

**OPENING STATEMENT  
OF  
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*GAS PRICES: HOW ARE THEY REALLY SET?*  
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I would like to thank the Subcommittee Chairman, Senator Levin, for convening these hearings to examine the pricing of gasoline and the causes of price spikes. Oil and gasoline are vital to virtually every aspect of our economy, which depends on stable and reasonable energy prices to prosper.

Consumers are justifiably concerned and confused about the high price of gasoline. From the first week to the last week of March, for example, gasoline prices rose about 23 cents per gallon nationwide. This increase is a record for a four-week period. This price jump is particularly noteworthy as it predates both the seasonal transition from winter to summer gasoline that takes place beginning May 1, when the EPA requires terminals to contain only the lower volatility blend of gasoline used during the summer, and the beginning of the driving season that typically starts around Memorial Day.

While price spikes have been most dramatic in the Midwest, Maine and other regions of the country have not been immune to price spikes and price volatility. In recent weeks, gas prices in Maine have edged up sharply, with recent price increases ranging from eight or nine cents to 20 cents in just one week.

Just as inexplicable are gasoline prices that are significantly higher in one town than those in other towns further from supply points. I hope to hear from both the industry executives and experts why some areas of the country are so susceptible to such price volatility, and how this situation can be prevented.

High gasoline prices have a negative effect on the U.S. economy overall, but particularly on low-income families and small businesses. Maine is a big state, and many Mainers have to commute long distances to get to work, to get to school, and to go shopping. Gasoline prices affect all sectors of the economy by raising the cost of transportation. As the country struggles to strengthen the economy, it is vital that high gasoline prices or price spikes not derail these efforts. In a recent interview with the *Wall Street Journal*, President Bush underscored this point, noting that the U.S. economy is still fragile, and that the economic growth of energy-dependent nations such as the U.S. are unavoidably affected by price spikes.

The gasoline industry has changed dramatically over the past twenty years. Perhaps the most significant change that has occurred over the past few years is the increased concentration in the industry, including such mergers as Marathon and Ashland Oil; Exxon and Mobil; BP and Amoco, and then Arco; and Chevron and Texaco, just to name a few. The two largest mergers, between Exxon and Mobil and BP and Amoco, were approved during the Clinton Administration, as was the Marathon and Ashland Oil merger. Clearly these mergers have had an effect on competition within the marketplace. This trend has resulted in increasingly concentrated refining and marketing industries, which can then result in higher prices for consumers.

According to the 2002 annual report on competition in retail petroleum markets prepared by the Maine Attorney General's Office, Maine's gasoline markets are relatively concentrated, which means that the level of competition within these markets is generally low. Maine's more rural counties tend to be extremely concentrated, with even less competition. Competition is healthier in the more populous areas of the state. Overall, however, the A.G.'s report indicates that concentration has been inching up over the past few years, a troubling development. I will be interested to hear our witnesses' recommendations for easing the increasingly high levels of concentration that are occurring not only in Maine but also elsewhere in the country.

Another change is the closure of more than half of the refineries in the U.S. Yet refining capacity has remained nearly what it was before the refinery closures. This is due to increased efficiencies and the very high rate of capacity – about 96 percent– at which refineries now operate. By comparison, the average capacity utilization rate in other U.S. industries is 82 percent. This means that the 150 refineries still operating in the U.S. are responsible for producing ever more product, as demand continues to grow. This also means that there is no room for error, either through a refinery breakdown or a demand miscalculation on the part of refiners.

Another significant development has been the proliferation of gasoline blends. Prior to 1995, only conventional gasoline was sold in the U.S., and gasoline was a fungible product. Now there are more than 16 different blends of gasoline due to various federal, state and local fuel requirements. As a result, when an area has a supply disruption due to a refinery fire or pipeline rupture, for example, it is more difficult to meet the demand with gasoline from another area, particularly if one of these areas requires a unique blend.

Many of Maine’s gasoline distributors have informed me that they are concerned about the proliferation of gasoline blends, and the difficulties this creates in getting enough of the appropriate type for each market. Not only do the number of blends make it harder to get each type of gasoline for each market, but it creates the need for additional infrastructure. In particular, terminals need more tanks to store each type of gasoline. These costs are most likely passed on to the consumer in the form of higher prices. I want to explore with our witnesses the impact of “boutique fuels” on price volatility.

In Maine, we have two types of gasoline. Conventional gasoline is sold year round in most of the state. During the summer in seven southern counties, however, because of concerns over water quality, we use a state required blend that helps improve air quality, yet doesn’t appear to result in as severe groundwater pollution as the federal fuel, RFG. In Massachusetts, eastern New Hampshire and Connecticut, however, federal RFG is sold, which makes a total of three types of gasoline required in a small corner of New England.

Today we will hear testimony from representatives of several of the largest oil companies. I look forward to hearing these companies’ explanation of gasoline price spikes and the recent high prices that people have been experiencing in Maine and nationwide. I look forward as well to hearing what can be done to avert the price spikes and price volatility that cost consumers millions of dollars and threaten our economic recovery.