Explore the Effects of Ongoing Changes in Domestic Oil Production, Refining, and Distribution on U.S. Gasoline and Fuel Prices

Witnesses:
The Honorable Adam Sieminski
Administrator, Energy Information Administration (EIA)
Jeff Hume
Vice Chairman for Strategic Growth Initiatives, Continental Resources, Inc.
Bill Klesse
Chairman and Chief Executive Officer, Valero Energy Corporation
Dan Gilligan
President, The Petroleum Marketers Association of America
Chris Plaushin
Director of Federal Relations, AAA
Faisel Khan
Managing Director, Integrated Oil & Gas Research, Citigroup Inc.
Committee Members Present:
Ron Wyden (D-OR), Chairman
Lisa Murkowski (R-AK), Ranking Member
Maria Cantwell (D-WA)
John Barasso (R-WY)
Debbie Stabenow (D-MI)
Al Franken (D-MN)
Tammy Baldwin (D-WI)

On July 16, 2013, the Senate Energy and Natural Resources Committee held a full committee hearing to explore the effects of ongoing changes in domestic oil production, refining, and distribution on U.S. gasoline and fuel prices. Testimony was received from a panel of witnesses comprised of representatives from oil producers and refineries, marketers and consumers, and independent industry analysts. The purpose of the hearing was to examine how the current boom in domestic oil production, as well as the changes in the refining industry and distribution system, has affected or could affect gasoline and fuel prices.

In his opening statement, Chairman Ron Wyden (D-OR) addressed the lack of benefits seen by consumers from the recent explosion in domestic oil production and the availability of “new lower cost sources of crude oil.” Citing figures showing that the U.S. has gone from importing 60% of its crude oil in 2007 to 40% in 2013 – the lowest level since 1991 – and that the U.S. has transformed from a net importer of petroleum products to a net exporter, Chairman Wyden wondered why prices are still so high in the U.S. when “there is so much extra gas and diesel fuel that it can actually be exported.”

Ranking Member Lisa Murkowski expressed the need for continued growth in domestic oil production, and for stabilizing gas and fuel prices by permitting oil production on federal lands – such as those in her home state of Alaska – and by approving necessary projects like the Keystone XL Pipeline.

Testimony from the witnesses focused on the current state of domestic production, the refining industry, and the distribution system. Adam Siemenski, an administrator for the Energy Information Administration (EIA), discussed the increase in domestic production in the last three years, the largest since 1992, as well as the complexity of the network (e.g. pipelines) linking regions of the U.S., and the challenges facing the transportation of domestic crude. Jeff Hume and Dan Gilligan discussed current practices that have a negative impact on the industry, such as export restrictions and credit card fees at the pump. Bill Klesse and Chris Paushin addressed pricing more directly, stating that prices at the pump are set by station owners, not refiners, and that the price of oil is dependent on global market conditions, not just domestic production. Finally, Faisel Khan addressed the future of oil production, indicating that he believed the U.S. will achieve energy independence by the end of the decade, and that industry seems to work regardless of regulatory hurdles, such as pipeline permitting, but at a greater cost of doing business and potentially greater risk.

Questions from the members focused on why the consumer isn’t feeling positive effects from this increase in domestic oil production, as well as transparency in the refining process and how prices are set. Chairman Wyden cited studies indicating that oil makes up 67% of the cost of gas and that refining margins are the highest in years. Subsequently, Wyden wondered why consumers have not seen the benefits. Siemenski noted this was due to the fact that “product prices are set in a global market” and that, as a result, an increase in domestic resources will be reflected in refining margins rather than in prices at the pump.

Senators Tammy Baldwin (D-WI) and Maria Cantwell (D-WA) questioned the panel on the impacts of refinery outages on gas prices: citing an incidence in California where a refinery outage led to a 50 cent price increase within the span of a week. They expressed concern over the opaque nature of gas pricing, to which Klesse responded that supply and demand is followed, but that it is based on the expected duration of outages.

Chairman Wyden and Ranking Member Murkowski echoed calls for greater transparency in the refining and pricing process, which were supported by Siemenski. Chairman Wyden concluded the hearing by promising to take a thorough, non-partisan look at pricing, the refining process, and the ultimate impact on the consumer, indicating that both sides of the aisle were committed to making sure consumers see the benefits of the increase in domestic oil production.

Opening statements and witness testimony, as well as an archived video of the hearing, are available on the Committee on Energy and Natural Resources website.

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