Why gas prices in California are so much higher than elsewhere in U.S.

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Californians are used to gyrating gas prices, but the latest swing from the lowest in years to nearly a dollar above the national average is leaving drivers in a tizzy.

Some are accusing oil companies of manipulating prices. The industry blames an explosion and a strike at two refineries. Academics say it's structural — the unique way California gets and sells gas.

They may all be partially right.

On Jan. 30, Californians paid an average of $2.43 for a gallon of gasoline, the lowest since May 2009, according to fuel tracking group GasBuddy.com. It shot up 93 cents in a month and has since been fluctuating around $3.20, nearly 80 cents more than the national average.

The price uptick began shortly after Tesoro Corp. idled its Martinez, Calif., plant amid a nationwide walkout by union members. And on Feb. 18, an explosion at Exxon Mobil Corp.'s Torrance facility left four workers injured and the refinery unable to operate at full capacity. Federal investigators from the U.S. Chemical Safety Board are investigating the refinery blast.

Oil companies said market conditions such as supply and demand guide pump prices. In an email, Tesoro spokeswoman Tina Barbee also listed the cost of crude oil, distribution and marketing costs, refining costs and federal and state taxes as factors. The strike pushed up its operating costs to as much as $7.95 a barrel in California, the company said last week.

But consumer advocates allege refiners are fixing prices, exploiting the disruptions to pad their profits.

State senators held a joint committee hearing last week in Sacramento wanting to know why gas prices had risen so much so quickly.

"If we're only paying about 20 to 30 cents more for gasoline typically, why is it translating now to a whole dollar more?" asked Sen. Ben Hueso (D-San Diego), who chaired the hearing. "We want to know if we don't have a competitive-enough market in California to keep prices low."

On most days, gasoline in California costs more than it does in other states.

That's partly because California is considered an island in the industry, cut off from other oil-producing regions by its stringent environmental rules and a dearth of interstate pipelines.

To improve air quality, the state limits the type of gasoline to a specially formulated blend commonly known as CARBOB. The blend, too expensive for most outside producers to make and deliver, is largely created within the state.

Before California adopted its special gasoline blend, refinery-level wholesale prices in the state averaged an inflation-adjusted 6 cents above the national average. From 1996 to 2014, they averaged 16 cents higher, according to Severin Borenstein, an economics professor specializing in energy markets and regulation at UC Berkeley's Haas School of Business.

Early each year, California refineries also transition from making winter blend gasoline to a cleaner-burning, pricier summer blend. The facilities also temporarily scale back production during planned maintenance.

Taxes, among the highest in the country, also lift the price of the fuel. As of Jan. 1, California retail gasoline taxes accounted for 63.8 cents per gallon, 15 cents higher than the nationwide average. Toward the end of last year, when a gallon of regular gasoline cost an average of $2.68, fees and taxes accounted for nearly a quarter of the cost, according to the California Energy Commission. Nearly half of the total cost was attributed to the cost of crude oil, 16.5% covered dealer and distributor costs, and 12% went to refiners.

But by mid-March, when gasoline in the state averaged nearly $3.44 a gallon, a whopping 34% of it went to cover refinery costs and profits. Intense consolidation has limited competition in the industry, whittling down the number of gasoline-producing refineries in the state to 11 from 30 in 1982, said Gordon Schremp, a senior fuels analyst for the California Energy Commission.

The remaining facilities are more efficient and can produce more gasoline than their predecessors, he said.

But two companies — Chevron Corp. and Tesoro — now control 55% of the refining capacity in the state. At last week's Senate hearing, one antitrust official called the industry an oligopoly — in which a few firms hold most of the power.

The accusation isn't new. In the past, several state government entities have launched inconclusive investigations and hearings into whether oil companies colluded to raise prices or whether the increases are a natural byproduct of a narrow market.

In the two weeks after the Torrance blast, profit for California gasoline sellers — which include "refineries to gas stations and everyone in between" — rose by $437 million, according to a report last week from Oregon consulting firm McCullough Research. Meanwhile, a simultaneous slide in crude oil prices slashed refinery costs by $89 million, according to the report.

"It is cost effective for companies in very concentrated industries to allow one to set the price and have everyone else follow along," said Robert McCullough Jr., managing partner at the firm. "It's not necessarily unethical. It's not even illegal. It's just inefficient and not good for the U.S. economy."

California refineries often produce gasoline at near capacity, leaving little margin for supply disruptions. Even when supply is disrupted, the facilities must still fulfill long-term contracts to their customers such as gas stations.

For a quick fix, they draw from their slim inventories and try to buy gasoline from traders and other local refineries. But because those other plants are also producing at near-capacity to fulfill their own obligations, they don't have much spare fuel to sell.

Many risk parting with their reserves only at an inflated price. Futures prices, which fluctuate as traders outside California react to global geopolitical issues, also influence current gas prices.

On Friday, Tesoro began restarting its Martinez plant after the local chapter of the United Steelworkers union ratified a new contract. The company expects the facility to return to normal operations over the next two weeks, which could drive gas prices back down.

To counteract the volatility of gasoline prices in California, state legislators spent much of last week's hearing asking about the viability of alternative fuels and electric vehicles. Consumer advocates at the hearing called for stronger antitrust regulation and asked the oil industry to divulge more of its production data.

"We know a lot more about artichokes than we do about oil and gas in the U.S.," McCullough said.

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