



SUMMARY
Testimony of Geoff Sundstrom
AAA
Before the U.S. House Committee on Energy and Commerce
Subcommittee on Oversight and Investigations
May 22, 2007

Introduction

AAA is the largest motorist organization in North America with more than 50 million members in the U.S. and Canada. AAA members drive approximately 25 percent of all the motor vehicles in operation in this country. We estimate they will purchase approximately 33 billion gallons of gasoline this year and at current prices will spend an estimated more than \$100 billion on gasoline.

Impact on Consumer

Since the beginning of 2007, the national average price of self-serve regular unleaded gasoline has jumped from \$2.32 per gallon to \$3.20 per gallon – an increase of 88 cents per gallon. At this price, a typical family owning two vehicles and using 1,200 gallons of gasoline per year would spend about \$3,840, or about \$320 each time the monthly gasoline credit card statement arrives in the mail.

Time to exercise more control over our own destiny

1. Motorists must reduce consumption. AAA will continue to educate the public on steps they can take to drive more efficiently.
2. AAA believes the nation – industry and government – must commit to achieving higher fuel economy standards on all vehicles.
3. Government should work with the private sector to develop alternative fuel and vehicle programs.
4. The nation's gasoline refining infrastructure is stressed. Refinery outages and a reduction in gasoline imports this Spring have contributed to low gasoline inventories and record-high prices. Additional stress could be placed on this infrastructure by weather or geopolitical events. We need an energy policy that addresses these vulnerabilities.
5. AAA encourages federal and state officials to reach agreement on the use of a smaller number of fuel blends that will meet or exceed our clean air goals and be as widely used as possible.



Washington Office
607 14th Street, NW, Suite 200
Washington, DC 20005
PHONE: 202/942-2050
FAX: 202/783-4788

TESTIMONY OF AAA

BEFORE THE

U.S. HOUSE COMMITTEE ON ENERGY AND COMMERCE
SUBCOMMITTEE ON OVERSIGHT AND INVESTIGATIONS

“Gasoline Prices, Oil Company Profits and the American Consumer”

GEOFF SUNDSTROM
DIRECTOR, AAA PUBLIC AFFAIRS

MAY 22, 2007

Chairman Stupak, Ranking Member Whitfield, and Members of the Subcommittee:

My name is Geoff Sundstrom, and I am AAA’s Director of Public Affairs. I am the association’s primary spokesperson on motor fuel issues and have oversight responsibility for AAA’s widely-sourced Fuel Gauge Report Web site which tracks national, state and local fuel prices each day. I also work with local AAA clubs on fuel price inquiries from members and the media in your home states.

AAA appreciates your invitation to appear before the Energy and Commerce Subcommittee on Oversight and Investigations to discuss the current escalation in gasoline prices. AAA’s concern revolves around the impact rising prices have on consumers.

As you may know, AAA is the largest paid-membership organization in North America. Earlier this year we achieved the milestone of having 50 million members in the United States and Canada. Our members drive approximately 25 percent of all the motor vehicles in operation in the U.S. Using figures from the U.S. Department of Transportation, we estimate AAA members will purchase approximately 33 billion gallons of gasoline this year and at current prices will spend more than \$100 billion on gasoline.

The important question is: With prices having risen more than 80 cents a gallon this year, are Americans driving less? The fact is that consumers at different income levels are affected differently by higher prices. There are affluent people in America for whom spending an additional \$100 per month on gas is not an issue. Some people have other transportation options and flexibility and can reduce their consumption of higher-priced fuel. But the vast majority of Americans have no choice but to absorb the extra \$50, \$100, or \$150 a month in gas prices. They have to go to work, take children to daycare, and go to the grocery store. This is not discretionary travel that can be limited.

Like it or not, gasoline is a significant part of many Americans' budgets. When gas prices increase, there is less money to save, invest or spend on goods and services. The extra expense results in a sacrifice elsewhere in a family's budget – groceries, healthcare, college savings, retirement planning.

Part of what we do at AAA is help motorists understand what they can do to reduce the burden of high gas prices, from vehicle maintenance to trip-chaining, to purchasing more efficient

vehicles, there are things that Americans can do to mitigate the impacts of high fuel prices. We also work to help motorists understand what is going on in the fuel markets, and in times of crises, like after the hurricanes of 2005, to help them understand how their decisions can impact what happens in the market.

Unlike others that frequently comment on gasoline pricing, AAA has no involvement in the regulation, refining, shipping, blending or sale of gasoline. We do not trade oil and gasoline futures, operate hedge funds, sell mutual funds, distribute investment newsletters or make commissions on the sale of energy stocks.

AAA has increasingly found itself involved in the great national debate on America's energy future and has filled an important niche in objectively monitoring the price of fuel, advising consumers about fuel conservation and, to a limited degree, helping motorists anticipate what they might expect to pay to fuel their personal vehicles in coming months and years.

The summer travel season – which is important to our quality of life and crucial to the financial success of tens of thousands of tourism-related businesses across the country – is around the corner. On Memorial Day weekend we forecast that 38.3 million Americans will travel 50 miles or more, an increase of 1.7 percent from last year. Also, roughly 32.1 million travelers, or 84 percent of the total, will drive, up 1.8 percent from last year. During this time, American consumers will experience the highest average prices they have ever paid for gasoline. On Sunday, May 13, AAA's daily, online Fuel Gauge Report website recorded a highest-ever nationwide average price for self-serve regular gasoline of \$3.073 per gallon. Since that time, the average price of self-serve regular has increased an additional 13 cents per gallon.

We have crossed the \$3 per gallon threshold twice before. Prices topped out at \$3.036 per gallon on August 7 of last year, after Israel invaded Lebanon. That price nearly reached the then-record average price of \$3.057 per gallon paid by Americans on Labor Day Monday of 2005, after Hurricane Katrina temporarily closed or damaged critical oil and gasoline infrastructure along much of the Gulf Coast.

As frustrating and unpleasant as our two previous national experiences with \$3 gasoline have been, both were accompanied by an oil price at or exceeding \$75 per barrel and a natural or man-made disaster with the real or perceived ability to block the flow of petroleum for some period of time.

This summer is clearly different, however. This year, \$75 oil prices and dramatic news about hurricane damage or a possible war throughout the Middle East are absent. Instead, we have high gasoline prices even though oil prices have rested comfortably near the \$60 per barrel target set by OPEC for most of this year, amidst crude inventories that are routinely described as plentiful. Without OPEC, Mother Nature, or an imminent man-made catastrophe to blame for the high price of gasoline, it's fair to wonder : "why?"

I am certainly not appearing before this committee today to say that AAA has the answer. But as near as we can tell, there are strong indications the problem lies at least in part with the fact that the domestic refineries that supply gasoline to America's network of filling stations, as well as the companies that import gasoline from abroad for sale here, have been slow to supply the wholesale distribution network as consumer demand for their product has continued to rise.

AAA leaves it to the experts at the U.S. Department of Energy to cite the specific numbers behind this situation. But we are concerned about the number and frequency of refinery outages this year and the impact that it has had on the system. There is clearly little margin for error.

The fact that America is somehow losing ground in its ability to supply enough gasoline to our economy – not oil, which this committee knows is a different problem – is troubling. With the vast quantities of data generated and analyzed by public and private institutions and industry economists and statisticians, Americans should be able to expect that those who refine oil into gasoline can anticipate demand growth, plan to meet that growth, and then make the necessary investments in plants, equipment and labor to provide the fuel at a cost that has some semblance of stability.

AAA would like to say that no one can know with certainty the price of gasoline this summer. For example, it was our belief the national average price of self-serve regular would not exceed \$3 per gallon this Spring, but this was before anyone knew gasoline inventories would drop for 12 consecutive weeks as refiners continued to report equipment problems. Instead, what AAA tries to do is identify and describe a trend that points to a top or bottom for fuel pricing. We do this to help consumers anticipate what their monthly fuel expenses will be.

With that said, let's look at what we know right now: We know that gasoline inventories are critically low especially on the West Coast; our refining and distribution infrastructure are stressed due to maintenance/investment issues, but also due to the introduction of ethanol into the blending process and our boutique fuel requirements; increased imports of gasoline, which have been growing, are hoped for but not assured; hurricane season is on the way; and much of

the world's oil production shipping still takes place in a dangerous part of the world. We also know the stock market has just had a record run, demand for gasoline remains strong, and the summer travel season – which is important to our quality of life and crucial to the financial success of tens of thousands of tourism-related business across this country – is around the corner.

Knowing these things, and using our experience watching gasoline prices, the wholesale and retail gasoline prices generated for AAA by Oil Price Information Service, and the production, inventory and import numbers produced by DOE, AAA thinks prices are likely to move somewhat higher. But the much- predicted \$4 per gallon gasoline will not materialize as a national average price unless the oil price marches into the \$75 per barrel or higher range – a scenario that is only likely if an unknowable event such as a hurricane or geo-political conflict were to seriously threaten or disrupt energy flows. In making the projection to media that a \$4 per gallon average gasoline price was not probable, AAA has been described in the last few weeks by some analysts as “conservative” and “not wanting to panic” consumers. In fact, our views simply reflect our interpretation of the best available data and analysis.

In closing, AAA would like to address the notion that if the price of gasoline goes high enough Americans will significantly reduce their gasoline consumption and help solve our energy problem. Again, though we do advocate that motorists conserve fuel and choose fuel efficient vehicles, AAA does not believe that Americans are frivolously driving around wasting either gasoline or money. According to AAA's most recent study of driving expenses, it costs 52.2 cents per mile to own and operate a typical new vehicle in the United States. That's \$52.20 to drive 100 miles -- and this number was calculated using an average fuel price from the fourth quarter of last year of just \$2.26 per gallon.

What we have seen based on many years of watching Americans' driving habits is that motorists reduce their discretionary driving only based on a significant slowdown in the economy and the possibility of job loss, or in response to gasoline shortages. While no one wants to pay high gasoline prices - and those prices do not inflict pain equally since those at the lower end of the economic scale are disproportionately burdened by rising prices - much of our driving is essential and at this point is not easily traded for other modes of transportation.

Whether the result of geopolitical, refining, or distribution factors, the fluctuations in fuel prices underscore the nation's vulnerability and the need to take a broad approach to securing a more diverse and sustainable supply of energy into the future. AAA acknowledges that fossil fuels will play a critical role in our nation's economy for the foreseeable future, but we strongly believe steps must be taken to decrease our reliance on oil and refined gasoline to ensure the strength of our economy, the security of the nation, and our way of life.

Thank you again Mr. Chairman for allowing me to testify here today, and I look forward to answering any questions that you may have.



Geoff Sundstrom – Director, Public Affairs

Geoff Sundstrom is Director, AAA Public Affairs and is based at AAA's National Office in Heathrow, Florida. He is a widely-quoted source on a variety of automotive and travel topics, and is AAA's leading spokesperson on energy issues, including gasoline prices. He has managed AAA's well-known Fuel Gauge Report gasoline price survey (www.aaafuelgaugereport.com) since the late 1980's, including its migration from a paper-based product to the Internet in 2000. He is the author of AAA's Gas Watcher's Guide, a free brochure that helps consumers conserve fuel. Geoff is interviewed on a regular basis by national financial and consumer media, and advises local AAA clubs on media relations. He is at the forefront of AAA's efforts to respond to gasoline price spikes or reports of fuel outages. Geoff joined AAA in 1989 after working for eight years as a business journalist in Washington, D.C. for *Automotive News* magazine, the *New York Journal of Commerce* and *Kyoto News Service*. Geoff holds a journalism degree from Northern Arizona University in Flagstaff.

Geoff Sundstrom
Director, Public Affairs
AAA
1000 AAA Drive, MS 75
Heathrow, FL 32746
407-444-8014
gsundstrom@national.aaa.com