Chairman Doug Ose
Opening Statement
"Easing Pain at the Gasoline Pump: Finding Solutions for Western Woes"
May 28, 2004

Welcome to exciting Henderson, Nevada. The fact that we are holding this hearing in the Las Vegas area today is no accident. Today marks not only the beginning of the Memorial Day weekend but also the start of the summer driving season. Over the weekend, an estimated 200,000 people will pack up their cars and hit the road to enjoy all that Las Vegas has to offer.

As you may have noticed as you drove here today, gasoline in the Las Vegas area is currently a whopping $2.28 per gallon. In my district in California, the average price is $2.29. Although these numbers are unsettling, they are by no means surprising.

For the last four years, my Subcommittee has held annual hearings on this very issue. Over the years, two things have remained the same — gasoline prices rise every spring and summer, and the increases have always been explained by the basic economic principle of supply and demand. Until policymakers begin to address the factors affecting the balance between supply and demand, consumers will continue to be subjected to this vicious cycle.

According to the Energy Department's Energy Information Administration, U.S. demand for gasoline is expected to increase an average 2 percent per year. In part, this demand is due to the improving domestic economy and the increase in sales of sport utility vehicles.

Conversely, oil refinery capacity has gradually decreased over the last 20 years and is expected to remain stagnant in the near-term. To some extent, this is due to the cost of complying with Federal and State environmental regulations. The National Petrochemical and Refiner's Association estimates that refiners will need to invest about $20 billion in the next decade to comply with environmental regulations. As a result, less capital will be available for refinery maintenance and expansion.

On the larger scale, growth in global demand for crude oil is also beginning to outpace growth in global supply. Significant demand increases in China, political instability in Iraq and Venezuela, and recent actions by the Organization of Petroleum Exporting Countries (OPEC) have tightened the global market and have driven crude oil prices to record highs.

In addition to these domestic and international factors, California's gasoline supply is being influenced by a *de facto* ethanol mandate. This mandate, a result of overlapping Federal and State regulations, decreases the State's gasoline supply by 10 percent for 8 months of the year and may actually increase air pollution.

Compounding this loss is the impending closure of Shell Oil's Bakersfield, California refinery, which produces 2 percent of the gasoline and 6 percent of the diesel sold in California. Together, the ethanol mandate and the refinery closure, will translate into a 12 percent loss in gasoline production capacity in California. This will have a significant impact on consumers in California, Arizona and Nevada next summer.

The price of gasoline directly affects the pocketbooks of hard-working Americans. And, as is evident by this laundry list of problems plaguing the gasoline markets in the U.S., there are some very serious issues that policymakers should address if we want to provide consumers some relief.

To that end, today's hearing will examine potential short and long-term solutions. Possible supply-side solutions include: streamlining environmental laws and regulations, reducing the number of boutique fuels, increasing imports of finished gasoline and fuel blending components, and adding additional gasoline storage capacity. Potential demand-side solutions include: improving vehicle fuel economy, encouraging the use of alternative energy or hybrid vehicles, and providing incentives for public transportation and carpooling. It is important to remember that every solution has both benefits and costs.

I look forward to a frank and open discussion with our witnesses, which include: Richard Burdette, Energy Advisor to Governor Guinn, State of Nevada; William Keese, Chairman, California Energy Commission; Lynette Evans, Policy Advisor Regulatory Affairs, Office of Governor Napolitano, State of Arizona; Joe Sparano, President, Western States Petroleum Association; Sean Comey, Media Relations Representative, AAA of Northern California, Nevada and Utah; David Hackett, President, Stillwater Associates; and, Tyson Slocum, Research Director, Public Citizen's Energy Program.