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Why Are Gas Prices On Rise?

It appears that Tosco management policies have made a successful transition to the new Phillips Petroleum operations on the West Coast! This should be no surprise since most of Tosco's management team was retained to oversee western markets after the Phillips/Tosco merger.

Shades of déjà vu have appeared in Southern California as Phillips began raising its wholesale prices two weeks ago, apparently in an effort to gain margin in an "inverted rack" market. (An "inverted rack' means that unbranded dealers are paying a higher wholesale price for gasoline produced by the major branded refineries than branded dealers are paying). Chevron and Mobil followed suit last week with a 5 cent increase. ARCO raised its prices in the Los Angeles area, but word on the street says that they will withhold increases in San Diego until this week.

Equilon has announce allocation of 120% of last year and 30¢ penalty for overlifting, which will stop jobbers from pulling Shell or Texaco branded products to supply independents who are getting clobbered by the rising spot/unbranded racks *(what's wrong with this picture?)*.

The latest California Energy Commission Weekly Fuels Watch Report was delayed several days due to the Christmas holiday, and this week's report will likely see a similar delay. But for the week ending Dec. 21, CEC showed 1.178 million bbl of weekly CARB production, compared to 1.238 million bbl during the week ending Dec. 14. EPA showed weekly output of 670,000 bbl, up 147,000 bbl from the previous week, while jet production totaled 1.544 million, down 264,000 bbl.

On the inventory front, total gasoline stocks are sitting at 6.215 million bbl, down 590,000 bbl from the prior week, *but 229,000 bbl ahead of last year*. EPA supply is sitting at 1.468 million bbl, up 123,000

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from the previous week and 65,000 bbl lower on a year-to-year basis. Jet stocks are currently at 3.121 million bbl, down 142,000 bbl versus the week ending Dec. 14, and at a year-to-year deficit of 29,000 bbl.

As one industry expert remarked, "Seems we have a new industry phenomena. I'm calling it 'an unfortunate shortage during a time of record surpluses'."

Recent mergers have caused a market concentration that has resulted in serious erosion of a truly competitive marketplace in California for gasoline. Combine this with the state requirement for a "unique" blend of fuel, and you have a recipe for continued large fluctuations in pricing and supply. With huge inventories and many players, prices would stay competitively low.

Our economy cannot afford another massive price increase by the major oil companies. Last year's enormous movement of money from consumer's pockets to oil company coffers set the stage for the recession in which we now exist.

We believe that three factors must occur to stabilize the gasoline market in California:

1. A uniform national blend of gasoline must be enacted by the EPA. This would allow all refineries to make the same gasoline product, reducing the manipulation of inventories and product supply that now exists in the market;
2. Prevent oil companies from owning and operating retail outlets, and return competition to the retail level.
3. Enforce the theory of "Open Supply" which would allow All gasoline wholesalers and retailers to "shop" for their gasoline supplies, instilling a competitive force on refiners.

AuTO-CA represents over 500 independently-owned service station dealers, auto repair shops, car washes and convenience stores throughout the state. Our members are not the major oil companies; we are small business owners.

Should you have questions regarding this correspondence or other materials you receive related to the oil industry, please don't hesitate to contact Will L. Woods, CAE, Executive Director, at the AuTO-CA office, 714.734.1801.