



California Energy Commission Staff and Industry Experts Highlighted the Unique Regulatory, Tax and Supply Issues that Raise Fuel Costs

On November 29, 2022, the CEC conducted a hearing ordered by the Governor to examine California's fuel costs. The Governor's primary objective for this hearing was to build support for his new gas tax proposal.

Fortunately, what the CEC presented resulted in a robust discussion with industry participation on the policy, market and regulatory factors that contribute to fuel and energy costs in California.

Key takeaways from CEC staff and independent economists:

1 California's policy decisions and high cost of doing business are the core of the issue

- "California market is usually the highest retail gasoline price in U.S."—CEC
- "Our state has a greater tax burden – state excise and sales tax."—CEC
- "We have higher gasoline production costs and environmental program costs."—CEC

2 California simply doesn't make enough gasoline

- "Production is falling faster than consumption—one refinery has closed—the gap between California production and consumption has grown—another refinery will soon close."—CEC
- "With reduced availability of global refinery capacity; imports will be more expensive."—CEC

3 California has a unique fuels market that is the product of policy decisions

- "The California market is geographically isolated from other locations in the U.S. that produce refined products...price spikes are associated with an isolated market."—CEC
- "Shipping and other factors lead to more expensive crude oil for California refiners."—CEC
- "Tanker shortage—due to sanctions on Russian exports and longer voyages."—CEC
- "The cost of freight has skyrocketed, creating a barrier for imports."—Dave Hackett, Stillwater Associates

4 The problem is not refiners, and the majority of gas stations are not owned by oil companies

- "... there are a lot of branded gas stations out there. They are not owned by the refiners. They are owned by independent companies."—CEC
- "Also very concerned that this hearing is focused primarily on the refining sector, because I think the data made clear that's not where the problem is."—Severin Borenstein, Haas School of Business and Energy Institute at the University of California, Berkeley
- "Two-thirds or more than two-thirds of this premium is downstream from refiners, so simply finding out how refineries work is not addressing most of the problem."—Severin Borenstein

Read the CEC staff reports and watch the hearing here:

energy.ca.gov/event/workshop/2022-11/commissioner-hearing-california-gasoline-price-spikes-refinery-operations

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