Public Watchdogs
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The Honorable Rob Bonta
Attorney General of California
455 Golden Gate Avenue, Suite 11000
San Francisco, CA 94102-7004

Thursday, March 10, 2022

Re: Request for Anti-trust Gasoline Price Gouging Investigation

Dear Attorney General Bonta,

Highly suspicious "Red Flags" are flying that suggest that gasoline price gouging and market manipulation are be occurring. According to Public Watchdogs' calculations, the public is paying at least $1.30 a gallon unnecessarily for California gasoline at this time.

This letter requests an immediate investigation into gasoline and diesel price gouging.

For more than 25-years, the management at Public Watchdogs has monitored California retail gasoline prices, oil prices, and refinery supply disruptions. Our analysis of the current pricing situation strongly suggests that the wholesale and retail market is at best dysfunctional, and at worst, the result of collusion or tacit price-signaling between California oil refiners.

Red Flag: California consumers are paying tomorrow's prices for oil that was purchased weeks or even months ago

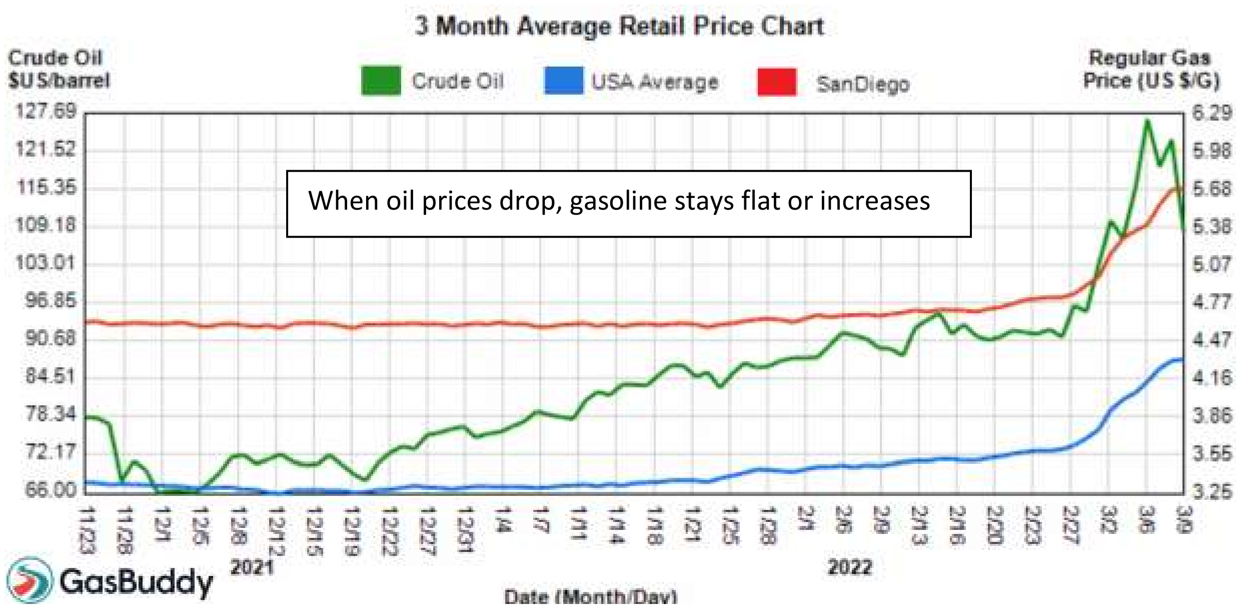
Most people are unaware that oil does not become gasoline instantly. In fact, the oil in a gallon of gasoline sold today was actually paid for weeks, if not months ago. Nor are the current price hikes in response to normal "market conditions." At this time, we are paying abnormally high prices for gasoline that was manufactured with oil that costs much less than the recent spot market high of $125 a barrel. In our view, there is a lack of competition at the refinery level. This market consolidation has given a handful of refiners the market power to raise prices with impunity.

Red Flag: "sticky prices"

There have been times this week when the average street price of gasoline has trended up by more than a penny an hour. The chart on the next page for West Texas Intermediary (WTI) shows a stunning 10-day increase in oil prices from the February 28 price of $95.72, to a closing price of $123.70 by March 8. Please note that on the next day (March 9), the WTI oil price suddenly plunged $15 dollars to a closing price of $108.70 a barrel. Despite this reversal, gas prices did not decline.

When oil prices rise, gas prices surge. When oil prices fall, gas price continue to surge. [Get source](#).

During this time, retail gas prices jumped instantly, but when the price of oil dropped dramatically on March 9, gasoline prices in San Diego and California continued to skyrocket.



Skyrockets and feathers: When oil prices drop, gas prices float higher. [Get source](#).

If the California market is so intimately tied to the to the price of oil on the global and Ukrainian markets, then when the price of oil drops, gasoline prices should drop with equal swiftness. Unfortunately, that never happens. Instead, we seem to be afflicted with "sticky prices" that do not decline when the price of oil plummets.

Red Flag: The Ukraine crisis did not push prices higher on the West Coast

First, the USA imports less than 10% of its oil from Russia, and most of that oil flows to the East Coast. Second, it takes an oil tanker *60 to 90 days* to travel from Russia's Volga River or the Straits of Hormuz to the East Coast of the USA, where there is no pipeline supplying California.

Therefore, it is impossible for a Russian oil shortage to have an instant effect on California prices.

Red Flag: "LIFO Pricing"

LIFO pricing is an acronym for "**L**ast **I**n, **F**irst **O**ut." With LIFO, the last barrel into the refinery's storage tank is the barrel that is used to set the price for the barrels of gasoline that are being produced that day. For example, if a refinery is making gasoline out of West Texas crude oil that cost $90 a barrel when it was purchased in February (get price table), it would have charged consumers the equivalent of $125 a barrel on March 8, instead of the actual input cost of only $90 a barrel.

Red Flag: "Gas prices are rising in response to oil price increases

In my opinion, the following facts are the most damning of all: First, when oil reached its all-time record high of $148.50 a barrel in July of 2008, gasoline prices never exceeded $4.12 a gallon in San Diego. Moreover, if we account for inflation the record high of $148 a barrel would be roughly $193.00 a barrel today Yet today, with oil prices at a per barrel inflation adjusted delta of about $85 less per barrel, *our average gas prices are $1.33 more at $5.49 per gallon*. Furthermore, only about 10¢ of that increase is due to the newly imposed gas tax.

California consumers are suffering. Something is terribly wrong. Please take action now by announcing a formal investigation into gasoline price gouging.

Finally, I have confidential information that I would like to share that may provide unique insights into possible regulatory solutions to this problem. . I look forward to working with your staff to right this horrific and predatory assault on California businesses and motorists.

Sincerely,

Charles Langley
Executive Director,
Public Watchdogs

cc: Kathleen E. Foote, Senior Assistant Attorney General
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