Prepared Statement of the Federal Trade Commission

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Before The

Commerce Committee
Subcommittee on Energy and Power
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I. Introduction

Mr. Chairman and members of the Committee, I am Richard G. Parker, Director of the Federal Trade Commission's Bureau of Competition. I am pleased to appear before you today to present the Commission's testimony concerning the important topic of recent large increases in the prices of oil products, and what the various agencies of the federal and state governments can, and should, do in response. This is a national issue that calls for a coordinated response from all parties.

The FTC is a law enforcement agency whose statutory authority covers a broad spectrum of the American economy, including the companies and economic sectors that make up the energy industry and its various components. The Commission enforces, among other statutes, the FTC Act[2] and the Clayton Act,[3] sharing with the Department of Justice authority under section 7 of the Clayton Act to prohibit mergers or acquisitions trgydiT10(e)4he a3eACe or a industries. The Commission has expended a substantial part of its resources in recent years on energy matters. In fiscal years 1999 and 2000 to date, the Bureau of Competition pipeline markets in the Pacific Northwest, California, and the Southeast.

The Commission has also challenged anticompetitive mergers in other energy industries, including electric power, coal, and gas pipelines. The Commission recently investigated three "convergence mergers"-where an electric power company proposed to merge with a fuel supplier. The first case concerned PacifiCorp's proposed acquisition of The Energy Group PLC and its subsidiary, Peabody Coal.[(11)] In a second case, the Commission filed a complaint against CMS Energy Corporation's proposed acquisition of two natural gas pipelines from subsidiaries of Duke Energy.[(12)] In Dominion Resources, the electric utility that accounted for more than 70 percent of the electric power generation capacity in the Commonwealth of Virginia proposed to acquire Consolidated Natural Gas ("CNG"), the primary distributor of natural gas in southeastern Virginia. Working closely with Commonwealth officials, the Commission required the divestiture of Virginihpof Vountu-:

gasoline pricing in California and other Western states.

III. The Current Economic Environment and Possible Government Action

The last year has been a volatile one for energy prices in the United States, and that volatility has only increased in the first few months of this year. Based on publicly available information, we know that crude oil prices rose from $12 per barrel in February 1999 to over $31.00 per barrel by March 1, 2000.[(16)] On top of the crude oil price increases, the prices for heating oil and diesel fuel jumped sharply in the Northeast in January 2000. Between January 17 and February 7, prices of New England residential heating oil prices rose from $1.18 to $1.96 per gallon, while New England retail diesel prices rose from $1.44 to $2.12. Just as quickly, however, prices have begun to come down. By February 21, the price for retail diesel fuel fell to $1.74 per gallon and the heating oil price also dropped.[(17)] What are the causes of high prices and substantial price volatility, and what can competition enforcement agencies do to ameliorate them?

It is no secret that the United States is dependent on foreign sources for a major portion of our petroleum consumption. That reliance is growing. In 1998, net imports of crude oil supplied approximately 52 percent of U. S. demand-the highest percentage ever. Despite the rising use of alternate fuels such as coal and natural gas, petroleum still provides 39 percent of the country's energy needs.[(18)]

Higher petroleum prices in 1999 can be traced to several factors. OPEC countries and several other non-OPEC exporting countries curtailed supply. Simultaneously, a number of Asian economies began to recover from a regional recession, causing increased demand for petroleum products. The result was that worldwide consumption exceeded production and inventories were drawn down. The price increase caused by the excess of demand

Commission, should enable us to determine if the reasons for recent increases in the price of heating oil warrant enforcement action.

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1. This written statement represents the views of the Federal Trade Commission. My oral presentation and response to questions are my own, and do not necessarily represent the views of the Commission or any individual Commissioner.

2. 15 U.S.C. § § 41-58.

3. 15 U.S.C. § § 12-27.

4. 15 U.S.C. § 18.

5. In recent years, the Commission has been active in supporting the deregulation of the electric power industry. *See* Commission Letter to the Honorable Thomas E. Bliley, Chairman, Committee on Commerce, United States House of Representatives, Concerning H.R. 2944, The Electric Competition and Reliability Act (Jan. 14, 2000); Comment of the Staff of the Bureau of Economics, Federal Trade Commission, "Inquiry Concerning Commission's Merger Policy Under the Federal Power Act," Dkt. Nos. RM95-8-000 and RM94-7-001 (May 7, 1996); "Revised Filing Requirements," Dkt. No. RM98-4-000 (Sept. 11, 1998); Comment of the Staff of the Bureau of Economics of the Federal Trade Commission Before the Alabama Public Service Commission, Dkt. No. 26427, Restructuring in the Electricity Utility Industry (Jan. 8, 1999).

Washington Post (March 2, 2000) at E3.

17. Statement of John Cook, Petroleum Division Director, Energy Information Administration, Department