Public Hearing

before

SENATE COMMERCE COMMITTEE

*"Testimony on the recent increases in
the price of petroleum products"*

LOCATION: Committee Room 1
State House Annex
Trenton, New Jersey

DATE: April 3, 2000
10:00 a.m.

MEMBERS OF COMMITTEE PRESENT:

Senator Gerald Cardinale, Chairman
Senator Peter A. Inverso
Senator Garry J. Furnari

ALSO PRESENT:

Dale C. Davis Jr.
Office of Legislative Services
Committee Aide

Laurine Purola
Senate Majority
Committee Aide

Doug Wheeler
Senate Democratic
Committee Aide

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TABLE OF CONTENTS

TABLE OF CONTENTS (continued)

rs: 1-55

SENATOR GERALD CARDINALE (Chairman): We'll call the hearing to order. We'll begin the proceedings.

I have a very brief opening statement. We have been experiencing an extraordinarily steep rise in prices for both home heating oil and gasoline. These are a different kind of increase than we have been used to seeing. And they constitute, for many people, a crisis in their home budgets and, for many businesses, a crisis that has the potential for damaging commerce in New Jersey, particularly since almost all of the goods that are sold in New Jersey travel, at some point, by truck, and diesel fuel has seen a doubling in many instances, which has led to a tremendous cost for the truckers, who have requested that their tariffs be, on an interim basis, increased. and that will affect the cost of all goods that are sold, from the supermarket, to the clothing stores, to just about anything that anyone buys.

There have been a number of suggestions and a number of things that have been talked about as things that have contributed to this problem. Obviously, we all know that OPEC made an arrangement that they would cut back on production. Distributors responded by cutting back on their inventory. We had a cold winter, and the demand for heating fuel increased. People bought -- consumed more heating oil than normal.

There have been some people who have questioned what it is that we can hope to accomplish. After all, we are a State Legislature. Many of these problems are national in origin. We certainly do not have much control over OPEC. They will -- little note long remember what we say here.

However, there are some things that we can do. We can always, and we frequently do, move legislation, which memorializes Congress to do certain specific things.

Among the suggestions that I've heard are lifting the 4.3-cent-a-gallon fuel surcharge. It was to be dedicated to deficit reduction. Congress could increase the amount of the subsidy available to low-income families and, perhaps, raise the income limits. Those are things that we can memorialize another body, the Congress, to do because I'm sure that other legislatures are hearing, from their constituents, about this problem.

It's been suggested that we might, in one way or another, encourage a softening of the changes that occur, perhaps for the future, by encouraging, in one way or another, distributors to keep greater stocks on hand to increase the inventories so that when prices go up or down, there would be a softening of the impact of that shift.

There is a practice in New Jersey, which has been lauded at various times in the past, called intermittent service alternatives. Many people use oil only in times where oil is most used by others. That is, they use natural gas as their regular fuel, but when demand reaches a certain level, they turn off the gas spigot and they turn on their oil spigot. And that's happening just about at the same time that we have reached a crisis level. That certainly is something that bears looking at.

We could -- it's been suggested by some -- require a lowering of sulfur content in heating oil so that it can be easily converted to diesel oil in times of shortage so that we could minimize the impact on trucking and trucking tariffs.

We could, as a State Legislature, temporarily reduce the taxes on diesel fuel in New Jersey, or we could, in fact, deal with this problem in some way by some sort of temporary reduction in some of the other taxes which we impose. These are some of the things that we, and our staff, have thought about.

The purpose of this hearing here today is to hear from the industry, to hear what your suggestions are, because I know, from past experience and from common sense, that what we know about this subject is dwarfed by what people in the industry know about this subject. And I'm sure that there are many of you who are suffering along with us. I'm sure your customers are complaining to you about the prices that you are charging. And I think many of you would like the help of government. And perhaps we can work in a partnership to help ease this problem for the people who live, work, and enjoy being part of the New Jersey scene.

Senator Inverso, did you have anything you'd like to say at the beginning of the hearing?

SENATOR INVERSO: Actually, hello and goodbye. I have a budget hearing that just started, so I will be in the other room. But I would certainly be interested in the input that we receive today. And perhaps there is something that we at the State level could do that would resolve the issue, or at least mitigate it somewhat on the public.

Thank you very much for allowing me this opportunity to say hello and goodbye.

SENATOR CARDINALE: Thank you, Senator.

Senator Furnari.

SENATOR FURNARI: Yes, Senator. I want to thank you for putting this Committee meeting together. And I look forward to hearing from the industry, as well as the consumer groups here today. Much of the information that we received had been through phone calls from residents, and the like, who naturally are complaining about these -- can't be characterized as anything else -- exorbitant increases over a period of time and under some of the most fundamental things, like being able to keep your house warm, being able to drive your car to work. And I'm interested in hearing -- maybe getting through some of the chaff and getting down to the facts as to exactly what's caused this.

Mostly, my interest here today is to see if there's anything that we might be able to do -- some of the things that have been suggested by Senator Cardinale, but also some of the recommendations from the citizens' groups.

Thank you.

SENATOR CARDINALE: Thank you very much.

The first witness we will hear-- I'm going to change the order slightly because people have various time constraints.

Mark Seetin, the Vice President of the New York Mercantile Exchange.

Mark.

MARK W. SEETIN: Mr. Chairman, members of the Committee, good morning. Thank you for the opportunity to appear to discuss this, obviously, very critical issue involving energy.

My name is Mark Seetin. I'm Vice President for Government Affairs for the New York Mercantile Exchange. With me today is Dan Brewster, a Manager of our energy research.

Let me give just a brief explanation of what the New York Mercantile Exchange is. We are the world's largest physical commodities marketplace, trading energy and precious metals. The energy contracts which are traded on the exchange are crude oil, natural gas, gasoline, home heating oil, and electricity. The metals are platinum and palladium. On our subsidiary, COMEX, the Commodity Exchange of New York, gold, silver, and copper are the commodities that are traded there.

In terms of energy, by far we are the world's largest energy exchange. On any given day, our exchange sees trading activity from three to six times world oil production, more than 10 times OPEC production to the tune of $6 to $7 or $8 billion on each daily basis. Obviously, the events of the last couple of months have really drawn the concern and ire of a lot of folks. It is kind of interesting, and almost ironic, that about eight months ago we were called before a couple of bodies represented by oil producers, who were angry about the low oil price. Prices had dropped to $10 a barrel. So we've seen a very dramatic change in that period of time.

I'd like to go, just briefly, over some of the indications that we see in the marketplace. As a market, we are a publicly regulated body regulated by the Commodity Futures Trading Commission. We do not have an interest in high oil prices or low oil prices. We are charged only with maintaining an open and competitive and fair marketplace.

So with that, I'm going to go in and talk a little bit about some of the market fundamentals that led us into this situation.

First of all, a commodity exchange does two things. Price discovery -- every day, we -- several hundred thousands of trades take place. We do not determine the price. We, basically, report the price.

Second of all, risk shifting, or the hedging function. We are a marketplace where, if you are a producer of oil and you are concerned about the price going down, you can sell. You can sell seven years into the future on our exchange. On the other side, if you are a purchaser of that, such as a refiner or a user of energy, you can buy those commodities on our exchange and lock in your price.

What happened? We had severe winter weather. Interestingly enough though, January, I think, finally came in a bit below the average. But what happened was that we had very warm weather in December leading into this period in early January. Immediately following that, we had a big spike in fuel, caused by tremendously cold temperatures.

Of course, we saw reports that some users of natural gas had switched because they had interruptible contracts. Although that's happened in each of the last five years, this year, of course, with the price impact, that was certainly noticed. In our marketplace, I must say, we have a natural gas contract. We didn't notice the type of bump that would be indicated by this, but we are aware of anecdotal evidence, or anecdotal claims, to that regard.

The biggest thing is the charts. This is the East Coast. Padd 1 heating oil inventory levels-- (referring to chart) If you take a look at where we've been over the last five years-- This is 2000. (indicating) We went into

January already at a low. And those inventories continued to decline because of the fact that we had that increased demand -- that cold weather. But that's not the only reason.

OPEC, with remarkable discipline, reduced their production by 4.2 million barrels a day. Take a look at 1999 production versus 1998. This is up to this year, up to the year 2000. They had about a 12 percent reduction in supply. At the same time, the demand for heating oil increased by about 12 percent. In the commodity market, that's a prescription for a price spike.

Another problem happened. We just seem to be having these problems compiling. A refinery problem with the Sunoco Philadelphia refinery severely cut heating oil production for one of the largest suppliers to the New York Harbor. The Hess refinery on the island of St. Croix was down for unscheduled maintenance for 35 days, virtually all of January. And that is the single largest supplier to the New York Harbor area. The Tosco refinery in New Jersey had unplanned refinery maintenance, and that curtailed production in the short term. As a matter of fact, there were periods of time when Tosco, to fulfill its contract, actually had to go into the market and buy to fulfill those contracts.

Pictorially, this picture tells a thousand words. Right about in here (indicating) in the early part of January, as the price the flight was beginning-- This was when the cards and letters started to roll into this Committee and to other committees. And when we had this huge differentiation in the physical marketplace-- What this (indicating) depicts is the physical market versus the futures market. This pink line (indicating) is the NYMEX heating oil contract. It's a futures contract. Even though we call it spot month, or the physical month, it actually is 30 days into the future. So what happens-- When our contract matures and goes to delivery, where people who are holders of the contract make and take delivery, it basically links up with that cash marketplace.

What happened in here (indicating) is this is where the cold weather hit us the hardest. We had-- Coast Guard cutters have had to be dispatched to free up the ice so that barges could make these types of deliveries. This was a tremendous jolt. This was when we saw the physical prices for heating oil go through the roof.

Well, as Yogi Bear would say, the opera's not over, because we still have-- We look at ourselves now, and the distillate stocks are still down, although they're not at historic lows on this chart (indicating).

We have gasoline demand. We're moving into the gasoline season, so I'm going to shift from the heating oil situation to gasoline right now. If you take a look at the five years, our gasoline demand is almost at a five-year high. Crude stocks are very low. The futures prices reflect, of course, that increased demand for gasoline.

What can be done about price volatility? Well, as this body, and others, look for solutions, one solution that our marketplace has provided in the past, and it has been used successfully by the state of Massachusetts and the state of Delaware, is using the futures market as a financial protection from unexpected price increases. Massachusetts, in particular, over a few years, developed a program where they purchased options to protect their low income home energy assistance program. In essence, they purchased an option, which guaranteed them, for example, that the price of the heating oil that they bought wouldn't go above 85 cents a gallon. In that way, when a price shock like this hits, you have that financial protection so that the gallons of heating fuel assistance can be stabilized. The state of Delaware, I believe, used it for state procurement purposes of heating oil for their schools and prisons and for fleet gasoline usage as well.

It certainly isn't the only answer, but the bottom line is that markets go up and they go down. Our job as a marketplace is to make sure that those markets are responding to fundamentals that are out there and to allow and afford people the opportunity to protect themselves -- to buy that insurance if they so choose.

And, Mr. Chairman, I also want to say we are working right now with the state of Connecticut and the National Association of State Energy Officials and the National Association of Home Energy Assistance Officials to educate them to see if they can develop a pilot program to protect their low income and elderly from this type of thing happening in the future. We're going to be having a number of seminars at our headquarters. I think we have one scheduled in early June for those State officials. And to whatever degree we can be helpful to this body, and to you, we certainly offer that.

SENATOR CARDINALE: Are those seminars open to other states, or are they specifically--

MR. SEETIN: Yes.

SENATOR CARDINALE: Where are they going to be held?

MR. SEETIN: They're going to be in New York, in our headquarters.

SENATOR CARDINALE: Would you leave our Aide with information with respect to--

MR. SEETIN: Yes.

SENATOR CARDINALE: Thank you.

MR. SEETIN: That concludes my presentation. I'd be happy to respond to whatever questions you may have.

SENATOR CARDINALE: Senator Furnari.

SENATOR FURNARI: Yes.

I'd be interested to know a little bit more about the industry and how -- once purchases are made on your market, how does the oil get into the consumers' hands? What's the process? How many more steps are there before it gets there?

MR. SEETIN: That's a very good question. Let me-- I'll try to use my farm background. I grew up in Minnesota on the farm. And that's how I learned how to use futures markets. So I'll try to use an illustration like that because that's pretty similar on the energy side.

When I would plant my soy beans in the spring in Minnesota, I'd look to the Chicago Board of Trade in the fall to see what, on that futures market, my soy beans might be worth. Let's just say they were $6 a bushel in the fall. I knew that I could grow my soy beans for $5, so I sold on the Board of Trade.

At the same time, I still planted my soy beans and took them and grew them. At the end of the year, when I would harvest them, I took them to the local grain elevator. I didn't deliver them to Chicago. Let's just say that the price of soy beans at my local elevator was $5 a bushel. I took that $5 a bushel. At the same time, I called my broker and said, "Now, take me out of my futures contract." In that $6 contract, I could buy back at $5. So I had a $1 profit on my futures contract. I took that with the $5 cash, and that's how I locked in $6 a bushel.

So what I'm trying to describe is, for the heating oil distributor -- for the heating oil purchaser, there are two sides to the transaction. He goes on to the New York Mercantile Exchange. And if he is a heating oil distributor, he will buy, let's say in July or August -- that's generally because people want to protect themselves for January, February, and March -- he will buy his futures contract at that time. When January comes he goes out to the rack, and he buys the physical marketplace, right out -- he buys from the physical marketplace, right out of the harbor. He's not going to take delivery from that NYMEX contract, usually. They usually-- It's about 1 percent or so of those that are taking place.

So let's just say he bought his heating oil in July at 56 cents. That's his-- And he uses February because we're a month ahead. So he's going to protect himself in January. He's bought those futures at 56 cents. His operating cost is 20 cents a gallon, and he likes to have a profit margin of 10 cents. So you add 36 cents on that end. So he's, through this futures contract, locked in his selling price with a profit of 86 cents, no matter what happens.

Now, let's just say-- Let's go to January. We've got a price spike. All of a sudden, that heating oil that he has to buy in the New York Harbor goes up to $1.10. At the same time, he has to go to that rack, and he pays $1.10 for that oil that he's locked in -- he's sold his customer at 86 cents. But what also happens is his futures contract has gone up to $1.10. So he takes the profit from the futures side of the transaction, and, in essence, subsidizes the loss on his physical side. And that's 56 cents from $1.10 -- I've got to do my math here -- 54 cents increase. He takes that 54 cents and offsets that price because now, if he paid $1.10 plus his 20 cents operating, that's $1.30, plus his 10 cent profit, that's $1.40 he would have to charge that customer. But because he's used that futures contract, he can still guarantee that customer 86 cents a gallon.

That's, in a nutshell -- I hope I've explained it -- how they use the two together. Your futures transaction is used in concert with the physical side of the marketplace. And ideally, in a perfect world, when the two come together, there's neither a profit nor a loss. What you're using those for is to lock in the price, to guarantee yourself that price.

There is another -- yet another mechanism called an option. Instead of actually having that physical futures contract, you can buy an option. You can buy, from our marketplace, the ability to buy oil, let's say, at 90 cents a gallon. Instead of having to go in the market and maintain your margin and everything, it's a little bit like a deductible insurance policy. So you've paid that 90 cents. If the market goes to $1.10, you pick up a 20 cent profit to subsidize, again, your physical losses. If the market goes down, however, you just -- you basically let your option expire as worthless. And you get to take advantage of those lower prices in the physical market. A lot of heating oil dealers use options because they find it's more flexible. As the price goes down, they can return some of those -- some of the benefit of that competitive market to their customers.

SENATOR FURNARI: Could you just follow that a little more, and give me, in terms of art? The person that I called-- My local guy comes and puts the oil in my tank. What is the term of art there? What is he? Is he an oil dealer?

MR. SEETIN: He may be a dealer or distributor. Depending on the size-- There are any number of sizes of operations, and some are very, very small, and some are quite large. The typical small -- the smallest -- on the end of that -- routinely isn't in our marketplace. But the medium to larger are, simply because our contract size is 1000 barrels at 42 gallons or 42,000 gallons of oil. That's the standard contract. So it's-- Even for a marginal-size operation, there are mechanisms by which they can use that.

SENATOR FURNARI: So the first-- So the smallest guy does not have this opportunity. He's just buying it from a bigger dealer is what we're saying.

MR. SEETIN: He may because what we've seen in the past-- In 1996, *Yankee Oil Man*, which is a publication that covers the Northeast United States, did a survey of their members. And at that time, fully two-thirds of the members, and these were distributors, dealers, everybody on the chain -- fully, two-thirds of them were offering their customers either fixed price or price cap contracts. So they found mechanisms to do that. Even if it's not on our marketplace, there are over-the-counter dealers, as well, that will guarantee or allow that distributor or that dealer to lock in his price.

Very frankly, we've been doing a lot of testimony. I've been to a lot of these places and to a lot of the dealers, and the dealers themselves have to speak for themselves. But I think a lot of them found that because of the three mild years prior to this one, their customers weren't as enthusiastic about purchasing a fixed-price or a price cap contract. They really-- The demand went down. But I will tell you the demand for next year is up pretty dramatically. I think it's one of those educational processes.

SENATOR FURNARI: Now, we've heard some complaints that home heating oil -- sometimes there would be -- the prices would fluctuate, in a day, many times-- We're talking about the actual retail, straight to the consumer-- Are there some formulas? Is there some method? Is this just an open market? Whatever the market bears -- "I'm a retailer, I just decide that if you want my oil tomorrow, it's going to be $6 a gallon," -- or is there some standard in the industry that we're dealing with that creates some formulas for consumers?

MR. SEETIN: Well, there are two answers to that question. First of all, as a price indicator, we are neutral on prices, so we provide, every day, what the market is -- what the commercial market is doing. But, like that chart showed, where that physical market got out of whack with us, there were a couple of things that happened. There was an immediate demand. It's a little bit like if you're running a feed lot, and you're trying to feed your cattle, and you've got some guy over there that wants to grind the corn into flour, you're going to have to, because of a short period of time -- you're going to have to bid that product up in that physical market.

My understanding is that, to a degree, that's what happened in the heating oil market in the harbor. Part of it was, because of the bad weather, they didn't get the barge supplies. But I will tell you, as soon as that price spike sent that price signal out, about 30 million gallons came in from a period of mid-January through mid-February into the New York Harbor. And you saw a dampening of the price as a result of that.

In terms of that day-to-day, once in a while, it does get volatile. That's what happens when you get a -- in a commodity market like this when you have a number of people competing in the short term for a limited supply.

SENATOR FURNARI: Thank you.

SENATOR CARDINALE: Thank you very much.

Our next witness will be James Benton, the Executive Director of the New Jersey Petroleum Council.

JAMES E. BENTON: Good morning, Mr. Chairman and members of the Committee. My name is Jim Benton, Executive Director of the New Jersey Petroleum Council. With me this morning is my colleague, John Maxwell.

What we'd like to do is supplement the testimony of the New York Mercantile Exchange by reviewing the current energy situation.

As most of you know, we represent the major suppliers of oil and natural gas in the United States and are engaged in all types of exploration, production, refining, distribution, and marketing here in the United States.

The petroleum industry in New Jersey is a key part of the global marketplace, which brings crude oil, and its products, to our state from a wide variety of locations throughout the world. As most of you know, New Jersey benefits from its geographical home as a center for the petroleum industry. We have refineries in the Northern and Southern parts of the state and in nearby Delaware and Pennsylvania to serve our customers in manufacturing gasoline and other petroleum products.

In addition, New Jersey is the northern terminus for the Colonial Pipeline and various other energy pipelines that bring products to market. Our state's coastal location permits imports to assist in meeting our regional energy needs. Likewise, our citizens benefit from the wide variety of choices of purchasing gasoline, and it is this retail marketplace competition which ultimately serves the State of New Jersey well.

At the outset, let me underscore that America's oil and natural gas industry is committed to continue to supply American consumers with a reliable and affordable supply of energy for all their needs. We also pledge to provide consumers with the information they need about the current gasoline price situation and address any concerns regarding future fuel supply.

We share your concern about the current oil supply situation and your desire to reduce its impact on your constituents. We are taking what actions we can to improve conditions, and also have suggestions to offer regarding actions that can be taken by government and by consumers themselves.

At the outset, let me take a moment to frame the situation. Contrary to the views of some, the age of petroleum is far from over. While research and development continue on alternative sources of energy, gasoline and diesel fuel remain the most cost-effective and prevalent fuels for our transportation needs. To be specific, 97 percent of all transportation is fueled by petroleum products. These fuels, and the infrastructure built to fuel a nation of cars and trucks, allow us to get to where we want to go. Whether we need to go to work, take a school bus, get produce to market, or fly for business or personal pleasure, oil plays a crucial role in our daily lives and will continue to do so for decades to come.

Let me go to the current situation and underscore four essential points. First, prices at the gasoline pump are significantly affected by the cost of crude oil, and crude oil prices are determined by supply and demand in the international marketplace.

Second, high crude oil prices have resulted from a decrease in foreign production and a greater demand for oil from the recovering Asian economies and a continued growth of Western economies.

Third, although prices have risen rapidly, retail prices, after adjusting for inflation, are generally well below the prices of the early ’80s.

Finally, the U.S. oil and natural gas industry is operating its refineries at record production levels within safety and environmental limits and will continue increasing as we approach the prime driving season, when the demand for gasoline is at its highest.

Let me individually address these points in more detail.

The price increases we are experiencing were brought on by short-term shocks that resulted from sudden changes in supply and demand. Just as prices are up now, they will turn down when factors change. Already, the price of crude oil has dropped more than $5 per barrel over the past several weeks.

In a free-market economy, we have seen, time and again, that price movements ultimately create balance between supply and demand. We are confident that, if we continue to allow the marketplace to work, this balance will be maintained. And history shows us that the longer-term cost of the product is less than otherwise would be the case.

The oil and natural gas industry can best provide American consumers with a steady and affordable supply for all their needs when markets are allowed to function as freely as possible. We commend the State of New Jersey for taking a balanced approach to the current situation by refraining from interfering in the marketplace, which is still the best way to get gasoline to consumers reliably and at the lowest cost.

The past 15 months have seen us go from a period of extremely low prices to a peak where crude oil prices have reached levels that were three times those of the previous year. In essence, it went from approximately $9 a barrel up to over $30 to $34 a barrel. This dramatic change in crude oil prices has contributed to increases in the prices for petroleum products of about 70 percent. These changes have made it difficult for consumers to plan and budget for expenditures and have absorbed a larger share of family incomes.

These changes were brought about by increases in world demand for petroleum due to robust growth in world economies and reductions in supply by foreign oil producing nations -- not only the OPEC sources, but also non-OPEC sources. World petroleum stocks have been drawn down, and prices have been driven up.

Despite the limitations on world supplies, our companies are working hard to produce all the gasoline and diesel fuel that our customers will need in the coming months. Refinery output of gasoline and distillate set oil records for the month of February, and distillate oil production may set a record for this heating season.

A fair question persists: How did we get to this point? The answer is relatively straightforward. We have experienced 20 years or more of overlapping regulations that have left our nation's domestic petroleum distribution system with minimal flexibility. Restrictions on producing petroleum in this country have led to declines in domestic production by one-third over the past three decades. We now import about 55 percent of our petroleum needs. This large demand on foreign supplies leaves us at the mercy of world supply and demand conditions and open to the volatility that we have experienced over the past year.

I would like to share with you how our companies are striving to supply products to consumers. Refinery processing of crude oil is above average and set a record in 1999. Refinery production of gasoline set a record for the month of February. It was 14 percent above average, approximately about one million barrels more per day more. Refinery production of distillate oil, such as heating oil and diesel fuel, set a record for the month of February as well, and it is on pace to set a record for this heating season. Refinery utilization is currently above average for this time of the year and exceeded 90 percent last week.

These measures indicate that our industry is working as hard as possible to safely deliver the products that consumers need. It is also important to note that, while world supplies are reduced, there are no shortages at the present time. Because of the world prices for crude oil, we are faced with the prospect of higher product prices. However, all customers are being served. Given these conditions, what should be done?

The most important action the government can take is to provide information to citizens on petroleum market conditions. In that vein, we are urging the Energy Information Administration of the U.S. Department of

Energy to convene a summer fuels conference to evaluate the status of gasoline, diesel, and jet fuel product and inventories. We are also asking that the EIA expand the scope of the Winter Fuels Conference next fall to give the agency the opportunity to share information on winter fuel production, inventories, and imports with all stakeholders.

On the State level, we would suggest the convening of a task force, comprised of private and public sector representatives, to focus attention on developments in the New Jersey marketplace to assure that all that is possible is being done to provide our citizens with energy at the most affordable prices. Whether it be governmental regulation or private marketplace concern, these issues need to be discussed in an open stakeholder process to assure that we meet this objective.

The Petroleum Council, representing our industry, is eager to provide additional information on market conditions. Americans have a right to know as much as possible about this environment. Our industry is committed to giving Americans the latest and most accurate information available.

We have participated in the United States Department of Energy's meetings on heating oil conditions. We recently testified before the New Jersey Board of Public Utilities on Heating Oil and stand ready to provide whatever information is needed on current market conditions. Our parent organization, American Petroleum Institute, continues publishing its *Weekly Statistical Bulletin*, covering production, imports, inventories, and other data. Educated consumers are our best asset. We will seek to develop a joint effort with the State to provide consumers with the best, most up-to-date information available and to help them explore better ways to better cope with the fluctuation in prices.

In the short term, the government can also consider a number of actions to help prevent another recurrence of the home heating oil situation. It can continue to increase funding for the Low Income Energy Assistance Program to more quickly and equitably release funds and consider expanding small business administration emergency loans to home heating oil dealers and truckers.

In the long run, government should take steps to strengthen our domestic oil and natural gas producing industry. As the United States imports some 55 percent of the oil Americans consume, the ebbs and flows of the world market impact the industry's ability to continuously provide consumers the fuel they need at fully affordable prices. We can reduce rapid swings in prices by providing greater diversity in where companies get their supplies of crude oil, both at home and abroad.

We can reduce our reliance on foreign supplies, and also exert downward pressure on international crude oil prices, by opening our most attractive domestic and natural gas prospects to responsible exploration and production. Currently, many of these areas have already been placed off-limits by the Federal government. Since 1983, access to Federal lands in the Western areas, where nearly 67 percent of our onshore reserves and 40 percent of our natural gas reserves are located, has declined by 60 percent. Our industry supplies the energy to keep America going strong. But to continue to produce domestic oil and natural gas, we must have improved access to Federal and State lands.

Old arguments about the incompatibility of access and a clean environment have been thoroughly disproved. Technology has revolutionized our industry, the natural gas industry, and how oil and natural gas are found and produced. For example, geophysicists use three-dimensional seismic equipment to locate oil and natural gas with greater precision so that more oil can be produced with fewer wells. Fewer wells mean less environmental impact. Improved drilling techniques allow companies to branch out underground to reach a variety of oil and gas reservoirs from one location. Offshore wells can now safely capture oil and gas in record depths of 8000 feet in areas far offshore.

In addition to denying access for oil and gas development, the Federal government has imposed layer upon layer of regulations on U.S. refineries without sufficient regard as to how these regulations impact refiners' ability to meet the full range of needs of American consumers. Refineries need flexibility to respond to the fast-paced changes in today's world. Overregulation reduces flexibility. For example, a soon-to-be-proposed regulation by the Federal government would drastically lower the sulfur content of diesel fuel. That is an example of a government action that could have a significant, negative consequence on our ability to supply heating oil and diesel fuel.

We share everyone's interest in further cleaning the air, but reductions beyond the 90 percent that we've already achieved, and have already been proposed, stand a good chance of driving up fuel manufacturing costs unnecessarily, imposing yet additional burdens on our nation's truckers and farmers.

Even with greater access and flexibility, the United States will continue to need to rely on foreign oil supplies. Thus, it is important that we maximize the diversity of those supplies to help ensure the reliability of a continuous flow of oil.

In short, U.S. policy makers face a dilemma. Growing supplies of crude oil will be required to sustain world economic prosperity, and diverse, ample foreign supplies are needed to help ensure our own country's economic growth.

While it may be easier for government policy makers and the industry -- can do to improve the current situation, many consumers can help reduce the impact on their budgets by embracing ways to use less fuel. The industry will be doing its part to share advice for conserving fuel use in the hope that some families can benefit.

It may be helpful to recognize that New Jersey has one of the most competitive marketplaces for petroleum products in the nation. Our industry presence in refining, marketing, and transportation by truck, pipeline, barges, and ocean vessels leave New Jersey well positioned to serve our customers.

Our low State motor fuel tax is the lowest in the region and the fourth lowest in the nation. We continue to support efforts to dedicate the use of our motor fuels tax for highway construction and transportation purposes.

Last fall, this Committee considered steps to make New Jersey's already competitive gasoline market even more competitive for consumers. Legislation sponsored by Senator Jack Sinagra was reported from this Committee, designed to permit the use of discount coupons, a practice permitted in other states, by consumers in New Jersey. We support this marketplace incentive.

Similarly, legislation which proposes to mandate a minimum markup in retail gasoline prices should be dismissed as not in the best interests of consumers. Should a marketer develop new ways to offer gasoline to the public less expensively, those practices should be permitted.

New Jersey should also consider permitting the customers the option of serving themselves while continuing to mandate the traditional availability of full service. The governmental mandate for full service costs New Jersey residents more than several hundred million dollars alone, according to the U.S. Federal Trade Commission. These findings were endorsed by a similar independent analysis by a Rutgers University Professor in the School of Economics.

New Jersey can retain its tradition of full-service gasoline while offering an option that is enjoyed in 48 other states. We as an industry, of course, are committed to offering the type of service required by law and that our customers want. However, it's important to note there is not one bill in the nation to repeal self-service gasoline marketing.

Examples of other things customers can do while driving are maintaining their vehicles properly; combining trips to reduce fuel consumption from cold starts of automobiles; accelerating slowly and decelerating rather than multiple braking to stop; and, in a two-car family, having the family member who does the most driving use the most fuel-efficient car. Many families will be surprised at the fuel efficiency benefits they can achieve from these simple changes. While they certainly won't offset the high cost of gasoline, they should help families get where they need to go at less cost until purchasing conditions improve.

In closing, we share your concern for the health and welfare of your constituents. America's oil and natural gas companies have a long and proud history of providing this country's consumers with a reliable and affordable supply of energy to make their homes comfortable and take them where they need to go, when they want to go. Through good and lean years, United States suppliers of petroleum products have kept America's factories running to provide fuel to move goods from manufacturers to retailers and, ultimately, into America's homes and offices.

It is because of this history of service that we understand the rising impacts on our nation's consumers, our customers. We are cognizant, too, of the concerns of our nation's truckers and farmers who have also been adversely affected by these increasing fuel prices.

Finally, we recognize that you are faced with increasing demands to address this situation. To the extent that we can help you in your efforts to better understand the possible effects of the many proposed actions under consideration, we are here to assist you.

That concludes my formal remarks, Mr. Chairman and members of the Committee.

I've also included, in your package here, a couple of details that I think you'll find of interest. One, a question that we're asked, very frequently, by reporters, by consumers: How long before increased crude supplies affect gasoline supplies? I think you'll see that it includes a general outline, which is typical of how long it takes for decisions made by crude oil suppliers to ultimately reach consumers here in New Jersey.

Secondly, I've included a chart that shows the dramatic impact of crude oil prices as a component of retail gasoline prices. I think you'd see that crude oil prices have largely impacted the cost of gasoline, while our Federal and State taxes remain constant at 32.9 cents per gallon.

Also, I've included a historical comparison of gasoline and where we are presently, if adjusted for inflation. I think you'll see there that when you put the price of gasoline in context at the pump, you'd find that today's prices, while significant, are probably lower as a share of your overall budget, when adjusted for inflation.

And I've also included a chart of State motor fuel tax rates. As you'll find, New Jersey's is the fourth lowest in the nation and significantly lower than any other state immediately surrounding us in the region.

I hope that provides the type of information that the Committee was looking for. And I'd be happy to answer any questions you may have.

Thank you.

SENATOR CARDINALE: I want to thank you for your presentation. I think it was very thorough, and you covered a lot of ground that we really were looking for.

I have a couple of questions.

Correct me, but there's approximately 50 gallons in a barrel. Is that--

MR. BENTON: Forty-two.

SENATOR CARDINALE: Forty-two. Okay.

So that would mean that the price of crude -- the difference in the price of crude relates to about, maybe, a 14 cent to 15 cent difference per gallon of gasoline. Is that correct? You said that crude went from $9, at the low, to $35, at the high. That's a $24 difference in a barrel of crude. If you've got 42 barrels -- 42 gallons, that $24 would relate to-- I'm sorry, 50 cents.

I'm doing the wrong math here. That answers my first question. I just answered it myself. (laughter)

You referred to restrictions on producing petroleum in this country. What are you talking about? I know the leasing problem of lands -- governmental lands. But are there some other areas of regulation or legislation that's been taken on a Federal level that -- even on a State level-- I don't really know of any on the State level, but if there are some, please don't exclude those. With more specificity, what should we be telling the Congress to do, or ourselves?

MR. BENTON: Senator, I think New Jersey's an integral part of our regional marketplace, which is a critical component of the overall world marketplace for crude oil, for gasoline. And I think it's important to underscore that as recently as when I became Director of the State Petroleum Council, some 20 years ago, we had more operating refineries -- we had one in Perth Amboy -- and other large storage facilities than we do currently.

I think we've spoken out, reasonably clearly, regarding some of the regulatory impacts that have affected those facilities. And I think the first one that comes to my mind would be the continued improvement in the quality of gasoline that we're serving our New Jersey customers. Those types of improved environmental requirements, while something that we would endorse, have placed the refining industry under significant regulatory concerns. For example, the improvements from conventional gasoline to reformulated gasoline -- and now New Jersey's poised and has introduced Federal reformulated gasoline version two. Those continue to improve the quality of gasoline.

While that's certainly applaudable, and certainly the time that we've been given to meet those requirements place an additional stress on the domestic petroleum marketplace, the fluctuations of the crude oil marketplace on top of that only compound the ability of some of these facilities to remain competitive. Those types of regulatory requirements are the types of things that we're mentioning.

In addition, the Northeast, as was mentioned before, has several particular challenges, relative to its ability to import crude oil and manufacture it here in the Northeast. We're subject to greater error permits. The challenges of bringing crude oil into the marketplace with weather conditions, as was highlighted during our heating oil shortage, remain constant concerns for the viability of a regional refining marketplace here in the Northeast.

My colleague, John Maxwell, as you know professionally, is our Regulatory Director, who largely works on interfacing with the Department of Environmental Protection and all the other agencies that regulate the petroleum marketplace here in the State. And as such, he's probably much more familiar with some of the regulations. But that will just give you an idea of some of the concerns.

SENATOR CARDINALE: Well, I'd like to get into that just a little bit more.

It occurs to me that, as legislators, we have a real responsibility to make sure that the air is clean. And I think we all share that thought because we all, whether we're in the oil business or we're dentists, all have to breathe that same air. So do our children and grandchildren. And I think we're all very sensitive to the concerns of clean air.

However, it does seem to me that there are regulations that might, and I'd like to hear from you if that's so, be cost ineffective -- the law of diminishing returns. If we can make something 90 percent clean, what does it cost, then, to make it 91 percent clean? What does it cost to make it 95 percent clean? And what are the cost comparisons that, perhaps, have an impact on this problem which we're facing today -- that our consumers are facing today? And I think our consumers are entitled to know whether or not some desire for perfection is costing them 5 cents, 10 cents, $1, or is it an infinitesimally small cost to go from 90 percent to 91 percent or 92 percent clean.

MR. BENTON: We'd be happy to provide the Committee with that type of information over time. Again, the one that comes clearest to mind, perhaps because it's the most topical conversation right now, is the issue regarding the Federal mandate for oxygenates in gasoline, which goes into the question of MTBE and ethanol and exactly how much oxygen we are required to put into gasoline.

Currently, right now, concerns regarding the role of MTBE have been played publicly both here in the State House, in Assemblyman Corodemus's committee, and Senator McNamara's committee. The role of the Federal government in mandating an oxygenate at 2 percent is one that is of concern to the industry because absence-- The use of MTBE-- One is left with a Federal ethanol mandate which clearly, as a secondary oxygenate, has its shortcomings and marketplace concerns.

What we really need is for the Federal government to repeal the 2 percent oxygenate requirement and to allow cleaner gasoline alone, without the oxygenate content, to come into the State of New Jersey, and its surrounding states, on a regional basis because, clearly, we cannot afford to allow a state-by-state boutique gasoline. But to repeal the Federal oxygenate mandate is something that is in New Jersey consumers' best interest.

SENATOR CARDINALE: One of the reasons I asked the question was because I recall, when Senator LaRossa was warning us about this gasoline additive, he was generally laughed at -- wasn't taken seriously. Today, maybe, we are six or seven years down the road. We are beginning to understand that he was right, and that what had happened was that some rocket scientist, who thought he was doing -- you know, a true believer -- who thought he was doing the world a lot of good, mandated that we spend more money. And there tends to be a belief, in some quarters, that if you spend more money, you must be doing something better. And now we find out that we have traded off questionably cleaner air for, certainly, dirtier water.

I'd like to know, from people in the industry -- I'd like you to know that you have an open ear, at least, in this Committee -- that if you come to us with things of that nature, we're going to listen carefully, and we're not going to turn a deaf ear to you, and we're not going to worry about whether some self-ordained servant of the public, who serves as a newspaper reporter or who serves in an environmental organization or who serves, simply, as a private citizen, is going to turn us away from reality, in fact.

You were about to answer.

JOHN A. MAXWELL: A few thoughts come to mind. And I think it's an excellent question.

I read, with alarm, yesterday's lead story in the Newark *Star-Ledger* about a poll of New Jersey residents, which suggested that 60 percent of the folks here in the Garden State are drinking bottled water. I said that the people were concerned about water quality. The poll-- The story, at least, said people thought there were a lot of toxins or contaminants in the water, and so on and so forth, and that that number had crept up from previous years. And I was thinking to myself, what brings a reporter out to do a story like that? It probably sells a lot of papers, I guess.

I had spent Friday morning with the folks from DEP, talking about the watershed permitting process that got about two or three words in that story. The watershed permitting process, over at DEP -- and this is really their story, not ours, but it's illustrative of the point that we've talked about here -- is doing marvelous things, in terms of cleaning up entire watersheds. Water quality in New Jersey is dramatically better than it was years ago -- even two or three years ago -- ten years ago. It was horrible. I spent the first part of this weekend canoeing down the Delaware River. The osprey, bald eagle, beaver are all there where they weren't in years past. They're enjoying a clean ecosystem because of the efforts here in the State and surrounding states.

If that reporter had asked the question, how many folks responding in that poll remembered last summer -- last fall's hurricane in which the Elizabethtown Water Company was advising folks, "Don't drink the water. We think that there may be an E coli present, but we're not sure. Just to be safe, drink bottled water," and so on and so forth. I think if that reporter had done a parallel question -- How many of you remembered what happened last fall when the water purveyors were saying there may be a temporary problem? -- I think that poll would have come out with a slightly different -- a different view.

Likewise, as Jim had alluded to, the whole issue of MTBE in the water today is one that is really of concern to the industry. And we are making -- supporting efforts in Congress to repeal the oxygenate mandate. In reality, the presence of small levels of MTBE probably parallel the various minute presence of virtually every other constituent you can imagine because of our current ability to detect not only in the parts-per-billion range, but even beyond that, in some chemicals of concern, in the parts-per-trillion range. So we know a lot more than we ever did before. Yes, it's a concern. We share the desire to phase out that mandate that was written into the 1990 Clean Air Act.

In 1990, when the Clean Air Act was written, a small, inconsequential company out of the Midwest, Archer Daniels Midland, lobbied for an ethanol mandate. And they were nearly successful in getting a -- basically a monopoly on that mandated presence in gasoline.

Ethanol today is subsidized at the rate -- effective rate of 54 to 56 cents per gallon. While we had no quarrel with the use of ethanol in gasoline -- in fact, it's used by our member companies in the Midwest -- where ethanol is available, farmers are enjoying a subsidy. It's a perfect world out there. We suggest that rather than trying to replace one mandated constituent of gasoline with another, what should be done is to really phase out that, set performance limits, let the industry go to it because we can do that.

One other thought. We've talked about water. I'd like to just mention air regs here for a little bit. New Jersey has the most stringent air regulations in the United States. I'll put them right up there with California, even more so. And our-- In fact, even one of the environmental groups that are -- make a lot of money out of attacking us on a regular basis -- even ceded that Jersey's refineries were a lot cleaner, in terms of their air emissions. There were less air emissions than elsewhere. That is good for us. Air quality here, certainly, is improving. The State of New Jersey is in the process of litigating against some upwind refineries right on the -- in Pennsylvania and southeast and so on, as you're probably aware -- the upwind powerplants. We are supportive of that.

So, air regulations, water regulations, discharge limits, all of those things add cost here. In reality, we are in a world oil economy investment dollars because these companies are -- they're in it to make a profit, as is still legal in this country. They're finding that their return on investment is greater abroad. Thus, we are faced with imports from abroad, unless we can relax some of the bands on access to ANWR and other Western lands.

Imports are coming here from Saudi Arabia, Venezuela, Canada, Mexico, Iraq, Nigeria, Angola, the United Kingdom, which is up in the North Sea, Colombia, and through the Virgin Islands. Those are the 10 primary importers. In reality, oil comes into this country from all around the world.

I hope that is helpful.

SENATOR CARDINALE: Well, you see, in some ways, yes. But what I'm really looking for is some quantification. No one wants to go back to the days when we had smokestacks spewing out all kinds of noxious stuff. That's, you know, not the thrust that I'm taking.

I've heard, from time to time, without a great deal of specificity, that we can do, particularly when we are having hearings on ECRA -- we can clean things up, to a certain degree, and it's very cost-effective. We get a lot of benefit to the environment -- a lot of benefit to clean air, to clean water, from doing a certain amount of this stuff. And that's the great bulk of the benefit that anyone can ever hope to achieve. It's achievable within costs that are reasonable. But then there seems to be a desire, on some parts, to be perfect. And you alluded to that.

Now we can detect imperfections of a much smaller magnitude, which are probably environmentally insignificant. But there is a desire to remove even those insignificant imperfections. And I'd like someone, sometime, to bring to this Legislature a graph of what those additional costs are in relation to the good money that we've spent. I'll label it that. That's good money that we've spent to clean up those old smokestacks that were belching smoke and the trucks -- the diesel trucks that are all over the highway that seem to be still belching diesel fuel. And I don't know what's not being observed or what we haven't done, with respect to some of those.

And that's the point that I'm getting at. I think we would like to see, particularly to the extent that State regulation involves that -- what we could do to ease, perhaps, some of the regulations which are not cost-effective, and, perhaps, devote some of that money to helping our consumers out of this very real problem that they are facing -- of not being able to get to work or having to make a choice between getting to work or getting food on the table.

MR. MAXWELL: Okay. We'll do our best to come up with some studies. I mean, we could talk about site remediation, and New Jersey's cost is three times, just for an investigatory phase, than surrounding areas and so on. That indirectly affects the consumers because it adds cost onto the person who's running the business. But we'll look into that, sir.

SENATOR CARDINALE: Thank you very much.

Senator Furnari.

SENATOR FURNARI: Isn't it true that the price of gas in New Jersey is below the average in the United States?

MR. BENTON: Yes, sir, it is. It's significantly below our regional states, largely because of our geographical location, because of our diversity of supply. Whether it's refineries, whether it's bringing in finished products, whether it's the end of the Colonial Pipeline, our geographical location helps.

Also, the policy of the State of New Jersey, with regard to low motor fuel taxes-- We're the fourth lowest in the nation. I believe Georgia's lower. Wyoming and Alaska are the only other states that are lower. So that low motor fuel tax plays a significant role. We also have a large number of retail stations. While maybe those of us that are old enough to remember four gasoline stations on every corner-- Maybe that's a thing of the past. But we still have a large and diverse population of retail outlets, as well as a healthy balance between direct supply, wholesalers, and retailers competing all to bring product to our New Jersey customers.

SENATOR FURNARI: Over the past 24 years, generally speaking, and I say that to get us back to the ’75 oil crisis -- ’76, or in that area, prices for oil have generally continued to drop. Is that right?

MR. BENTON: That’s generally correct, yes, as we’ve illustrated in our inflation-adjusted chart.

SENATOR FURNARI: Now, throughout that period of years, the regulations that you seem to be talking about today were all imposed. Is that not true?

MR. BENTON: That’s correct.

SENATOR FURNARI: So today I came here to talk about -- and I thought we were talking about the oil -- this crisis that we seem to be having. And somehow our conversation has shifted to regulations and the thought that regulations have caused, in some way, these prices, and suggestions that we step back from protecting the environment is some means by which we can lower gas prices, when, in fact, when these regulations or these sorts of things that have been imposed -- for the purpose of the environment and for the quality of life in New Jersey had been imposed -- the prices have continued to decline.

I am a little concerned, when we’re looking back here, again, about some of the issues that have been raised by you. For example, self-service gas stations. Now, I remember that to be when I was a staffer back in the early ’80s. And we’re sitting here, in the middle of talking about this crisis, with a suggestion that self-service gas stations may make a difference. But maybe I’m just on the wrong page, but we’re talking about a crisis over the past year, and we’re looking to see if there were some problems associated with it; not the panoply of all of the things that I know the petroleum industry wants, the retailers don't want, and the like. And I'm-- Particularly lacking here, as we talk about costs, as costs have gone up-- I'm not sure that we should even be thinking about these terms or whether we have jurisdiction. But shouldn't our focus be--

Can you give me some recommendations as to whether or not we ought to be looking at how the industry reacts when a crisis occurs? For example, some consumers-- There are many consumers who believe that the oil industry has taken this opportunity -- this shortage, to make increased profits -- to take profits off the top. The typical argument that comes in is they were able to buy the oil lower, and if the prices are rising now, they're charging us now.

Is that a true statement? Is there something that we can look at to show the public that that's not true? Or is there something that we ought to be doing to look at -- to see if there is some regulation needed. You're not allowed to just raise the prices because of some future increases that come up.

And I know I'm not being specific, but I'm trying to get our focus, at least from where I see it, on this particular oil crisis and the perception that members of the public have been having -- that have been calling our offices with these kind of complaints.

MR. BENTON: Senator, again, just to summarize our statement-- We appreciate the difficulty of responding to your constituents, and our customers, during price run-ups such as we've experienced recently. Again I remind you that we were at $9 a barrel last year at this time, and, quite honestly, we didn't have the types of hearings or constituent inquiries that we're experiencing right now.

I think I caught about three questions, and I'd like to briefly, very succinctly, try and address all of them.

SENATOR FURNARI: I'm sorry. I fired too many.

MR. BENTON: No, I got them all.

SENATOR FURNARI: I was more giving a speech than I was--

MR. BENTON: I think I got them all, and my colleague said he's got one that he'd like to respond to, also.

SENATOR FURNARI: Okay.

MR. BENTON: Very briefly and succinctly, though.

No. 1, we are committed to continuing to improve the environment, both here in New Jersey and in the region, where appropriate. We're supplying new reformulated gasoline to our state's major urban cities. Several of our marketers are engaged with the automobile manufacturers, in terms of producing new fuel, in certain, select cities, now, just for testing purposes, to try to further make improvements. We've almost cleaned up 90-- I believe my testimony was 90 percent or more of air quality improvements, and we've done that since the oil crisis in the '70s.

Environmental regulation, as it impacts our domestic refining industry, is something that we talked about. We'd like to underscore that as a part, not the only solution, but a part of our concerns regarding our ability to bring the product to the customer. And topically, Senator Cardinale, the Chairman, asked me, regarding environmental regulation-- I spent a better part of Friday regarding this concern of the congressional oxygenate mandate and the role that it might play on our summer gasoline prices to our constituents. That's one concern.

Environmental regulation is certainly dwarfed by other concerns, such as crude oil prices and the transportation. But our New Jersey marketplace is well positioned because the State policy has chosen not to artificially regulate prices of this commodity, as long as we are providing a competitive marketplace to our consumers.

With regard to self-service, you're absolutely right. It's been an issue before New Jersey for a while. It's one of the few issues, as State legislators, you have the option of considering changes to. Very candidly, a lot of the energy policies set at the national level-- The option of self-service is one choice that this Committee could make. We are only cognizant of the way we market in 48 other states that give consumers an option of self-service. We didn't come here with the intention of turning this into a self-service or attended service. But when you're looking at reducing the cost to consumers, the best way to do that is to give them the wide variety of choices while continuing to rely on our full-service tradition, but give them an option of self-service gasoline. If the consumers reject that or don't want that option, that's perfectly fine and acceptable. We'll be here to provide them with the type of service that they'd like. But it just is another tool.

When I read that we're responding to concerns of a possible increase in the petroleum products gross receipts tax of one-tenth of a cent per gallon-- We have legislation introduced, I believe, by Senator O'Connor, to mandate that at a permanent 4 cents per gallon rather than, perhaps, moving up to 4.1 or 4.2.

When you look at those costs to the consumer, you have to also recognize that the Federal Trade Commission, and our Rutgers Business Economists, have said we can possibly offer our consumers a savings of 3 to 5 cents per gallon on self-service as an option. We just included it as a part of our overall testimony for your consideration.

With regard to crisis and where profits play into this, I think it would be naive for all of us on the industry side, and for you, as policy makers, not to recognize that the first-quarter profits are coming out in the near term. And while I'm not privileged to know, nor would I even represent that I would know, what the profits are, I can put them in some type of historical context for you, so it may help you understand what these profit reports will reflect when they are issued. And that is that last year, at this time, was a terrible year for the domestic and international petroleum marketers that serve our country and serve our state.

When the prices were down to $9 a barrel, it was a very competitive, very difficult marketplace for those companies and suppliers to operate in. When the price of crude oil is at $9 a barrel, it's just as difficult as when it's at the other extreme, $34 a barrel. As a result, those earnings reports were significantly depressed. As a result, when you see the first-quarter reports come out for the companies, everyone looks at, traditionally, the year-to-date changes that go on. And you're going to see some very significant changes from what it was like to operate on $9 a barrel to what it's currently like to operate in this marketplace. Again, I don't know what those forecasts are going to be, but I tried to set it up in some type of historical context so you understand that.

What I do know is this, and I'll close on this comment. New Jersey has one of the most competitive marketplaces for the retail sale of gasoline, of the commodities -- heating oil and, ultimately, jet fuel, propane, kerosene, that exist, certainly, in the Northeast and, perhaps, in the nation.

Thank you.

SENATOR CARDINALE: Thank you.

SENATOR FURNARI: I've got a couple of follow-ups, shortly.

SENATOR CARDINALE: Sure.

On this point, I'd just like to address one question that has been asked and addressed.

I knew that Senator Orechio was unalterably opposed to self-service gas. I certainly hope that you were not the aide that convinced him (laughter) to refuse to post a bill that Senator Frank Graves and I worked on very hard and got out of committee in which we believed both of us would have saved the consumer between 3 and 5 cents a gallon.

And I would just like to observe that last night I landed at Newark Airport, and I spent part of my travel back to Demarest on Route 46. And I picked up my car in Fort Lee. And then I went past my favorite gas station. And along Route 46, I just looked at the prices of plus gasoline at various stations, and it was around -- these are highway stations -- $1.58, more or less. Some were $1.55. It was a Merit station, which is usually less than the rest, it was $1.51. And I was on my way to my favorite station in Cresskill, and it had a lineup of probably seven or eight -- now, it's a little neighborhood station -- seven or eight cars on each line of pumps. And their price on the plus was $1.50.

There is, obviously-- that couple of pennies difference obviously means a lot to my constituents. It's not a minor thing. And all of these years that we have been deprived of the option-- I'm not talking about making New Jersey -- that bill didn't make New Jersey into a self-service-only state, but we have-- For it to be illegal for me or you to go out and take that gas hose and put it in our car, that is an absurdity, an absolute absurdity. And the people who have caused that to continue to be the case in the State of New Jersey have caused the consumers of the State of New Jersey to spend, probably, billions of dollars of unnecessary cost over those years. And I think it's very good, and I want to compliment you on including that. I never thought that you would include that among the remedies that we might have some jurisdiction over.

Senator Furnari.

SENATOR FURNARI: As those of you who know the former Senate President, and I continue to serve with him when he makes up his mind about something, there is very little that anyone can do to persuade him one way or another. (laughter) So I certainly won't take credit for persuading him with regard to that.

What concerns me here is, again, this issue is not an issue that has anything whatsoever to do with why we're here today. The issue of whether or not that saves money or hasn't saved money over the years, and whether that debate goes on, it continues to go on forever.

What we're talking about here, and what's gone on here, is that suddenly, in the past year, we've noticed a tremendous increase. Now that increase occurred whether or not any of the things you suggested here-- In fact, almost all the things that you suggested as cost-saving matters, and that we've heard Senator Cardinale address, were being imposed during a period of time when the consumers' price was getting better for those of us.

So now, we're looking at a potential crisis and what it's going to mean to the consumers and their tax dollars. And I think what I hear you say is, "Well, the price went up, and we're going to see profits that are to come out. And the profits are going to be significantly greater than they were."

Now, there is this feeling among consumers. I'm not sure we have the answers to it, but certainly it's a question that gets raised. I can barely afford to heat my house because the price has gone doubled -- has doubled up. I can have a much more difficult time driving my car to work because the price has been up another third. But when I turn around and look at the reported earnings from the companies that are supplying me this, they're going through the ceiling.

Now, that's where, I think, if-- I think-- Consumers that I represent-- And most respectfully, Gerry, I think those in my district may not-- They're, maybe, just a little bit more affected by these prices than, maybe, yours. But all-- You know, no matter which-- No matter where you happen to live, I think, these are particular concerns.

What do we tell them, and what do we do? What kind of answer-- What is the industry going to say? Should we look at these issues of profits? Are there some kinds of regulations that-- I know you don't like regulations, but is there something that we may want to examine to ensure that when the crisis hits, somebody isn't making a lot while others are suffering.

And I think that's what this hearing was about today. I know that's what I was trying to get to. When I receive phone calls from people saying, "It's just not fair. It's going through the ceiling. Other people are getting--" And the perception is, "They're getting rich, we're getting -- we're just trying to afford our basic minimums."

SENATOR CARDINALE: Senator, it is what the hearing is about. I think we've heard -- and it's what I was driving at with this number of barrels and the increase in the price of crude. Obviously-- It's obvious to me, from the answers we got to that question, that the increase in the price of crude is, in fact, the key component of the present crisis. But that doesn't mean we should ignore everything else that we may have some control over because I don't think this Committee has very much it can ever do about the price of crude, but there may be some things that we can do that could ameliorate that. And maybe some of things were in place before these current prices. And maybe we should have been giving some attention to them. But this crisis, certainly, highlights the fact that those items, too, need attention.

So I'm not going to limit this Committee's inquiry to simply the price of crude. Certainly, if Mobil has a partnership with Saudi Arabia in a particular oil field, and, through some OPEC dealings, that price of crude goes up, I'm quite sure that Mobil's profits are going to be more. There's nothing I can do about that. There's nothing I know of that I can do about that. The partnerships that American oil companies have made with foreign oil producers-- And yes, you're going to see those profits go up. And we shouldn't be shocked.

However, the Federal government, to its credit, has, in fact, put some pressure on OPEC to open up production. And we've seen, in the last few days, stories in the newspapers that that production is going up again. We've also seen stories in the newspapers that that is not going to help very much my consumers' price of gasoline, my consumers' price of fuel oil in the very near term. That is going to take a long time before that works its way into lower gas prices.

That's the way of things. There's not much I can do about that. I am not, for one, going to be willing to say, "People who have partnerships with foreign companies can't do business in New Jersey," because if you want to see what happens to the price of gasoline, just take a look at that. But I might be willing to say to the Federal government, "Hey, wait a minute. Why are we so dependent on foreign oil? Shouldn't we be producing more ourselves?" And I'd be willing to say to our congressional delegation, "Try to do something about that," if we develop some of those facts. And I think we already have developed some of those facts. That would be the basis of such a resolution.

So that's where this Committee is going, and that's where this Committee ought to be going.

And if you have any further questions, by all means--

SENATOR FURNARI: Thank you.

My suggestion, Senator, was not to limit us to one topic, as you suggested, but rather to get us back to our focus, which is examining this crisis. There's no suggestion that you should say people can't have dealings with foreign companies or anything of that nature. But let's try to get to the concern that's facing the citizens of New Jersey right now. And let's find out where the answer to the question is rather than deal with overturning 20 years of environmental protection to the citizens of New Jersey.

But thank you, and I think I've asked my questions.

SENATOR CARDINALE: Thank you very much.

MR. BENTON: Again, Senator, just to underscore, briefly, what the industry is doing to make certain that the crude oil situation, which ultimately has worked to the consumers' disadvantage, also some of the benefits will be realized -- when the crude oil, inevitably, does lower, that we make certain that we move the product here as quickly as possible. Again, I've included a fact sheet in your package for your information. And also, I think I underscored in my testimony that the refining processing of crude oil is above average and set a record in 1999. And the production of gasoline from the refining community set a record for the month of February. So it's 14 percent above average. And that's just another illustration of how we are working hard to make sure that we bring the product to the marketplace in a timely way to benefit our customers, your constituents.

SENATOR FURNARI: Thank you.

MR. BENTON: Thank you.

MR. MAXWELL: I'd just like to add two other thoughts. And nowhere in our consciousness have we heard or asserted overturning 20 years of environmental regulation.

Next Wednesday, on April 12, the Clean Air Council is going to hold its annual public hearing on air toxins. As a member of the Clean Air Council, I encourage your attendance. We have people coming in from

NesCom and EPA and, of course, our own DEP. We've got various business folks coming. The Sierra Club will be there. We expect the other environmental groups. And it should be a very interesting presentation.

The other thought is--

Please come and hear what's really going on in New Jersey and around and so on and so forth.

And the other one is, visit the API Web site, API.org. If you really want to get a handle on what the global situation is, you can find out who's importing what and where and how and what are the significant policy issues.

So, thank you.

SENATOR FURNARI: Thank you.

SENATOR CARDINALE: Thank you very much.

Our next witness will be Cathy Raniolo from the New Jersey Citizen Action Oil Group.

MR. BENTON: Thank you.

CATHY RANIOLO: Good morning. My name is Cathy Raniolo, and I'm the Acting Assistant Director for New Jersey Citizen Action Oil Group.

We appreciate this opportunity to comment on the recent increases in the price of petroleum products and to lend our view on the home heating oil crisis and how it has affected New Jersey's homeowners, tenants, senior citizens, and business owners.

The New Jersey Citizen Action Oil Group was formed in 1983. We are a nonprofit fuel buyers group comprised of thousands of heating oil consumers throughout New Jersey. Our role during the recent crisis was to provide information and reasonably priced oil to New Jersey consumers.

Between January 24 and February 18, we received an average of 200 calls per day from oil heating consumers who wanted to know what could be done about skyrocketing oil prices.

Since we also function as a clearinghouse of information pertaining to the oil industry, we provide our consumers with honest and fair reporting on the wholesale and retail pricing structures. We were amazed at the way in which refineries were pushing through price increases. Usually, a price change occurs once daily, with retail oil companies being notified the evening before, or the day of, to which the price pertains. But suddenly, with the onset of cold weather, prices were increasing two, even three times per day. During this spiraling price period, many refineries, with whom our dealers work, would not answer the phone, and no one seemed to have an idea of why prices were increasing at such a rapid rate.

New Jersey Citizen Action Oil Group echoed the headlines and informed consumers that the cold weather snap, low petroleum supplies, and OPEC's decision to cut production were the factors contributing to the sharp increases.

We believe OPEC knowingly cut production to stimulate a higher price for their product, and with local suppliers having a low capacity on reserve because of the previous three mild winters, OPEC did, in fact, cause prices to become inflated. For example, in January of 1999, the average wholesale price of No. 2 Home Heating Oil averaged around 40 cents per gallon. January 2000 we saw an average wholesale price of 99 cents per gallon, with daily wholesale prices as high as $1.44 per gallon. It is as if consumers were set up and left vulnerable to these price spikes.

Unlike many oil companies, we received no complaints about the Oil Group prices during this time. We have not lost one member during this crisis. In fact, due to our fair pricing policy, our membership has increased significantly over the last six weeks. Our members save because the full-service oil dealers we contract with are only permitted to charge 33 cents a gallon over wholesale, whereas some fuel oil dealers will charge up to 60 cents a gallon over the wholesale price.

While the New Jersey Citizen Action Oil Group's membership is comprised heavily of seniors and low-income households, individuals, as well as nursing homes, day care centers, and small businesses, deeply felt the effects of this crisis. To watch the heating bill go from $200 to $600 a month caused hardship for everyone who found themselves involved in the recent price spike.

Currently, we are receiving calls from consumers who tell us, because of the oil prices this winter, they are considering conversion to natural gas as their heating source.

The New Jersey Citizen Action Oil Group's position on gas conversion is that, while it may have provided some relief in this particular situation, the overall cost to convert is prohibitive to New Jersey residents who are either on a fixed or low-income budget. In fact, an article in today's, April 3, edition of *Business Week*, by Stephanie Forest, cautions consumers that gas prices are no more stable than oil. Donald Textor, an energy analyst, also warns consumers that if demand for natural gas increases by 3 percent next year, production is expected to rise only 0.3 percent, and the "North American gas markets are heading for a major train wreck."

In addition to providing heating oil at a savings to our members, we also monitor heating oil prices on both wholesale and retail levels throughout the state. We pay particularly close attention to the retail prices charged by full-service oil companies. Although we work with 35 fuel oil companies, we follow an additional 60 companies with regard to their retail oil pricing and their services to consumers. While we saw most oil dealers behaving quite well in the face of this crisis, we still saw some oil dealers who were profiteering unfairly.

At a time when wholesale prices were $1.30 per gallon, for example, our surveys showed some oil companies were charging as much as $2 per gallon, compared to the Oil Group's average price of $1.58. New Jersey Citizen Action Oil Group encourages this Committee to consider enacting a fair pricing policy for consumers in New Jersey to protect them when wholesale prices increase so drastically and so quickly.

There needs to be some type of accountability between the dealers and the consumers that takes into consideration dealer profit margins during times such as these. In fact, we know that many State agencies are working with oil companies whose prices do not reflect any significant savings to the LIHEAP recipients, for example. If we are able to limit dealer markups for our membership, we call upon this Committee to legislate that LIHEAP recipients be protected from exorbitant markups. Fuel oil dealers who participate in the LIHEAP program should be forced to charge a lower markup to these consumers.

This Committee may look to pass legislation that requires retail oil dealers to share the formula they used to derive their retail pricing for a gallon of home heating oil with their customers. New Jersey consumers are also asking questions about the refineries that do business in our state. They want to know how the refineries derive their price, and to whom the refineries are accountable. Overwhelmingly, consumers believe that the refineries have been given carte blanche in our state, and that they, as consumers, have nowhere to turn.

Increasingly, oil consumers are becoming smarter about home heating oil and the prices that are being charged by their dealers. They want to know what the wholesale price of the product is and exactly what is the markup of the dealer. They want to know why retail dealers aren't buying oil when prices are low and stockpiling reserves. Consumers want to know why retail dealers are not participating in the market and why they have left themselves, and their customers, open to wild fluctuations in the marketplace.

Finally, New Jersey Citizen Action, on behalf of our co-op members and the 700 (*sic*) oil-heating households in New Jersey, supports this investigation and welcomes your efforts. New Jersey Citizen Action Group is entering its 18th year in service to New Jersey's oil heating residents, and we will continue in our efforts to monitor the industry and the marketplace.

Thank you.

SENATOR CARDINALE: Thank you very much. You, obviously, are a cooperative buying group.

MS. RANIOLO: Yes, fuel buyers group.

SENATOR CARDINALE: And you accept, as members, anybody who--

MS. RANIOLO: As long as you--

SENATOR CARDINALE: --applies.

MS. RANIOLO: --live in New Jersey and heat your home with oil heat.

And I've also included, in your packet--

SENATOR CARDINALE: Is it also businesses that you would--

MS. RANIOLO: Yes, nonprofits, nursing homes, small businesses.

SENATOR CARDINALE: Well, suppose an apartment house came to you and said, "We want to join your buying group."

MS. RANIOLO: That would be fine.

SENATOR CARDINALE: So you allow anyone who lives in New Jersey--

MS. RANIOLO: Anyone who heats with oil in New Jersey.

SENATOR CARDINALE: --to use your service.

MS. RANIOLO: Yes.

SENATOR CARDINALE: Do you charge for your service?

MS. RANIOLO: Yes, there's a membership fee -- an annual fee, $15 for senior households, and $24 a year for regular households.

SENATOR CARDINALE: Has there ever been a time where your members paid more than was generally available in the marketplace?

MS. RANIOLO: Only in Salem County. Salem County seems to be the only county in the state where we come in just about even, or there might be a penny or two difference. But throughout the state, we're lower, much lower.

SENATOR CARDINALE: And you achieve your result, essentially, by the way an HMO does, by contracting for services at a fixed markup.

MS. RANIOLO: And asking the dealers to limit their markup to just, basically, take what they need, to show a small profit and not a huge profit, and pass that savings back to our members.

SENATOR CARDINALE: And is there a service component also involved with your--

MS. RANIOLO: Yes. As I said, we deal with full-service oil companies, so our members are provided with a service contract, 24-hour availability of service, and also tank insurance. So there-- It's a comprehensive packet.

SENATOR CARDINALE: I think I'd like to become a member. (laughter)

MS. RANIOLO: I'll give you an application.

If you look at the statistics that I've compiled, you'll see how cheap we were in the last three months.

SENATOR CARDINALE: Thank you very much.

MS. RANIOLO: Thank you.

SENATOR CARDINALE: Senator.

SENATOR FURNARI: I have no questions.

SENATOR CARDINALE: Thank you very much, Cathy.

Harold Hodes, on behalf of Amerada Hess.

HAROLD L. HODES: Thank you, Senator.

This is the first time I've done this in a long time.

I just wanted to go back, on behalf of Amerada Hess, to your two points -- and Senator Furnari. The Senator and I have been trying to get self-service in the State of New Jersey for a long time.

SENATOR FURNARI: Do you know who that aide was that convinced--

MR. HODES: Yes, it was the service station guy on the corner that fixed cars all the time. (laughter)

If you're looking for ways of doing this, I mean, we have a legislative break this time. Amerada Hess, and I'm sure Mr. Benton, and some of the other companies would like to sit down with you and see what are the possibilities of offering consumers some choices, whether it be the coupons or self-service. It may take only a couple of weeks to put that together. Legislation could be done by May and June -- give the consumers an opportunity, as Jim has pointed out before, of a 3- to 5-cent savings on the gasoline.

We are the only state, besides Oregon, that does not offer self-service. If you see the Seinfeld commercials now, all you have to do is go in, use your credit card, pump the gas, and you leave. There's no cash transaction or anything else. The safety factor seems to be done away with.

So, as we develop our convenience stores and our clean stations, that's one of the options that we hope the Committee would take a look at again and maybe sit down with some of the companies, which Amerada Hess would be willing to do, and find some creative ways, maybe, during this crisis period, that we could develop legislation on self-service, or allow the voters in New Jersey to decide whether or not they want self-service is another option that's out there. Let the people vote, which may or may not be a nonbonding referendum. It's going to be an interesting process to do.

SENATOR CARDINALE: Just for your information, Harold, I turned to Dale when that crossed this-- I asked him to dust off my old bill--

MR. HODES: The Senator's leaving now.

SENATOR CARDINALE: However, definitely, I will look into doing both of those bills, as a matter of fact. I'm not certain of where the other one is at the moment. Has it been reintroduced -- the discount bill?

But I think both of them have merit, and they should be entertained at a Committee hearing, at the very least.

MR. HODES: Fine. And we'll-- Amerada Hess, as I said before, is willing to sit down and work with the Committee and anyone else.

Thank you.

SENATOR CARDINALE: Thank you very much.

The meeting is, obviously, adjourned.

Thank you all for having come and giving us your thoughts.

(HEARING CONCLUDED)