PETROLEUM MARKETERS ASSOCIATION OF AMERICA

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January 31, 2011

Senate Majority Leader Harry Reid
United States Senate
Washington, DC 20510

House Speaker John Boehner
United States House of Representatives
Washington, DC 20515

Senate Minority Leader Mitch McConnell
United States Senate
Washington, DC 20510

House Minority Leader Nancy Pelosi
United States House of Representatives
Washington, DC 20515

Dear Leaders Reid and McConnell, Speaker Boehner and Minority Leader Pelosi:

We write to you today on behalf of the Petroleum Marketers Association of America (PMAA), representing a federation of 47 state and regional trade associations. Our more than 8,000 independent petroleum marketing companies across the country employ over one million people and provide retail petroleum products ranging from motor fuels to heating oil to propane to tens of millions of Americans.

On behalf of our employees and the millions of consumers we serve every day, we wish to express our serious concerns with the energy prices we are paying as Americans. In light of the President's State of the Union message last week, we wish to discuss a number of factors influencing energy prices and underscore our leadership in transitioning the country to a clean energy future. We want to address the major drivers of energy cost increases confronting the country and pledge our best efforts to work with you and the Congress on resolving these difficult and increasingly expensive problems for us all.

Domestic Energy

We are strong supporters of the development and use of alternative energy sources in blending with traditional petroleum products such as biofuels. Our traditional heating oil supply will be displaced, in part, by the growing domestic biofuels market and enable us to have the "Made in USA" label on every gallon of oil, and be among the cleanest heating products sold in the nation. However, not all alternative energy sources combined will provide the amount of energy required to run a $14 trillion economy until far in the future. For the next 100 years, traditional sources of domestically available energy resources of all kinds; oil, gas, coal and nuclear will need to be brought to bear to maintain the nation's economic and national security.

With crude oil now above $90 per barrel on world exchanges, we are very concerned with the federal government's decision to extend the ban on deep water drilling offshore in the United States until 2017. The decision signals to world energy markets that the United States does not intend to seriously address the projected imbalance of roughly 65% imported crude oil demand in the U.S. for the next seven years. Congress needs to expedite oversight of deep water drilling projects, overhaul the Department of the Interior's Mineral Management Service, and get the United States back into the production of domestic crude oil, especially in the Gulf of Mexico. While the accident in the Gulf was tragic, it must not be the end of this important source of domestic oil supply.

Over the next 20 years, the rising middle class of consumers in Asia alone will be roughly double the size of the entire U.S. population. All those new consumers are also competitors for energy. Make no mistake, there is no room for saying the United States will not produce more traditional, domestic energy while we work on any transition to alternative energy sources.

Monetary and Fiscal Policy

It is impossible to ignore the role a dramatically weakened U.S. dollar has on energy prices. Crude oil has increased in cost by more than 30% since this summer. Food prices are up dramatically. The price of wheat, corn and soybeans have increased in price more than 90% over the past year. Heating oil inventories are at a 27 year high, consumers have reduced consumption dramatically and demand has fallen. Gasoline inventories are higher than their five-year average. Demand for gasoline by consumers is down 2.7% between October, 2009 and October, 2010. Energy inventories are up, consumer demand is down – yet prices for heating oil and gasoline are rising.

These price increases appear to defy the normal laws of supply and demand. Americans are paying more for essential commodities due to a "phantom tax" that Congress never passed and the President never signed. These increased costs from the phantom tax are courtesy of the Federal Reserve which has pumped out trillions of dollars in an attempt to re-inflate the nation's economy. As more dollars flow out of the Fed and into the money supply, the less each dollar is worth. As the Fed drives down the value of the US dollar, everything that is sold in dollars rises in price, which has a dramatic impact on people buying these necessities.

Specifically, every penny at the gas pump is a $4 million per penny per day, or a $1.46 billion a year tax. The 41-cent increase in wholesale gasoline prices just between July and December, 2010 is equivalent to $164 million a day - or $60 billion per year tax increase. For distillates, the increase of 46 cents a gallon since June is equal to a tax increase of more than $70 million a day or $25.5 billion. The two together have given us a tax increase of more than $85 billion (annualized) since June and no one voted on it, and it has added nothing to the government's budget. We would also note that energy and food taxes are one of the most regressive taxes, and thus we are dismayed how this is becoming national policy, particularly in a deep recession that is already impacting these same people.

The Investment in Commodities

With the Federal Government pursuing policies that reduce domestic oil production, accompanied by Federal Reserve actions to devalue the world's reserve currency, speculative investors are being driven to commodity markets. These speculative investors are increasing the price of everything from gold, to wheat, to copper to crude oil. There really is no other explanation for increasing prices when the world economy is sluggish.

Lawmakers directed the Commodities Futures Trading Commission [CFTC] to pass rules limiting certain commodities traders' size in energy, metals and agricultural commodities traded on and off exchanges, such as the NYMEX, where energy and agricultural commodities are traded daily. The goal was to prevent investors from flooding cash into commodities and inflating their prices.

The CFTC aired a draft position limit proposal a few weeks ago that would have set speculative limits at 25 percent of deliverable supply for spot commodity contracts. Staff at the CFTC estimated that at most

70 traders in agricultural commodities, six in base metals, and eight in precious metals and 40 in energy contracts would be affected by the new spot-month limits. We understand that this is controversial, and that this proposal will ***put the CFTC's budget within the crosshairs of Congressional appropriators looking to weaken the CFTC's ability to not only enforce the authority it has held since the 1930's, but also the specific new authorities in this area granted it by the Dodd-Frank legislation.***

We believe that position limits will have an ameliorating effect on energy prices by restraining investors' ability to buy into the market versus those commercial entities who are in the commodities market with the intention of actually taking delivery of fuel. We recently wrote to you and others in Congress asking that the Congress encourage the CFTC to move swiftly to enact regulations regarding position limits. We believe the need is urgent and thus encourage rapid action by them.

The last eight American Presidents have stated a desire for American energy independence. Yet, from Richard Nixon forward, we are more dependent on foreign sources of energy today than we were in 1974. We're in this position despite having ample domestic energy resources to draw upon. We need to encourage energy policy development in the span of 50-year intervals, and not the 2 and 4 year election cycles of recent efforts that have, unfortunately, failed to strengthen our nation's energy infrastructure. Congress should give serious consideration to creating a National Energy Resources Board, free of political cycles and appointments, whose purpose is the design and implementation of national energy policy for the next fifty years and whose charge is the safe, environmentally conscious, economically viable and market-driven energy security plan for the nation and our future.

Now, higher energy costs are directly threatening the weak and floundering economic "recovery." The impact on our employees and the American people we serve is quantifiable and very real, especially among the least fortunate in our country. With real effective unemployment rate at 17%, where 1 in 7 Americans lives below the poverty level, and where now the number of Americans receiving food stamps is now over 42 million, ***we should be doing everything possible to reduce energy costs***.

There is no single solution for our energy challenges. Government will not solve our nation's energy problems by placing its thumb on the scale of success or failure trying to determine which resources will win, and which will lose. Markets have given the nation the highest standard of living and the most productive economy in history with a vast array of energy resources available today. Harnessing energy markets' ability to drive us to a more secure energy future can and will succeed if encouraged, rather than discouraged, by government.

Please do not hesitate to contact us if we can help advance an energy policy focused on affordability and increasing domestic energy supplies for consumers and business.

Sincerely,

Dan Gilligan

Dan Gilligan
President