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Senator questions why refineries cut production

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WASHINGTON --]

West Coast oil refiners cut gasoline production after a fire earlier this year at a Washington state refinery, creating a supply shortage that's left West Coast motorists now paying very high prices at a time when the rest of the nation is seeing prices plunge, according to an influential senator and a veteran energy analyst.

In a letter being sent to regulators on Thursday and obtained by McClatchy, Sen. Maria Cantwell, D-Wash., calls on the Federal Trade Commission to investigate refinery operators Alon, Chevron, ConocoPhillips, Shell, Tesoro and BP following the shutdown of BP's Cherry Point refinery in Washington State.

Citing a report by Portland energy consultant McCullough Research – a group whose work helped topple energy-trading giant Enron Corp. – Cantwell questioned why May gasoline prices in her state soared recently to within cents of the local record of $4.35 a gallon set in July 2008. Meantime, gasoline prices nationwide in May fell 17 cents a gallon and oil tumbled more than $14 a barrel.

The McCullough Research report, published Tuesday, questioned whether the historically low gasoline inventories on the West Coast were really a result of a fire on Feb. 17 that idled the BP plant for about three months.

Gasoline prices on the West Coast had tracked closely with the price of West Texas intermediate crude delivered at Cushing, Okla., but in May veered widely from historical norms, according to the report. Had prices followed supply costs, said the report's author, Robert McCullough, retail gasoline prices on the West Coast would have dropped to about $3.65 a gallon. Instead, prices have been about 68 cents higher.

"The sudden price shift has provided a significant windfall for refineries and retailers on the West Coast. At a differential of $.68 a gallon, this translates into a windfall profit of $43 million a day," the report said.

In an interview, McCullough was skeptical that the price increase is due to necessary plant maintenance and repairs at West Coast refineries – which are few in number and thus enjoy tremendous pricing power. He stopped short of alleging collusion, but he pointed to U.S. Energy Information Administration data that shows a steep drop in West Coast gasoline inventories in late April and May.

“The West Coast is a gasoline island. Since there is very little transportation of gasoline between the West Coast and the rest of the United States, it’s not clear you even need to have collusion to influence prices here,” he said. “When you do not have enough competition, economists describe that as pivotal suppliers. On the West Coast there are so few players, so it’s not difficult for refiners to view themselves as pivotal suppliers.”

McCullough’s research implies that supply was withheld from the market to keep prices inflated.

“The question is not whether there was a fire at Cherry Point. It’s whether everybody else in the refining market also shut down capacity to create a shortage,” Cantwell said in an interview. “We want answers, and my constituents want answers. . . . We think this is an anomaly without a good explanation.”

Cantwell, McCullough and industry critic Consumer Watchdog, based in California, questioned the timing of the cut in production. Apart from the well-documented Cherry Point closure, the list of production reductions includes: Tesoro’s refinery in Martinez, Calif., repairing a hydrocracker, a high-pressure processing unit, from May 2 to May 13; Shell’s refinery in Martinez undergoing maintenance from April 27 to May 16; Chevron scheduling seasonal maintenance in Richmond, Calif., on May 28; Alon’s hydrocracker restart in Bakersfield, Calif., on April 20; and BP’s Carson, Calif., plant undergoing flaring operations from May 15 to May 21.

Also affecting supply was a fire the ConocoPhillips refinery in Rodeo, Calif., on April 25, and an unspecified and undated production problem at a Tesoro refinery in Anacortes, Wash.

“Consumer Watchdog has suspected, with good reason, that refiners, particularly in the West Coast, use their outages to keep prices high,” said Judy Dugan, director of research for the group, which advocates more regulation of the energy sector. “We have called for at least state regulation that would oversee refinery outages. They can do anything they want for any reason.”

Cantwell in recent years has fought for legislation that limited how much of the oil market can be controlled by financial speculators and has pressed the Federal Trade Commission to look more closely at refiners.

In her letter to the FTC, Cantwell said the Cherry Point fire shouldn’t have led to record-low inventory levels “unless other West Coast refiners failed to undertake actions that could have made up for the supply shortage resulting from the Cherry Point accident. The reasons why six other West Coast refiners simultaneously reduced operations are not well documented.”

The only operational reduction that appears to have been announced in advance was BP’s flaring operation at its Carson, Calif., refinery. It had alerted the South Coast Air Quality Management District, which monitors air pollution.

BP spokesman Scott Dean said Wednesday that the work at the California refinery was scheduled before the Cherry Point fire and vowed his company would cooperate with any federal probe.

“There have been many governmental inquiries into supply disruptions in the past and we have cooperated with them, and should there be another government inquiry into supply disruptions we would of course cooperate,” he said.

Tesoro spokeswoman Tina Barbee also declined to address the specific allegation, but she said that the refiner performs “routine planned maintenance on a regular basis, as needed, to ensure the safety and efficiency of our operations. It is longstanding Tesoro policy, for proprietary and competitive reasons, not to discuss specific maintenance scheduling or activities.”

The Western States Petroleum Association – a Sacramento, Calif.-based trade association for energy companies on the West Coast – denied the allegations.

“Sen. Cantwell has, in the past, made similar requests for investigations and there have been literally dozens of investigations into pricing of petroleum products on the West coast and elsewhere in the last dozen years. And all of those have found that market factors are the dominant explanation for changes in product prices,” said Tupper Hull, the group’s spokesman. “And none of those have found that manipulation of the market has occurred.”

One explanation for the findings of past probes, said Cantwell and McCullough, is that the FTC has not moved as aggressively to police refiners and the wholesale gasoline market in a way that the Federal Energy Regulatory Commission has policed utilities and natural gas trading. The FERC’s tougher approach followed the finding of manipulation in electricity markets by Enron and its competitors.

Cantwell’s letter asked the FTC whether its Gasoline and Diesel Monitoring Project detected anomalies in West Coast pricing, and asked how the agency will obtain market data to make its determination. It also asked the FTC to offer an opinion as to whether West Coast refiners enjoy a market concentration that allows them too much pricing power.

If the FTC does open a probe, the focus is likely to be on why so many refiners slowed production at a time when a big supplier was sidelined.

“It would be useful to find out were these maintenance and repairs scheduled or unplanned,” said McCullough.

Refiners disputed the notion that scheduled maintenance or repairs can easily be put off in order to manipulate price.

“This isn’t going in and polishing some door handles. These are very important extensive maintenance activities that are extremely necessary to the safe operation of these facilities,” Hull said.

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