



May 17, 2013

Robert B. Weisenmiller, Ph.D.
Chair, California Energy Commission
1516 Ninth Street, MS-33
Sacramento, CA 95814

Dear Chair Weisenmiller:

After a nine month investigation that involved close cooperation between our agencies, we have reached an agreement with Tesoro that resolves our concerns arising from Tesoro's proposed acquisition of BP's Southern California refining and marketing assets. The concessions we received from Tesoro will advance our effort to protect competition, the environment, and jobs in the state of California. We could not have achieved such a resolution to the investigation without the generous assistance of the CEC and its staff, and for that we are grateful.

At the outset of the investigation, we had significant concerns about the potential effect of the acquisition on competition. Over the course of the investigation the parties and various third parties combined to produce millions of pages of documents and voluminous amounts of data. We reviewed these documents and data, subpoenaed the parties and numerous third parties for testimony, and secured a leading economist in the field of oil and gas to conduct various analyses of the markets at issue. After a thorough investigation and review of the evidence, many of our initial market competition concerns were addressed, and our office decided that our remaining consumer, environmental and job security issues were appropriately addressed through a letter-agreement. Some of the facts that lead us to this conclusion include:

- Demand for CARB gasoline has declined over the past several years resulting in excess capacity;
- A significant amount of excess capacity will be controlled by refiners other than Tesoro;
- The acquisition leaves intact seven refiners on the West Coast; and
- The structure of the retail market has become less vertically integrated and Tesoro, along with many other refiners, no longer sets street prices for gasoline.

Below is a summary of the agreement we have reached with Tesoro, including a description of our remaining issues and the binding commitments Tesoro has made to address them.

Competition Issues

Capacity Concerns -- Reductions in CARBOB capacity have led to increases in the prices California consumers pay for gasoline. One of our primary concerns here was that the acquisition would enable Tesoro, as the largest refiner in Southern California, to reduce capacity and increase prices. In response to these concerns, however, Tesoro has agreed not to reduce capacity of CARBOB for a period of three years. Over the next three years, Tesoro will maintain the historical average daily production for both the Carson and Wilmington refineries. Tesoro has also agreed to increase CARBOB capacity in the amount of 400 barrels per day to ensure that California continues to have excess CARBOB capacity on hand in the event of an unplanned refinery outage. Tesoro will also provide our office with monthly production volume data for all of its West Coast refineries, so that we can monitor Tesoro's compliance with these commitments.

Maintenance of the ARCO Brand -- As part of the acquisition Tesoro will take ownership of the ARCO brand in Southern California. The ARCO brand plays an important role as the value leader in the market for branded retail gasoline in Southern California. It is important to our office that consumers continue to reap the benefits of ARCO's lower prices for years to come. Accordingly, Tesoro has agreed to maintain ARCO's status as a low cost fuel provider. Tesoro has agreed to provide our office with data for average monthly dealer tankwagon prices for all of its retail brands in Southern California so that we can monitor its compliance with this commitment.

Environmental Issues

Tesoro has stated that the acquisition will enable it to achieve significant synergies, some of which will benefit the environment by lowering greenhouse gases and emissions. Specifically, Tesoro has stated that the acquisition will enable it to install a single distillate desulfurization unit ("DDU") for both the Carson and Wilmington refineries.¹ The California Air Resources Board has studied this issue and has concluded that the installation of a DDU for the combined facility would result in a reduction of emissions and greenhouse gases. Additionally, Governor Brown sent a letter to Tesoro on April 8, 2013, stressing the importance of installing a DDU should the acquisition proceed. Tesoro has committed to provide our office with an annual progress report detailing the steps it has taken to realize the synergies resulting from the acquisition, including the installation of a DDU, so that we can monitor its commitments to lower greenhouse gasses and emissions.

¹ Currently, both Carson and Wilmington utilize fluid catalytic cracking ("FCC") units to convert feedstock (gasoil) into intermediate products that the refineries further process. The FCC units produce much lower cracking yields (and result in higher emissions and greenhouse gases) than a DDU.

Robert B. Weisenmiller, Ph.D.

May 17, 2013

Page 3

Job Security

Acquisitions such as this one often lead to significant layoffs, which are then touted as “synergies” by the companies. Our office was concerned that this acquisition might lead to similar reductions in jobs. As a result, Tesoro has agreed not to eliminate any jobs at either the Carson or Wilmington refineries for a period of two years. Tesoro will provide our office with an annual report detailing employment data at the refineries so that we can monitor its compliance with this commitment.

In conclusion, we believe that these commitments will help ensure that California’s oil and gas markets remain competitive for years to come, help to reduce greenhouse gases and emissions, and protect jobs for potentially thousands of Californians. Over the next several years we will be vigilant in monitoring Tesoro’s compliance with its commitments, and we hope to continue working closely with the CEC in this respect. Through our combined expertise and enforcement authority we can ensure that Tesoro follows through with its commitments and the synergies resulting from this acquisition will benefit all Californians.

Sincerely,



KATHLEEN E. FOOTE
Senior Assistant Attorney General

For KAMALA D. HARRIS
Attorney General

KEF:dbc