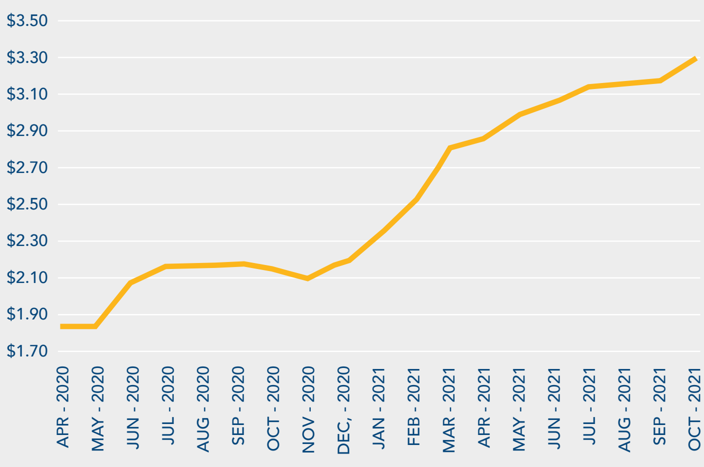
CONSUMER **ENERGY** ALLIANCE
THE VOICE OF THE ENERGY CONSUMER

RUNNING ON EMPTY: SURGING GAS PRICES LEAVE CONSUMERS PINCHING PENNIES

A COLD WINTER IS COMING FOR CONSUMERS, ESPECIALLY THOSE WHO CAN'T AFFORD TO PAY MORE

Gasoline prices are rising fast enough that people are paying attention on social media and on the news. In quick succession, natural gas prices have started to grab attention and those who heat their homes with it could be facing much higher winter utility bills. This is all happening in the context of a global energy supply crunch, and while American energy investment has been discouraged by more restrictive policies that have returned the U.S. to greater dependency on foreign oil and gas producers. Consumer gasoline prices have steadily risen over the past year reaching their highest level since 2014. As of Nov. 1, 2021, regular gasoline averaged $3.39 a gallon – up more than $1.27 from a year ago. Similarly, diesel prices climbed from $2.37 to $3.72 a gallon during the same period.

FIGURE 1: U.S. AVERAGE RETAIL PRICES PER GALLON (REGULAR)



Source: U.S. Energy Information Administration

U.S. demand for oil products – including gasoline and plastics - has surged post-pandemic, resulting in crude prices reaching more than $84 a barrel for the first time since October 2018. However, the Organization of the Petroleum Exporting Countries and its allies, including Russia (OPEC+) announced in early October 2021 that it plans to only gradually increase production. This will leave the U.S. with a supply deficit and could threaten higher prices for consumer as air travel returns to pre-pandemic levels and demand for limited oil supplies further increases.

Prior to President Biden pleading with OPEC+ ministers to increase production, his Administration implemented a slate of policies that drastically reduced U.S. oil and gas production. During his first days in office, the president shut down federal lease sales on public lands and waters – about a quarter of U.S. oil production. In the mid-2010s, when gas prices last rose to peak levels, vast supplies of U.S. shale oil were unleashed during a production boom and tempered high gas prices. President Biden also revoked permits for the Keystone XL pipeline, strangling supplies of Canadian crude to Gulf Coast refineries ready to produce gasoline for American consumers.

HIGH GAS PRICES HURT AMERICAN CONSUMERS, INDUSTRY AND SMALL BUSINESSES

Every penny increase in the price of a gallon of gasoline costs American consumers $1 billion – that is $8.28 for every household. The average price of gasoline – which is slowly rising each week – is the highest it has been since October 2014, according to the American Automobile Association. The average price at the pump to fill a typical vehicle costs consumers about $17 more than it did a year ago – up to $715 a year.

These price spikes continue to guzzle up more of American families' monthly budgets and increase the costs of other consumer goods. A U.S. Census Bureau survey found that 29% of Americans surveyed had to reduce or forego expenses for basic household necessities to pay an energy bill in the last year. The survey was conducted before gasoline prices began rising at historical rates; therefore, the amount of Americans going without basic necessities to accommodate higher energy bills will likely continue increasing in the next year.

Higher gas prices will cost Americans more to visit their loved ones this holiday season. A typical 400-mile trip will cost almost $19 more than a year ago. Rising gas prices are expected to impact holiday spending this year.

Higher oil prices also raise expenses for small businesses and manufacturers – from increasing raw material costs for factories to raising transportation costs for the U.S. service sector. At the same time, fuel-intensive industries, such as farming, trucking, manufacturing and the airline industry, have all seen their operating expenses rise. America's trucking industry is responsible for delivering foods and other goods to consumers. Similar to the gasoline price spike, record diesel prices are impacting delivery truck drivers. The average price to fill up a semi-truck costs truck drivers more than $357 than it did a year ago – up to almost $7,650 per year. These price increases are passed to consumers in the form of higher costs for goods and services.

The prices Americans pay for goods and services has jumped 5.3% over the last year, according to the Consumer Price Index. Since the end of 2020, prices for beef have risen by 14.0%, pork by 12.1%, and poultry by 6.6%. Likewise, transportation and warehousing prices shot up 2.8%. Much of these inflation-driven price increases stem from pent-up demand following the COVID-19 pandemic. Nonetheless, as gas prices increase, everybody from small business retailers to industry conglomerates will be forced to offset these increases by imposing higher costs on consumers.

Currently, oil prices are hovering around $84 a barrel. With winter fast-approaching, relief for consumers and their wallets is a long way off.

INCREASED ACCESS TO DOMESTIC ENERGY SUPPLIES NEEDED NOW TO RELIEVE PAIN AT THE PUMP AND ENSURE A HEALTHY ECONOMY

The United States has recently limited its ability to thoughtfully respond to high oil prices and tight oil markets due to the following domestic policies:

- Moratoriums and bans on domestic production;
- Cancelled or slowed permitting of crucial pipeline infrastructure; and
- Uncertain regulatory environment for onshore and offshore oil and natural gas exploration and production;

Fortunately for the United States, by simply leveraging our nation's abundant resources and promoting a reasonable approach to support the use of all sources of domestic energy, we can abate high oil prices – while creating jobs, strengthening our energy security and paying down our deficits with increased government revenues.

LOOKING INSIDE A GALLON OF GAS

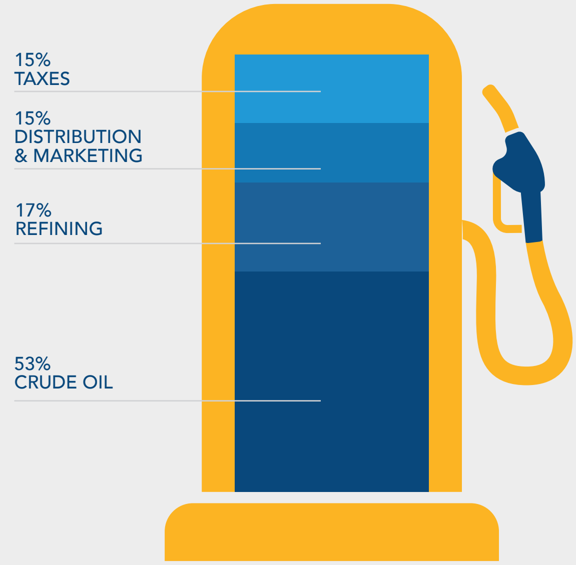
The cost to produce and deliver gasoline to consumers includes the following expenses: crude oil to refiners; refining and processing; distribution and marketing; retail station expenditures; taxes and other fees.

Crude oil represents the biggest cost component of the total cost of one gallon of regular gasoline. As such, there is a direct correlation between the volatility in oil prices and the volatility in gasoline prices – meaning if we want to lower gasoline prices, we need access to reliable sources of oil.

ABUNDANT RESOURCES

- In 2021, Norwegian research firm Rystad Energy estimated that the U.S. holds 214 billion barrels of recoverable oil resources. The United States is second only to Saudi Arabia for the world's largest oil resource reserve.
- Current 2021 assessments estimate recoverable oil and natural gas resources on the Outer-Continental Shelf (OCS) to be 68.79 billion barrels of oil and 229.03 trillion cubic feet of natural gas, according to the Bureau of Ocean Energy Management. Offshore Federal production in FY 2020 reached approximately 641 million barrels of oil and 882 billion cubic feet of gas, almost all of which was produced in the Gulf of Mexico. This accounts for about 15% of all domestic oil production and 2% of domestic natural gas production.
- U.S. oil production on federal lands grew to 954.3 million barrels in fiscal 2019, up 28% from fiscal 2016, according to the US Department of Interior.
- The EIA estimated in 2019 that the U.S. had 2,867 trillion cubic feet of technically recoverable resources of dry natural gas, which includes proved resources and unproved resources. The Bureau of Land Management reported that about 26 million Federal acres were under lease to oil and gas developers at the end of FY 2018. Of that, about 12.8 million acres are producing oil and gas in economic quantities. This activity came from over 96,000 wells on about 24,000 producing oil and gas leases.
- Energy produced on federal lands and waters plays a critical role in America's energy revolution, accounting for 12% of U.S. natural gas production and nearly a quarter of U.S. oil production.

FIGURE 2: WHAT WE PAY FOR IN A GALLON OF REGULAR GASOLINE (SEPTEMBER 2021)



Source: U.S. Energy Information Administration