

Sunlight On Big Oil



Presentation to the
Petroleum Market Advisory Committee
April 22, 2016

What Problems Will Transparency Address?

- 1) Volatile California gas prices extremely disconnected from crude oil price, production costs and US gas prices
- 2) 'What the market will bear' pricing
- 3) Too little information to sustain adequate competition at all levels of market

What's Not Required to Be Disclosed to the CEC & Public

- Refinery Maintenance Schedules & Updates



- Dealer Tank Wagon Prices



- Real Time Imports and Exports



- All Trades, Including Exchanges & Production Agreements

“Nothing Stays a Rumor More Than a Day in California’s Gasoline Market”

-California Gasoline Trader

- **What is known:**
 - Deals and quantities
- **What is not widely known:**
 - By whom
- The lack of transparency allows a small number of refiners to manipulate the market by keeping the public, regulators and other market players in the dark.

OPIS Information to Become Less Reliable After IHS Purchase?

IHS Inc. (OPIS) Largest Shareholders:

- 1) Artison Partners (17%)
- 2) T Rowe Price (13%)
- 3) Vanguard Group (6%)**
- 4) Franklin Resources (6%)
- 5) Edgewood Management (6%)
- 6) Blackrock (4%)**

Oil Company	Largest Shareholder	Second Largest Shareholder
Exxon	Vanguard Group (6.3%)	Blackrock (5.8%)
Chevron	Vanguard Group (6.3%)	Blackrock (5.9%)
Tesoro	Vanguard Group (9.6%)	Blackrock (7.3%)
Valero	Blackrock (7.5%)	Vanguard Group (6.6%)

Needed: Public Disclosure of Refinery Outages and Maintenance

Disclose:

- Reason for outage
- Updated return date
- Maintenance schedule
- Inventory plan

Why:

- Add new fuel rather than draw down existing supplies
- Stimulate imports
- Open market to new players

Market Misled on Exxon Torrance Restart Dates

“back into production at reduced rates by **end- July.**” -June 10, 2015

“time frame could be extended into **September.**” -June 18, 2015

“Down Till **Year End:** Source” -July 15, 2015

“whether or not ExxonMobil will resume gasoline production **next month**” -July 20, 2015

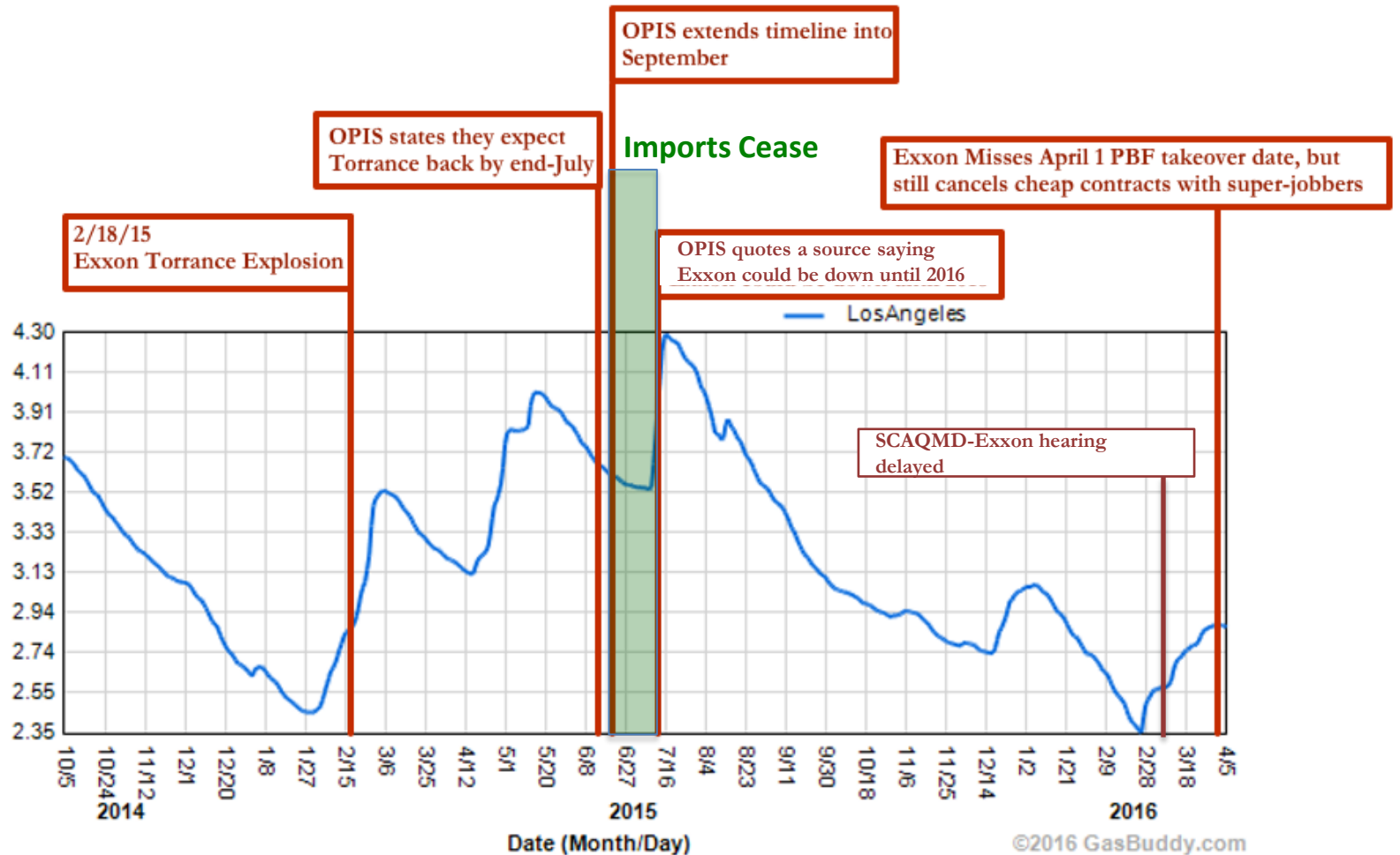
“ExxonMobil's Torrance refinery could resume as early as **one week later.**” -September 8, 2015

“restart **sept.** upon petition approval: SCAQMD” -August 13, 2015

“as soon as **mid-October.**” -August 24, 2015

“not expected to be back on line until the **first half of 2016.**” -October, 28, 2015

Misleading Statements and Actions Regarding Exxon Torrance Drove Volatility



How Disclosure of Gasoline Trades Would Have Helped in 2015

The volatility of gas prices in California is abetted by the failure of market players to know about:

- 1) Dark Deals
- 2) Refiners and Traders Cornering the Market
- 3) Production Agreements
- 4) Gasoline 'Exchanges'

Dark Deal Pricing to Unbranded Stations Keeps Prices Artificially High

	LA Price On December 10, 2015
Unpublished Valero Price	\$1.53
Unpublished Exxon Price	\$1.51
OPIS Unbranded Valero Rack	\$1.67 (14 cent dif)
OPIS Branded Valero Rack	\$1.75 (22 cent dif)
OPIS Unbranded LA Average (5 companies)	\$1.73 (20 cent dif)
OPIS Branded LA Average	\$1.78 (25 cent dif)
AVERAGE LA RETAIL	\$2.75

April 1, 2016 Price Differences

Retail Price - LA	\$2.88
Dealer Tank Wagon – LA	Price (regular 87) – incl. deliv. fee
Valero	\$1.92
76	\$1.96
Chevron	\$1.97
ARCO	\$1.94
AVERAGE	\$1.94
OPIS Unbranded Rack - LA	Price (regular 87)
Valero Unbranded Rack	\$1.75
Tesoro Unbranded Rack	\$1.80
AVERAGE	\$1.77
“Dark Deal” Pricing - LA	Price (regular 87)
IPC	\$1.68
NGL	\$1.70
AVERAGE	\$1.69

ARCO Receiving Highest Priced DTW Gasoline

Company	Los Angeles Price (April 6, 2016)
ARCO DTW	\$1.93
76 DTW	\$1.90
Chevron DTW	\$1.89
Valero DTW	\$1.81
Tesoro Rack	\$1.70

“Tesoro has agreed to maintain Arco’s status as a low cost fuel provider.” -From 2013 Kamala Harris Letter to CEC regarding Tesoro’s Purchase of Southern California Arco Stations

Disclosing Spot Market Purchases Would Deter Collusive Behavior

Chevron & Tesoro Buy Every Barrel on the Market
Spot Prices Rise **\$1.06** OVERNIGHT

Chevron buys every barrel on the market
Spot Prices Rise **\$0.78**

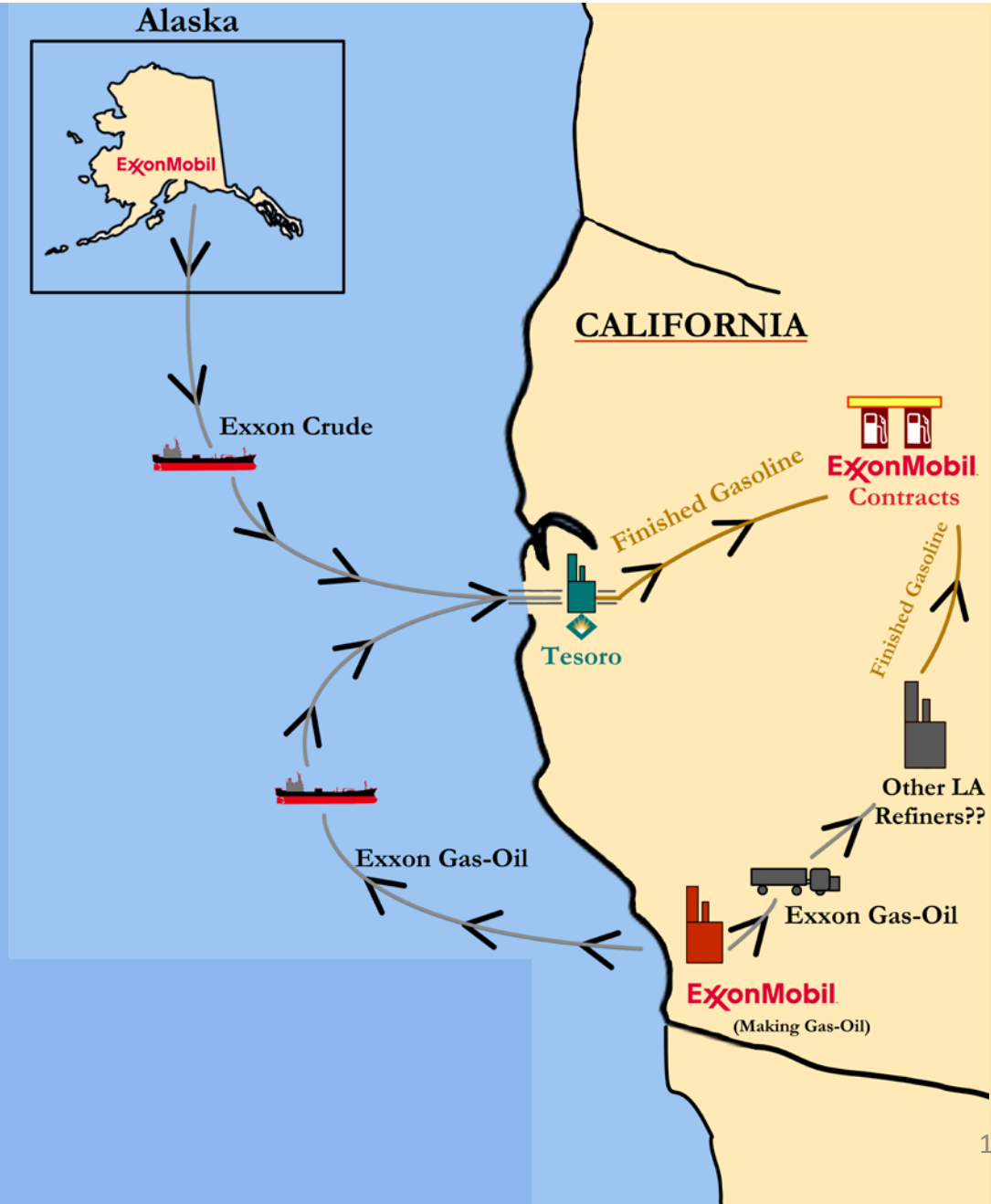


LA Regular CARBOB Spot Price

Spot Price data via Bloomberg

Exxon Increased Sales By 4% in 2015

Disclosing production agreements & gasoline exchanges prevents collusive behavior.



Needed: Publicly Disclose All Dealer Tank Wagon (DTW) Prices

- Currently, refiners know their competitors' DTW pricing through The Lundberg Survey. The general public and regulators are unable to see this information.

The Lundberg Survey Provides DTW Prices to Refiners and Insiders Only

“The Lundberg Survey publishes daily wholesale gasoline and diesel price reports for all classes of trade.” - **December, 2015 Lundberg Letter**

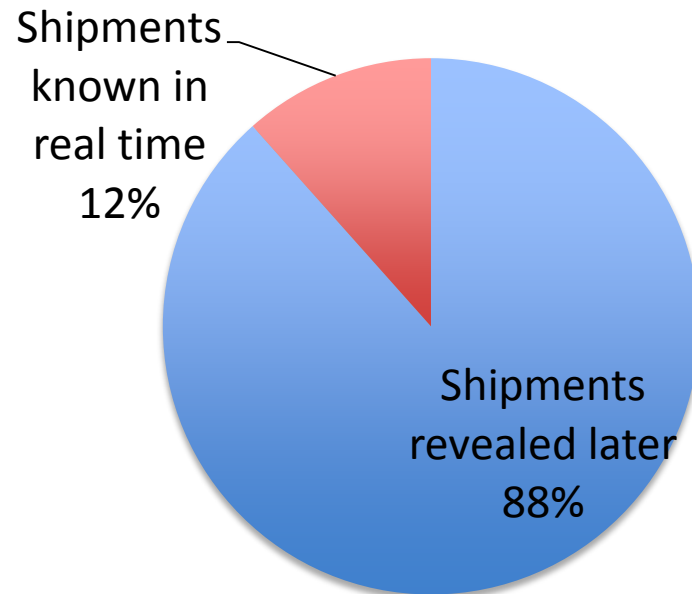
“Lundberg offers DTW prices for the following California Markets:

Anaheim, CA
Bakersfield, CA
Colton, CA
Concord/Walnut Creek, CA
Fresno, CA
Los Angeles, CA
Napa, CA
Palm Springs, CA
Richmond, CA
Sacramento, CA
San Diego, CA
San Francisco, CA
San Jose, CA
Santa Barbara, CA
Santa Rosa, CA
Stockton, CA
Van Nuys, CA”

- **December, 2015 Lundberg Letter**

Misinformation About Imports & Exports Abetted Price Spikes

First 9 months of 2015	
Confirmed Gasoline Imports/Exports*	95
Imports/Exports known in real time**	11
Unknown until after	84 (88%)



*State Lands Commission Data

**IHS, Bloomberg, SSY, Poten & Partners

Refiners Know More About Competitors' Operations Than Public or Regulators

Refiners Currently Know:

- Who Conducted Trades
 - Source: Relationships
- Trades They *Want* to be Known
 - Source: OPIS
- Maintenance Schedules
 - Source: Sharing maintenance teams
- Refinery Outages and Production Delays
 - Signaled by secret production and exchange agreements
- Competitors' DTW Prices
 - Source: Lundberg Survey



Long Beach
Petroleum Club

The Benefits of Transparency

- Creates more opportunities for additional traders and importers to participate in market
- Empowers branded retailers to demand competitive pricing from refiners
- Guards against predatory exports that short a short supplied gasoline market
- Gives regulators and anti-trust enforcement officials tools to understand anti-competitive pricing in real time