

**Summary of the testimony by the American Fuel & Petrochemical Manufacturers before
the House Energy and Commerce Committee, Subcommittee on Energy and Power –
March 7, 2012**

- 1) The current prices consumers are paying at the pump are primarily driven by high global crude oil prices. The cost of crude oil accounts for 76 cents for each dollar consumers pay for gasoline, followed by taxes at 12 cents, distribution and marketing costs at 6 cents, and refining costs at 6 cents.
- 2) Refiners don't set the price of oil any more than automakers set the price of steel, bakers set the price of wheat or restaurants set the price of cattle. Oil is an international commodity that trades in the free market and its price is not controlled by its purchasers.
- 3) Historically, the best mechanism available to address high crude oil prices has been to take actions to increase the global crude oil supply. When America has taken such actions in the past, it has sent a message to the market that our country is serious about meeting our energy and national security needs.
- 4) American companies could increase the supply of crude oil if the federal government allows increased production of oil and natural gas in the United States and off our shores and if President Obama approved construction of the Keystone XL pipeline to bring Canadian oil to refineries on the U.S. Gulf Coast.
- 5) AFPM supports sound and sensible environmental and other regulations. Our members are strongly committed to clean air and water, have an outstanding record of compliance with Environmental Protection Agency and other regulations, and have invested hundreds of billions of dollars to dramatically reduce emissions as measured by EPA.
- 6) However, manufacturers of fuels are also being hit with a regulatory blizzard that poses a significant threat to both refinery operations and our nation. This includes Tier 3 regulations to reduce sulfur in gasoline, greenhouse gas regulations, lengthy permitting delays, requirements under the Renewable Fuel Standard involving ethanol and other biofuels, and logistical problems involved with transporting fuels.
- 7) Proposed new regulations and unnecessary tightening of existing standards threaten to raise energy costs for every American consumer, with little or no environmental benefit. This would strengthen foreign competitors eager to replace American manufacturers and workers, weaken the U.S. economy, make America more reliant on nations in unstable parts of the world for vital fuels and petrochemicals, and endanger our national security.



WRITTEN STATEMENT OF
AMERICAN FUEL & PETROCHEMICAL MANUFACTURERS
AS SUBMITTED TO THE
SUBCOMMITTEE ON ENERGY AND POWER
Committee on Energy and Commerce
United States House of Representatives
on
“The American Energy Initiative”

March 7, 2012

I. Introduction

Chairman Whitfield, Ranking Member Rush and Members of the Subcommittee, thank you for giving me the opportunity to testify at today's hearing on rising gasoline prices. I'm Charlie Drevna and I serve as president of AFPM, the American Fuel & Petrochemical Manufacturers.

AFPM is a 110-year old trade association that was known as the National Petrochemical & Refiners Association until early this year. Our association represents high-tech American manufacturers that use oil and natural gas liquids as raw materials to make virtually the entire U.S. supply of gasoline, diesel, jet fuel, other fuels and home heating oil, as well as the petrochemicals used as building blocks for thousands of vital products in daily life. Most of our members do not have any crude oil and natural gas production operations. But while we do not specifically represent the units of companies that explore and develop oil and natural gas reserves, several of these companies are members of AFPM and we share their goal of a steady, secure supply of oil and natural gas as a vital component of our nation's economy.

AFPM members make modern life possible and keep America moving and growing as we meet the needs of our nation and local communities, strengthen economic and national security, and support 2 million American jobs. The entire oil and natural gas sector – including the producers of oil and natural gas – supports more than 9 million American jobs and pays more than \$31 billion a year in taxes to the U.S. government, plus additional funds to state and local governments.

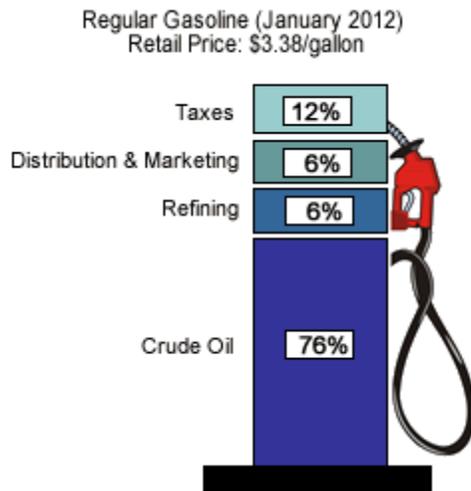
The refined petroleum product prices that we are currently experiencing are hurting American families and businesses struggling to rebound from a prolonged recession. There are many factors behind today's prices, ranging from the high cost of crude oil, to logistical challenges, to regulatory burdens and challenges that compound these factors. While government

policy can do little to address some of these factors, it can do much to address others. More importantly, public officials can work to ensure an overly burdensome regulatory environment does not create a situation that could raise consumer fuel costs even further and disadvantage domestic fuel manufacturers in relation to foreign competitors.

II. Factors Determining Prices at the Pump

The current prices consumers are paying at the pump are primarily driven by high global crude oil prices. As the chart below – taken from the U.S. Energy Information Administration website – shows, only 6 cents of every dollar that Americans pay for gasoline goes to the refining industry that AFPM represents. The cost of crude oil accounts for 76 cents, followed by taxes at 12 cents, and distribution and marketing also at 6 cents.

What we pay for in a gallon of:



Refiners, as well as petrochemical manufacturers, are the first customers of a barrel of oil and are the first to be impacted when oil prices rise. The 6 cents we collect on every dollar spent on gasoline has to pay all our manufacturing costs – including wages and benefits, operations and taxes – and then hopefully provide a profit to keep refineries in business.

Refiners don't set the price of oil any more than automakers set the price of steel, bakers set the price of wheat or restaurants set the price of cattle. Oil is an international commodity that trades in the free market and its price is not controlled by its purchasers.

There are several factors contributing to today's high crude oil prices, including:

- Concerns about the future of Iranian oil production and continued geopolitical uncertainty about how the world will respond to Iran's nuclear ambitions. Iran has even threatened to close the Strait of Hormuz, which carried 35 percent of all seaborne-traded oil in 2011.
- Increased oil demand in China, India and other developing nations, where more and more people are buying cars and rapid industrialization is taking place. Although the economic recovery in the United States is slow to moderate, the developing nations of the world are experiencing more robust growth. This growth is accompanied by an increasing demand for energy, causing petroleum and petroleum products to be in high demand.
- U.S. monetary policy and the decline in value of the U.S. dollar relative to other currencies. Oil is traded on the global market in American dollars, so as the value of the dollar falls, the price of a barrel of crude oil rises accordingly.

Historically, the best mechanism available to address high crude oil prices has been to take actions to increase the global crude oil supply. When America has taken such actions in the past, it has sent a message to the market that our country is serious about meeting our energy and national security needs.

Approval of the Keystone XL pipeline would bring an additional 700,000 barrels per day of Canadian crude oil to Gulf Coast refiners, plus additional oil being produced in Montana and North Dakota. A Department of Energy analysis last year indicated this new supply would act to

lower consumer gasoline costs. Analysis from the consulting firm IHS CERA also indicated Keystone XL approval would put downward pressure on global crude oil prices – the most significant component of consumer gasoline prices.

There are several other steps government could take to free up abundant U.S. and North American supplies of crude oil. My colleagues from the American Petroleum Institute can elaborate more on these measures. In a world where foreign, state-owned oil companies control 80 percent of world crude oil reserves, I would encourage Congress to take steps to make more North American resources accessible to serve the American people and strengthen America's economic and national security.

III. Consumer and Security Impacts of Refining Sector Challenges

High crude oil costs, the recession and foreign competition have created significant challenges for an already competitive refining industry. Coupled with government policies aimed at significantly reducing demand and logistical constraints, these factors have unfortunately led to the closure of several East Coast refineries. New, more affordable sources of crude oil from North Dakota and Montana have only *somewhat* mitigated these factors for mid-continent refiners and consumers. Logistical constraints have still created supply issues impacting consumers in this region.

In just the past few months, three refineries have closed representing more than 713,000 barrels per day (b/d) of domestic refining capacity. In addition, Sunoco announced that it will have to close its 335,000 b/d Philadelphia refinery if it cannot be sold by July. In an Open Letter to the Community published as a newspaper advertisement, Sunoco President and Chief Executive Officer Brian P. MacDonald wrote: "Despite the best efforts of Sunoco's refinery

employees, our Northeast refinery business has lost nearly \$1 billion in the past three years.”

The primary factors contributing to Northeast refining closures include:

- **Crude Costs:** Northeast refineries were built to use high-cost light sweet crude oil as their feedstock to manufacture fuels and other refined products. They cannot use lower-cost sour crude, making them uncompetitive with refineries using the more affordable crude. Factors impacting global crude cost were previously discussed.
- **Decreased Demand:** Fuel demand is down in the United States. U.S. gasoline demand peaked at 9.29 million barrels per day in 2007 and is projected to decline 16 percent in the next few years. This decline in demand has created 2.4 million barrels per day of excess capacity in American refineries. Such demand drops are attributable to the recession, higher Corporate Average Fuel Economy (CAFE) Standards and the Renewable Fuel Standard (RFS). The RFS alone has displaced 10 percent of Northeast gasoline supply and nearly 10 percent of the U.S. gasoline supply. Increasing CAFE standards will likely generate an additional 13 percent reduction in demand nationwide, or an amount equivalent to 18 refineries.

In a recent report, the U.S. Energy Information Administration (EIA) notes that these refinery closures will leave the Northeast and other parts of the East Coast dependent on refined product imports from outside of the region. Some of this lost supply could be made up through recent capacity expansions at refineries in other regions, since there actually is more than ample supply of finished petroleum products in the U.S. However, EIA notes significant logistical challenges pose sizeable hurdles to getting finished petroleum products to the Northeast. Such a reality could create supply disruptions leading to even higher consumer fuel costs. In addition,

the report notes that lost gasoline supply in the region will likely be made up through imports from Europe and Asia, “notably India.”

Gasoline supply in the midcontinent faces a different set of factors. As previously mentioned, new oil discoveries on private lands in Bakken region spanning North Dakota and Montana have provided midcontinent fuel manufacturers with a more affordable (but still expensive) source of crude oil. Lack of port access or infrastructure throughout the region can also *somewhat* mitigate the threat of foreign competition.

Compared to the rest of the nation, consumers in the midcontinent area have actually benefitted from this abundant crude supply, experiencing gasoline prices much lower than the national average in many states (see Attachment B). However, these costs are still high and the region is also not without its challenges. The explosion in crude oil development has actually created a bottleneck in the region’s main crude oil distribution point of Cushing, Oklahoma. This bottleneck has made the actual crude oil slightly less expensive for refiners, but the bottleneck has created a lack of pipeline capacity needed to get the oil out of the distribution center. Given these circumstances, crude oil has had to be sent out of Cushing via rail cars at a cost significantly higher than pipeline shipments. Such costs, as well as time lags in crude shipments, have contributed to area prices being higher than the historical average.

These market, policy and infrastructure factors impacting the American fuel supply have created a high-cost environment that hampers our nation’s economic recovery. Unfortunately, government overregulation is making matters even worse. Proposed new regulations and unnecessary tightening of existing standards threaten to raise energy costs for every American consumer, with little or no environmental benefit. They would also strengthen foreign competitors eager to replace American manufacturers and replace American workers, weaken the

U.S. economy, make America more reliant on nations in unstable parts of the world for vital fuels and petrochemicals, and endanger our national security.

IV. Petroleum Product Exports

One bright spot on the horizon is exports. For the first time since 1949, in 2011 the United States exported more refined petroleum products than we imported. Some pundits and others who don't understand the benefits of exports to the U.S. economy have wrongly stated that we are exporting fuels to force up the price of gasoline. This is absolutely false.

America is still a large net importer of the crude oil needed to make finished petroleum products. We import about 60 percent of the oil we consume. In addition, we're not a net exporter of gasoline – we import more gasoline and gasoline blendstocks than we export. Our big net export is diesel, which is manufactured along with gasoline when oil is refined. Because most Americans drive cars powered by gasoline, we have an oversupply of diesel in our country. It makes sense, therefore, to sell our excess diesel supply to Europe, where most cars run on diesel and to other nations whose economies are growing.

American refineries are the most efficient, highly complex, and competitive in the world. They are positioned to take advantage of this exporting opportunity and to continue to provide high-paying jobs to American workers and economic benefits to our entire nation.

If artificial and counterproductive restrictions were to be placed on these exports, American refineries would be forced to produce less gasoline for American consumers, because the physical properties of crude oil require us to manufacture, on average, one gallon of diesel for every two gallons of gasoline that we produce. It would be absurd and make no economic or business sense to produce products that cannot be sold.

Exports don't raise gasoline prices. Rather, exports bring billions of dollars to America, preserve and create jobs, strengthen our economy and reduce our trade deficit. In fact, in allowing domestic refiners to run at higher utilization rates, exports are likely keeping consumer costs from rising further. If all American manufacturers and agricultural interests were prohibited from exporting their products, they would produce less – and that could actually *raise* consumer prices.

“More exports mean more jobs,” President Obama said in his weekly address at a Boeing Plant in the state of Washington in February. “We know what we need to do. We need to strengthen American manufacturing. We need to invest in American-made energy and new skills for American workers.” This is exactly what fuel manufacturers are doing.

Some have called for placing a tax on refined product exports. But raising the costs of a product is no way to lower the price. Further, the U.S. Supreme Court has ruled that imposing taxes on exports is unconstitutional. The Constitution outlaws export taxes because the founders knew that exports are a vital component of our nation's economy.

America exports \$2.2 trillion worth of products every year. If banning fuel exports represents sound fiscal and economic policy, it would logically follow that America should ban all exports. But no one would suggest that, because it would destroy millions of American jobs and cause tremendous damage to our economy. Banning beef exports wouldn't lower the price of a hamburger, banning auto exports wouldn't lower the price of a car and banning fuel exports won't make gasoline cheaper.

V. Impacts of Regulation on Consumer Fuel Costs and American Competitiveness

AFPM supports sound and sensible environmental and other regulations. Our members are strongly committed to clean air and water, have an outstanding record of compliance with

Environmental Protection Agency and other regulations, and have invested hundreds of billions of dollars to dramatically reduce emissions as measured by EPA.

As a result of these emissions reductions by our members and by other industries, America's air today is cleaner than it has been in generations. Refiners have cut sulfur levels in gasoline by 90 percent just since 2004. We have also reduced sulfur in diesel fuel by more than 90 percent since 2005 and reduced benzene in conventional gasoline by 45 percent since 2010.

EPA data shows that total emissions of the six principal air pollutants in the United States have dropped by 57 percent since 1980 and ozone levels have decreased by 30 percent. These reductions occurred even as industrial output and the number of vehicles on the road have increased. EPA data indicates there will be continued reductions in the years ahead under regulations already in place.

Despite the great progress we have made in environmental stewardship under the Clean Air Act and other laws, we are concerned that EPA and other agencies have at times made unreasonable and often conflicting demands on our members to spend enormous sums to make changes in their manufacturing processes that bring minimal or no environmental benefits.

A Department of Energy report issued in March 2011 concluded that the compounded burden of federal regulations was a significant factor in the closure of 66 petroleum refineries in the United States in the past 20 years (Exhibit A).

The manufacturers of fuels are being hit with a regulatory blizzard that poses a significant threat to both refinery operations and our nation. Some of these regulations involve what are called Tier 3 regulations to reduce sulfur in gasoline, greenhouse gas regulations, lengthy permitting delays, requirements under the Renewable Fuel Standard involving ethanol and other biofuels, and logistical hurdles involved with transporting fuel (such as the Jones Act) to name a

few. While each of these regulations poses significant individual costs, many of these requirements conflict with one another, creating compliance issues and increasing fuel costs.

Tier 3 & CAFE

The Obama administration is claiming it needs to mandate lower sulfur fuels in order to achieve its greenhouse gas (GHG) tailpipe and CAFE standards. These new requirements are referred to Tier 3 gasoline standards. However, since 2004 EPA's Tier 2 rules have reduced sulfur levels in gasoline by 90 percent, from an average of 300 parts per million in 2004 to an average of 30 parts per million today. EPA's own data indicates air quality will continue improving under the existing Tier 2 standards, but EPA has indicated it will advance Tier 3 regulations regardless. Independent analysis indicates Tier III sulfur reductions could result in a 12 to 25 cents per gallon increase in the cost of manufacturing gasoline. In addition, these costs could lead to four to seven refinery closures.

Recent EPA testimony indicating the agency is looking to scale back its Tier 3 proposal and focus solely on sulfur reductions is encouraging and could serve to lessen these costs. Based on the agency's testimony, costs and impacts are likely to fall more towards the lower end of the previously mentioned ranges, if not slightly below. However, the tailored rule would still impose a high-cost, minimal-benefit regulatory requirement on America's already heavily regulated fuel supply. It could still lead to significant domestic fuel supply reductions, higher petroleum product imports, potentially increased consumer costs, increased refinery emissions, closed U.S. refineries and reduced energy security.

A process called hydrotreating is the principal technology used to reduce sulfur in petroleum products, including motor fuels such as gasoline and diesel. This and other such technologies require energy consumption that results in increased GHG emissions and will also

increase emission of other criteria pollutants. As a result, a regulation requiring a reduction of sulfur in petroleum fuel increases emissions that refiners are being told they must reduce under other Clean Air Act (CAA) regulations.

In addition, the Energy Independence and Security Act of 2007 (Section 209) requires EPA to conduct an anti-backsliding study to determine whether mandated renewable fuel volumes will adversely impact air quality. The results of this study are critical to assessing whether or not the current RFS will hamper air quality, as well as how to mitigate such impacts and whether changes to the petroleum portion of the fuel supply are the most cost-effective way to address the issue.

The anti-backsliding study was due in the summer of 2009. It was to be followed up with promulgated regulations to mitigate any potential impacts identified in the study by December 2010. Congress clearly required the study as a precursor to potential regulations, which the statute states should occur 18 months later. However, EPA has not completed this study, but intends to move forward with the Tier 3 proposal anyway.

EPA said it will release the study at the same time it releases its proposed Tier 3 regulations. This is contrary to congressional intent, which clearly indicated the anti-backsliding study was to be completed prior to any new regulations being promulgated. This was to be a sequential schedule, not a concurrent one. EPA should release the study to assess the feasibility of and proper approach to any additional fuels regulations.

EPA GHG Regulations

Although the Clean Air Act (CAA) was never intended to regulate global emissions of greenhouse gases (GHGs), EPA is moving forward in regulating such emissions through the

statute. The agency is proceeding with these regulations even though Administrator Jackson has said several times that they will do nothing to address global concentrations of GHG emissions.

India, China and other growing economies are not imposing the type of carbon restrictions on themselves that EPA is imposing on the American economy. So under EPA's regulations, we will send other countries our jobs and more of our manufacturing base – and those countries will export more manufactured products to America. The previously mentioned EIA report on East Coast refining indicates America's competitiveness is already at risk. As discussed, the report notes supply shortfalls in the Northeast are more likely to be made up through Indian imports than via products from other U.S. refiners. This analysis highlights the fact that America is becoming less competitive in a global marketplace. Overregulation is a significant factor in this threatening trend. Losing American manufacturing jobs and weakening our vital manufacturing sector will harm the American economy and American workers. In addition, the GHG regulations create regulatory uncertainty, delaying construction projects not just in the refining industry but in other important American industries as well.

Permitting Delays

The existing permitting process is delaying important projects for years and adding enormously to their costs, making it less likely that some may be built. The most recent victim of regulatory delay is the Keystone XL pipeline, which has been studied by federal reviewers for more than three years, and which is being required by President Obama to undergo yet further study.

Getting more U.S. and Canadian oil – along with oil from North Dakota and Montana – delivered to Gulf Coast refineries via Keystone XL would add to the world oil supply and make

us less reliant on oil from unstable parts of the world. This would help remove the uncertainty about future supplies that is a factor in the recent rise of oil prices.

Our members were encouraged to hear President Obama express support for construction of the southern leg of Keystone XL from Cushing, Oklahoma to refineries in Port Arthur, Texas to ease a bottleneck in the flow of oil to the Gulf. Unfortunately, the administration has held up approval for the pipeline for over three years. While beneficial for consumers and American energy security, construction of the Cushing leg alone does nothing to get us the oil we need from Canada. Stung by President Obama's refusal to approve the full Keystone XL pipeline until a new study is completed, Canada is now investigating construction of a pipeline from oil sands deposits in Alberta to the Pacific to ship oil to Chinese and other Asian ports.

Turning our back on this Canadian oil and on our trusted friend and dependable ally would be a huge mistake. It would weaken our economic and national security and deprive Americans of tens of thousands of new jobs. It will also make consumers more dependent on crude oil from hostile parts of the world that has historically seen volatile price fluctuations. We call on President Obama to quickly approve the new application that TransCanada intends to file to build the northern portion of Keystone XL from Canada to Oklahoma.

Renewable Fuel Standard (RFS)

Another set of EPA regulations of motor fuels that is causing regulatory conflicts and problems for refiners and consumers involves the size and scope of the ethanol mandate created in the 2007 expansion of the Renewable Fuel Standard. The RFS is costly and unworkable and should be reformed significantly by Congress.

The RFS requires refiners to blend increasing amounts of biofuels in gasoline, reaching 36 billion gallons by 2022. Since it is a volumetric mandate, it does not take into account

whether or not required volumes could actually be used in existing vehicles, engines and infrastructure. Recent increases in CAFE standards compound this issue. According to the National Association of Convenience Stores (NACS), by 2022 every gallon of gasoline sold in the United States would need to contain nearly 40 percent renewable fuels given the new CAFE standards.

The level of blending that would be required to meet both CAFE and the RFS is particularly disconcerting given the infrastructure and compatibility hurdles associated with pushing more ethanol into the general fuel supply. Currently, most cars and light trucks are built to run on gasoline with 10 percent ethanol (E10). However, EPA approved gasoline blends containing 15 percent ethanol (E15) for sale into the general fuel supply in vehicle model years 2001 and later. This proposed 50 percent increase in ethanol blended into the general fuel supply could lead to significant misfueling, causing damage and voiding vehicle warranties. In a recent letter to Congressman James Sensenbrenner, the auto manufacturers have expressed concerns that E15 could damage vehicles model year 2001 and later, as well as void consumer warranties as cars and trucks that are designed to use a maximum of E10. Small engine manufacturers have highlighted the adverse impacts mid-level ethanol blends could have on their equipment on several occasions. Furthermore, EPA does not even have the authority to grant a partial waiver under the Clean Air Act, as it clearly states that any fuel or fuel additive “will not cause or contribute to a failure of *any* emission control device or system (emphasis added).” Significantly more testing needs to be conducted and analyzed before E15 can be sold into the general fuel supply, let alone any fuel containing higher ethanol blends.

In addition, higher rates of ethanol in fuel *decrease* fuel economy and make fuel more expensive, even in today’s high oil price environment. To highlight this reality, AAA publishes a

daily report of national average fuel prices in its “Fuel Gauge Report.” The report includes a BTU adjusted price for E85 that takes into account the fact that the fuel gets approximately 30 percent less fuel economy than gasoline. As of yesterday, the national average regular gasoline price was \$3.76. The BTU adjusted price for E85 was \$4.23 per gallon.

To make matters worse, EPA charged refiners about \$6.8 million in penalties in 2011 for not using enough cellulosic biofuel. But cellulosic biofuel doesn't exist in commercial quantities and *none* was produced last year. So it's *impossible* to use it. If no cellulosic ethanol is manufactured this year, refiners will be charged almost \$8.2 million to essentially buy compliance through the purchase of waiver credits. The price of these credits for each gallon of non-existent cellulosic biofuel they don't blend amounted \$1.13 per gallon in 2011 and is 78 cents per gallon this year. There is no justification for this hidden energy tax. If allowed to persist, it will simply continue increasing consumer energy costs.

On top of this, some refiners have been victimized by sellers of invalid and fraudulent renewable identification numbers, or RINs. RINs are biofuel credits purchased by refiners to be in compliance with the RFS program. Under the Clean Air Act, EPA is authorized to impose fines of up to \$37,500 per day per violation on refiners who use invalid RINs to show compliance with the RFS. The agency can take this action even though refiners believed they were buying valid RINs from sellers registered with EPA. If the maximum fine were imposed every day for a year it would cost refiners millions of dollars.

The current structure and implementation of the Renewable Fuel Standard is based on ideology and political science rather than reality and real science. The program will only work to raise energy costs, impact fuel supplies and threaten American consumers unless modified by Congress.

General Burden of Continuously Tightening CAA and other Environmental Regulations

The \$128 billion that U.S. refiners have spent since 1990 to comply with federal environmental regulations adds significantly to their costs of manufacturing fuel. As previously noted, DOE notes the compounded costs of various regulations was a contributing factor to 66 refinery closures since 1990. Refiners supported some of these regulations that were beneficial to the environment. However, we have reached the point where continual tightening of these standards creates an all cost, little to no benefit regulatory environment that threatens the global competitiveness of American fuel manufacturers. Sunoco noted that environmental regulatory costs consumed approximately 15 percent of its operating budget. In addition, the Hovensa refinery that shut down in the U.S. Virgin Islands was located in a region that was in attainment with the Clean Air Act. However, EPA was still going to require the company to make an additional \$700 million investment to replace turbines. After losing \$1.3 billion in last three years, the refinery couldn't afford the additional regulatory compliance costs. These high regulatory costs that pose little benefit put American refineries at a competitive disadvantage. Finally, ConocoPhillips invested 100 percent or more of its profit into its Trainer refinery in the Philadelphia area to meet regulatory requirements before shutting the refinery last year. The refinery also lost money in five of the last six years.

Regulatory Barriers Contribute to Logistical Problems Involving Transporting Fuel

Regulations also raise barriers to meeting logistical problems associated with moving fuel where it needs to go in this country. For example, the previously mentioned EIA report on Northeast refinery closures explains how the Northeast will likely face a supply shortfall in relation to ultra-low sulfur diesel (ULSD) fuel. ULSD is used as a transportation fuel for trucking, but new mandates in Northeast states will also require the fuel be used for home

heating. Some of the supply shortfall for this product can be made up through shipments from the Gulf Coast to the Northeast through Colonial Pipeline. However, this pipeline is currently at maximum capacity. The report notes the Gulf Coast does have some extra ULSD supply that could serve the Northeast, but the Jones Act requires that any products shipped between ports in the U.S. must travel on U.S.-flagged ships. EIA concludes that in addition to being more costly, there may simply not be enough of these vessels to allow significantly more ULSD volumes to be transported from the Gulf Coast to the Northeast. EIA also concludes that this scenario could result in significantly higher consumer fuel costs in the Northeast.

VI. Conclusion

Because the cost of crude oil accounts for 76 cents of every dollar of gasoline, stabilizing crude oil prices is good not just for American refiners, but for American consumers as well. One important way of doing this would be to increase the supply of crude oil produced right here in the United States and purchased from our close friend and neighbor Canada and brought here via the Keystone XL pipeline. This would show that the U.S. is serious about our energy security and would send a message to the rest of the world.

Contrary to the claims of the critics of fossil fuels, America is not energy-poor. We are energy-rich. There is a treasure trove of oil and natural gas under our feet and off our shores – enough to make America the biggest energy producer in the world. Our challenge is not to find this buried treasure or to extract it, but rather to get federal approval to develop these reserves in a safe and environmentally responsible manner on more federal lands and in more federally controlled waters.

Developing our own oil and natural gas resources would also produce badly needed jobs for American workers and revenue for all levels of government. A study conducted by

consultants Wood Mackenzie and released by API in January found that increasing access by American companies to our nation's oil and natural gas would create 530,000 jobs and generate \$150 billion more in government revenue by 2025, at the same time boosting domestic production by 4 million barrels of oil equivalent a day.

Just building the \$7 billion Keystone XL pipeline would create 20,000 construction and manufacturing jobs and another 118,000 spin-off jobs for American workers. The Building and Construction Trades Department of the AFL-CIO, the Laborers' International Union of North America, the International Brotherhood of Electrical Workers, the International Union of Operating Engineers, the Teamsters, and the United Association of Plumbers & Pipe Fitters for the United States & Canada all support construction of Keystone XL because it would create so many jobs.

Another way of holding down fuel manufacturing costs would be to reduce the impacts of overregulation, which I have described earlier in my testimony.

We understand that different federal and state regulatory agencies have a hard time balancing the need for effective regulation with the demands of meeting sometimes conflicting decisions from the courts, positions of special interest groups and even newly enacted laws. However, the size, scope, and cumulative burden of current and impending regulatory activity is creating both significant regulatory uncertainty and a slew of conflicting regulations that will impose significant burdens on domestic fuel manufacturers and eventually consumers.

The American people are destined for disappointment and frustration if too many of our leaders continue to be fixated on finding instant solutions to the long-term challenges our nation faces – not just on energy but on all sorts of critical issues. Yet too often, the public policy

debate focuses on a quick fix to some of America's most serious challenges. In reality, accomplishing big things can take years.

For 40 years or more, opponents of fossil fuels have been telling us that opening up more of America for oil and natural gas exploration and drilling isn't worth doing because any single project would take years before it could reach production and get its oil or natural gas to market. Yes, it's impossible to find and start producing oil and delivering it to refineries at lightning speed. But all the projects we were told decades ago would take too long to build could have been up and running and serving Americans for decades by now if they had only been built.

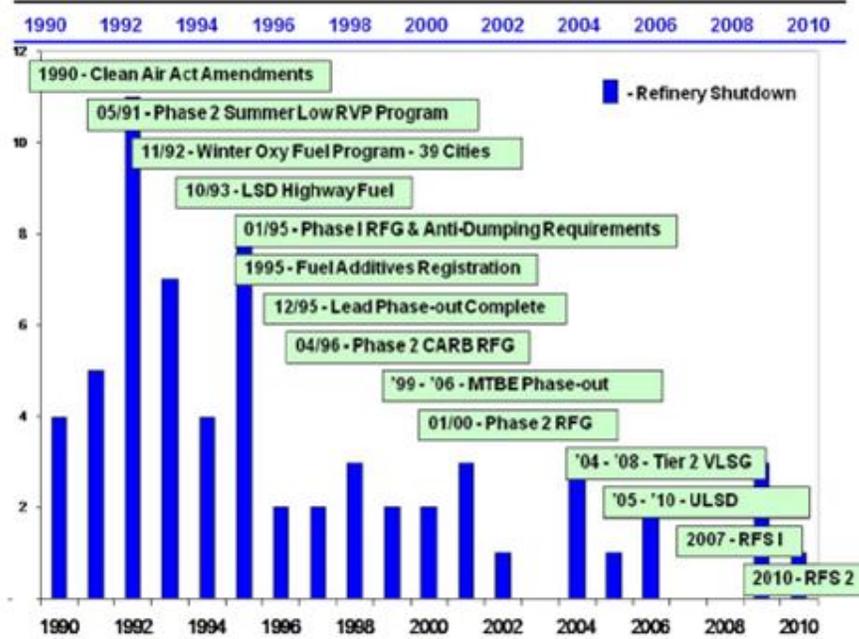
Imagine if the generations that came before us and built America into the great nation it is today had rejected beneficial projects that changed the face of nation because the projects couldn't be completed in a timely manner. Technological advances like the development of the telegraph, the telephone, radio, television, computers and the Internet all required years. None could have been developed if they would have been required to go from the idea stage to the operating stage in a short time period.

Producing more oil and natural gas right here in America, getting more from Canada and reducing harmful overregulation can't take place overnight. But these actions give us our best shot at creating a secure and stable energy supply for American consumers and a manufacturing renaissance and strong job growth in America.

Members of the American Fuel & Petrochemical Manufacturers are eager to work with Congress and the administration to pursue this course while protecting our environment to build a better life for Americans today and a better future for the generations that come after us.

Exhibit A

Figure 9. U.S. Refined Product Environmental Regulations 1990-2010

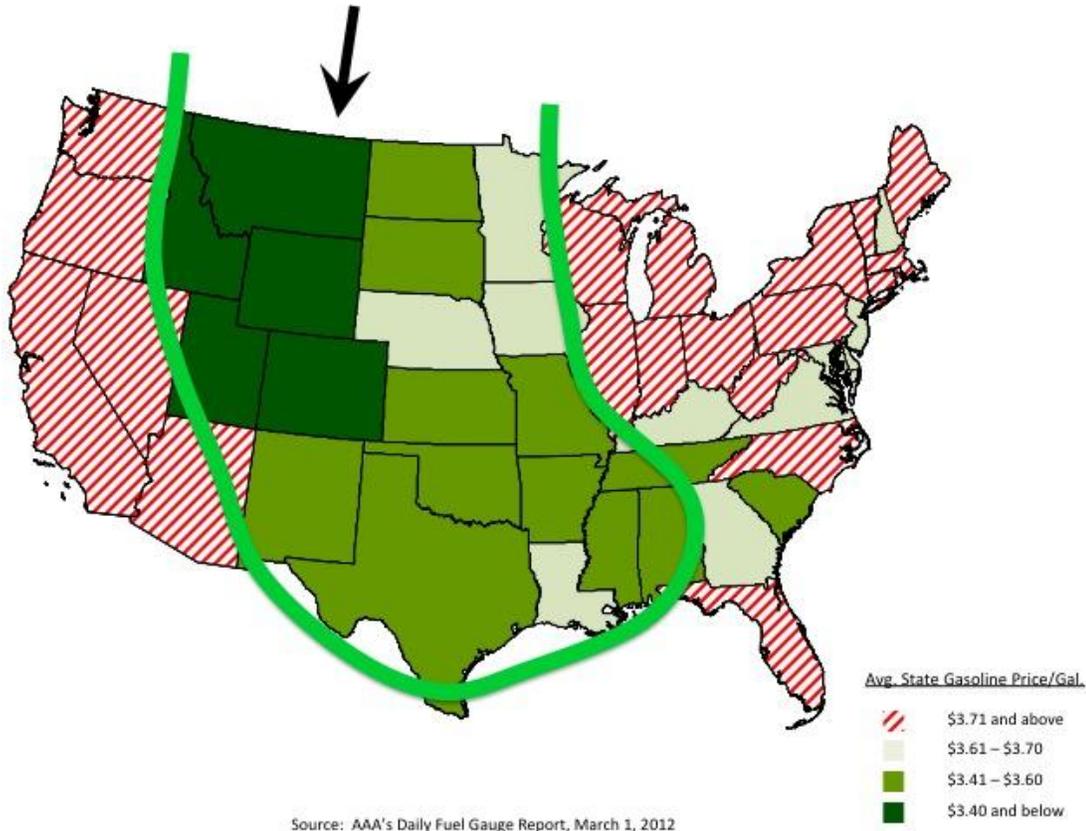


Source: SAIC, 2010, EIA Table 15 - Refineries Permanently Shut Down, 2010.

Source: U.S. Department of Energy, Office of Policy and International Affairs, *Small Refinery Exemption Study – An Investigation Into Disproportionate Economic Hardship*, p. 28-30, found at: <http://www.epa.gov/otaq/fuels/renewablefuels/compliancehelp/small-refinery-exempt-study.pdf>

Exhibit B

U.S. CONSUMERS PAY LOWER GAS PRICES WHERE WE GET DISCOUNTED AMERICAN AND CANADIAN CRUDE OIL



- **Rocky Mountain States Are Currently Paying \$0.50 Less Per Gallon of Gasoline than National Average** - National Avg: \$3.74/gal, Wyoming \$3.17/gal (-\$0.56), Colorado: \$3.19/gal (-\$0.55), Montana \$3.28/gal (-\$0.46) ([AAA, 3/1/12](#))
- **Lower Gasoline Prices Due to Access to American and Canadian Crude Oil** -According to a [report](#) by the U.S. Energy Information Administration (EIA), low gas prices in Rocky Mountain states are because of their easy access to cheap crude oil produced in the U.S. Bakken region or imported from Canada (EIA, 2/14/12).
- **North American Oil Boom Is Driving Down Prices v. Rest of World** - North American crude oil sells at a discount compared to world prices. West Texas Intermediate (WTI) is averaging \$18 less per barrel than the international North Sea Brent price. Bakken crude has sold as much as \$28 per barrel less than WTI crude ([EIA, 2/29/12](#)).
- **East Coast States Rely on Higher Priced International Crude Supplies** - Because they lack the pipeline infrastructure to access cheaper U.S. and Canadian crude, East Coast refineries must use more expensive international Brent crude to make gasoline ([IntlBusinessTimes, 3/1/12](#)).
- **Higher East and West Coast State Gas Taxes Do Not Explain Higher Prices** – For example, New York drivers pay \$0.27 per gallon more in state gas taxes than Colorado drivers. Yet, gasoline costs \$0.78 more per gallon in New York than Colorado. That is still a \$0.52/gal. difference.