JOINT ECONOMIC COMMITTEE
CHAIRMAN ROBERT P. CASEY, JR.
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OPENING STATEMENT

Gas Prices in the Northeast: Potential Impact on the American Consumer Due to Loss of Refining Capacity

Joint Economic Committee Hearing
Thursday, April 26, 2012
Senator Bob Casey, Chairman

"Good afternoon. Today's hearing is focused on the impact that closures of petroleum refineries serving the Northeast could have on prices at the pump in the Mid-Atlantic and New England regions.

Since September 2011, two refineries in the Philadelphia area and one major Caribbean export refinery supplying the East Coast have closed. Additionally, a third Philadelphia-area refinery is slated to shut down this summer.

In addition to the immediate impact on gas prices, we will explore the long-run costs to the economy associated with higher gasoline prices, as well as actions that can be taken to encourage the adoption of cleaner, cheaper alternatives to petroleum, such as natural gas.

While the situation remains fluid with the potential sale of the three Philadelphia-area refineries, I am concerned that the Northeast is losing needed refining capacity. I am especially concerned that this loss in refining capacity is happening at a time when consumers are already facing rising gas prices.

With limited pipeline capacity to import from the Gulf Coast, this loss of refining activity in the Northeast will increase the region's dependence on European gasoline and diesel and lead to higher prices for consumers.

A recent Energy Information Administration report detailed the possible consequences of this reduction in refining capacity, which include greater price volatility and potential shortages in the Northeast.

I am focused on ensuring that changes in refining capacity in the Northeast have as little impact as possible on energy prices, on jobs in our communities, and on the economic recovery.

I have urged the Administration to become directly involved in this issue.

I met with workers at the three Pennsylvania refineries – Philadelphia, Trainer and Marcus Hook – to discuss the impact that shuttering the refineries would have on the workforce. Together, these refineries represent half the refining capacity in the northeastern United States.

I would like to recognize representatives from the United Steelworkers Local 10-1, Local 10-901 and Local 10-234 who are in the audience this afternoon. Also attending today's hearing are members from the International Brotherhood of Boilermakers Local 13 and Steamfitters Local 420.

Closure of these facilities would likely mean that the Northeast region will experience a decrease in the supply of Ultra-Low Sulfur Diesel (ULSD), at the same time there will be an increase in demand for ULSD as both a transportation fuel and for home heating.

With closure of the Northeastern refineries, refining activities will be centralized in the Gulf Coast region. This will affect the price of gasoline, diesel and heating oil and lead to potential shortages of those fuels in the Northeast. An early or prolonged cold spell next winter could send home heating prices skyrocketing – hitting consumers hard.

Today, gas prices are again pushing $4 a gallon – well ahead of the summer driving season. We are facing higher prices despite the fact that U.S. production of oil is at its highest level since 2003. For the first time in a decade, the United States is importing less than half the oil we use.

Yet, with only 2 percent of the world's proven oil reserves, there's little impact the United States can have on the price of oil – which is set by supply and demand in a global market – by addressing only the supply side of the equation.

Focusing on U.S. demand for oil offers more promise. The United States consumes more than 20 percent of the world's oil. U.S. dependence on oil to meet its transportation needs leaves consumers with few choices, making them vulnerable when oil and gasoline prices rise.

By promoting policies that reduce our dependence on foreign oil, the United States can help to reduce global demand for oil and, ultimately, prices.

If oil accounted for a smaller share of our energy needs, the U.S. economy and American consumers would be less vulnerable to spikes in oil prices. It's clear that we need to accelerate natural gas development and use. Natural gas is produced right here at home – creating jobs. It's clean, with lower emissions than traditional gasoline. And it's cheap.

Converting vehicles, especially commercial vehicles, to run on natural gas could play a role in the move to cleaner energy alternatives.

In the coming weeks, I will introduce legislation that provides states with funding and flexibility to develop initiatives that:

- Encourage the use of natural gas as a transportation fuel; and

- Encourage public and private investments in natural gas vehicles and transportation infrastructure.

These actions will encourage the use of natural gas – an energy source which the United States has in abundance – while reducing our dependence on petroleum and vulnerability to oil price spikes.

We have a terrific group of witnesses this afternoon, with wide expertise on energy issues. I look forward to each of your testimony."

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