PTSA
Petroleum Transportation & Storage Association

Weekly Update

News and Information for the Petroleum Transportation and Storage Industry
Washington, D.C., Friday September 23, 2005

1. FEDERAL TRADE COMMISSION OPENS INVESTIGATION INTO PRICE GOUGING:

Under pressure from state governors and Congress, a reluctant Federal Trade Commission (FTC) opened an investigation into whether there was any illegal conduct that may have led to gasoline-price manipulation after Hurricane Katrina. In testimony before the Senate Commerce Committee hearing on price gouging this week, FTC officials said the agency is looking into whether "unlawful conduct affecting refinery capacity or other forms of illegal behavior have provided a foundation for price manipulation." The probe will focus on antitrust violations, an area where past investigations have failed to turn up any wrongdoing on the part of refiners. FTC officials cautioned lawmakers that the investigation would be difficult because price gouging is difficult to define and is not illegal under federal law. Currently, State and local governments have primary responsibility to prevent price gouging. However, that may change as House and Senate lawmakers this week have offered legislation that will strengthen the FTC's authority to investigate gasoline price gouging and to monitor consolidation within the oil industry. Last week, the Senate agreed to add a provision to an appropriations bill that calls on the FTC to immediately take up an investigation into gasoline-price gouging. The investigation would have to include any company with total U.S. sales over $500 million in 2004, any retail distributor against which formal complaints have been filed, and an explanation of any change in recent profit levels. The heightened focus on price gouging comes at a time when the American Petroleum Institute took out full-page ads in major daily newspapers across the country suggesting that retailers, not refiners, are responsible for price gouging.

2. HIGH FUEL PRICES AND SHORTAGES LOOM AS RITA TAKES AIM AT "REFINERY ALLEY":

Talk of widespread fuel shortages and price spikes increased this week as Hurricane Rita heads toward the Gulf Coast of Texas which is home to the largest concentration of oil refineries in the nation. At least eight refineries along the Texas coast have already shut down while several more were scaling back operations on Thursday. The shutdowns are in addition to four refineries in Louisiana and Mississippi that have been closed since Katrina's landfall last month. The closures prompted the EPA to waive RFG restrictions in the Houston Dallas area through September 26th. The agency is also contemplating an additional waiver covering much of the Midwest and parts of the South should signs of an expected supply shortage in these areas materialize. By this weekend, nearly 20% of U.S. refining capacity could be offline, exacerbating an already tight gasoline supplies that has produced record prices. About 25% of all domestic crude production and 33% of all US refining capacity comes from the Gulf Coast of Texas. Typically, the worst damage from a hurricane is northeast of its landfall, putting the Texas Gulf Coast refineries in the cross hairs of Hurricane Rita, forecasters predict. In addition, storm surges of more than 20 feet are possible. A total of 900,000 barrels per day of refining capacity still remains shut down out of the 2 million barrels that was lost in the wake of Hurricane Katrina, knocking out 10 percent of the nation's refining capacity. After falling for the first two weeks after Hurricane Katrina, demand for gasoline rose 2.1 percent in the week that ended Sept. 16, according to the Energy Information Administration. In one encouraging sign, gasoline inventories rose 1.8 percent, to 195.4 million barrels, slightly above where they were before Katrina struck, indicating that imports and domestic refineries have been able to make up some of the lost production.

3. CONGRESS PROPOSES NEW ENERGY LEGISLATION TO COMBAT HIGH GAS PRICES:

In the wake of Hurricane Katrina, Congressional lawmakers are flooding the House and Senate with bills aimed at reducing soaring energy prices. Reps. Bart Stupak (D-MI) is set to introduce a bill that would create a federal law against price gouging, increase price transparency in energy markets, provide relief from high energy prices for farmers and small business, and expand low-income energy assistance through price gouging fines. Stupak said Congress must do something about soaring gasoline prices in the wake of 7,000 complaints of price gouging that were filed with the Department of Energy after Hurricane Katrina. Rep. John Shadegg (R-AZ), introduced a bill this week, along with 32 cosponsors, to build more refineries by streamlining federal permitting and environmental reviews and providing financial risk insurance to refiners similar to the program for nuclear power plant operators. Sen. James Inhofe (R-OK.), concerned about the concentration of refineries in the hurricane prone Gulf Coast area plans to introduce legislation to encourage the building of new refineries in other parts of the country. Inhofe's bill, provides incentives to build new refineries in abandoned military bases, establishes accelerated deadlines for refinery permit approval and would relieve states of any liability for waivers of boutique fuel requirements in a time of emergency, supply disruption or shortage. According to Inhofe, some states delayed implementation of emergency fuel waivers after Hurricane Katrina because they were concerned about liability issues. Another provision would require EPA to reduce the number of boutique fuels in a specific PADD regions whenever "the market" and states decide they no longer need the fuels for air quality. Other bills would expand the Federal Trade Commissions authority to investigate price gouging and make it easier for the EPA to grant environmental waivers in times of emergency and require an increase in federal gasoline mileage standards for cars, SUVs and light trucks.

4. IRS ISSUES NEW REQUIREMENTS FOR PRINTING W-2 & W-3 WAGE REPORTING FORMS:

The IRS this week issued new requirements (Revenue Procedure 2005-65) this week updating the specifications for the printing and transmission of W-2 and W-3 wage reporting forms for tax year 2005. The new form specifications and transmission regulations are necessary because the IRS will begin electronically scanning W-2 and W-3 forms next year. The new requirements provide the general rules and specifications of IRS and the Social Security Administration for reproducing paper substitutes for Form W-2, Wage and Tax Statement, and Form W-3, Transmittal of Wage and Tax Statements, for wages paid during the 2005 calendar year. Many employers do not use IRS printed forms and instead produce their own W-2 and W-3 wage statement forms. The new requirements include:

- Magnetic media is being eliminated as a filing method. The last year for filing Forms W-2 on tapes and cartridges was tax year 2004 (forms timely filed with the SSA in 2005). The last year for filing Forms W-2 on 3 1/2-inch diskette is tax year 2005 (forms timely filed with the SSA in 2006). Diskettes will no longer be accepted after Feb. 28, 2006.
- Payee statements (Copies B, C, and 2 of Form W-2) may be furnished electronically, if employees give their consent (as described in Treasury Regulations Section 31.6501-1(j)). See also Publication 15-A, *Employer's Supplemental Tax Guide*.
- Three new codes (Q, Y, and Z) were added for use in box 12 of Form W-2. See the 2005 Instructions for Forms W-2 and W-3 for details.
- New specifications require Form W-3PR to be 7.0 inches wide and printed on 8.5- by 11-inch paper using a 0.5-inch top margin with 0.75-inch left and right margins.

A copy of IRS Revenue Procedure 2005-65 including sample W-2 Form is attached

5. SMALL BUSINESSES PAY LARGEST SHARE OF FEDERAL COMPLIANCE COSTS:

A new study published by the U.S. Small Business Administration found that businesses with 20 employees or less bear the largest cost burden of complying with federal regulations. While the annual cost of federal regulations to all businesses in the United States totaled $1.1 trillion in 2004, the study found that small business face a 45 percent *higher cost per employee* than large businesses. In 2004, small business paid $7,647 per employee in compliance costs compared to

$5,282 per employee spent by larger firms, which the study defined as firms with more than 500 employees. Environmental and tax compliance regulations impose the highest costs on small businesses, according to the study. Compliance with environmental regulations is 364 percent greater for small firms than large firms. The cost of compliance with tax regulations is 67 percent larger for small firms than large firms, the study concluded. More information about the study, and a copy of the document, can be found at *http://www.sba.gov/advo/research/rs264tot.pdf*

6. EPA TO DETERMINE ETHANOL PERCENTAGE STANDARD FOR GASOLINE BY 11/30/05:

The Environmental Protection Agency is working to have a standard in place by January to implement new energy policy legislation that requires a sharp increase in the use of ethanol and other renewable fuels in gasoline. Comprehensive energy policy legislation signed into law by President Bush last month included a requirement for EPA to establish a renewable fuel standard. The law mandates the use of 4 billion gallons of ethanol or other fuel made from renewable biomass by January 2006, with the total renewable content increasing to 7.5 billion gallons by 2012. The law requires EPA to translate the 4 billion gallon requirement for 2006 into a percentage standard. In 2004, the United States consumed about 140 billion gallons of gasoline. At that rate of consumption, the renewable fuel standard would require that gasoline contain 2.85 percent renewable content. Under the law, EPA is supposed to determine the 2006 percentage by Nov. 30, 2005, as well as subsequent year percentages through 2012. After 2012, EPA must set a constant percentage for renewable fuels in gasoline. Although EPA is engaged in a rulemaking process for implementing the standard that will take several years, the agency must have some rules in place by Jan. 1 to implement the requirement for 2006. If EPA fails to establish a percentage by 2006, the law states that gasoline in that year must contain 2.78 percent renewable content.

NEWS BRIEFS

Refiner Profits - The average refiner profit margin on gasoline was 22.8 cents per gallon in 1999, but rose 80 percent to 41 cents in 2004. The increase in profit margin is largely due to a wave of more than 2,600 mergers in the industry over the last decade that has concentrated 56 percent of U.S. refining capacity in the hands of the five largest U.S. oil companies. A decade ago, these companies owned 34.5 percent of refining capacity.

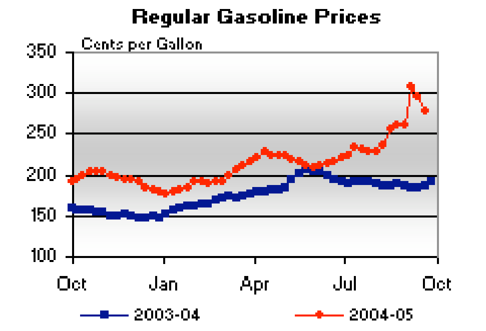
Price Gouging Task Force - House Majority Whip Roy Blunt (R-MO) announced this week the appointment of a new gasoline price task force that will coordinate House Republican efforts to deal with the fuel crisis. The first act of the task force was to send a letter to the Environmental Protection Agency advocating the approval of more fuel waiver requests designed to increase the nation's gasoline supply. Blunt, whose state was among several in the Midwest that experienced unexpected gasoline shortages and price spikes a few years ago, has been a vocal advocate for reducing the number of boutique fuels that are tailored to meet clean air requirements in nonattainment areas.

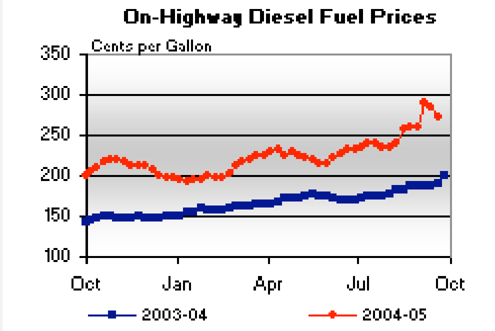
Gas Tax Relief - The National Taxpayers Union (NTU) this week stepped up pressure on state governors to support measures to reduce gasoline taxes in the face of rising prices. NTU, which began its campaign with letters to the governors of Maryland, Montana, Pennsylvania, Tennessee, Utah, and Virginia, said it is now focusing its efforts on Arkansas, Delaware, Idaho, Nevada, North Carolina, and Rhode Island as well. NTU also called on the federal government to eliminate "most" of the 18.4 cent-per-gallon federal gas tax.

State Revenue Growth Study - State tax revenues in the second quarter of 2005 increased by 13.3 percent over the same period in 2004, marking the second straight quarter of record growth, according to the latest issue of *State Revenue Report*, released Sept. 21 by the Nelson A. Rockefeller Institute of Government. The report said state tax revenues for the quarter increased by 8.1 percent, after adjustment for inflation and legislated tax changes. The increase in "real adjusted" growth was the largest in seven years, the report said. Personal income tax revenues increased by 18.4 percent during the period, corporate income tax revenues increased by 22.8 percent, and sales tax revenues

increased 7.9 percent, according to the report. The overall increase of 13.3 percent was the largest quarterly increase in state tax revenues since 1991, when the institute began tracking revenues. Similarly, the increase in revenues for the first quarter of 2005 was the strongest first quarter growth since 1991. A copy of the report is available at http://rfs.rockinst.org/exhibit/9027/Full%20Text/RR--61.pdf

U.S. Gasoline and Diesel Fuel Prices, 09/19/05





Gasoline				Diesel Fuel			
Cents per Gallon		Change from		Cents per Gallon		Change from	
	Price	Week Ago	Year Ago		Price	Week Ago	Year Ago
U.S.	278.6	-16.9	92.0	**U.S.**	273.2	-11.5	82.0
East Coast	285.7	-20.0	100.8	**East Coast**	274.9	-10.0	84.4
New England	291.2	-20.2	103.6	**New England**	280.4	-11.6	81.6
Central Atlantic	294.4	-23.0	105.7	**Central Atlantic**	284.6	-8.9	87.3
Lower Atlantic	277.6	-17.5	96.4	**Lower Atlantic**	270.2	-10.4	83.4
Midwest	267.6	-21.6	82.8	**Midwest**	264.8	-13.4	76.6
Gulf Coast	265.6	-15.4	89.9	**Gulf Coast**	267.7	-12.0	80.9
Rocky Mountain	287.3	-7.4	99.6	**Rocky Mountain**	290.2	-5.5	96.5
West Coast	294.6	-5.1	91.2	**West Coast**	298.5	-10.8	89.7
California	295.4	-5.0	89.7	**California**	306.0	-9.8	90.8