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Chairman Wyden, Senator Murkowski and distinguished members of the committee, thank you for the invitation to testify before you today. I appreciate the opportunity to provide some insight into factors impacting motor fuels prices.

I serve as President of the Petroleum Marketers Association of America (PMAA). PMAA is a federation of 48 state and regional trade associations representing more than 8000 petroleum marketing companies nationwide, the majority of which are small businesses as defined by SBA. These companies are very diverse but all have one thing in common, they all bring to market liquid fuels such as gasoline, diesel, heating oil, ethanol, biodiesel, jet fuel and kerosene. Our member companies are engaged in the transport, storage and sale of petroleum products on both the wholesale and retail levels. They supply gasoline to convenience stores, diesel to truck stops, lubricants to industry and heating oil to millions of customers. Not only are these companies primary suppliers of fuels they also own and/or operate over 80,000 retail facilities in the U.S. They also are often specialists serving farmers, railroads, marinas and airports with the fuels they need.

The U.S. motor fuels production and distribution system is extremely complex and is therefore misunderstood and inaccurately characterized by many. I am hoping we can provide some unique insights to the committee today. An example of misunderstanding we deal with every day relates to gas station ownership. Over the past 12 years, the major integrated oil companies have dramatically reduced their direct retail operations and have sold those businesses to petroleum marketing companies. Of the 160,000 U.S. retail gasoline locations, over 94 % are now owned by independent businesses. When I joined PMAA in 1998, 70% of the Shell stations in the U.S were owned by Shell. Today nearly all Shell stations are owned by independent petroleum marketing companies.

Petroleum marketing companies do not benefit from high gasoline or diesel prices. Because they operate in such a transparently competitive environment, higher wholesale prices must be absorbed by retailers until street prices catch up. Thus, rising gasoline prices not only burden motorists, but petroleum marketers as well. In order to remain competitive, retailers usually offer the lowest price for gasoline to generate volumes sold and customer traffic inside the convenience store. When gasoline prices are unusually high, customers often reduce their purchases of convenience items. Additionally when prices are high, some retailers struggle with credit line limits.

Another factor most PMAA member companies have in common is most are "rack buyers". In the industry, wholesale product is loaded at "terminal racks" and there are approximately 1200 terminals in the U.S. Access to the terminal racks is quite restricted. Companies permitted to load product at terminals must have a plethora of state, local and federal licenses and permits. Also, they must have credit terms with refiners which is crucial for trade to function.

Because PMAA member companies are "rack buyers", I will focus most of my testimony on what factors influence wholesale rack prices and how they impact petroleum marketers and consumers.

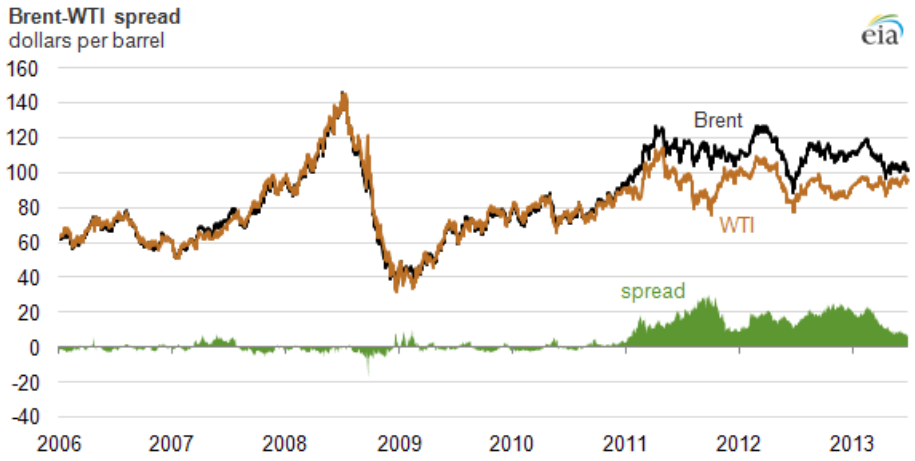
1) The Price of Crude Oil

The price of crude oil is the primary driver of wholesale gasoline and diesel prices accounting for 67 percent of the price per gallon in May 2013.

A recent phenomenon in the oil markets is the price spread between the Brent crude oil contract and the light sweet WTI crude oil contract. Historically, the West Texas Intermediate (WTI) contract was the dominate price benchmark for the world, but since 2011, the North Sea Brent crude oil contract has taken over as the dominate benchmark. The sweeter, light crude WTI oil contract delivered in Cushing, Oklahoma was $2 - $3 higher compared to the Brent contact and now it's common to see the Brent contract price $10 - $20 above the WTI contract, although, in recent days that spread has narrowed to less than $5.

Because Bakken and Eagle Ford oil shale developments are delivered to Cushing, Oklahoma, they put downward price pressure on the WTI contract, but only have a modest impact on the world's oil prices because the WTI crude oil is landlocked and doesn't have an outlet to the world oil market. ***However, this doesn't take away from the fact that the U.S. must continue to pursue domestic oil production to prevent future oil price shocks and limit OPEC's power to dictate price.***

As I mentioned earlier, crude oil prices often directly correlate to rack prices. Since crude prices are the prime factor, PMAA believes it is a duty of the U.S. government to make sure crude futures markets are honest markets with high levels of transparency. We believe both the WTI and Brent contracts can be vulnerable to excessive speculation. Since some of the U.S. market is likely priced off of Brent, the Commodity Futures Trading Commission (CFTC) should be examining the price discovery and fundamentals of the Brent contract. The graph below shows the spread between WTI and Brent. Only until 2011 did the massive spread start occurring.



Source: EIA

Congress also directed the CFTC to pass rules limiting certain commodities traders' size in energy commodities traded on and off exchanges where energy commodities are traded daily. The goal was to prevent investors from flooding cash into commodities and inflating prices. Large purchases of crude oil futures contracts by speculators have, in consequence, created an additional paper demand for oil which drives up the prices of oil for future delivery. This has the same effect that additional demand for contracts for the delivery of a physical barrel today drives up the price for oil on the spot market. Basically, a futures contract bought by a speculator has the same effect on demand for a barrel that results from the purchase of a futures contract by a petroleum marketer. The very definition of cash-settled contracts as "look-alikes" means that what occurs in the financially-settled markets directly affects what occurs in the physical market.

Final implementation of the CFTC's position limit rules was to have gone into effect on October 12, 2012 (for spot month position limits). However, on October 1, 2012, the U.S. District Court of DC ruled in favor of the Plaintiffs (International Swaps and Derivatives Association, etal) on the new speculative position limits rule. PMAA, the New England Fuels Institute (NEFI) and other members of the Commodity Markets Oversight Coalition filed an amicus brief in support of the CFTC's efforts to appeal the position limits ruling. PMAA cautiously supports the Commission's final rulemakings on margin/capital requirement for OTC swaps and registration of unregulated exchanges which will reduce leverage in the marketplace that will benefit end-users and other market users from excessive price volatility and extreme price increases at the terminal rack. The final CFTC rulemakings will give end-users better price information because it will force swaps dealers to real-time reporting which will bring competition to the swaps markets.

Additionally, PMAA has joined with other petroleum industry organizations in urging the President to immediately approve the Keystone XL pipeline which will contribute towards limiting OPEC's cartel power and ability to dictate price. Further, in the event of geopolitical conflict, we will be thankful to have the supply from our friends in Canada.

2) Environmental Regulation (including the Renewable Fuels Standard "RFS")

There are over 30 boutique fuels in the United States. Boutique fuel blends in states differ including reformulated gasoline (RFG) and fuels with different levels of low Reid-Vapor-Pressure (RVP) ranging from 7 psi to 8 – 15 psi in standard conventional gasoline. Some states mandate RFG blended with ethanol (an oxygenate) while some states mandate low-RVP fuels blended with ethanol. As a result, these boutique fuels requirements create supply botttlenecks, and, in most circumstances, supply shortages foster higher prices.

Additionally, passage of the "Energy Independence and Security Act of 2007" (EISA) was designed to spur the development and production of these alternative fuels, most notable of which is the 36 billion gallon renewable fuels standard (RFS). Under the EISA, blenders, primarily refiners and terminal operators earn marketable credits for each gallon of ethanol they blend into gasoline. The credits are traded among refiners in order to meet their annual renewable fuel volume blending mandates established by the EPA.

Lately, the value of ethanol credits have increased in value and a number of factors play into this recent rise. As the ethanol blendwall approaches due to the barriers of E15, RIN values have skyrocketed because obligated parties are buying all of the available RINs to comply with the law. Eventually, refiners could resort to exporting gasoline or cutting back production to fall within the parameters of the RFS blending mandate, so they don't violate the law. Actions like this could lead to rack price chaos unless EPA lowers the corn-based ethanol mandate which PMAA supports lowering the level achievable with an E10 blend and reasonable growth for E85.

PMAA does not oppose E15 but advises marketers to obtain knowledgeable legal and regulatory counsel before offering E15 at wholesale or retail.

The biggest barriers to E15 include:

- Gasoline retail infrastructure equipment is certified to dispense and store up to 10 percent ethanol by Underwriters Laboratories (UL). Without UL approval, very few retailers will offer E15.
- Auto manufacturers extend warranties on existing vehicle fleets up to 10 percent ethanol. Most have not been willing to amend their warranties to handle blends above 10 percent because tests have shown E15 could damage engines, fuel pumps and other system components. This position did not change after EPA approved E15 for 2001 and newer vehicles.
- PMAA is also concerned that if an owner of a pre-2001 vehicle misfuels with E15, the retailer would be held liable for damage to engine and emission system components.

3) Regional refinery utilization and/or outages

Recent planned and unplanned refinery outages have also impacted rack prices. Scheduled maintenance at the BP Whiting Refinery in Indiana and at the ExxonMobil Joliet Refinery in Illinois (which both are now back up and running) has played a role in decreasing the supply of gasoline and increasing costs in the North Central region of the country. Furthermore, unplanned outages at HollyFrontier refineries in Cheyenne, Wyoming and El Dorado, Kansas and the Citgo LeMont Refinery in Illinois have contributed to the tightening of supply and higher rack prices. It's unfortunate that unplanned and planned outages occurred simultaneously, but there are ways to alleviate this occurrence. Currently, federal anti-trust laws prevent refiners from communicating with each other, so in other words, refiners don't know when another one will have scheduled maintenance performed. Section 804 of the "Energy Independence and Security Act of 2007" *Coordination of Planned Refinery Outages,* assigned the Energy Information Administration (EIA) Administrator to review information on refinery outages from commercial reporting services and determine what affects they have on price, production, retail and wholesale supply shortages and disruptions while giving the Secretary of Energy the authority to encourage reductions of the quantity of refinery capacity that is out of service at any time. However, due to lack of EIA funding, the EIA terminated this program. PMAA supports dedicated funding for the EIA to restart this program to improve industry and government communications and planning.

In 2012, East Coast refinery closures also had an impact on rack prices. Because those refineries had to buy light, sweet crude oil imported from Africa and the North Sea that was priced at a premium to the WTI contract, those refineries were put at a competitive disadvantage. Additional factors included declining demand for refined products, cumbersome environmental regulations and permitting processes which made refiners' plans to maintain or expand production capacity more difficult than necessary.

4) Pipeline disruptions

Rack prices are also impacted by refined product pipeline disruptions. Our nation's pipelines do a great job of getting product where it is needed but pipeline equipment sometimes fails or needs maintenance. If pipelines reduce service for any reason, regional shortages can develop. For instance, following Hurricane Katrina, the Colonial pipeline which consists of more than 5,500 miles of pipeline delivering a daily average of 100 million gallons of gasoline, home heating oil, aviation fuel and other products to key terminals and distribution centers along the East coast was taken offline after losing electricity to power pumps.

5) Regional national disasters

Hurricanes Katrina and Rita showed how vulnerable the United States is to natural disasters and Superstorm Sandy only reinforced the need to have effective planning before, during and following a disaster. Because the sequence of events following a natural disaster are often similar in terms of access to fuel supplies, PMAA has organized a task force that is examining the bottle necks and making recommendations to federal and state governments to streamline the process. Weather forecasting has become extremely accurate in modern times. We usually know where and when a storm will hit and some waivers could be implemented before the storm and not days later. Federal, state and local governments are in the position to alleviate supply disruptions during a disaster by waiving RFG and RFS requirements, weight limits, regional fuel specifications, IRS fuel tax regulations specific for dyed/undyed products, regional hours of service waivers among additional waivers that are needed to ensure sufficient flow of product during emergencies.

Additional Factors that Influence Retail Motor fuels prices

1. Credit/Debit Card Fees

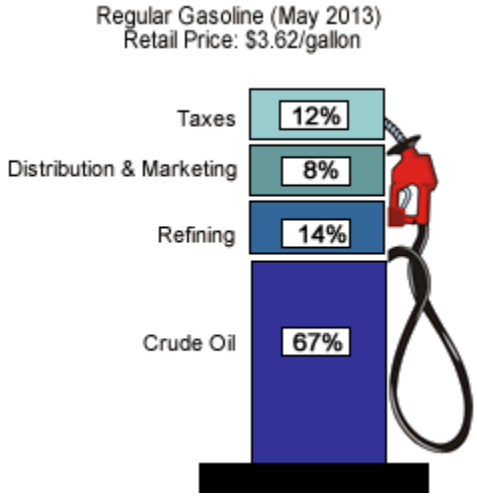
Credit card companies and card issuing banks impose unjustified costs on gasoline and diesel consumers. They often demand payment of 2-3% interchange fees on motor fuel transactions. In many cases, the card companies and banks make more off selling a gallon of gasoline than a retailer. While debit card fee reform was addressed in the Wall Street Reform Act (P.L. 111-203) under the

Durbin amendment, credit card interchange fees keep escalating. In 2012, interchange fees were the second largest expense item for motor fuels retailers costing retailers $11.1 billion.

PMAA was pleased with passage of the Durbin amendment to limit debit card interchange fees. However, the Federal Reserve's final rule to implement the law fell short of our expectations even though the Fed's biannual report on interchange fees found that the average cost to process a debit transaction was five cents. Prior to the Durbin amendment, debit interchange fees averaged 44 cents, and now, since the Durbin amendment was passed, they average 21 cents. The Merchants Payments Coalition (MPC) noted that the report proved that the Fed's final rule was flawed and the cap on debit card fees should be reduced. Much more needs to be done to bring down interchange fees and promote relief to consumers, particularly excessive credit card interchange fees which the Durbin amendment did not address.

2. Taxes

The Federal Government imposes a tax of 18.4 cents on each gallon of gasoline, and the States levy an average tax of 22 cents on each gallon. This does not account for all State and local taxes, such as sales taxes, which can range from 7.5 to 37.5 cents per gallon across States.



Source: Energy Information Administration, Washington, DC

Conclusion

It remains important for the U.S. to adopt policies that will reduce the power of OPEC and to increase U.S. job opportunities and strengthen the U.S. economy. Increased domestic production of crude and realistic renewable fuels mandates are key policy initiatives the U.S. should pursue as we move towards energy independence in the future. However, not even all alternative energy sources combined will provide the amount of energy required to run a $15 trillion annual economy until far in the future. For the next 100 years, we believe traditional sources of domestically produced crude oil will be needed to maintain the nation's economic and national security.

Again, thank you for the opportunity to testify before the Committee today. I'll be happy to answer any questions you may have at this time.