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Alert | Energy & Natural Resources/ California Government Law & Policy

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California Energy Commission Gains Authority to Regulate Refinery Transportation-Fuel Inventories

Go-To Guide:

- Effective Jan. 14, 2025, a new CA law expands CEC authority to regulate refineries, allowing it to require minimum inventory levels of transportation fuels.
- The CEC can establish minimum inventory levels, maximize use of existing storage infrastructure, and identify conditions for inventory adjustments.
- Refineries violating the CEC requirements face potential penalties of up to $1,000,000 per day after a three-day notice period.

On Oct. 14, 2024, California Gov. Gavin Newsom signed Assembly Bill X2-1 (ABX2-1) into law. The new law expands California Energy Commission (CEC) authority to adopt regulations requiring California refineries to maintain minimum inventories of state-compliant refined transportation fuels.

Gov. Newsom says he called the special legislative session that resulted in ABX2-1's passage because he saw an urgent need to address gasoline price spikes. According to the CEC, there is "a significant risk that [gas] prices could spike in the coming months," and this risk increases if gasoline supplies become constrained during refinery maintenance periods.

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In a 2023 special session, the state passed SBX1-2 in response to a surge in gas prices that occurred during a planned maintenance period for California refineries. That law authorizes the CEC, in concert with state agencies and industry and labor stakeholders, to regulate the timing of refinery turnarounds and maintenance to "minimize the impact of maintenance-related production losses on fuel prices."

ABX2-1 further expands CEC authority, allowing it to require oil refiners operating in California to maintain established minimum inventory levels. The new law authorizes the CEC to create regulations that 1) establish minimum inventory levels, 2) maximize use of existing fuel storage infrastructure, 3) waive the requirements for small refineries, 4) adjust the inventory requirement, and 5) identify market conditions that allow a refinery's inventory to fall below the specified minimum. ABX2-1 instructs the CEC only to adopt minimum inventory regulations if it finds the likely benefit to consumers of preventing gas price volatility outweighs the potential costs, and lists certain factors for the CEC to consider when making this determination. It also requires that refiners demonstrate to the CEC that they have satisfactory plans for resupplying the losses they incur during maintenance to avoid adversely affecting California's gas market.

ABX2-1 prevents the CEC from imposing its inventory regulations on refiners in a way that would require them to build additional fuel storage infrastructure. While the CEC previously concluded that sufficient aggregate storage capacity exists to maintain the minimum inventory required to protect against price spikes, it also cited a need for continued analysis of individual refinery access to that storage infrastructure. The CEC's analysis may be further complicated by the fact that a major refinery in Los Angeles that accounts for 8% of the state's refining capacity recently announced plans to close, citing long-term uncertainty.

Under ABX2-1, a refiner in violation of CEC minimum inventory requirements will have three days after receiving notice of the violation to comply. After three days, the refiner is subject to administrative penalties of up to $1,000,000 per day of noncompliance.

Assemblymembers Gregg Hart and Cecilia Aguiar-Curry and Sen. Nancy Skinner authored ABX2-1. The bill sunsets Jan. 1, 2033.

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