



# Refining Profits:

## How Californians Get Fleeced at the Pump

By: Jamie Court, Cody Rosenfield and Liza Tucker



*May 5, 2015*

---

## EXECUTIVE SUMMARY

Consumer Watchdog's previous report, "Price Spiked", examined why and how Californians paid substantially more for gasoline than their fellow Americans over the last decade, and the causes of gasoline price spikes in the state. (Read the report at: <http://www.consumerwatchdog.org/resources/PriceSpiked.pdf> )

This analysis, "Refining Profits," looks at how oil refiners in California fared over the last decade in their refining operations and compared the companies' refining profits during periods of gasoline price spikes. For this report, Consumer Watchdog analyzed public company data filed with the Securities and Exchange Commission (SEC) and Energy Information Administration statistics on the price of California gas over the last decade.

Of the four big oil refiners that control 78% of the market, two refiners, Tesoro and Valero, which have 38 percent of California's refining capacity, report California-specific data. Valero provides operating income (refining profits after expenses) in California. Tesoro provides California Gross Refining margin per barrel and manufacturing costs per barrel, which are used to calculate operating income per barrel. This analysis looks at these companies' profits from the last ten years and compares historical profits to periods in which gasoline prices spiked in California.

Chevron, the state's largest refiner, does not publicly report per barrel operating income or state specific data, but did report that their overall refining profits doubled in the first quarter of 2015 over the first quarter of 2014. On a recent call with investors, Chevron General Manager Jeff Gustavson admitted why the company did so well in the first quarter of 2015, "Margins increased earnings by \$435 million driven by unplanned industry downtime and tight product supply on the US West Coast." His statements reflect how refiners such as Chevron find it profitable to keep low inventory on hand, and make large sums of money when the state encounters refinery problems. While this report cannot duplicate the California specific research for Chevron, its first quarter results and statement suggest that the pattern of substantial profits following each price spike held true for the state's largest refiner.

## Findings

- Over the last ten years, California gasoline price spikes, absent the economic downturn, have corresponded with huge profits for California refiners.
- Over the last decade, Valero has averaged \$100 million in profit per quarter. During seven quarters with spiking gas prices, the refiner averaged \$220 million per quarter – an

---

increase of 120%. Price spikes also increased Tesoro's average quarterly operating income of \$142 million per quarter up to an average of \$231 million.

- During the last five years, Valero's average quarterly refinery profits have not fully recovered since the recession – averaging \$25 million per quarter. In the first quarter of 2015, as gasoline prices began to spike in early February, Valero's California operating income (profit after deducting operating costs) per barrel increased by \$1.55 per barrel. The company reported \$82 million in California refining profit, their best 1<sup>st</sup> quarter operating income since 2009 and almost triple their average income since then.

- Tesoro, despite closing a refinery during a labor strike and paying higher prices for gas on the spot market to make up for it, increased its profits per barrel by 20 cents in the first quarter, adding to California's huge price spikes. Tesoro registered a \$119 million profit on its California refineries, which is similar to its five year average of \$124 million. (This figure was calculated using public data on their profits per barrel and barrels refined per day, since Tesoro, unlike Valero, reports margins & costs only by the barrel.)

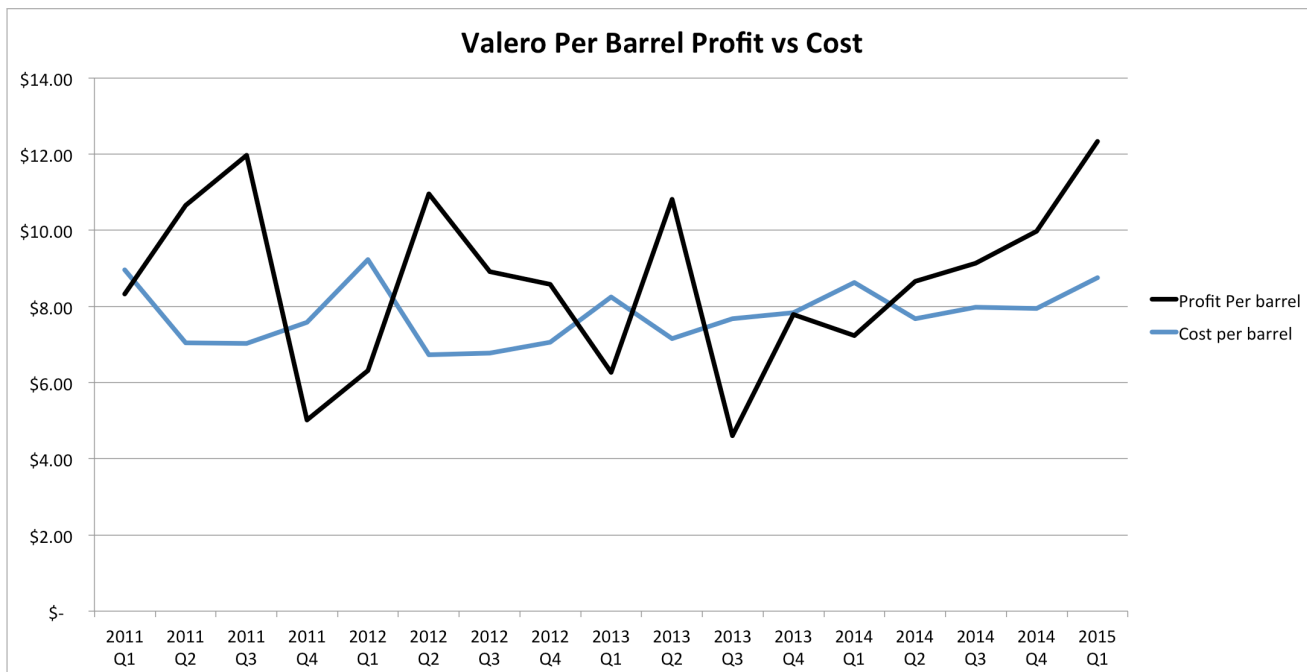
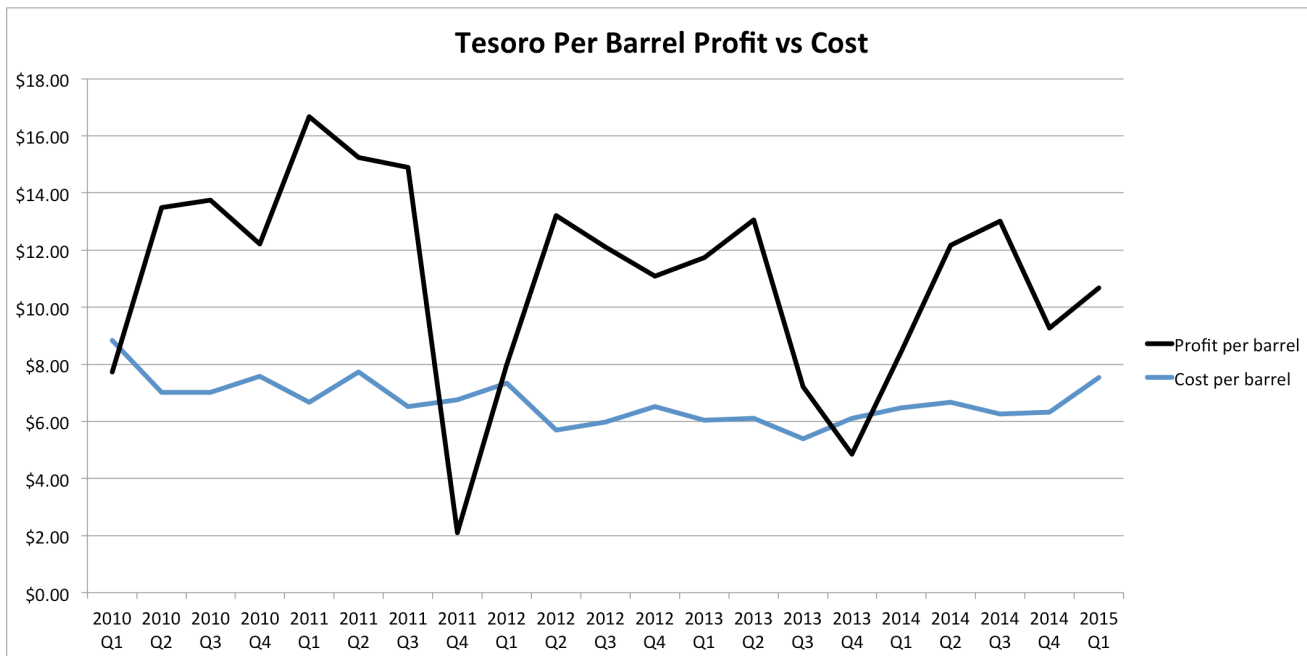
- Though gasoline consumption has dropped by 8 percent since 2005, average gasoline prices in 2014 were 51% higher than in 2005.

## **1<sup>st</sup> Quarter Profits & Costs for Valero and Tesoro**

The following two graphs show data from the companies' own SEC filings and chart per barrel operating income over the last five years, which is refining profits in California after expenses, and self-reported costs per barrel of refined product.

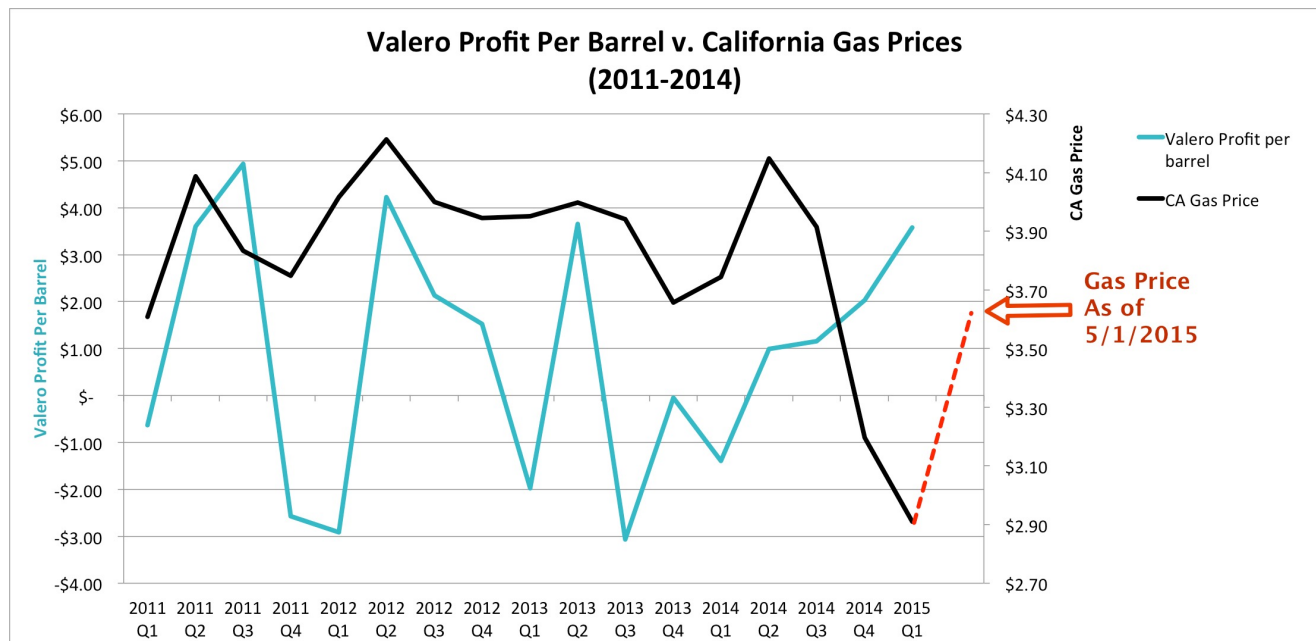
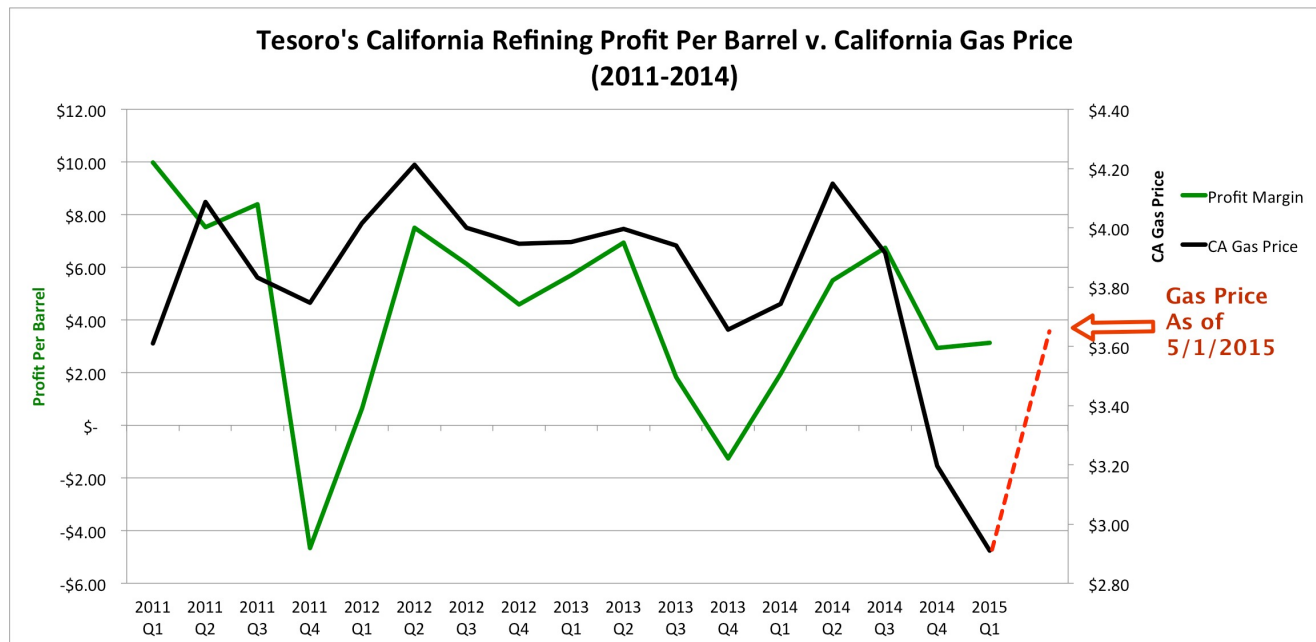
Tesoro, which experienced a strike and shutdown, and Valero, which experienced no problems, scored big California profits during the first quarter of 2015, as gasoline prices spiked. Tesoro's cost of making refined products rose \$1.20 per barrel (since it had to buy gasoline on the spot market to cover for its downed refinery and contract to replace striking workers), but profits per barrel still increased by 20 cents over the previous quarter to reach \$3.14 per barrel. Tesoro passed through costs and marked the price of gasoline up to more than cover for them. Valero, which experienced no problems, followed Tesoro's lead marking up the price of products far above any increase in costs because the market could bear it.

Historically costs for both companies have remained stable but profits have peaked with gasoline price spikes (see graphs below).



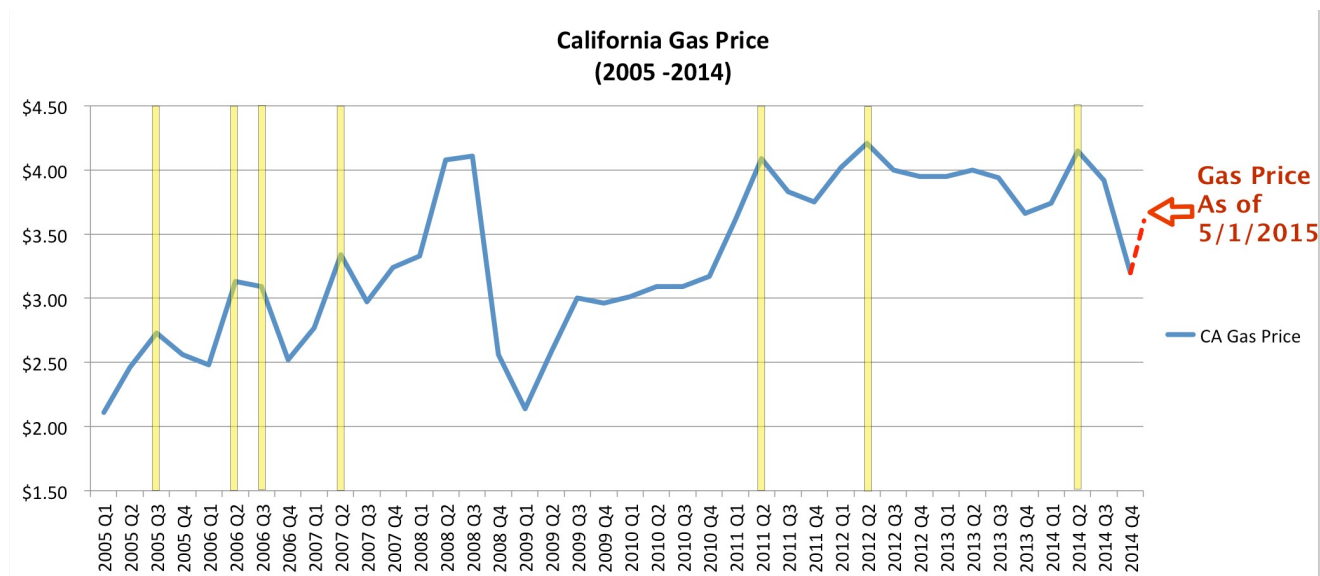
## Historical Profits Versus Gas Prices

In the last four years, the pattern shows that as gas prices spiked, so did Tesoro's and Valero's profits.



## Doubling Quarterly Profits: Tesoro and Valero

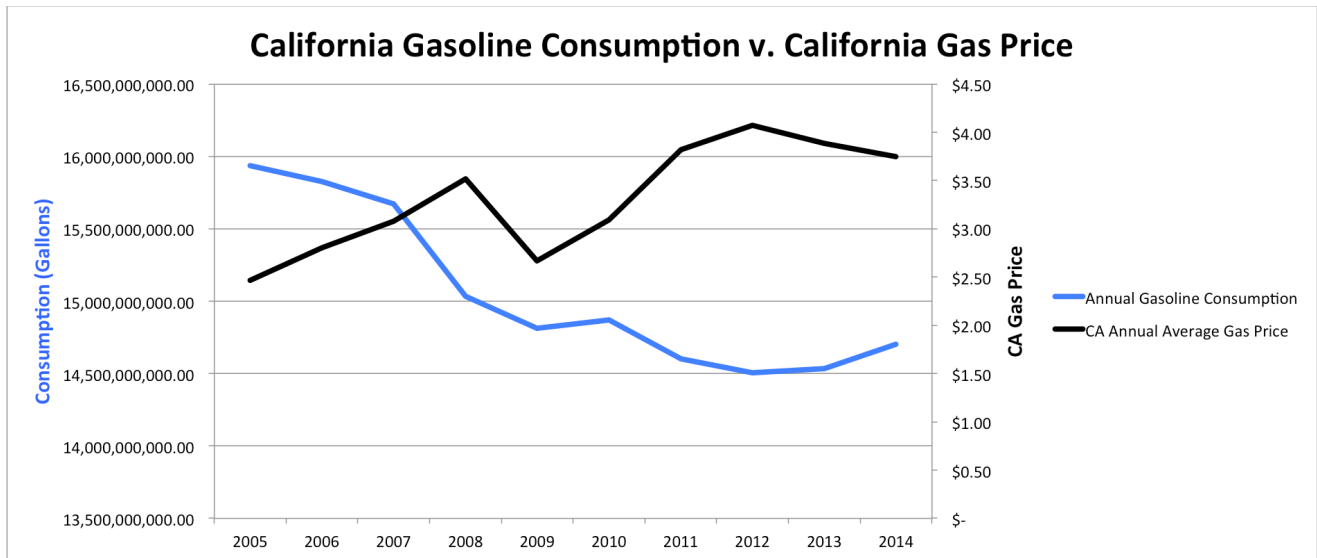
Analyzing Tesoro and Valero data from the last decade, Consumer Watchdog pinpointed seven quarters with gasoline price spikes:



Our analysis of company specific data during these quarters showed that California refining profits were twice as high as the refiners' average quarterly profit. Refinery costs stayed relatively constant, and any increased costs were more than offset by increased profits. Valero's average quarterly income over the last ten years was \$100 million. During the seven quarters pinpointed above, Valero made a profit that was 120 percent higher than average, or \$222 million. Tesoro's average quarterly profit of \$142 million mirrors that of Valero. During quarters with price spikes, Tesoro also almost doubled profits, which averaged \$231 million during quarters with price spikes.

## Gasoline Consumption

Gasoline consumption has dropped in California over the last decade by nearly 8 percent annually, according to the California Board of Equalization, due to increased car and fuel efficiencies, as the graph below demonstrates. But despite the drop in consumption over the last decade, prices for gas are 51 percent higher in 2014 than they were in 2005. A more competitive market would have driven down prices as consumption decreased.



## Conclusion

The findings of this report bolster the conclusion of our last report, “Price Spiked.” Oil refiners are making huge profits with each gasoline spike. Their incentive is to keep the current system of low inventories, downed refineries and little transparency in place. Governmental intervention is the only hope for changing a system that’s been tilted against drivers for the last decade. On March 24th, 2015 the California State Senate held an oversight hearing into why gas prices in California spiked a dollar over the space of a month after two refineries went offline. Industry CEOs did not appear to answer lawmakers’ questions about why the California market does not function like a typically competitive market should.

Consumer Watchdog again recommends that California legislature take the following steps to benefit consumers:

- Create greater transparency and accountability for refiners. California should publish refinery maintenance schedules, outages, and accidents in real time, and ask refiners to publicly disclose weekly supply figures.
- The state should require refiners to keep another week’s worth of gas supply on hand so that it matches national days of supply.
- The state should accelerate the transition to alternative transportation technologies such as electric vehicles.