

# Gas Prices in CA

A Closer Look...  
By Michael Colvin  
EEP 142 - April 2004

1

## What is the Problem?

- ◆ Gas Prices are at an all time high
  - ◆ 43.5¢ 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"

2

## 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

3

---

## 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...

4

---

## 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

5

## 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?

6

## 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

7

## 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"

8

## 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?

9

## 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...

10

## 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?

11

---

## 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

12

---

## 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

13

---

## 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?

14

---

## Look Further...

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

15

---

## Questions?

16

---