

Statement of

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Before the

**Senate Committee
on Commerce, Science, and Transportation**

Hearing to Examine the Rise of Domestic Energy Prices

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Mr. Chairman, Members of the Committee:

Good Afternoon, I'm Ronald W. Kosh, Vice President for Public and Government Affairs at AAA Mid-Atlantic, part of the AAA federation of auto clubs. Thank you for the opportunity to address the critical issue of gas prices. Almost nothing hits home harder with AAA members than gas prices -- especially the extremely high gas prices we're seeing now. But before addressing my Club's experience in our territory, I want to speak on behalf of our AAA federation with over 48 million members.

Our federation has several recommendations that we think would ease this and future gas crises. Those recommendations include:

- Oil companies must ensure that their pricing yields what they need and deserve, but not more.
- Federal authorities needed to relax requirements for blended fuels and release crude oil from the Strategic Petroleum Reserve. We applaud that they have.
- Local authorities must be vigilant with regard to any retail pricing abuses which may occur. Also, they must be prepared to institute fuel purchase management programs if the need arises.
- Motorists must reduce consumption by using their most fuel efficient car, avoiding unnecessary trips, maintaining their vehicle, driving "gently" and car-pooling whenever possible. We should also avoid the impulse to hoard gas or constantly top off tanks. Even in the best of times there is not enough fuel in the system to fill every car and truck to the top of their fuel gauge.
- The media must carefully cover the situation. Over-reporting a limited number of shortages may provoke panic buying or hoarding, and that will only make the situation worse.

Doing all of these things will not solve our short-term problem, but can help mitigate their impact. Taking a longer view, Congress needs to require EPA to modify its MPG testing procedures to accurately reflect real-world driving conditions so motorists can have a more accurate reading of the fuel mileage their vehicle will achieve on today's roads. And, we must address the federal standard for clean gasoline that currently results in a patchwork of fuel blends that puts additional strains on our already strained refining capacity.

The AAA Mid-Atlantic Experience

Now I would like to turn to my own Club's experience. AAA Mid-Atlantic serves 3.6 million members in Delaware, Maryland, New Jersey, Pennsylvania, Virginia and the District of Columbia. Through AAA's *Daily Fuel Gauge Report* our club has tracked fuel prices daily since 1974.

In the weeks following Hurricane Katrina, gasoline prices in our territory--specifically, in DC, Delaware and Maryland have been some of the very highest in the nation, with industry explanations woefully inadequate. Absent a satisfactory explanation, motorists are left with few answers outside of excess profit taking.

Concerns about price gouging were raised and heightened in Virginia on Labor Day weekend. That Friday afternoon, a Shell station in Centreville started charging nearly \$6 for a gallon of gas. Virginia officials are now investigating that gas station.

In the District of Columbia, gas prices for many days have been the most expensive in the nation. In Maryland, prices recently rose to second highest in the nation, and in Delaware they were as high as third in the nation. In each of these jurisdictions, we have heard the industry's explanations and they don't measure up, and in some instances appear contradictory.

- At a hearing before the Maryland House Committee on Economic Matters, an industry representative told legislators that the reason Maryland had some of the highest prices in the nation was because of its location on the pipeline. They also said that gas was more expensive in Maryland because it has no refineries and got very little petroleum in by ship or barge and was so heavily dependent on the pipeline.
- In Wilmington, the Delaware News Journal quoted oil company officials as saying the reason that Delaware's gas prices were near highest in the nation was because the state had refineries and was served mostly by tankers/barges and did not get its petroleum from the pipeline.
- In Maryland, after a meeting with the Governor, oil company representatives assured reporters that the prices were demand driven.

It is these kinds of non-answers and contradictory comments that cause us concern and cause us to believe that they may be a smoke screen for the real answer: the industry is making huge profits on the backs of motorists in these states, using a national disaster in the Gulf as an excuse. We hope that is not the case, but absent viable

explanations yet to be proffered by the industry; we are left with this troubling possibility. If true, it is unconscionable and should be illegal.

Does it cost the companies any more to get gas to the mid-Atlantic region? No. Do motorists here use more gas—i.e. have a higher demand than motorists elsewhere? No. Could Maryland with the second highest prices in the nation at the time possibly have a demand that exceeds that of California, Pennsylvania, Ohio? Of course not. Yet this region has persistently, during this crisis, had some of the most expensive gas in the nation.

Last week when gasoline prices fell below \$3.00 per gallon in 30 states, Washington, D.C. Maryland, Virginia, Delaware, Pennsylvania and New Jersey posted gas at the three-dollar mark and above.

AAA Mid-Atlantic recognizes the potential for some unscrupulous owners and vendors to try to take advantage of crisis situations to make a bigger profit. In our view, such practices should be illegal, and are certainly unwarranted, and unconscionable. They should not be tolerated.

In the wake of such episodes, we warned motorists to watch for and report any incidents of price gouging. We also advised consumers to avoid those gasoline stations by shopping with their steering wheel.

Moreover, we have urged state and local officials in our territory to investigate such complaints. We have also urged investigations in and are working with officials in DC, Delaware, Maryland and Virginia, including, legislators and the state's Attorneys General offices.

AAA Mid-Atlantic is actively monitoring the situation in our region and will continue its efforts to assist officials there in their quest for the truth about why gas, particularly in DC, Maryland and Delaware has been the highest or near highest in the nation, when their neighbors, who draw their gas, often from the same sources, are much lower.

We thank you for investigating gas prices, because we believe scrutiny – by Congress, by state legislators and states attorneys general will be part of the solution. We also believe that taking advantage of motorists with outrageous profit making in a time of national emergencies should be illegal and applaud your efforts to make it a crime.

Thank you for the opportunity to testify before you today.