

Pasadena Star-News

Oil profits more than doubled this year

Tuesday, November 16, 2004 - The major oil companies this year have made more than twice the amount of profit at their California refineries as compared with those in the rest of the country. So for major oil companies stockholders and employees it will be a Happy Thanksgiving indeed.

Although the price of oil has fallen dramatically from the precipitous levels of last month, the price of gas has not fallen as quickly. The price for regular unleaded gasoline went as high as \$2.40 per gallon in California on Oct. 18, according to the **Energy Information Agency's** weekly report.

In case you have a short memory, those same Southern California stations were selling regular unleaded at \$1.65 to \$1.85 per gallon this time last year.

The major oil companies have been able to hold up their gas prices by use of the "zone pricing" system. They mirror each other's Dealer Tank Wagon prices for different communities and will not lower them unless another major oil company moves first.

It tends to make gas prices shoot up like a rocket and drift down like a feather.

The average price of gas should continue to drop, ever so slowly, to about \$2.20 per gallon by Thanksgiving. Some of the independent, unbranded stations are buying their gasoline at the wholesale spot market price, which equates to the street price of below \$2 per gallon.

The fact is, crude oil has dropped almost \$10 per barrel in the last month. Since there are 42 gallons in a barrel of oil, we should have already seen a decrease in the price of gas of 25 cents per gallon by using the industry's own price calculator.

So where is our extra quarter per gallon?

With more than 45 million gallons of gasoline used by Californians per day, it brings back a reminder of what Sen. Everett Dirksen once said, "A billion here, a billion there; pretty soon we'll be talking about real money!"

The pipeline break in Walnut Creek raised concerns of the price of gas rising again, but it didn't affect prices in Southern California. Nonetheless, it shows how vulnerable the California petroleum industry is, as well as the

potential of damage to our infrastructure of pipelines, terminals and refineries. This incident was apparently caused by human error, but could just as well have been an act of vandalism.

Originally, the **Shell** refinery in Bakersfield had been scheduled for shutdown by Sept. 30. It was prevented from being permanently closed after vehement protests from various consumers groups, state Attorney General Bill Lockyer and the state's two U.S. senators, who implored Shell to find a buyer for the facility.

Up until then, Shell had fully intended to move forward with the closure of that refinery, which accounts for a very critical piece of California's overall gasoline supply picture.

In a worst-case scenario by industry experts, the price of gas could have gone as high as \$3 per gallon this year. We even faced a potential of once again having lines at gas stations the kind of situation that occurred in the 1970s during a boycott by the **Organization of the Petroleum Exporting Countries**.

A combination of a several factors already have gasoline in short supply. After Labor Day, serious weather conditions and various mishaps interrupted crude oils shipments. On top of that is the fact that at this time each year California refiners take some of their refineries off line in order to switch from summer to winter gasoline. All of those factors combined to make it a perfect storm as well as an opportunity for oil companies to exact excess profits from their refineries.

U.S. consumers will spend an additional \$40 billion this year for fuel to heat their homes and drive their cars and trucks. The greatest financial squeeze is felt by low- and fixed-income families, who spend about three times as much as middle-income families do on energy.

For average folks it means there will be little less gravy and the trimmings to go along with the traditional holiday turkey feast on their Thanksgiving Day tables this year.

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