New report shows market manipulation by oil companies during summer gas price spikes

WASHINGTON, DC – In a terse letter to Attorney General Eric Holder, Rep. Peter DeFazio (D-OR) called the lack of progress on an investigation into high West Coast gas prices “intolerable”. He urged AG Holder to review and immediately act on a recent report by Oregon-based McCullough Research which confirmed “normal market factors of supply and demand do not sufficiently explain recent [increases in] West Coast gasoline prices”.

“Back in the spring, when Oregonians were paying through the nose at the pump, I wrote to the so-called Gas Price Fraud Working Group calling for an investigation. Nothing happened. I wrote to the president and raised the issue of market manipulation by California refineries. Nothing. It’s time for the Department of Justice to step up and do what they are supposed to do: crack down on, or at least investigate, illegal energy market activity,” said DeFazio.

DeFazio points to a recent research paper by McCullough Research showing that back in May gasoline inventories on the West Coast were actually increasing, supplies rising, and consumer demand was falling – all factors that point to lower gas prices. Yet, gas prices in Oregon and on the West Coast skyrocketed up – at times going beyond 50 cents more per gallon than the national average.

The McCullough Research report also claims – backed by laborious reviews of thousands of environmental documents – several California refineries actually continued to produce gasoline during periods of supposed outages and maintenance shutdowns that the oil companies blamed for the price hikes.

“Basically, this independent research shows that California refineries were misleading the public. Refinery outages and maintenance shutdowns just provided a convenient excuse and explanation for ‘declining’ gas production so they could jack up the price of refined gasoline,” DeFazio said. “Hugely profitable oil companies who continue to look for every opportunity to rip off American drivers need to be held accountable for their blatant market manipulation. Enough is enough. Serious action is needed now.”

BACKGROUND

According to findings from a McCullough Report in June 2012, which studied prices in California, gas prices were $0.77 a gallon higher than “they would be normally, given the historical patterns of oil prices and gasoline inventories,” during the May price spike. McCullough’s November 2012 report found that gas prices were $0.66 a gallon higher than they should have been during the October price spike. They estimate that oil and gas companies received windfall profits of $48 million per day in May and October because of the price gouging.

In mid-May, DeFazio requested that the Justice Department’s Oil and Gas Price Fraud Working Group investigate the recent decline in West Coast oil refinery production as gas price jumped throughout the region. The Justice Department referred DeFazio’s letter to representatives of the Working Group, including the Commodity Futures Trading Commission, the Federal Trade Commission, the Department of the Treasury, the Federal Reserve Board, and the Securities and Exchange Commission. To date, the Working Group has not released any findings.

DeFazio’s radio actuality is attached to this email.

The DeFazio letter to Holder is below:

The Honorable Eric Holder

Attorney General

U.S. Department of Justice

950 Pennsylvania Ave. NW, Room 1145

Washington, D.C. 20530

Dear Attorney General Holder:

This letter follows my May 17, 2012 letter to the Department of Justice's Oil and Gas Price Fraud Working Group requesting an immediate investigation into rising gas prices on the West Coast.

Six months ago – when West Coast drivers were paying at least 50 cents more per gallon of gas than the national average – I requested the Working Group initiate an investigation into the decline in California oil refinery production following a fire at a BP owned refinery in Washington State. As I stated then, it does not make sense for refineries to reduce supply when demand is up – unless their intent is to drive up prices.

I then sent a letter to President Obama on June 1, 2012 urging the president to provide immediate gas price relief for millions of West Coast consumers by publicly supporting an investigation and sending a clear message to the oil and gas industry that the Obama administration is serious about reining in abuses and criminal violations in our energy markets.

As of today, it is unclear what actions – if any – the Department of Justice and the specially created Oil and Gas Price Fraud Working Group have done to fulfill the administration's commitment to rigorously pursue and investigate any potential violations of criminal or civil laws to manipulate retail gas prices. I am writing again to urge immediate action.

The volatility of gas prices in the State of Oregon and throughout the West Coast has served a crushing blow to West Coast drivers, families, and small businesses. After nearly a year of paying abnormally high prices well above the national average, West Coast consumers are still paying 28 cents more per gallon than East Coast drivers and 58 cents more per gallon than Gulf Coast drivers.

To add insult to injury, these devastatingly high gas prices on the West Coast appear to be a result of market abuses by a handful of California refineries – not the “dynamics of supply and demand” as the oil and gas industry has facetiously claimed for decades while laughing all the way to the bank.

The behavior of California refineries over the last six months has been suspicious at best and malicious at worst. New details have emerged from a recent, independent report by McCullough Research suggesting the latter.

The McCullough report confirms that back in May gasoline inventories on the West Coast were actually building, supplies were rising, and consumer demand was falling – all factors that favor declining retail prices. Yet, gas prices skyrocketed up.

The McCullough report also makes the claim – backed by laborious reviews of thousands of environmental documents – several California refineries actually continued to produce gasoline during periods of supposed outages and maintenance shutdowns.

It does not take a genius to connect the dots: refinery outages and maintenance shutdowns provided a convenient excuse and explanation for declining gas production and higher prices on the West Coast. In reality, for six months drivers paid through the nose at the pump while California refineries made huge profits with *continued* production and *growing* supplies.

Enough is enough. The lack of progress in uncovering whether or not California refineries engaged, and are continuing to engage, in anti-competitive and illegal behavior to intentionally drive up retail gas prices on the West Coast is intolerable. The millions of West Coast drivers and the hundreds of thousands of consumers, families, and small businesses I represent deserve an answer. Action is needed now.

I hope you will review and fairly consider the attached McCullough Research report and immediately take steps to address this critically important economic issue.

Sincerely,

Peter DeFazio

Member of Congress

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