Oregon, Washington gas prices continue to fall as report raises suspicions of market rigging

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Last week, market analysts predicted that the Northwest's skyrocketing gas prices were about to return to earth – fast. And, as if on cue, Oregon's pump prices have since slid by 13 cents a gallon.

But Robert McCullough, the Portland analyst who helped topple Enron over predatory electricity trading a decade ago, has issued a report arguing that gasoline prices should have never reached this spring's dizzying, budget-draining heights.

Oil refinery operators intentionally created a supply shortage in order to charge motorists inflated prices, he contends.

In fact, according to his latest report, the companies' apparent manipulation of West Coast markets added up to a windfall of $48 million a day.

UPDATE: Late Tuesday, U.S. Sen. Ron Wyden, D-Ore., joined Washington's Maria Cantwell in calling for a federal investigation into the spring's run-up in Northwest gas prices.

"Market forces do not fully explain the extremely high gas prices being charged to West Coast consumers in recent months," Wyden said in an email. "I continue to believe that the oil markets are being driven by factors beyond supply and demand."

In the past week, a gallon of regular unleaded gasoline in Oregon has dropped from $4.23 to $4.10. In Washington, it slid 12 cents, from $4.26 to $4.14. In the Portland area, the average on Tuesday was $4.08, down 13 cents.

It was the first significant relief for Northwest drivers in two months.

However, McCullough's research into supply costs shows Oregon and Washington gas prices should have fallen to $3.51 per gallon.

The national average has been sliding for weeks, dropping another 3 cents to $3.54 in the past week.

A sudden West Coast price shift "provided a significant windfall" for refineries and retailers, the report states. Actual pump prices in the region are about 60 cents a gallon higher than what would have been expected given crude oil prices, McCullough said.

"This translates into a windfall profit for suppliers of $48 million dollars a day," the study says.

Based on McCullough's research, Cantwell, D-Wash., has called on the Federal Trade

Commission to investigate, urging it to use its Prohibition on Market Manipulation Rule. On May 17, Rep. Peter DeFazio, D-Ore., called for an inquiry and followed up with President Barack Obama on June 1, saying the higher prices were “very suspicious at best.”

McCullough Research’s report further contends that oil companies used a refinery fire and suspicious delays in routine maintenance to withhold supply, inflate prices and define it as “inevitable.”

May’s Northwest gas prices nearly reached record highs, even as pump prices nationwide fell 17 cents a gallon and oil plummeted nearly $15 a barrel. Oregon’s average peaked June 1 at $4.27 a gallon, just shy of the record high of $4.29 set on July 3, 2008.

Wyden, who is in line to chair the Senate Committee on Energy and Natural Resources if Democrats retain control in November, supported Cantwell’s call for an investigation Tuesday, saying the region's gas prices are not good for the economy and “the many Americans who need to commute to work and school without breaking the budget.”

Cantwell and McCullough contend that greed and market manipulation have unnecessarily hurt the region’s economy.

“That’s money that American families and businesses could be spending at local retail stores, neighborhood restaurants, and other small businesses that create more than two thirds of our nation’s jobs,” Cantwell wrote in a letter to the Federal Trade Commission, urging it to use its Prohibition on Market Manipulation Rule “"to figure out what's behind the abnormal prices at the pump.”

Cantwell said the commission is the only authority that can aggressively pursue and remedy purposeful market schemes or supply allocations by refinery companies Alon, Chevron, ConocoPhillips, Shell, Tesoro and BP.

The companies, which referred calls and emails for comment to the American Fuel & Petrochemical Manufacturers trade group, have said they were forced to cut gasoline production this spring. They cited a fire that shutdown the 225,000-barrel-a-day Cherry Point Refinery in Whatcom County in February and maintenance problems that idled several refineries in California. Oregon does not have an oil refinery.

American Fuel & Petrochemical Manufacturers has not returned calls to discuss the McCullough report.

As of last week, all of the West Coast’s refineries were back on line, leading analysts to predict that Northwest gas prices would drop by 20 cents a gallon by July 1.

However, McCullough and Cantwell argue that the refinery closures in California and Washington do not explain the run-up in West Coast gasoline prices.

As a general rule, retail prices follow crude oil prices. Since the beginning of May, U.S. crude oil prices have fallen 20 percent. The comparable benchmark price for non-U.S. markets has fallen

17 percent, the report said.
“U.S. prices, set by markets at Cushing, Oklahoma, have fallen below international markets since 2008 as burgeoning U.S. and Canadian oil production has stressed oil transport infrastructure,” according to the report.

“Combined with rising ethanol production, this has created a gasoline price discrepancy between the relatively isolated West Coast of the U.S. and lower prices in the Midwest and South.”

In her letter to the trade agency, Cantwell argues that February’s Cherry Point fire shouldn’t have led to the lowest gasoline inventories since 1992 “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.”

During the first four months of 2012, West Coast gasoline prices were following the price of crude delivered at Cushing, Okla., closely. But starting the first week of May, they deviated wildly, something that was out of line with historical norms, according to the report.

On May 2, Tesoro Corporation reported a significant year-to-year income loss, saying first quarter net income had dropped from $107 million in 2011 to $56 million this year.

“Consumers in the Northwest are clearly victims of what looks like misbehavior,” McCullough said in a phone interview.

“Normally,” he said, “you’d think competitors would step up production to take advantage of what’s happening on the market. But the refinery companies know that the West Coast is a gasoline island.”

Since there is little shipping of gasoline between the West Coast and the rest of the country, the region is a “highly monopolized market” where economic theory is turned on its head with fuel supplies, McCullough said.

“If they are going to collude together, (the refinery companies) don’t even need to call each other – they just look at the math and the market,” he said. “This does not not make them evil. It just makes them greedy.”