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## Backgrounder 5

# Gasoline Supply

Americans are accustomed to an abundant supply of gasoline that is easy to purchase both in urban and rural areas. To satisfy the public demand for gasoline, the oil industry has developed a complex network of pipelines, terminals and truck fleets to move gasoline from refineries to service stations.

The use of cleaner-burning gasoline in California means that California service stations will be selling gasoline that meets different specifications than gasoline sold in other states. This is not new, as California refineries for many years have produced gasoline to specifications required specifically by California.

This backgrounder discusses how the oil industry will supply cleaner-burning gasoline to consumers during the remainder of the decade.

### Background

California is a major producer of gasoline products. A total of 13 refineries currently operate in the state and produce the vast majority of gasoline used in California. They are located in three regions: the eastern San Francisco Bay Area, the Bakersfield area and southern Los Angeles County.

In general, the Bay Area refineries supply gasoline for Northern California, while the Bakersfield and LA County refineries supply Southern California. The oil industry typically has moved gasoline between the two halves of the state, as well as export gasoline from California to other states and the world market.

Much of the fuel produced at the refineries is transported via pipeline to bulk terminals in outlying areas. The fuel is then transferred to tank trucks, which bring the gasoline to service stations.

### Phase-In Period: March 1 to June 1, 1996

To ensure a smooth transition from current gasoline, the California Air Resources Board has created a three-month phase-in period for cleaner-burning gasoline.

Refineries must begin producing cleaner-burning gasoline by March 1, 1996. The fuel must arrive at bulk terminals by April 15 and must be sold at service stations by no later than June 1. During the three-month phase-in period, service stations can continue to sell their previous inventories of gasoline.

It is expected that service stations will gradually begin selling cleaner-burning gasoline throughout the phase-in period. There will be no single date when all of California changes to cleaner-burning gasoline.

Because some oil companies find it more conducive to their operations to begin refining and distributing cleaner burning gasoline earlier than required, it is expected that many service stations will be selling cleaner-burning gasoline before March 1.

### **Supply/Demand Projections for 1996-2000**

The California Energy Commission has been working with the Air Resources Board and the oil industry to estimate the statewide supply and demand for cleaner-burning gasoline through the year 2000. According to the Energy Commission's estimates, the state's refineries should have more-than-adequate capacity to meet the demand for the gasoline.

The Energy Commission's most-likely estimate is based on the assumption that gasoline demand will see little growth between 1996 and 2000. Even if demand increases, the state's refineries have the capacity to produce sufficient quantities of cleaner-burning gasoline.

In an extreme case, gasoline demand could exceed in-state refining capacity by 2000 if demand increases by 2 percent annually beginning in 1996. This scenario assumes an unlikely level of economic growth and gasoline use. In such an extreme case, the oil industry would have to meet demand by importing cleaner-burning gasoline from out-of-state refineries, or increase in-state production of gasoline by making refinery modifications or transporting additional new blendstocks to California refineries.

### **Variances**

California's oil refineries have informed the Air Resources Board that they will begin producing cleaner-burning gasoline by March 1, 1996. However, an unforeseen incident beyond a refinery's control, such as damage from a fire, could force a refinery to miss the March 1 deadline. A similar future incident could create the potential for a fuel shortage.

A refinery facing production problems due to circumstances beyond its control could qualify for a variance from the cleaner-burning gasoline regulations. This would allow the refinery to temporarily produce fuel not meeting the specifications of cleaner-burning gasoline. The Board would have to make a finding that a variance serves the public interest. Any refinery receiving a variance would have to pay a mitigation fee for each gallon of fuel produced to ensure that it does not accrue any financial benefit from selling fuel that is cheaper to produce than cleaner-burning gasoline.