



March 28, 2008

The Honorable Henry M. Paulson, Jr.  
United States Secretary of the Treasury  
Department of the Treasury  
1500 Pennsylvania Avenue, NW  
Washington, D.C. 20220

Dear Secretary Paulson:

The Petroleum Marketers Association of America (PMAA) and the New England Fuel Institute (NEFI) together represent over 8,000 of America's independent motor and heating fuel marketers, retailers, and wholesalers nationwide; many of whom are small family-owned and operated businesses. We write you today concerned about the unprecedented volatility and speculative fervor on the energy futures markets. This has resulted from an influx of investment and nearly a decade of inadequate or non-existent federal oversight.

While we commend you for your call earlier this month for an overhaul of federal regulations of financial markets and we agree that market innovation and competition are "hallmarks of our capital markets," we also feel that all markets must be orderly, transparent and subject to the rule of law. This is especially true of energy commodities futures markets, where billions of dollars of investment is now shifting thanks to instability or decline in other financial environments. We especially agree with your statement of March 13, 2008 regarding the need for reform in the over-the counter (OTC) markets, quote: "price volatility and surging trade volumes underscore the need for OTC derivatives market infrastructure to evolve and support this expansion." However, it is important not to forget that infrastructure must come at the behest of transparency and accountability in these and all financial markets. This is especially true of energy commodities futures markets, where the destiny of our economy and the financial welfare of every American may well be determined.

In recent months, petroleum marketers and their customers have endured record high prices due to the excessive price volatility occurring on energy trading facilities. American homeowners struggle to balance their family budgets in the face of skyrocketing home heating, grocery and motor fuel prices. The declining dollar and property values only add to their financial crunch. Small business petroleum marketers and heating fuel dealers are feeling the financial squeeze. With increases in the price of product, operation expenses and costs associated with new regulatory burdens, many of these businesses have pushed their lines of credit with banks and suppliers to the maximum. It is time to rein in excessive speculation, close the door to abusive

trading practices and bring real transparency, accountability and stability to energy commodity markets.

The administration can achieve this by:

### **1. Supporting efforts in Congress to close the “Enron Loophole”**

The “Enron Loophole” exempts certain electronic trading facilities from the same regulatory obligations as traditional contract markets such as the New York Mercantile Exchange, and returns to the Commodity Futures Trading Commission (CFTC) the authority to monitor and regulate these facilities it lost in 2000.

### **2. Revisiting the use of so-called “No-Action Letters”**

The CFTC has and continues to issue “No-Action letters” which:

- 1- Grant regulatory exemptions to foreign boards of trade (FBOTs) that trade U.S. destined energy commodities
- 2- Allows entities granted such exemption access to U.S. trading platforms.

We believe the “No Action” process should be revisited, and that the administration should evaluate the need to withdraw existing no-action letters held by FBOTs that perform price discovery functions for U.S. destined energy commodities, or where FBOTs were established by U.S. financial interests with the intent of circumventing federal regulation.

### **3. Reducing the dominance of non-physical players in the commodities markets**

The commodity-related futures markets were primarily created to provide industry participants with a tool to manage inventory and future price related risks. However, our industry’s management tool has been dominated by investment banks and hedge funds that profit from price volatility. This market domination is an extremely significant contributor to high gasoline, natural gas, diesel and heating oil prices. Virtually every commodity has experienced price volatility, reaching record levels from gold to wheat and it seems that there is no end in sight. Hedge funds and investment banks are not driven to provide U.S. citizens the most affordable energy supplies; they are driven to profit from volatility.

The price volatility in the last few months is staggering and there needs to be an effective solution to the problem. We encourage the Presidential Working Group to consider measures that would limit the dominant role non-physical players have in the market. One solution could be a substantial increase to the margin requirements for speculators who do not have the capability to take physical delivery of product.

We know that both Congress and the President want to do something about the gasoline, natural gas, diesel and heating fuel prices crippling our economy. PMAA and NEFI believe that the solutions stated above will alleviate some of the excessive price volatility seen in recent months. We ask that you take our solutions into account when preparing a plan to solve the current crisis that small businesses and their customers are experiencing.

Again, on behalf of PMAA and NEFI, we urge you to address the current excessive speculation occurring on energy trading markets. Any solution should ensure greater transparency and accountability and restore the integrity to energy trading markets. Our nation's small businesses and their customers count on you to do what is best for all Americans held hostage by the staggering high energy prices seen in recent months.

Thank you for your consideration.

Sincerely,

A handwritten signature in black ink, appearing to read "Dan Gilligan". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Dan Gilligan, President  
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www.pmaa.org

A handwritten signature in black ink, appearing to read "Shane Sweet". The signature is cursive and somewhat stylized, with the first letters being larger and more prominent.

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