

August 21, 2008

Dear:

The Petroleum Marketers Association of America (PMAA) represents some 8,000 independent petroleum marketing companies nationwide that collectively distribute and retail the majority of the gasoline and diesel fuel, and nearly all the heating oil sold in the United States. Last month, the Senate debated and voted on legislation designed to curb excessive speculation in energy futures markets that would reduce skyrocketing gasoline, diesel fuel and heating oil prices. S. 3268, the "Stop Excessive Energy Speculation Act of 2008" failed to gain enough support to pass because the bill was caught in the debate over off-shore drilling. When the Senate returns in September, it is absolutely critical that it pass S. 3268 immediately.

Energy commodity futures markets are broken. Countless Congressional hearings have revealed that there is inadequate transparency and that aggregate position limits are needed in the oil trading markets. They have revealed that both public and private pension funds, hedge funds, sovereign wealth funds and other institutional investors are now heavily investing in futures contracts for crude oil and refined petroleum products, and enjoy little or no anti-manipulation controls, such as tough limits on speculative positions. Without sufficient oversight and aggregate position limits, market activity can distort the price of oil and other energy commodities. Independent gasoline marketers and heating oil dealers have lost faith in the ability of these markets to determine a fair price for energy based on real-world supply and demand fundamentals.

The commodity markets were established as a tool for true physical hedgers to manage risk. Today, they have been hijacked as an investment tool by speculators looking to turn a profit. Pension funds, hedge funds, sovereign wealth funds and other institutional investments in commodities have exploded from \$13 billion in 2003 to \$260 billion in 2008 which has further increased artificial demand and detrimentally affected the functioning of commodity markets. Institutional investment has destroyed the price discovery mechanism that commodity futures markets provide to physical hedgers such as petroleum marketers, airlines and farmers. Commodity markets were not designed to be an investment class, they were set up for physical hedgers to manage price risk by entering into a futures contract in order to lock in a price for future delivery. However, pension funds, university endowments and other investment-only speculators that engage in a "buy and hold strategy" serve no purpose in the commodity markets, other than to diminish its role as a tool for managing risk and discovering a fair market price for energy.

Until recently, the CFTC argued that commercial interests controlled the market and speculators only accounted for 30 percent of the oil markets, but revised CFTC data (which does not include data from the over-the-counter market) shows that 48 percent of the open interest on NYMEX is held by financial speculators. The CFTC reclassification shows that financial speculators are playing a larger role in the oil markets than previously thought. Phil Flynn of Aaron Trading in Chicago, who is often sought to

explain why oil markets move so drastically, said of the new CFTC data in a recent Reuters news story, "That's huge when you look at the numbers . . . It changes the whole way you look at the recent moves in this market."

The revised CFTC data also revealed that only one unidentified non-commercial oil trader held crude oil contracts that totaled 460 million barrels of crude oil which equals 23 days worth of U.S. oil consumption! The CFTC will issue a report on the impact of speculation in commodity markets on September 15, 2008. PMAA hopes the CFTC report will not be biased towards Wall Street investors and instead provide a fair and accurate assessment of energy commodity speculation.

Since the CFTC data revision in early August, West Texas Intermediate crude oil dropped from \$128.94 to \$114.80 as of August 18, 2008. While the dollar did strengthen during this time period, geopolitical events were raging near Turkey's Baku-Tbilisi-Ceyhan pipeline which could have cut production by as much as one million barrels a day. Furthermore, even as Russia sent forces into Georgia, a key energy transit region, to repel a Georgian assault on the breakaway South Ossetia region, oil prices continued to plummet. On a normal trading day for oil, prices would have skyrocketed, but because large hedge funds control the oil commodity trading, they are able to get out of the market when they want and push prices even lower despite global political unrest in oil sensitive regions of the world.

Congress must act immediately to ensure that commodity futures markets are free of manipulation and excessive speculation by passing S. 3268, the "Stop Excessive Energy Speculation Act of 2008."

Businesses are at risk and our customers are hurting. I do hope you take this matter seriously. If I can be of assistance, please do not hesitate to contact me.

Sincerely,

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