ENERGY ALERT

The Petroleum Industry in the Western United States

Spring/Summer 2009

Energy You Can Depend On

California Fuels Market Update

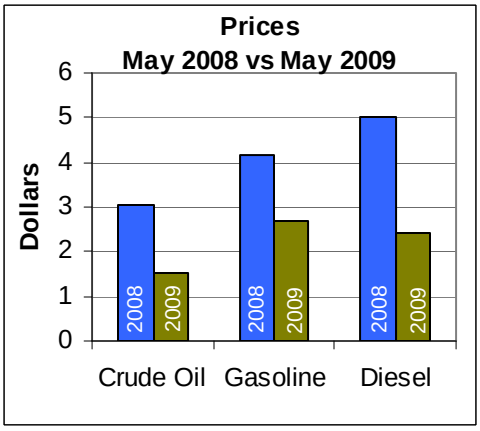
The prices we pay for gasoline and diesel fuel are significant concerns to most consumers. We offer the following information to increase understanding and foster a healthy public dialogue on this important issue.

Prices remain well below 2008 levels

Despite the recent increases, gasoline and diesel prices remain significantly below levels seen at this time of year in 2008.

At the end of May, 2008, crude oil was selling at $128.47 per barrel, approximately twice the price it was receiving at the end of May this year.

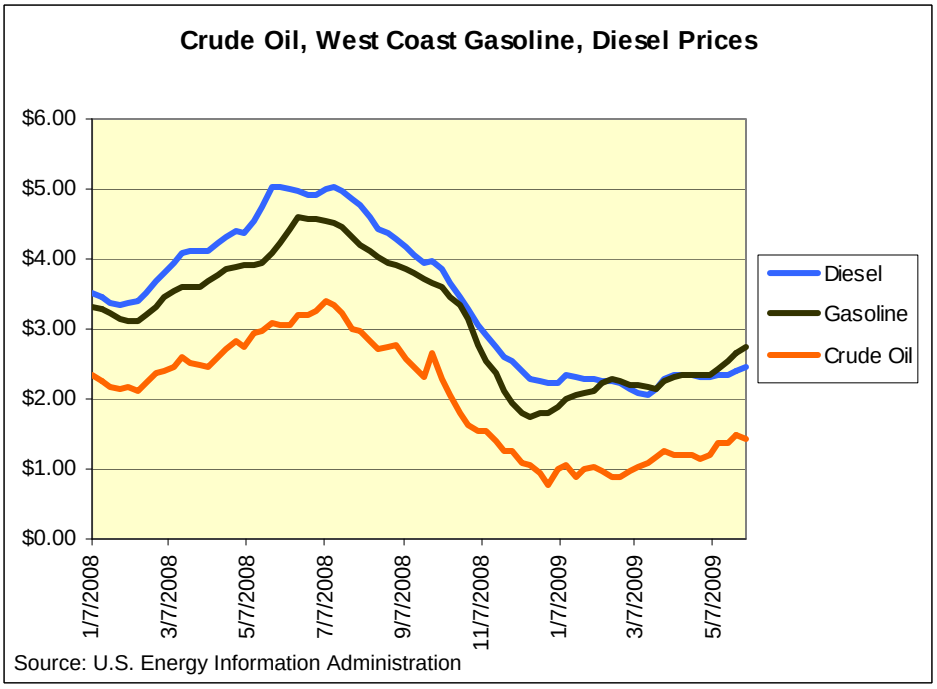
Gasoline in California averaged $4.15 per gallon in May, 2008, about $1.35 per gallon higher than 2009. Diesel fuel was selling for $5.03 per gallon in 2008, $2.50 more than 2009.



Crude oil, gasoline and diesel prices

One significant contributing factor to the recent upward trend in gasoline and diesel prices appears to be increases in crude oil costs.

During the first five months of 2009, the benchmark price for West Texas Intermediate crude oil rose 48 percent. During that same period, the average price of gasoline in the California increased 45.8 percent. Diesel fuel rose just 11.6 percent.



According to the U.S. Energy Information Administration, increases in crude oil costs appear to be the result more of rising expectations that the global recession may have bottomed out than typical supply/demand dynamics. However, the EIA indicated significant uncertainty remains about global and U.S. economic conditions.

Other analysts noted manufacturing output in China, one of the world's leading consumers of crude oil, increased in May for the third consecutive month.

In addition to optimism about economic recovery, the U.S. dollar has continued to weaken recently compared to other currencies. Because oil is traded in U.S. dollars, a weakening dollar has often resulted in upward movement in the price of crude.

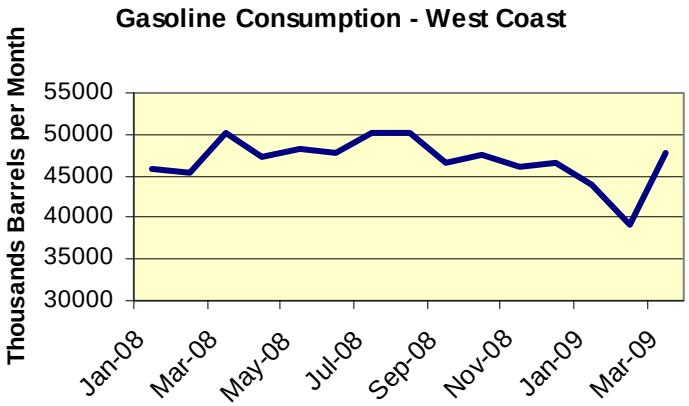
Seasonal factors, air quality regulations play a role in market conditions

While the recent increases in retail prices appear to be a bit stronger than is typical for this time of the year, we frequently see gasoline prices increase during the spring and early summer. California's air quality regulations require refiners to switch to a slightly more costly summer fuel blend available at retail outlets by April 1. And the summer driving season typically puts increased demand on available supplies.

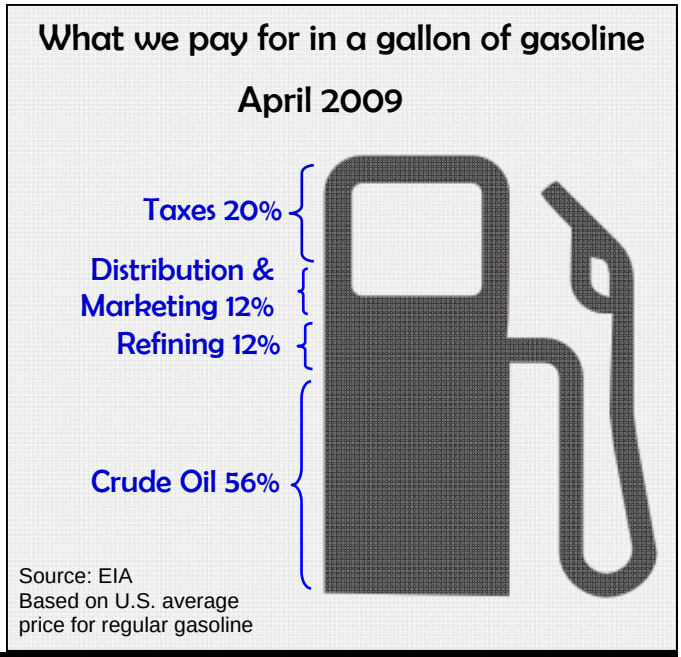
WSPA
Western States Petroleum Association

Gasoline consumption is trending upward

After three months of declines, gasoline consumption in the United States increased in March. On the West Coast, gasoline consumption also increased sharply (21 percent) in March compared to the prior month. .



Source: EIA

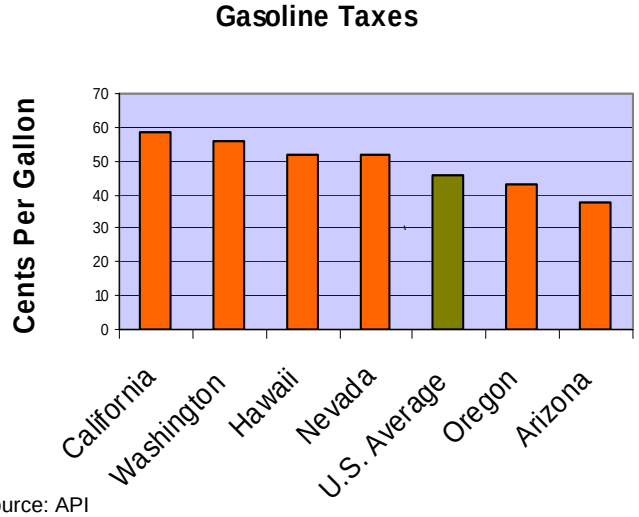


So why does California gasoline typically cost more?

BECAUSE on April 1 of this year, California's state sales tax increased 1 percent to 7.25 percent. When city and county taxes are included, sales tax rates in California now range from 8.25 percent to 9.5 percent. According to API, California currently imposes the second highest rate of taxes on gasoline – approximately 58.3 cents per gallon. Only New York has a higher gasoline tax (60.9 cents per gallon).

BECAUSE California requires the cleanest burning gasoline in the world, and that cleaner-burning fuel costs more to produce.

BECAUSE historic demand for gasoline in California and surrounding states supplied by California refineries has grown faster than California's production capacity, requiring imports of gasoline and blend stocks.



Source: API

BECAUSE California's tight supply-demand balance and limited number of operating gasoline-producing refineries (13) makes its gasoline market more vulnerable to immediate impacts of supply disruptions.

BECAUSE California is a "fuel island." No crude oil or petroleum product pipelines link California refineries to other sources of supply. All of the petroleum we import arrives in ships that must travel from 10 days to 6 weeks to get here. Once here, imported crude oil, gasoline and other petroleum products must pass through an infrastructure that already is at or near capacity.