Report: Western refineries made gas during price spikes

Michael Winter, USA TODAY

(Photo: D. Ross Cameron, The Contra Costa Times/AP)

10:15PM EST November 14. 2012 - Research to be released Thursday shows that West Coast refineries continued to produce gasoline even though Americans were told they were temporarily shut down, leading to price spikes in May and October, McClatchy Newspapers reports (http://www.mcclatchydc.com/2012/11/14/174662/california-refineries-operated.html).

The report, based on environmental documents reviewed by McCullough Research (http://www.mresearch.com/), also finds that gasoline supplies were building in May, when West Coast drivers paid at least 50 cents more than the national average.

Californians were walloped by the October spike, blamed partly on an August fire at the Chevron refinery near San Francisco: about 66 cents per gallon more than historical patterns and inventories.

The study will be released at a California Senate hearing (http://sd03.senate.ca.gov/news/2012-10-10-sen-leno-calls-hearing-california-refineries-and-gas-prices-chevron-announces-crude-). McClatchy writes that "though California is the focus, the conclusions carry national implications, especially because they highlight how little real information on pricing is publicly available, or even available to regulators."

The Western States Petroleum Association (http://www.wspa.org/), the industry's mouthpiece, said it would not comment until the study is released. McClatchy writes that McCullough, based in Portland, Ore., "declined to share [its research] with the association on the grounds that refiners have the same data he has since it was shared with environmental regulators."

> Specifically, the report alleges that in May, at a time when Royal Dutch Shell's Martinez, Calif., plant was reported to be down for maintenance for two weeks, it appears to have been making gasoline for at least half that time. That conclusion is reached from state environmental documents showing nitrogen oxide emissions had returned to normal at the refinery a full week before it was reported to have come back on line.

> This inventory building, evident in data from the California Energy Commission, happened even as four refiners were supposedly down for some portion of May.

> The price spikes in May affected the states of California, Oregon and Washington, while October's price spike was felt mainly in California. May's West Coast spike was partly blamed on a Feb. 18 fire at BP's Cherry Point refinery in Washington. October's California spike was explained as partly a market reaction to an Aug. 6 fire at Chevron's Richmond, Calif., refinery. Emissions data suggests the refinery never ceased operation.

Why are West Coast motorists hit harder?

> The West Coast is isolated from the national gasoline market, and California even more so.

> There are no pipelines bringing oil to the West Coast from producers in the Gulf of Mexico. And California is further separated from the rest of the nation by its unique gasoline formulation requirements to protect the environment.

> This means that in California, the nation's most populous state, seven major players control most of the supply. They are vertically integrated, refining oil into gasoline and getting involved in the retailing of gasoline in the wholesale market. That system, McCullough said in an interview, lends itself to a market concentration that allows producers to subtly coordinate their prices.

Nonetheless, the McCullough report concludes, "It certainly does not prove collusion among the principal suppliers, since specific data by refineries is difficult to procure. However, the data does suggest the need for an investigation on a refinery-by-refinery level."

Sen. Maria Cantwell, D-Wash., said she intends to formally ask the Justice Department and the Obama administration's task force on oil and gas fraud (http://www.stopfraud.gov/oil-gas-fwg.html) to investigate -- refinery by refinery -- this year's gas price spikes.

Here's some of what Attorney General Eric Holder said (http://www.whitehouse.gov/blog/2011/04/22/protecting-consumers-pump-oil-and-gas-price-fraud-working-group) April 22, 2011, the day after he announced (http://www.justice.gov/opa/pr/2011/April/11-ag-500.html) the task force:

> For many, rapidly rising gasoline prices pose a serious concern. And while some factors – like regional variations and other lawful reasons for increased prices – may be beyond our control, it is imperative that we take action to identify and address potential cases of fraud and manipulation that may harm families and businesses.

Yesterday, I announced the formation of an Oil and Gas Price Fraud Working Group to help identify civil or criminal violations in the oil and gasoline markets, and to ensure that American consumers are not harmed by unlawful conduct. Since last month, at President Obama's request, I have been directing efforts to increase cooperation between the Department of Justice and other groups with relevant authority, including federal agencies and state attorneys general. I am proud to say that this Working Group will enable us to formalize these partnerships, share monitoring information, and exchange ideas about what works – and what doesn't work – at the state and federal level.

It will foster increased cooperation between investigators and government officials, so we can vigorously enforce state and federal laws against collusion, manipulation and other forms of wrongdoing. It will also allow us to evaluate significant market developments, including the activities of speculators and index traders, so we can anticipate and aggressively pursue cases of suspected illegal activity.

Back in March McClatchy reported (http://www.mcclatchydc.com/2012/03/01/140564/whatever-happened-to-task-force.html) that the task force had met only four or five times and had never reported to the public.