

Senate Democratic Policy Committee Hearing

“Lessons from Enron: An Oversight Hearing on Gas Prices and Energy Trading”

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Thank you, honorable Chairs and members of the committee, for the invitation to appear before you today to discuss the adverse affect that unregulated energy commodity trades are having on the market and consequently, the prices that Americans are paying for energy. I trust that my many years of experience in this industry will help shed some light on the issue and assist in your policy-making endeavors.

I am Co-Owner and President of Cota & Cota, Inc. of Bellows Falls, Vermont. Cota & Cota is a third generation family home heating provider in southern Vermont and western New Hampshire, helping to keep New Englanders warm for over 60 years. I am also President of the New England Fuel Institute, a 57-year-old trade association representing some 1,000 retail heating oil distributors in the six state area. Combined, these companies provide over 40 percent of the nation’s heating oil. And finally, I am currently serving as Northeast President of the Petroleum Marketers Association of America.

I have a great appreciation for our nation’s oilheat dealers. Unlike larger energy companies, oilheat companies are mostly small, second and third generation family-run businesses that care deeply for the well being of their customers and local communities. It is in light of this relationship that I want to bring an urgent matter to your attention today.

As you are no doubt aware, Americans are facing surging energy prices, as evidenced by the skyrocketing prices that they are paying for heating oil, gasoline and other petroleum commodities in recent weeks. The American people should be made aware – in fact they deserve to know - the truth behind what is driving these prices, especially pertinent market forces that might be contributing to volatility and price spikes.

It is true that market volatility and rising prices are due in part to uncontrollable factors including catastrophic weather events, rising domestic consumption, booming demand in China, India and other nations, and of course turmoil in oil-producing nations such as Iraq, Iran and Nigeria. Adding to these factors are new regulations for motor fuels, including the switch from MTBE to ethanol as well as the introduction of Ultra Low Sulfur Gasoline and Diesel. Combined, these factors weigh heavily on the supply and

demand equation and are part of the driving force behind what you are seeing happen with the price of crude and refined petroleum products today.

However, there are some elements at play in the energy commodity arena that are not natural. And as members of the world's most powerful legislative body, you are well positioned to do something about it.

Our nation's petroleum marketers, including oilheat dealers, are very concerned about the adverse role that unregulated energy trades and speculators might be having on the price of heating oil, gasoline and other energy commodities. Unnecessary volatility in the energy markets leads to unexpectedly high heating costs, and with higher heating costs, more Americans are forced to choose between paying their energy bills or buying food, medicine and other essentials. When gas and diesel prices are driven up by adverse market forces, people will simply drive less. But when the prices of heating fuels are set by market players looking for a quick buck, people are left out in the cold.

Of the on-market trades, most occur on two exchanges. One is the New York Mercantile Exchange (NYMEX), which is required to report data to the Commodities Futures Trading Commission (CFTC). The other, the InterContinental Exchange (ICE), is off-shore and therefore eludes data reporting requirements and oversight of the CFTC. However, the majority of trades are done through derivatives in the investment banking community, also with no reporting requirements to the CFTC. But Congress has two opportunities to help resolve this issue.

First, it is vital that Congress reauthorize the CFTC. This vital regulating body has been up for reauthorization since September, and the House approved legislation reauthorizing it this past December. The Senate leadership has thus far failed to do the same.

Second, a bill has been introduced in the Senate by Senators Feinstein, Snowe, Levin, Cantwell and others. This excellent piece of legislation would close the existing loophole that allows certain energy trades and firms to evade data collection and market oversight. It would not impose any undue burden on these players, however. It would simply require that they be as accountable as all others currently being regulated by the CFTC.

We would like to urge all members of Congress to sign on to these two important legislative initiatives. By taking these two important steps Democrats and Republicans alike can show the American people that they are committed to protecting them from price manipulation.

I thank you again for this opportunity to share my insight into this issue. I am open to any questions that you might have.