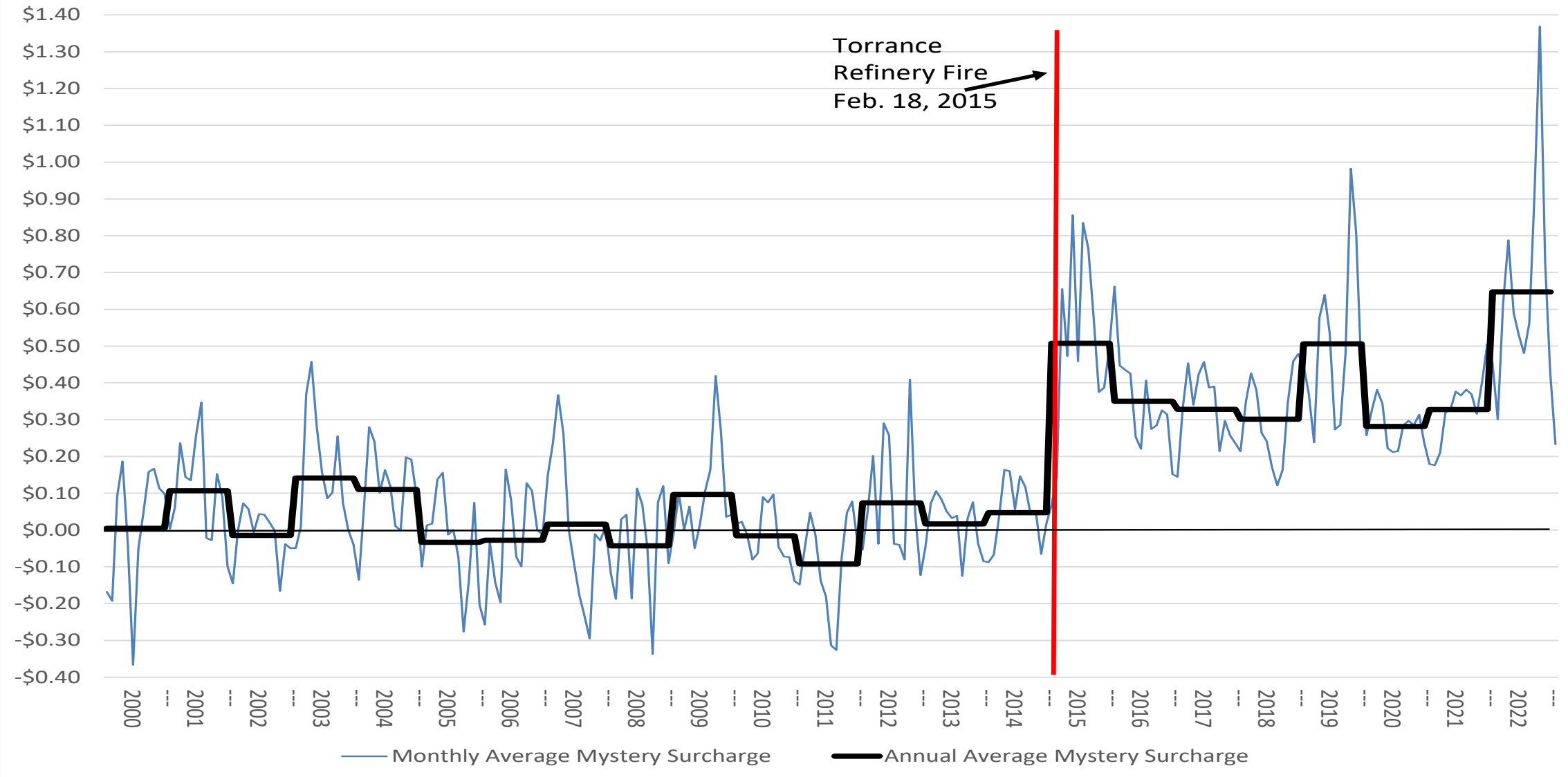
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Before Feb 2015, California's Gas Prices Exceeded rest of US by difference in taxes and fees. But since Feb 2015, Mystery Gasoline Surcharge has added 40 cents/gallon on avg

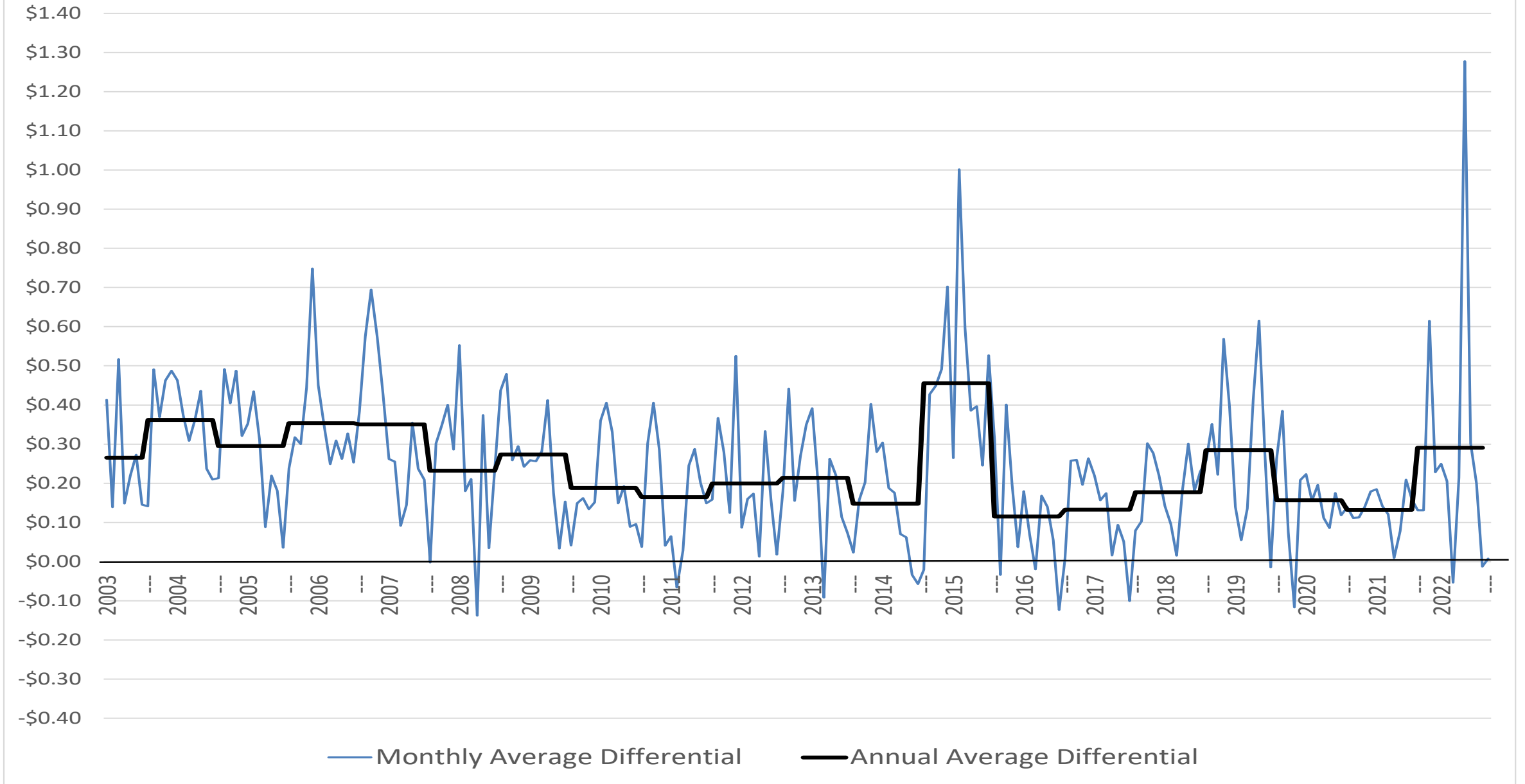
California's Mystery Gasoline Surcharge - January 2000 to January 2023
(unexplained price premium versus non-CA US in real January 2023 dollars per gallon)



(Source: Author's calculations. For further details see <https://energythaas.wordpress.com/2019/05/20/the-mystery-gasoline-surcharge-gets-some-respect/>)

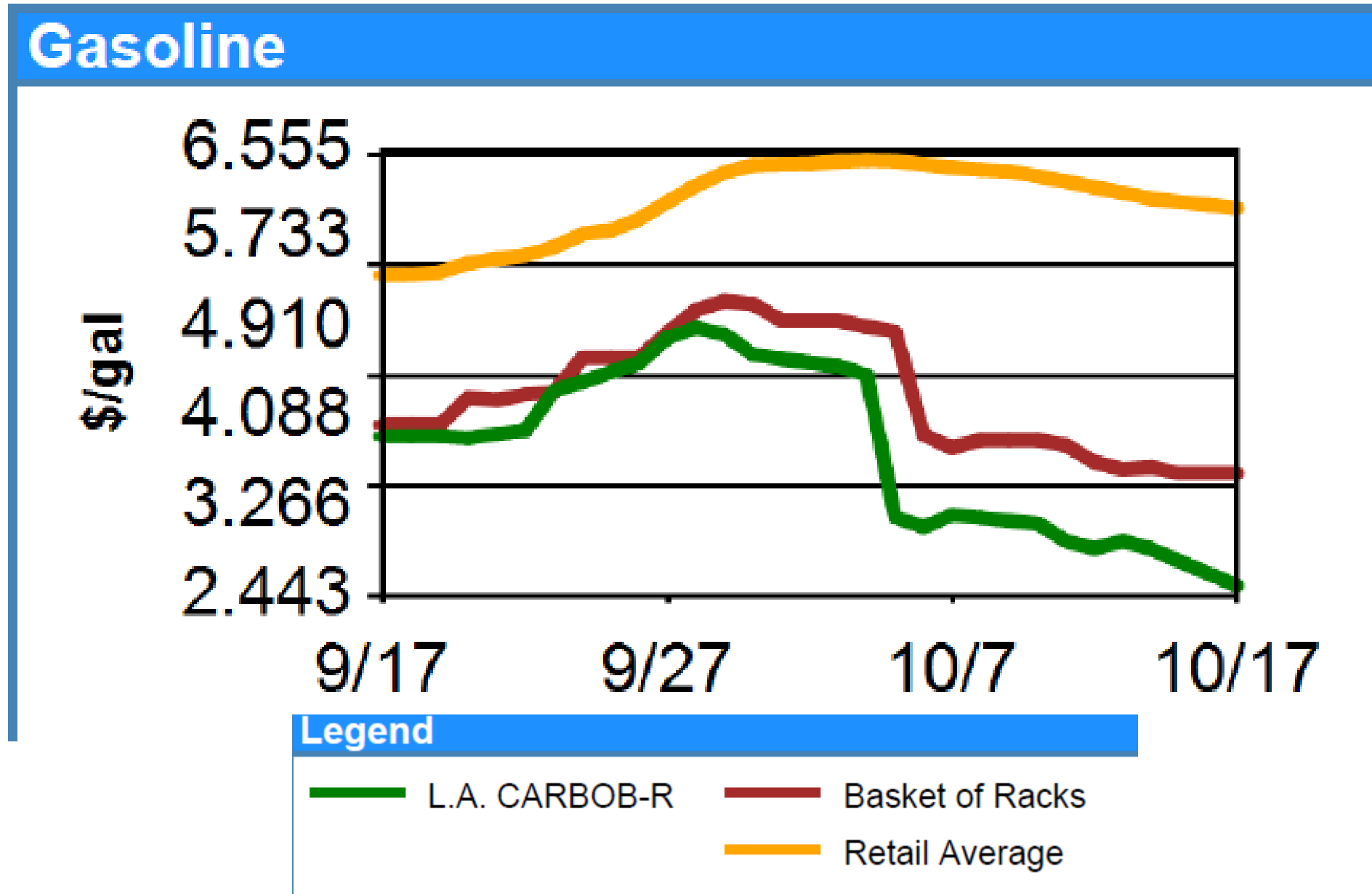
No change in wholesale price trend of CA gasoline vs US

LA Spot Price versus NY/Gulf Average Spot Price - June 2003 to January 2023 (\$2023)



(Source: Energy Information Administration data)

The Sept/Oct price spike ended quickly at wholesale, but not retail



Most of California's gasoline price problem is not at the refineries, or showing up at rack

- After adjusting for taxes and environmental fees, less than one-third of the differential between California and the rest of the country – the Mystery Gasoline Surcharge – is present in the spot gasoline price
- Most of the Mystery Gasoline Surcharge is downstream, in what the industry calls marketing, distribution and retailing
 - But CA refiners are in those sectors as well, directly or through complex contracts with downstream firms
- CA downstream markets seems to be less competitive than elsewhere
 - Fewer stations, fewer unbranded stations
 - Bigger branded/unbranded price differentials
- Exact cause of Mystery Gasoline Surcharge since 2015 is unclear
 - Need investigation by experts in competition policy and gasoline markets

Where should the investigation of the Mystery Gasoline Surcharge be housed?

- In the federal government, the best organization to look into this would be the Federal Trade Commission, which does antitrust analysis, but also does competition/regulation analysis
- California does not have an equivalent organization
 - Only competition analysis expertise is at Attorney General, but that is almost exclusively focused on prosecuting violations of antitrust laws
- CEC, CDTFA, AG offices would all have relevant knowledge, but it is outside of normal activities for all of them
- Most important to addressing this problem, investigation must have substantial staff and resources to devote full time for year or more

Refining isn't most of the problem, so refining policies won't address most of the problem

- Policies directed at refining sector will have limited impact on the high prices CA drivers pay at the pump
 - Price gouging penalty
 - Strategic reserve
 - Inventory requirement
 - Formulation exemptions
 - Forward purchasing
 - and others

- Most of problem is downstream.

Possible Effects of a Price Gouging Penalty, Windfall Profit Tax or Price Ceiling

- With market power – artificial restriction of supply to raise price – it can potentially lower price and increase supply
- With real scarcity and no market power, it can reduce supply
 - Still might not cause gas lines, because downstream sellers could raise price to clear the market with reduced supply
- Importantly, market power is often greatest when the market is already tight, so hard to tell market power from true scarcity
- Penalty or tax can allow government to claw back some profits from high prices, but can also disrupt the market
- The cost of gas lines is enormous, so this approach should be used cautiously

Previous Attempts at Windfall Profit Tax or Price Ceiling

- Natural gas price ceiling in the 1970s
- Retail gasoline price regulation in the 1970s
- Windfall profit tax on crude oil in 1980s
- California electricity crisis, 2000
- Price ceiling law in Hawaii 2005-2006
- Price gouging laws in New York after super storm Sandy, 2012 (or various states after Hurricane Katrina)
- Windfall profit tax on fossil fuels and renewable energy generation in Europe starting in 2022

Further info on gas prices

- Severin Borenstein, <http://borenstein.berkeley.edu>
- Further readings:
 - Petroleum Market Advisory Committee final report (2017)
<https://efiling.energy.ca.gov/getdocument.aspx?tn=221306>
 - Blog posts
 - <https://energyathaas.wordpress.com/2020/02/10/californias-mystery-gasoline-surcharge-strikes-back/>
 - <https://energyathaas.wordpress.com/2019/05/20/the-mystery-gasoline-surcharge-gets-some-respect/>
 - <https://energyathaas.wordpress.com/2018/10/15/trying-to-unpack-californias-mystery-gasoline-surcharge/>
 - <https://energyathaas.wordpress.com/2018/02/26/californias-mystery-gasoline-surcharge-continues/>