

WPT Hearing Testimony

Final Draft

Good afternoon and thank you for the opportunity to speak with you today. I am Catherine Reheis-Boyd, President and CEO of the Western States Petroleum Association (WSPA), a non-profit trade association representing members that account for the bulk of petroleum and natural gas exploration, production, refining, transportation, and marketing in California and the West.

WSPA remains very concerned about our state's ability to meet its ongoing liquid fuel demand well into the future, even as the state seeks to transition away from fossil fuels and increases EV adoption. California continues to be the 3rd largest gasoline market in the world only behind the United States as a whole and China. This is especially concerning given that it is estimated California will lose over 16% of its in-state gasoline production by the end of this year.

Our industry is strongly opposed to Senate Bill X1-2 because it misguidedly focuses on profits, rather than the root cause of price spikes - a lack of supply. The way to address prices and provide relief at the pump is to increase a reliable and safe supply.

As the California Energy Commission and several state Attorneys General have repeatedly acknowledged, California continues to face serious supply constraints as it relates to crude oil, gasoline, diesel, and jet fuel. These supply constraints, coupled with demand driven by the world's fourth largest economy and 35 million

internal combustion engine vehicles are the primary drivers of fuel costs in the state. While WSPA member companies recognize that gasoline demand is decreasing with EV adoption, that demand decrease must match the state's refining capacity as facilities convert to renewable fuels operations as the state intends in their policy framework.

This is a concern the state has had for 20 years. Over the years, the CEC's own Integrated Energy Policy Reports have highlighted these concerns:

- In 2005 , they concluded “that the industry will need to permit and construct a certain amount of new infrastructure to import, store, and distribute these fuels. To this end, the state should work with the industry and local governments to ensure these infrastructure improvements are implemented.”
- In 2009 the CEC stated, “reliance on foreign oil imports increasingly puts the state's fuel supply at risk, not only because of security and reliability concerns, but also because the marine ports are not expanding to meet expected growth in demand.”
- In 2011, the CEC warned that due to infrastructure constraints our, “Energy security . . . might also hinge on dependence on sources that are risky geopolitically, economically, or from other potential disruptions or supply limitations.”

It turns out the CEC has been right all along. To this day, our refineries are thinly balanced to meet the demand, we've been denied permits for storage and infrastructure, we continue to rely heavily on foreign crude oil imports, and our energy security is more at risk now than ever before.

Fuel costs are driven by supply and demand and the way to address costs are by increasing supply. This bill does nothing to address California's fundamental supply issues. Price caps, taxes, and tax-like penalties do not increase supply or reduce cost, but instead could have the opposite effect.

The California energy market is isolated. California and the U.S. West Coast are geographically isolated from refining hubs in the rest of the United States. There are no pipelines that bring crude oil or gasoline products into California. When local supplies are insufficient to meet demand, additional oil and gas must be brought in by marine vessels, which typically takes 30-45 days to arrive.

California's vehicle emissions standards are also more stringent than the rest of the country and refiners are required to make a unique specification of fuel called CARBOB that more expensive to make , with very few refineries outside of the state that can produce it.

Because of this isolated infrastructure and unique fuel blends, the state is especially sensitive to supply disruptions, for example, unplanned refinery outages, but as we've seen historically, the market corrects itself. The proposed

penalty would likely prevent this natural correction and would likely increase the duration of cost increases related to supply disruptions.

It's important to understand that publicly traded companies that must comply with this bill have a fiduciary responsibility to not willingly incur government penalties and fines. As a result, SB X1-2 could lead to more severe shortages because it may cause refiners to reduce supplies of jet fuel, diesel, and other transportation fuels, or adjust the types of products they would otherwise produce to avoid violating the statute.

SB X1-2 is unnecessary, would further strain fuel markets and lead to severe unintended consequences, including:

- **Likely job losses, especially those for unionized labor** – The majority of jobs and contracting work done at most California refineries are done with union labor. Our industry is proud to partner with the State Building and Construction Trades Council, who are also opposed to this bill. With production and future investment reduced, the need for these union jobs would also be reduced, and some refiners could leave the state.
- **Potential reduction of not only gasoline, but jet fuel and diesel as well** – To comply with the proposed bill and to avoid the penalty on gasoline, product slates would need to be adjusted and the amount of gasoline may be reduced. Reduction in gasoline production would also likely lead to a reduction in jet fuel and diesel production.

- **Reduced funding for schools and local governments** – The bill would result in a reduction in the property tax roll values for California refineries. Property tax impacts would likely occur in Los Angeles, Contra Costa, Solano and Kern counties as well as in cities and government units in those counties that rely on refinery property tax collections.
- **Greater reliance on more expensive and uncertain imports to meet demand** – Relying on even more imports -mostly from Asia - to meet demand would likely result in higher volatility, higher transportation costs and increase the length of supply shortages as fuel would take longer to get to the state. Global disruptions would have an even larger impact on California, especially if they impact the availability of ships. A greater reliance on imports that may or may not be available is a very risky and potentially costly gamble for California consumers.

A profits cap is nothing new to the United States. The State of Hawaii briefly imposed price caps on gasoline in 2002. Hawaii's legislature had to quickly vote to repeal their own law after an independent evaluation found "these measures generally are ineffective, risky, costly, open to manipulation, and complicated to administer."

We recognize the politicized nature of this issue, but we hope you understand that SB X1-2 is likely to impose an immediate negative impact on gasoline prices and economic activity throughout the state.

California is in the midst of an overall energy affordability and reliability crisis, not just for gasoline, but for electricity and natural gas as well. The consistent contributing factor behind all of these is that there simply isn't enough adequate and reliable supply. Just last year, the state reversed course to keep Diablo Canyon Nuclear Facility open to help keep the lights on. Now, we see natural gas prices skyrocketing for California residents and businesses because supplies and storage cannot keep up with increased demand. Natural gas storage capacity has been dramatically reduced and pipeline transmission infrastructure is at capacity. Gasoline is no different, where the state simply does not have enough gasoline refining capacity to meet demand.

On this 20th anniversary of the California electricity crisis, let's not forget about what happened when a legislative-directed energy experiment turned the lights off in California. Experimenting with California's fuel supply market can have similar repercussions.

This is too important to get it wrong. Let's work towards a better way, not a political way. Thank you. I am happy to answer any questions.

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