Gas Prices in CA
A Closer Look...
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What is the Problem?

- Gas Prices are at an all time high
- $4.35 more than this time last year
- CA is above the national average
- People do not want to pay high price
- Trade off between gas and "other"
Why California?

- We have special Gas Requirements because of our stricter air quality controls
- Gas additives are different here
- Lack of refineries in CA
- 3rd Highest Tax Sets
- CA is “an island” when it comes to gas

Policy Questions

- Because of the unusual regulatory climate*, California is more closely monitored
- Is it a policy failure or is this market driven? ⇒ Unclear
- What can be done to change?
- The problem goes beyond just the price of gas...
Regulation Problem?

- Gas prices are too high - but why?
- Regulation is too strict -
  - Disincentive to build new infrastructure
  - Cannot import gas from other states
  - Air quality requirements forces higher quality gas than needed

Market Problem?

- Simple "supply and demand" - nothing more?
- We (the market) notice when prices go up and not when they go down
- Are "they" greedy?
  - Profit margins are comparable to other industries
- Or is it a case of double marginalization because it is a vertically integrated industry - problem at the refinery?
Social Problem?

- People have to drive - lack of alternatives
  - Sprawl
- Public Transportation and carpooling?
- People buy and demand bigger less efficient cars - equated to image?
- Premium gas might not be worth it...
  - Efficiency ("knock") vs. Price

NIMBY

- NIMBY = Not in My Back Yard
- San Francisco does not allow any new gas stations to be built -> think fixed supply
  - Zoning Laws
- No one wants a new oil refinery in their neighborhood
  - "put it somewhere else mentality"
Are Mergers the Problem?

- There is vertical integration
- Visible mergers - but not market power
  - Closely monitored by the Federal Trade Commission and the CA attorney general
  - Claim that there is no monopoly power
- Is there an incentive to "hold-on" to the higher price longer?

More about Markets...

- Gas and its prices are "black boxed" (we do not understand them) so there is a lack of knowledge and choice
- Wealthier people have the WTP for gas for their cars
- Not only is CA an island, but so is the local community...
Franchising and Branding...

- Most of the gas stations are franchises and not owned by the ‘big guys’
- Subsequently, there is a branding of gas
- Can you import unbranded gas?
- CA as an island because of Regulation
- Is this a bad thing?

DOE and EIA role

- Most people do not understand the role of the EIA (energy information agency) at the DOE - only understand their wallets
- Play both a regulatory and a monitoring role
Possible Short Term Solutions
- Lighten the weight of your existing car - remove ski racks, golf clubs, heavy useless items.
- Check tire pressure (10% efficiency increase)
- Shop around - don't just go to the corner
- Try to not “stop/start” a lot
- Carpool
- Public transportation

Longer Term Solutions...
- Raise CAFÉ standards (Corporate Average Fuel Economy) to a higher level
- Pavley (CA Bill)
- Buy smaller cars
- Hybrids
- Hydrogen Highway Network?
- Import gas from other states?
- Build additional refineries?
Look Further...

- Listen to KQED Forum
- Visit CA's Department of Energy website
- ERG 121 Automobility
- EIA's website

Questions?