

Prepared Remarks of Sean Cota
Cota & Cota Oil

February 3, 2010

Good afternoon. My name is Sean Cota of Bellows Falls, Vermont. I'm a third generation family-owned home heating and motor fuels small business owner who has been an advocate on bringing much needed reforms to the energy derivatives marketplace. I'm speaking on behalf of the downstream motor and heating fuels industry that do not benefit from rising gasoline and heating oil prices. Some say supply and demand and the weak dollar are the main factors behind the recent oil price run-up, this isn't the case. One of the main factors that caused oil prices to rise so dramatically is -- **Excessively leveraged speculators in the energy derivatives marketplace who have distorted market fundamentals and led to the oil price bubble of 2008 and the price surge seen the last few months.**

Right now, prices do not reflect the fundamentals of supply and demand, and motorists are forced to pay a premium at the pump while Wall Street traders are reaping bonuses from commodity trades. If the markets were to be valued on supply and demand of the actual physical commodity - as used to be done before the investment community took over the commodity markets - **American consumers would pay at least \$1.00 per gallon less at the pump today.** And that is only **ONE** of the costs to Americans of our unregulated dark markets today.

Bringing greater transparency and accountability to the energy derivatives marketplace isn't anti-competitive. We need speculation in the marketplace to ensure adequate liquidity which allows companies to hedge risk, but we also need reasonable guidelines and enforcement to prevent entities from hijacking these markets. Without sufficient oversight and aggregate position limits, market activity can distort the price of oil. **For every one cent per gallon change in gasoline prices – it's worth one billion dollars to the American consumer.**

American consumers and businesses do not benefit from passive investments in energy derivatives such as commodity index funds which invest billions each month. Over the last several years, hedge funds and other investment funds have been granted exemptions which mean that they are able to take huge positions in energy futures, thereby -- avoiding position limits and jacking up pump prices at your local gasoline station! Position limits were traditionally established to prevent extreme price movements for commodities and we need to return to this type of regulation.

To put this in perspective: American consumers spent \$85 billion more - on heating oil and gasoline in Q2 through Q4 than they did in Q1 2009. This comes to about

\$900 per household! Had there been a tax increase of that much, especially without a vote, the American public would have been outraged. Can we afford to have index funds imposing taxes on ordinary Americans during the worst recession since the Great Depression?

Here's another analogy: When many shares of Apple stock are bought, the stock goes up; when large volumes are sold, the stock goes down. Who does it hurt?

Those investors trading Apple stocks. However, when hedge funds and index funds invest in large volumes of crude oil, gasoline, and heating oil, they artificially inflate prices and hurt petroleum marketers, airlines, and are directly paid by consumers.

When a hedge fund takes an excessive buy position in oil futures markets, this moves the price of gasoline and within hours is reflected at the terminal and then at the local gasoline station.

Some critics argue that there are no studies that show that oil speculation was a factor behind the oil price spike in 2008, but that is not the case. **THERE ARE MANY CREDIBLE OIL SPECULATION STUDIES INCLUDING studies from MIT, Rice University, the Peterson Institute for International Economics, and Princeton University.**

PMAA would like to see centralized clearing for all market players and aggregate position limits on all speculators. Thus, the more transparent a market is – the more liquid and competitive it is. Greater transparency through centralized clearing will lower hedging costs and will encourage a greater number of participants – thus bringing efficient pricing and providing for protection against systemic risk.

These measures will eliminate the rigged gambling casino that energy markets currently are. It's as simple as that.

Myself, along with the thousands of petroleum marketers and convenience store owners, should be the real players in the derivatives marketplace, not Wall Street traders.