

**TESTIMONY OF  
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**UNITED STATES CONGRESS  
COMMITTEE ON GOVERNMENT REFORM  
SUBCOMMITTEE ON ENERGY POLICY, NATURAL RESOURCES AND  
REGULATORY AFFAIRS  
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**FIELD HEARING ON "GASOLINE PRICES"  
HENDERSON, NEVADA**

Members of the Subcommittee, thank you for inviting me to testify today about the impact of high gas prices on the state of Arizona. Needless to say this is a timely topic. In fact, since March when our office was initially asked to testify until early this week the average price throughout the nation has risen 18 percent and it seems we set new records every day. Arizona is certainly not immune from this national trend, and like every other part of the country, is struggling with record-breaking gasoline prices coupled with unexpected price spikes.

**Prices in Arizona**

Usually, Arizona prices tend to be among the highest in the country. Our retail prices typically track the ups and downs of the California market minus 10-20 cents. This pattern is largely due to our state's dependence on California refineries.

Arizona has no refineries or shipping port. As a result, we import all of our gasoline and are dependent on two pipelines to supply almost all of our fuel. Approximately 60 percent of the fuel consumed in Maricopa County comes from California and the remaining 40 percent from New Mexico and Texas. The Phoenix area alone uses 65 percent, or 109,000 barrels (4.6 million gallons) of the state's average daily gasoline supply.

Our relative isolation from the primary supply sources became painfully clear last summer when the east pipeline ruptured and seriously disrupted the gasoline distribution system in Phoenix for several weeks. At the peak of the disruption, we estimate that more than half of all the gasoline stations in Maricopa County ran dry and were forced to close. At the same time, according to AAA, pump prices in Phoenix rose about 60 cents.

In the wake of the summer rupture and subsequent disruption, Governor Napolitano appointed a task force to look into the issue and make recommendations to help prevent, or reduce the severity of, a future disruption. The task force is also looking at gasoline prices. One basic underlying assumption that seems to be widely accepted early in the

task force's review, is that the price of gasoline will continue to rise and that in general the days of cheap fuel are numbered. The last few months have followed that trend.

At the beginning of this year, the average price for a gallon of gas in Arizona was \$1.53. By early this week, it had increased 40 percent to \$2.15 a gallon. Even recognizing seasonal variations, the price is still 47 cents more than the same point last year. The price volatility has been even more obvious in the Phoenix metropolitan area where at one point the average price increased nearly 10 cents per gallon in just a forty-eight hour period.

As a person who takes calls from the public about prices, I can tell you that this unexpected price inflation is impacting Arizonans in a variety of ways. Everyone from taxi drivers to pizza deliverers has felt the crunch. Even more distressing is the impact on our retired and fixed income citizens who do not have the flexibility to adjust to these higher prices. Many small business owners have been forced to pass on the higher cost to customers through so called "fuel charges" and there are growing concerns that these prices are contributing to inflationary growth and hurting our economy.

At the same time, there has been lots of media coverage about the increased profits enjoyed by the oil industry. One recent Arizona Republic article reported that five of the top gasoline companies are reporting an average profit increase of 90 percent. In addition, the Oil Price Information Service (OPIS) data indicates that refinery margins are currently above 35 cents/gallon -- significantly above the spring 2000-2003 average of 15 cents/gallon. It is difficult to understand why consumers are being squeezed so hard at the pump at a time when profits for the industry have been so high.

### **Impact on Tourism and the Economy**

Interestingly, despite the high prices, driving behavior has not changed much. According to a recent survey conducted by AAA, record numbers of drivers (approximately 30.9 million) are expected to hit the road for the Memorial Day Holiday. And hotel occupancy rates in Arizona are expected to be higher than average. High gasoline prices do not appear to be hampering many people's holiday travel plans.

Instead consumers appear to be responding in other ways. Last week, CNN reported SUV sales have slipped 22-33 percent over the last quarter and most of the major manufacturers have announced significant cash back offers (between \$2,000 - \$5,000) to try to spur sales. While it is encouraging to hear that consumers may be adjusting their behavior, it is difficult to predict whether this apparent move toward fuel conservation will last.

### **Industry Concerns**

According to Bloomberg News, there have been 33 mergers in the US oil industry, during the last four years. Like other markets, the petroleum industry offers the greatest benefit to consumers when they have options. I am concerned that the continuing consolidation

of the industry is decreasing consumer choice and depressing competition. We need to take a more careful and holistic look at industry mergers as they are being proposed and better analyze how they will impact the overall market place.

The same can be said for Arizona's pipeline system. The energy company Kinder Morgan owns both of the pipelines mentioned earlier. This same company will soon be the major owner of several of the fuel storage facilities in Phoenix. And they own considerable holdings in California and Nevada. I do not doubt there are benefits and efficiencies that can be gained from certain consolidations, but the monopoly like status enjoyed by this and other companies should be of greater concern to all of us.

## **Solutions**

### Short-term

In late February, Governor Napolitano wrote to President Bush requesting an investigation of the high prices. Nine other Governors later joined her request and sent a second letter to President Bush. Unfortunately, the Administration has declined to undertake such an investigation. Needless to say, we are disappointed by this decision. Governor Napolitano and ten other Governors have written the President to urge reconsideration and several State Attorney Generals have made similar pleas to Attorney General Ashcroft. There is no reason why the federal government should not begin an immediate inquiry into why prices and profits have risen simultaneously at the expense of American consumers.

### Long-term

Long-term, we need to re-evaluate our overall energy policy. In Arizona, there has been some discussion about the possibility of an in-state refinery. I understand that the refinery proponents have submitted written testimony for today's hearing. Our office is certainly receptive to exploring opportunities that would increase the fuel supply for Arizona.

In order to successfully address this issue we need to look beyond today or even the next year and do some long-term planning to secure our future. That means increasing CAFE standards, promoting the manufacture and purchase of fuel-efficient hybrid vehicles and exploring non-conventional fuel sources.

Hybrid vehicles are proving to be popular with buyers despite the limited production of these cars to date. Continuing existing federal tax incentives for these kinds of vehicles will encourage drivers to purchase more hybrids. I also recommend we reexamine current tax laws that offer tax deductions for the purchase of fuel inefficient vehicles like Hummers.

Without long-term solutions we may end up like policy makers nearly thirty years ago, who were faced with supply shortages during the 1970's. That fuel crisis was followed

by lots of talk of reducing our dependence on foreign oil and fossil fuels, but ultimately very little has changed. Fossil fuels are a finite resource that we should be weaning ourselves from. We must be proactive now or future gasoline crises will be even more devastating to consumers and our economy.

Thank you again for allowing me to present Arizona's perspective on this issue.