STATE CAPITOL
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SACRAMENTO, CA 94249-0115

California Legislature

January 28, 2019

The Honorable Xavier Becerra
Attorney General, State of California
1300 I Street, Suite 1740
Sacramento, CA 95814

Dear Attorney General Becerra:

We, the undersigned legislators, are contacting you to ask the California Department of Justice to launch an investigation into gasoline prices in the state. The primary basis for this request is the "Final Report" of the Petroleum Market Advisory Committee (PMAC), which was formed by the California Energy Commission (CEC) in December 2014 to review California's petroleum fuel-market operations.

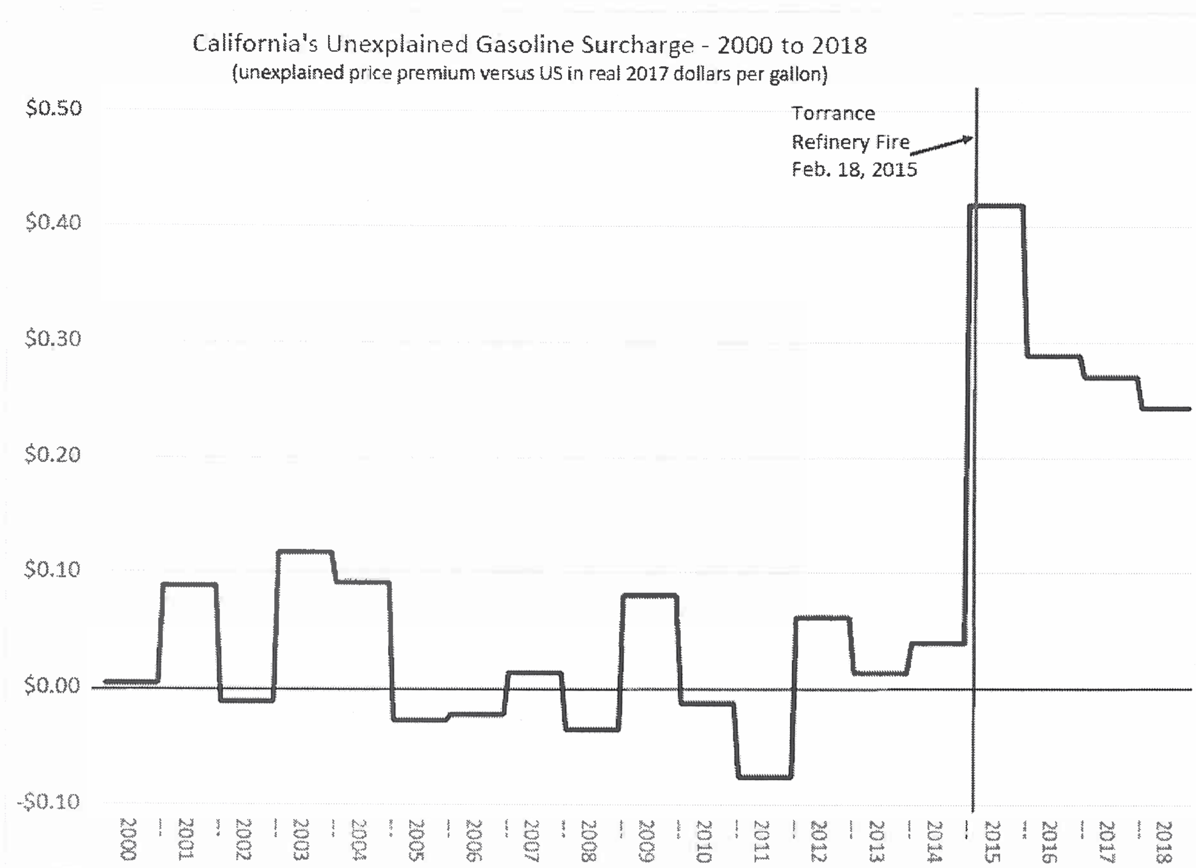
Submitted to the CEC in September 2017, the Final Report noted that even after accounting for California's gasoline tax, fuel-blend and greenhouse gas reduction costs, "gasoline prices since February 2015 have exhibited a continuous and significant unexplained differential compared to the rest of the country."

University of California, Berkeley, Professor Severin Borenstein, the former chair of the PMAC, observed last October that since February 2015 this unexplained surcharge "has cost Californians more than $17 billion, or about $1,700 for a family of four."

We note now, just as the PMAC members did in their Final Report, that the California cost differential does not in itself imply that any market participants have acted illegally. However, there are a number of indications that the state's gasoline market lacks robust competition and that Californians are consequentially paying a steeper price, beyond what can otherwise be accounted for, compared to residents of other states.

As Professor Borenstein has noted, the unexplained "surcharge shows up between the refineries and our gas tanks, in the distribution and retailing network," where competitive pressures may be insufficient. "Far more stations here," he notes, "are owned by refiners or have long-term contracts that give the refiners significant control over gas prices."

It is possible, as stated in the Final Report, that logistical issues have contributed to the surcharge. But no one has been able to explain why these potential logistical issues would have persisted over the past four years but seemingly were not significant cost factors prior to that time, as this gas-price graph monitoring the surcharge suggests. The surcharge averaged 2 cents from 2000 to 2014 and was never more than 12 cents in any of those years. But it soared in 2015 after the Torrance refinery fire and in 2018 has averaged about 24 cents per gallon



In their Final Report, the PMAC members strongly urged "the State to establish an organizational structure and to commit resources" that would permit an "in-depth analysis and conclusions" regarding the unexplained gasoline surcharge. We concur and are committed to seeking the funding that DOJ may need to carry out and conclude an investigation.

Sincerely,

Marc Levine
Jerry Hill
Bill Quirk
[signature]

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