TESTIMONY OF

BILL DOUGLASS

CHIEF EXECUTIVE OFFICER, DOUGLASS DISTRIBUTING COMPANY

REPRESENTING

THE NATIONAL ASSOCIATION OF CONVENIENCE STORES

AND

THE SOCIETY OF INDEPENDENT GASOLINE MARKETERS OF AMERICA

AT A HEARING OF

THE HOUSE COMMITTEE ON ENERGY AND COMMERCE

ON

"HURRICANE KATRINA'S EFFECT ON GASOLINE SUPPLY AND PRICES"

September 7, 2005

I. Introduction

Good afternoon, Mr. Chairman and members of the Committee. My name is Bill Douglass. I am Chief Executive Officer of Douglass Distributing Company, headquartered in Sherman, Texas. My company operates 14 convenience stores and supplies gasoline and diesel fuel to 165 retail locations throughout the Dallas-Fort Worth area.

I appear before the Committee today representing the National Association of Convenience Stores ("NACS") and the Society of Independent Gasoline Marketers of America ("SIGMA").

II. The Associations

NACS is an international trade association comprised of more than 2,200 retail member companies operating more than 100,000 stores. The convenience store industry as a whole sold 142.1 billion gallons of motor fuel in 2004 and employs 1.4 million workers across the nation.

SIGMA is an association of more than 240 independent motor fuel marketers operating in all 50 states. Last year, SIGMA members sold more than 58 billion gallons of motor fuel, representing more than 30 percent of all motor fuels sold in the United States in 2004. SIGMA members supply more than 35,000 retail outlets across the nation and employ more than 350,000 workers nationwide.

Together, NACS and SIGMA members sell approximately 80 percent of the motor fuel retailed in the United States each year.

III. Summary of Testimony

Thank you for inviting me to testify before you today on the impact of Hurricane Katrina on the nation's wholesale and retail motor fuel supply and prices. The past ten days have been some of the most challenging in my thirty years as a motor fuel marketer and I welcome this opportunity to share my personal experiences, and the experiences and impressions of other NACS and SIGMA members with whom I have talked, with you.

As an initial matter, I would like to express my personal sympathy, and the sympathy of our entire industry, for the victims of Hurricane Katrina. Individually and collectively, our industry shares the suffering of our fellow citizens and will do all in our power to alleviate this suffering at the earliest possible date.

My testimony will touch on three broad topics today. First, I will provide the committee with as much information as I have available on the impact of Hurricane Katrina on gasoline supplies and prices. Specifically, I will share with you my personal experiences over the past ten days and summarize, to the extent possible, the information I have received from my fellow retailers.

Second, I am here to respond to allegations that I, and my industry, have taken advantage of this tragedy by "gouging" our customers by raising retail motor fuel prices. Such allegations are personally offensive to me, and in general reflect a lack of understanding of the market events that have led to the gasoline and diesel fuel price spikes of the last ten days. While it is certainly possible that some "bad actors" have sought to exploit this crisis for personal gain, I can assure you that their actions are not the actions of the vast majority of our industry.

Third, my testimony contains recommendations to the committee on steps that should be taken to lessen the likelihood that such supply disruptions and wholesale and retail price spikes will occur in the future. Unfortunately, these recommendations are remarkably similar to the steps NACS and SIGMA have been urging public policymakers to take for the last ten years. While the enactment of the "Energy Policy Act of 2005" earlier this summer was a good first step towards implementing some of these recommendations, much remains to be done.

IV. Impact of Hurricane Katrina on Wholesale and Retail Gasoline Prices

For much of the eastern two-thirds of the nation, the impact of Katrina on wholesale and retail gasoline prices could not have been more immediate and profound. I will leave it to other witnesses here today to discuss the impact Katrina had on crude oil production and imports, crude oil movements from production to refineries, domestic refining capacity, and the movement of finished gasoline and diesel fuel throughout the country via pipeline, barge, and truck. That is not my area of expertise. Instead, I will concentrate my testimony on my personal experiences over the past ten days as a marketer in Texas, and on the experiences of fellow marketers in other areas over the past ten days.

It will be helpful for me to use several charts to graphically make these points. This first chart (Chart 1) depicts the daily movements of wholesale prices in the Dallas/Fort Worth market last week. This is the "rack," or wholesale price -- the price at which my suppliers are willing to sell me, and other marketers, truckloads of 87 octane conventional gasoline. As you can see, these wholesale prices increased daily, and dramatically, last week. On August 28th, before Katrina struck, my wholesale gasoline cost was $2.36 per gallon including federal, state, and local taxes. Early last week, as Katrina struck the Gulf Coast, these wholesale prices jumped an average of over eleven cents per day, for a total increase between Monday, August 29th and Friday, September 2nd of 44 cents per gallon.

I must point out that I am a branded marketer -- the stations I own and supply fly the flag of a major refiner. The wholesale prices in this chart reflect branded rack prices, not unbranded, or independent, rack prices. During this same five day period, wholesale prices for these unbranded stores rose 73 cents per gallon, or over 18 cents per day.

This second chart (Chart 2) shows how my company reacted to these rack price increases in terms of our retail outlet prices. As you can see, our retail prices in general rose by a similar, and in some cases, lower amount than our wholesale costs. In short, my company reacted primarily to changes in wholesale price increases when determining where to set our retail prices. In some cases, because of competition from other retailers in our market area, we did not pass the entire increase in rack prices through to retail. On these days, virtually every gallon we sold from our stations resulted in no or negative profit margins for our company, once our operating costs are taken into account.

My personal experience is similar to the experiences of other retailers across the nation. NACS and SIGMA obtained rack pricing data from the Lundberg Survey, an independent report on wholesale motor fuel prices, for several major metropolitan areas for the past two weeks. This chart (Chart 3) provides a broader look at wholesale gasoline prices in the Dallas-Fort Worth market last week.

The next two charts (Charts 4 & 5) indicate that my experience in Texas was not unique. Chart 4 summarizes the changes in rack pricing in each region of the country, broken down by PADD. As you can see, wholesale prices were up significantly last week in all areas of the country. Chart 5 provides a look at wholesale rack prices last week in five randomly chosen cities -- Atlanta, Boston, Dallas/Fort Worth, Detroit and Philadelphia. All of these cities witnessed substantial increases in rack gasoline prices last week.

I have used these charts to provide you with detailed evidence that Katrina had a widespread impact on gasoline prices in much of the country over the past two weeks -- not just in the areas devastated by the storm itself. Because crude production was reduced, refineries crippled, and gasoline pipelines were taken out of service, gasoline supply shortages began to occur, first in areas close to the areas hit by Katrina and rapidly moving outwards to areas of the country served directly or indirectly by the production, refining and transportation hub of the nation's Gulf Coast.

These statistics confirm that retail gasoline price increases last week were justified by movements in the wholesale cost of gasoline. While two months from now hindsight may provide us with additional facts that will indicate that the markets could have responded to this supply crisis differently, as we are going through this crisis, the fundamental laws of economics tend to apply forcefully -- if demand remains the same or increases and supply is reduced, prices will rise. This is the situation we have experienced for the last ten days.

V. Allegations of Price "Gouging"

Last week, there were widespread media reports, and even some comments by congressional leaders, of gasoline price "gouging" by gasoline marketers in the wake of Katrina. I can not assure the committee that all of these reports are false or that isolated instances of profiteering for personal gain in the midst of this crisis did not occur last week. I wish I could.

However, I can tell you that such actions were not the norm in our industry. The vast majority of gasoline marketers are fair and scrupulous businesses. As my testimony has shown, I personally responded to wholesale price hikes in my area in setting my retail prices. I am not aware of any credible instance in which retail price increases were not justified by the supply crisis faced by a retailer.

It is important for this committee to understand how I and other gasoline retailers establish our retail prices in a market with escalating wholesale prices. Simply stated, I try to set my prices on the basis of the replacement cost of the gallons I have at my outlets. This is an important concept which may not be readily grasped. When wholesale prices are rising, and I know that the next load of gasoline I purchase from my supplier will cost me substantially more than my last load, my sales must generate sufficient cash for me to make that next purchase and to pay my supplier.

For example, assume the gasoline at one of my retail stations cost me $2.00 per gallon yesterday. I know that the next gasoline truckload from my supplier, to be purchased tomorrow, will cost me $2.25 per gallon. I will, if I can based on competition in my area, set a retail price at my outlet today that will cover the higher price I will have to pay tomorrow. If I don't, I will be forced to borrow money from my company's banks to pay for tomorrow's gasoline. Such debt only increases my cost of staying in business and adds to the upward pressure on retail gasoline prices. It is a sound business practice for a retailer to price today on the replacement cost of gasoline at the outlet, not the cost of product actually at the outlet.

If instances of profiteering on this tragedy have occurred, federal and state officials have ample legal recourse for dealing with those bad actors, including Section 5 of the Federal Trade Commission Act. Such behavior must not be tolerated now or in the future in our industry or any industry.

However, just as such behavior must not be tolerated in our industry, neither should the media or opinion leaders react to such anecdotal reports by issuing blanket indictments of all motor fuel marketers. Such generalizations may make for good "sound bites," but they do not reflect what is actually happening across the country and unfairly damage the reputations of many companies that are struggling to meet the challenges of the current crisis.

If the only thing you knew about my company was that I raised by retail gasoline prices by over 50 cents per gallon last week, would you suspect that I was attempting to profit from this crisis? Maybe. But based on the information I have given you today, I trust that you would reach a different conclusion after you had investigated the facts. I urged this committee and your colleagues to gather the facts on last week's gasoline supply and retail pricing situation before reaching conclusions about my actions or the actions of other motor fuel marketers.

As a final point with respect to retail pricing, I have one more chart to share with you (Chart 6). This chart outlines the approximate gross revenues that several different parties in the petroleum exploration, refining, and distribution system realize from each barrel of crude oil. Simply stated:

- In August 2003, the royalty owner of the crude oil received approximately $4 per barrel; in August 2005, the royalty owner received about $8 per barrel;
- In August 2003, the crude exploration and extraction company was receiving approximately $28 per barrel of oil; in August 2005, this company received about $67 per barrel;
- In August 2003, a refiner was receiving around $11 per barrel; in August 2005, this company received about $27 per barrel;
- In August 2003, a gasoline retailer was receiving approximately $6 per barrel; in 2005, that retailer still received about $6 per barrel; and,
- In August 2003, a credit card company was receiving approximately $1.50 per barrel; in 2005, that company is receiving approximately $3 per barrel.[1]

Based on this information, I question whether it is appropriate to single retailers out for pricing scrutiny.

VI. Recommendations for the Future

In 1996, Tom Robinson, a former president of SIGMA, offered the following testimony before the Senate Energy Committee as part of a hearing on "Recent Increases in Gasoline Prices." "The federal and state governments regulate the gasoline refining and marketing industry with little or no thought given to costs, distribution difficulties, or market efficiencies. Congress must acknowledge that . . . the present course will lead to further market disruptions and higher gasoline prices at the pump." Mr. Robinson made that statement over nine years ago.

Last year, I testified on behalf of NACS and SIGMA at a subcommittee hearing of this committee and stated:

> "Our nation's gasoline and diesel refining industry is shrinking at a time when consumer demand continues to rise. Unless we collectively change course, domestic refining capacity will be unable to keep pace with demand, gasoline and diesel fuel price spikes such as the one we have experienced this year will become the norm rather than the exception, and our nation will become more reliant on imports of gasoline and diesel fuel to meet increased consumer demand in the

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[1] All information based on publicly available sources.

> coming years. Congress has a choice, it can either pursue policies that will encourage the expansion of domestic refining capacity, or it can turn its gaze overseas for our nation's future gasoline and diesel fuel needs."

Unfortunately, both Mr. Robinson's and my predictions have come true. Domestic refining capacity continues to shrink, wholesale and retail motor fuel price spikes have become the norm rather than the exception, and more of our nation's gasoline needs are being met by foreign sources. NACS and SIGMA assert that it is time to stop talking about these problems and do something about them.

In my opinion, the enactment of the "Energy Policy Act of 2005" (EPAct 2005) is a good first step towards addressing these problems. I commend you, Mr. Chairman, and your colleagues for taking the lead in making this important legislation a reality after five long years. Specifically, your provisions gave the Environmental Protection Agency the statutory authority to waive certain gasoline and diesel fuel controls last week, providing the market with much needed flexibility to move product between markets to mitigate supply disruptions. This is an immediate example of the positive impact this energy bill had had on the market.

There are other important provisions in the 2005 energy bill that will assist in expanding domestic refining capacity and in mitigating gasoline supply dislocations and price spikes, including:

- Repeal of the reformulated gasoline program's oxygenate mandate;
- Restrictions on creation of new "boutique fuels" which strain refining capacity and the distribution system;
- Authority for retailers to blend compliant RFGs for limited periods each summer; and,
- Federal tax incentives to encourage the expansion of domestic refining capacity.

NACS and SIGMA urge this committee and this Congress to build on the progress made through EPAct 2005 in the following ways:

- Assure prompt implementation of the EPAct 2005 provisions outlined above, including the joint Environmental Protection Agency and Department of Energy Study on increasing gasoline and diesel fuel supplies while protecting the environment;

- Streamline permitting and siting procedures for expanding existing domestic refining capacity and for the construction of new grassroots refineries;

- Adopt additional tax incentives to expand our domestic refining capacity, or a federal government-led effort to site and build three new 500,000 barrels per day refineries on federal lands to augment domestic production;

- Encourage increased price transparency and lower price volatility in the nation's gasoline futures markets by increasing the number of delivery points and product types under such contracts; and,

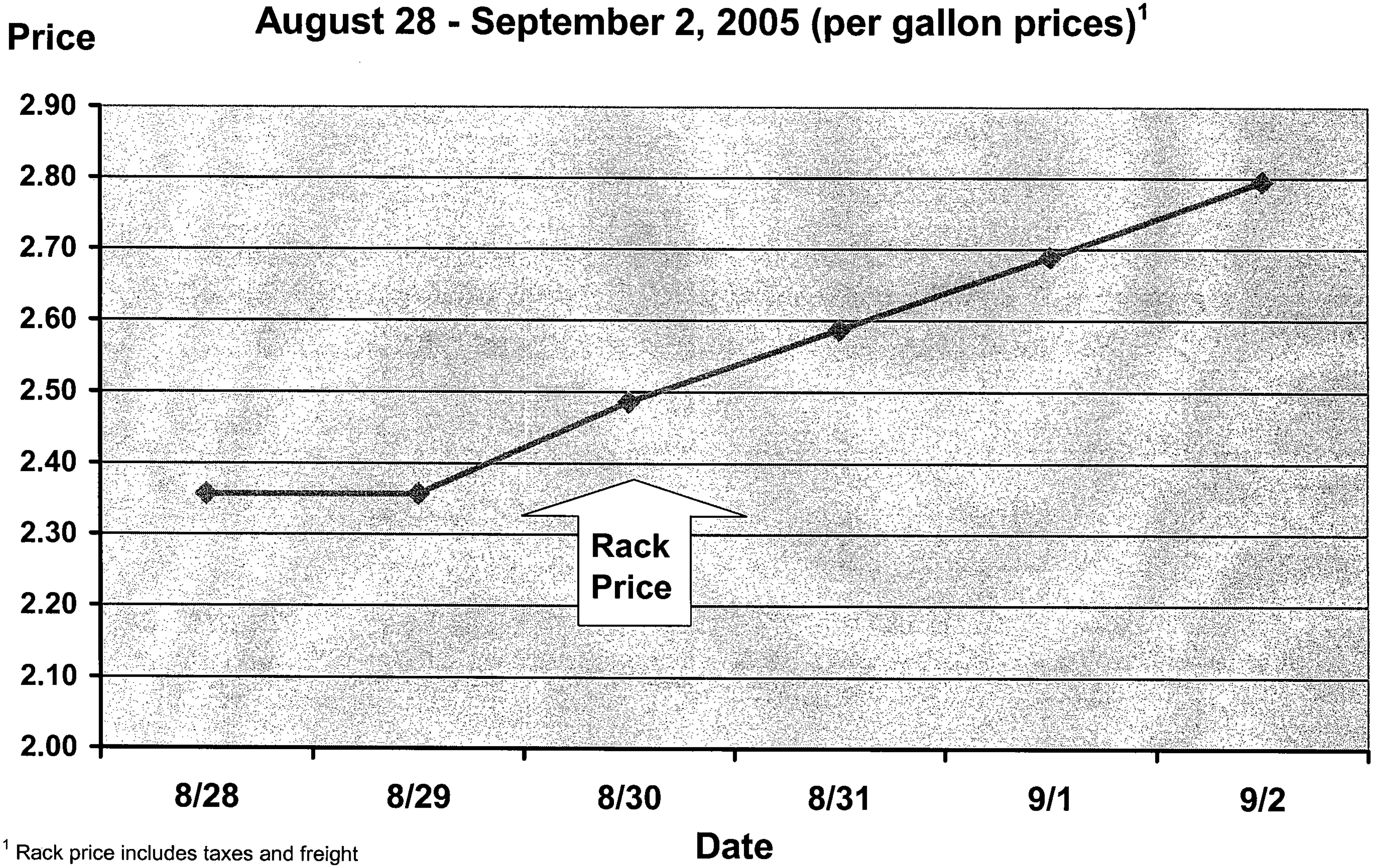
- Investigate the pricing policies of credit card companies, whose charges make up an ever-increasing portion of the price of gasoline at retail outlets, particularly when gasoline prices are high.

None of these recommendations will result in a substantial short-term increase in gasoline supplies or retail price decreases. However, if we do not undertake these initiatives now, we will be sure to repeat the experiences of the past two weeks in the future.

VII. Conclusion

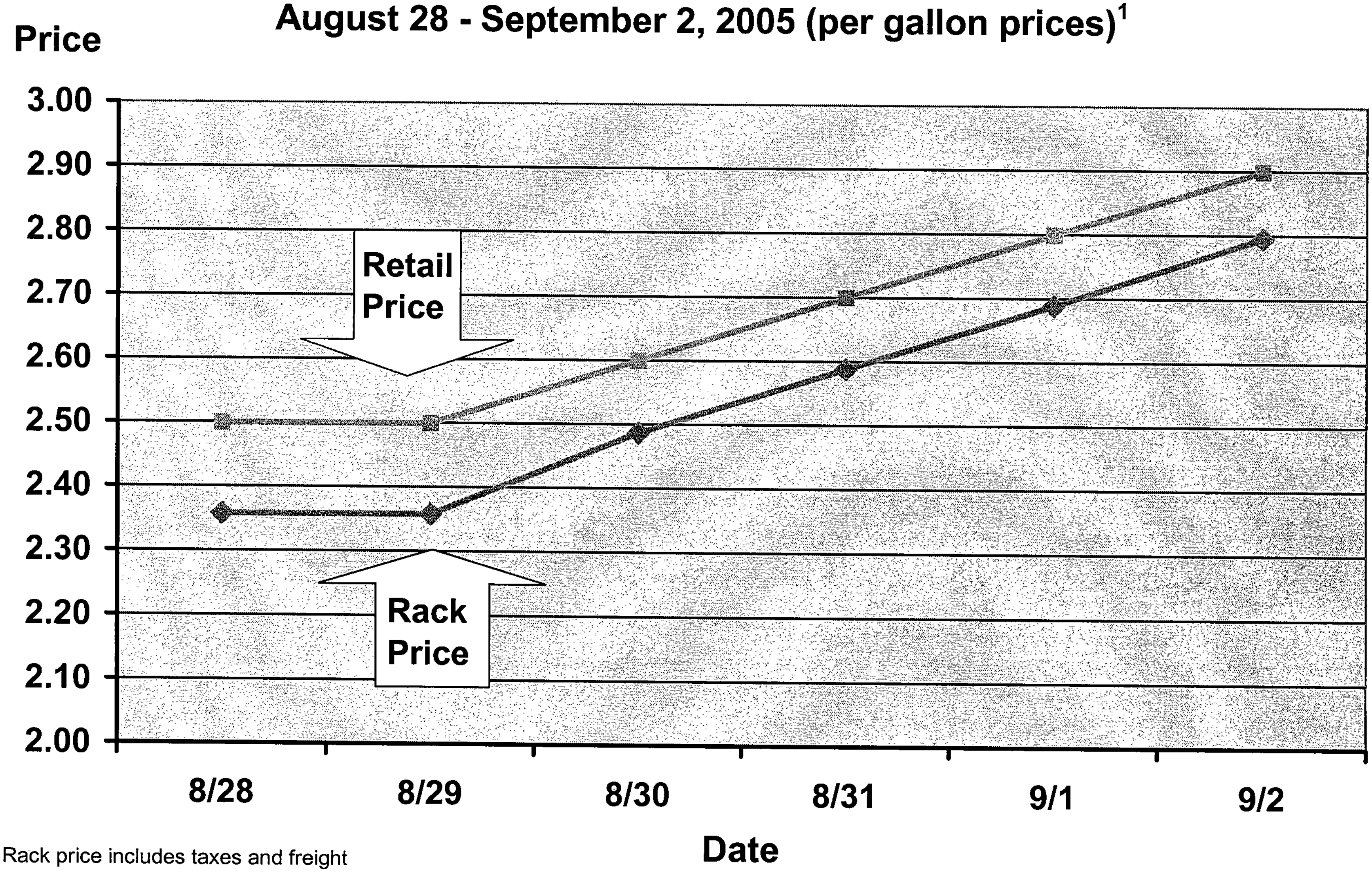
Thank you for inviting me to testify today on this important topic. I would be pleased to answer any questions my testimony may have raised.

Chart 1- Douglass Distributing Wholesale Price Experience August 28 - September 2, 2005 (per gallon prices)[1]



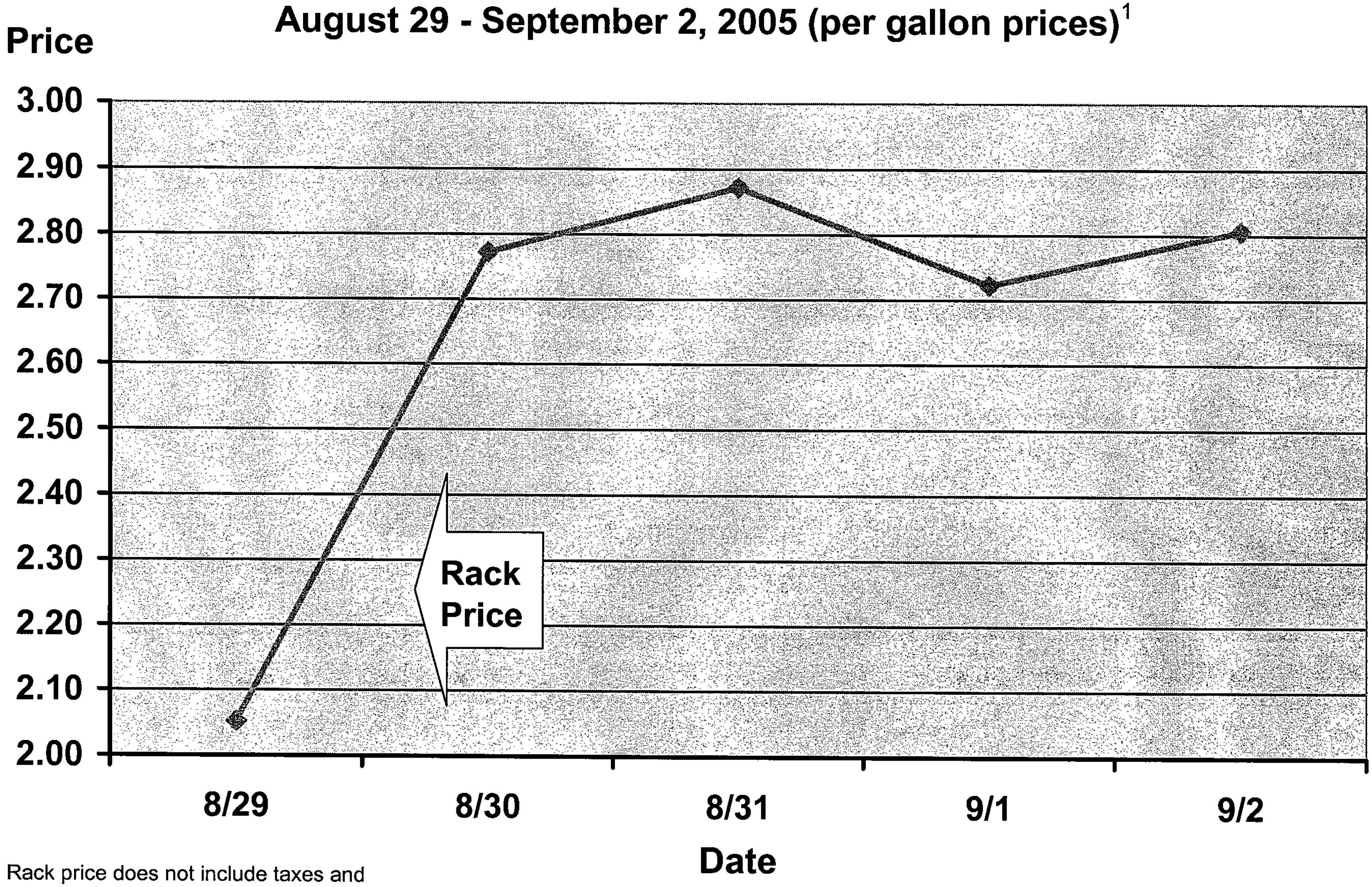
[1] Rack price includes taxes and freight

Chart 2- Douglass Distributing Wholesale/Retail Price Experience August 28 - September 2, 2005 (per gallon prices)[1]



[1] Rack price includes taxes and freight

Chart 3- Wholesale Price Experience for Dallas/Fort Worth August 29 - September 2, 2005 (per gallon prices)[1]



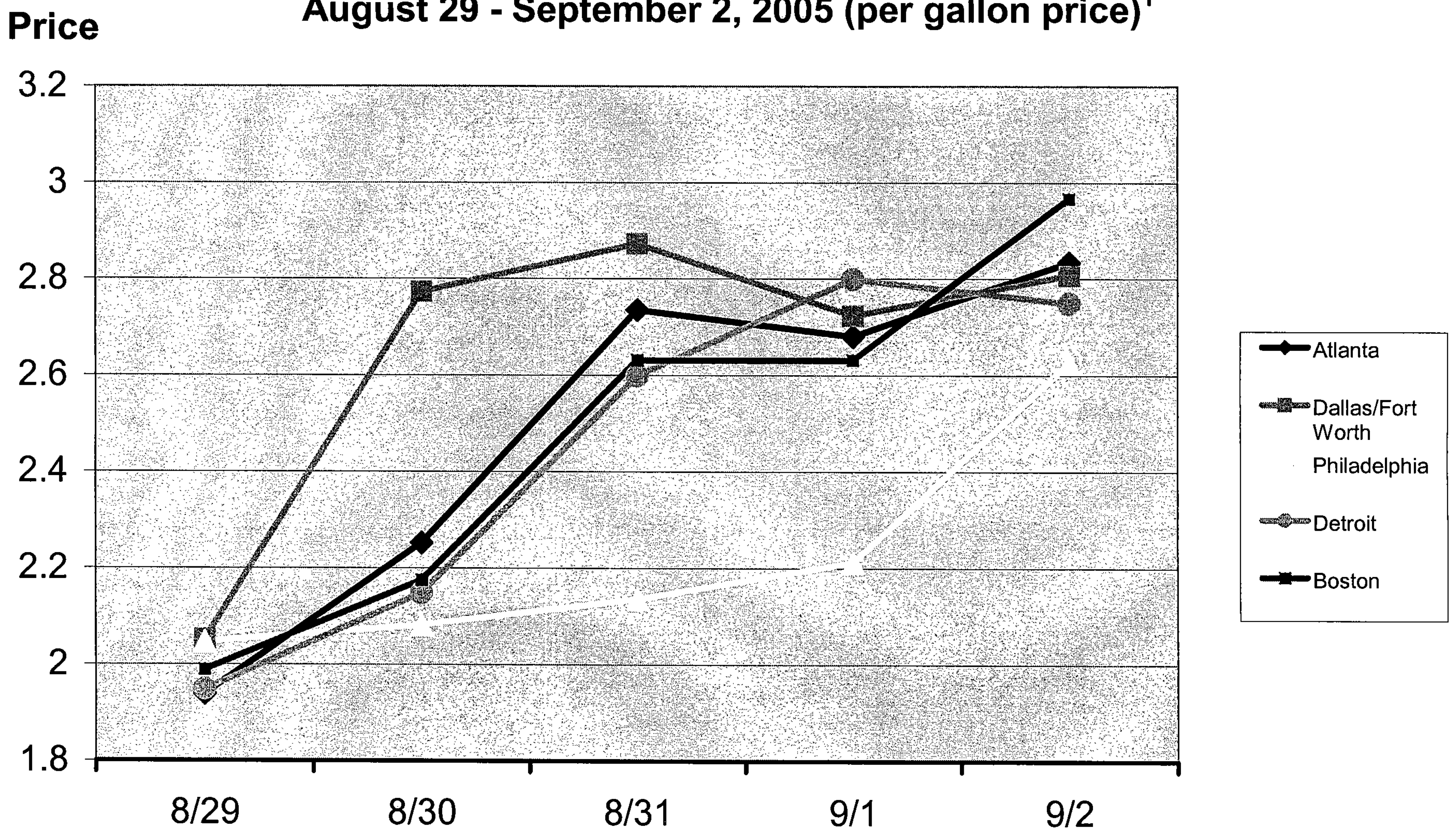
[1] Rack price does not include taxes and

CHART 4 - WHOLESALE PRICES INCREASES BY PADD AUGUST 26 - SEPTEMBER 2, 2005 (per gallon prices) [1]

PADD	Close September 2, 2005	Change from August 26, 2005
PADD I (East Coast)		
Branded	$2.5454	+55.08 Cents
Unbranded	$2.7919	+83.62 Cents
PADD II (Mid-West)		
Branded	$2.7919	+48.11 Cents
Unbranded	$2.7800	+72.55 Cents
PADD III (Gulf Coast)		
Branded	$2.4004	+43.80 Cents
Unbranded	$2.7760	+80.06 Cents
PADD IV (Rocky Mountains)		
Branded	$2.4259	+34.57 Cents
Unbranded	$2.4819	+37.60 Cents
PADD V (West Coast)		
Branded	$2.3551	+21.95 Cents
Unbranded	$2.7038	+48.25 Cents

[1] Excluding taxes and freight.

Chart 5- Wholesale Price Experience in Various Cities August 29 - September 2, 2005 (per gallon price)[1]



[1] Rack price does not include taxes and freight

Chart 6- Approximate Gross Revenue Received by Different Parties in 2003 & 2005 ($ per barrel)

Party	Average 2003 Revenue	Average 2005 Revenue
Royalty Owner	$4.00	$8.00
Crude Exploration and Extraction Company	$28.00	$67.00
Refiner	$11.00	$27.00
Retailer	$6.00	$6.00
Credit Card Company	$1.50	$3.00