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Executive Director

July 3, 2006

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Honorable Deborah Majoras
Chairman
Federal Trade Commission
6th Street and Pennsylvania Ave., NW
Room 440
Washington, DC 20580

RE: Attorney General Input on Scope of Forthcoming FTC Gas Pricing Investigation

Dear Chairman Majoras,

At the recent meeting on gasoline pricing issues, you discussed with the Attorneys General the President's directive to the FTC, the Department of Justice and the Department of Energy to conduct an inquiry into "current gasoline prices and the reasons for their more recent increases." The Attorneys General understand that this new inquiry will examine a range of issues and conduct by market participants potentially affecting the underlying supply and demand factors that ultimately shape prices in the long run. We understand that the new inquiry may consider whether to conduct further inquiry into other topics – for example, the level and magnitude of oil company profits, and any other aspects of the petroleum industry that may warrant further economic examination.

At the June 12 meeting, you indicated that you would welcome input on potential issues for study from the Attorneys General. We have been advised by your staff that our input should be submitted by July 3, 2006.

I have been directed by the Chairs of the NAAG Antitrust and Consumer Protection Committees to submit the following suggested topics for your inquiry.

- Examine industry reductions in refinery capacity starting in the late 1990s.
- Examine industry decisions to reduce inventories and storage capacity. Compare capacity utilization between the petroleum industry and the entire manufacturing sector.

- Examine general industry "cooperation" and the perceived lack of vigorous competition.
 - Examine the effect, including the possible anticompetitive effect, of exchange agreements between refiners, especially their effect on pricing. Examine refiner "cooperation" and refiner margins.
 - Examine the market effects of unique or special gasoline blends.
 - Detail how and the extent to which oil and gas companies are reinvesting their profits back into infrastructure and new energy development.
 - Detail oil and gas companies' investments in alternative energy and energy independence and discuss incentives that might encourage further investments.
 - Detail oil and gas companies' investments in technologies meant to decrease fossil fuel emissions and environmental impacts from refining.
 - Conduct a searching inquiry into, and economic analysis of, the spreading use of "zone" pricing and the associated practices of "redlining." Although the FTC did a working paper on these issues in 2004, the practice has gone deeper into the distribution chain, now extending at times to single stations.
 - Examine the impact on crude oil prices and ultimately, fuel prices, of the futures market trading by non-commercial traders.
 - Examine the potential for manipulation of the oil futures market and prices through trading in unregulated electronic trading markets.
 - Examine possible manipulation of oil company profits through the manipulation of prices for non-West Texas Intermediate grades of crude oil. (Changing oil industry technology suggests it might be worth examining the structure of prices for non-WTI grades of oil in order to determine whether oil companies have been manipulating their profits not by restricting supply, but rather by manipulating the price spreads of non-WTI grades of oil.)
 - Examine the economic impact of the OPEC cartel on competition, supply and pricing of petroleum in the United States, including whether the existence of the OPEC cartel have the effect of reducing competition in the United States' market for oil production and refining, and if so, what structural and/or legal changes would enhance the competitive environment for oil production and refining in the United States.
- Explore what impact oil company control of segments of alternative energy markets has on the competitive significance of alternative energy suppliers, and what structural and/or

Honorable Deborah Majoras

July 3, 2006

Page 3

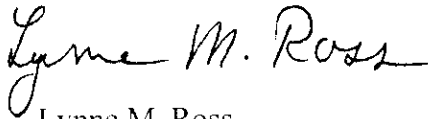
legal changes would ensure optimum competitive significance of alternative energy markets and/or suppliers.

-- Examine what structural and legal changes can be made to change the oil industry practices of significant supply disruptions resulting in unprecedented profits.

Focus on wholesaler operational costs, expenses and profitability.

Thank you for giving the Attorneys General an opportunity to provide input on issues to be examined. If we receive further suggested topics, we will pass them along. We look forward to providing any help we can in the course of your investigation.

Very truly yours,

A handwritten signature in cursive script that reads "Lynne M. Ross".

Lynne M. Ross
Executive Director

cc: All Attorneys General