

**TESTIMONY
OF
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**BEFORE THE
UNITED STATES HOUSE OF REPRESENTATIVES
HOUSE COMMITTEE ON NATURAL RESOURCES**

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Chairman Hastings, Ranking Member Markey, Members of the Committee: Good morning. I appreciate the opportunity to be here today to discuss the impacts that high energy prices are having on America's consumers and economy.

I speak to you today on behalf of a diverse group of citizens and organizations who are all significantly impacted by today's energy prices. Consumer Energy Alliance (CEA) is a nonprofit, nonpartisan organization that supports the thoughtful utilization of energy resources to help ensure improved domestic and global energy security and stable prices for consumers. We seek to help improve consumer understanding of our nation's energy security, including the need to reduce reliance on imported oil, maintain reasonable energy prices for consumers, properly balance our energy needs with environmental and conservation goals, and continue efforts to diversify our energy resources.

With 185 affiliated organizations and hundreds of thousands of grassroots supporters, CEA has long advocated that the country needs a national energy policy that provides a comprehensive solution. (See Appendix I for full list). In short, we need it all:

- More access to offshore and onshore oil & natural gas;
- Increased utilization of alternative energy;
- Enhanced energy efficiency and conservation; and
- Continued education about our energy needs.

The mission of CEA is to expand the dialogue between energy producers and consumers, improve the overall understanding of energy security and the thoughtful development and utilization of energy resources, and to help create sound energy policy and maintain stable energy prices for consumers.

CEA now represents virtually every sector of the U.S. economy – trucking, airlines, manufacturing, agriculture, iron, steel, chemical production, small & big business and energy production in all forms.

Impacts of High Energy Prices

Gasoline and diesel prices are closely tied to global crude oil prices, with approximately 94 percent of U.S. transportation fuels being derived from crude oil. Rising prices are hurting the American consumer and business community and are threatening to derail an economic recovery. According to *Investors' Business Daily*, gasoline prices have increased by 93 percent since 2009. Today, prices at the pump are already higher than they have been at this time in history, with AAA's March 17 Fuel Gauge Report showing average prices for regular gasoline already exceeding \$4 per gallon in seven states and the District of Columbia.¹ The average nationwide price is expected to top \$4 per gallon soon, with some predicting an unprecedented and economically dangerous \$5 mark this summer.

This dynamic is being driven by a number of diverse factors, including:

- A surge in the price of oil, which has risen 17.03% percent so far this year, to around 125.71 (Brent)
- Tensions with Iran and other oil exporting nations;
- A cold snap in Europe; and
- Rising demand from developing nations.

Further demonstrating impacts here at home, West Texas Intermediate--the benchmark for pricing oil produced in the U.S.--is hovering around \$108 a barrel, representing an increase of 7.7 percent in 2012. Finally, refinery operations necessary to make an annual federal-required switch to production of summer fuel blends temporarily impact gasoline and diesel production in March and April, increasing the likelihood of even sharper increases at the pump ahead.

U.S. and global demand has been tempered by the struggling global economy. A more robust economy would put even greater pressure on demand.

In the meantime, higher gas prices could reverse recent signs of improvement in the U.S. economy and harm consumer spending. A 25-cent jump in gasoline prices, if sustained over a year, would cost the economy about \$35 billion, due in part to the direct impact of higher gas prices on many people's budgets.² With motor fuel comprising about 5 percent of a consumer's total budget, when gasoline prices increase by 20 percent--the approximate increase from this time last year--American families reduce their spending on other items by about 1 percent.³ Most people simply have no choice but to spend the extra money required to cover the cost of higher gasoline prices, with long-distance commuters, senior citizens, and those on fixed incomes among the most impacted.

Last year when fuel prices averaged an all-time high of \$3.51 a gallon, Americans spent 8.4 percent of their household income on gasoline.⁴ Facing even higher prices this year, there are already indications that American families will curb their spending habits on other items. A 10 percent increase in gasoline prices lowers consumer confidence by about 1.5 percent, according to research by IHS Global Insight.⁵ When consumer confidence drops, consumers spend less and the whole economy suffers. In that regard, defying forecasts of a projected rise, preliminary results instead show a drop in consumer sentiment this month to the lowest level of the year. It is more than a coincidence that this is taking place at a time when higher gas prices helped contribute to the highest consumer price increase in ten months in February.⁶

Over the past few months, CEA has seen a significant increase in the amount of comments from average consumers in our grassroots network concerned over high energy prices and the direction of U.S. energy policy. Recently, CEA has witnessed a marked increase in comments referencing high gasoline and diesel prices.

The impact of higher fuel prices on American families and businesses, however, is by no means limited to household purchases of gasoline. Rather, higher fuel prices hurt just about every sector of our economy. For example, most goods and services need to be transported by truck, ship, air, and/or rail. The trucking industry alone consumes more than 36 billion gallons of diesel fuel annually, with a one-percent increase in the average price of diesel costing this sector an additional \$350 to \$370 million a year in fuel expenses. Trucking is an extremely competitive industry comprised largely of small businesses. Roughly 96 percent of all interstate motor carriers operate 20 or fewer trucks. These small businesses are not able to absorb the cost of higher energy prices.

The average price of diesel in February was up 13.38 percent from the previous year, and the American Trucking Associations anticipate that the trucking industry will likely spend \$13.1 billion more on fuel this year than it did in 2011 when it spent \$142.8 billion. Some of the additional costs borne by industries such as these will inevitably be passed on to consumers in the form of higher product prices.

Jet fuel prices have increased as well. February prices were up 13.02 percent over last year. According to Airlines for America, jet fuel represents the U.S. airline industry's largest and most volatile expense, averaging 35 percent of total operating expenses in 2011. Last year, U.S. passenger and cargo airlines spent \$50.5 billion on fuel, 30 percent more than the \$38.8 billion spent in 2010. Annually, every dollar-per-barrel increase in the cost of oil raises the industry's fuel bill by \$420 million, according to Airlines for America. High and volatile fuel prices have contributed to a reduction in scheduled air service, with 6,500 fewer domestic flights being offered per day in March 2012 than in March 2001. Over the last two decades, while airline revenues have grown on average 4.9 percent annually, jet fuel prices have grown on average 10 percent annually. While U.S. passenger and cargo airlines have been working hard to offset this trend by improving efficiency by more than 25 percent since 2000 and have been seeking to diversify their fuel supply through the use of biofuels and gas-to-liquids fuels, it is clear that fuel prices have limited the ability of airlines to remain profitable, grow their businesses, and serve more passengers.

Fuel prices are also having an enormous impact on agriculture. According to the USDA Economic Research Service, farmers paid almost 85 percent more last year than they did in 2000 just to put their crops in the ground. The fuel capacity on an average tractor is 270 gallons, which today results in a \$985.00 price tag. Many farmers and ranchers have to fill such tanks multiple times just to complete work on one field or pasture. In addition, rural communities are especially hard hit given the long commutes many have to make to attend school or complete off-farm employment.

Increasing fuel prices, transportation expenses, and agricultural costs are all combining to raise the price of food and other household goods, and we are now seeing this impact at grocery store check-out lines and retail outlets across the country.

Oil and fuel prices are expected to increase into the future. World oil demand is expected to rise by an additional 1.5 percent to 89.25 million barrels a day in 2012, according to the Energy Information Administration. In the short term, price impacts seem likely to be further exacerbated by continued tension in the Middle East surrounding Iran's expanding nuclear program, and concerns that the world's third largest oil exporter could respond by withholding its own oil deliveries and blocking the Strait of Hormuz, through which one-fifth of the world's oil travels. All of these trends require an urgent focus on developing real and sustainable policy solutions that focus on meeting our near-term needs from oil and natural gas, and diversifying our energy resources in wind, solar, biofuels, and nuclear over the long-term.

CEA Focus on Sensible Solutions

CEA is very active in promoting sensible energy policy solutions. Together with our members, we continue to reach out to policymakers and the general public alike to encourage them to break through the current gridlock and work together on "all of the above solutions" that will enable us to expand our domestic energy production, improve our efficiency, reduce our need to import, enhance our energy security, improve our balance of payments, lower our national debt, increase federal revenues, and create jobs for American workers. Why wouldn't we embark on a comprehensive program to achieve those goals?

CEA is encouraged that all of those who are running for President this year have stated that they intend to focus on expanding domestic energy resource development. This is very encouraging for American families, farms, and businesses that all depend on a secure, reliable, and affordable energy supply to grow and prosper. After all, energy helps bring products to market and is a crucial component in the

production of items such as aspirin, clothing, fertilizer, paint, wallpaper, shoes, shampoo, and carpeting. Without energy as a feedstock, these everyday items would not even exist.

Given increased global instability and energy scarcity, it is clear that energy issues will remain a central focus for voters this year. It is critical that the American public hear from candidates and elected officials at all levels of government on how they intend to address the need for a balanced energy policy that capitalizes on domestic resources and improves our energy diversity and ability to compete globally.

As the nation struggles to emerge from the recession and instability continues in the Middle East, it is imperative that we harness our true energy potential. This basic and intuitive concept is shared by a large majority of Americans, with some polls showing an astounding 94 percent approval rate for increased domestic energy production. CEA believes that we need to utilize all available resources – oil, natural gas, wind, solar, biofuels, energy conservation, increased efficiency – in order to meet our energy needs.

We also recognize that fossil energy will be the dominant source of our transportation use for at least the next 50 years. There is no single silver bullet, and our public policies should recognize the need for us to increase the supply of all domestic energy sources in the most cost-effective, sustainable, and energy efficient ways.

CEA believes – and we think a majority of the American public agrees – that simply saying “no” to expanded energy production and an “all of the above” approach is not the proper course of action. Some groups remain committed to finding ways to block energy development. In our view, this is not the best approach for the nation. We can and must find ways to say “yes” to sensible, responsible energy production and diversification that protects the environment and creates opportunities for future economic growth for our nation.

The U.S. consumes 15 to 20 percent of the world’s crude oil each day, and will do so for the foreseeable future. Diversification has to be part of our long term solution, but we must realize that the market for alternative and renewable energy will take time to develop. In the meantime, fossil fuels will continue to be the driving force for the global economy.

America has the energy resources to accomplish this mission. According to the Institute for Energy Research’s North American Energy Inventory, the United States holds more than 1.4 trillion barrels of technically recoverable oil and 2.7 quadrillion cubic feet of recoverable natural gas. Additional studies show that advancements in energy-extraction technologies, such as hydraulic fracturing, have made it possible for North America to achieve energy self sufficiency by 2030. Those breakthroughs, coupled with other oil and gas sources, alternative energy sources, and increased efficiency can help us significantly reduce the need for oil imports.

For too long, America has put itself in the precarious situation of relying too heavily on imports from hostile countries that are increasingly willing to use oil as a political and economic weapon. Now, however, we have an opportunity to change that dynamic. The prospect of the United States saving nearly \$252 billion a year by significantly reducing oil imports is no longer a dream; it is a reality. However, if our nation is to achieve that reality by following a path to true energy self-sufficiency, our national leaders must embrace this vision and firmly commit to seeing it implemented.

Markets Respond To Action

History demonstrates that markets do react to what they perceive as real action to implement actual, discernible structural solutions to meeting our energy needs. A recent example occurred in 2008, when President Bush announced that he was removing the presidential moratorium on offshore drilling and called on Congress to remove its as well. The results were immediate. As President Bush was making the announcement, crude oil futures immediately plunged \$9.26, or 6.3 percent.⁷

Another example of government policies that had sustained impacts on prices and supply was the decision by Congress and President Reagan in 1981 to lift domestic oil price controls, a continuation of a policy that began under President Carter. That policy helped boost domestic energy production and lower crude oil and fuel prices for years, an important factor in the economic recovery of the 1980s.⁸

Now, imagine how the market would respond to a truly comprehensive and balanced long- and short-term energy plan that creates real goals to utilize more energy resources in this country (traditional, unconventional and renewable), increases energy efficiency, and significantly reduces the amount of oil and refined product that the United States needs to import. Real actions intended to increase our domestic energy supply that are rooted in stated and achievable goals and policies will lead to a positive market reaction, driving down energy costs and boosting our economy for years to come. Talk and finger-pointing will not fix the problem; nor will short-term reactionary “quick fixes.”

A Balanced Energy Plan

According to the U.S. Energy Information Administration global energy demand will increase by more than 43 percent between now and 2035.⁹ In order to meet that demand growth and ensure stable, affordable supplies, a reasonable and more robust approach is needed to strike a proper balance between the use of traditional sources of energy and the long-term development of alternatives, as well as improved energy efficiency and conservation and increased energy research and education.

In CEA’s broad view, a balanced energy policy should:

- Permit access to energy development on the U.S. Outer Continental Shelf (OCS);
- Remove barriers to onshore and offshore access;
- Ensure the Administration adopts and implements regulations that are equitable, consistent, scientifically based, and properly reflective of the concerns of Congress and the public;
- Develop plans for the creation and expansion of high-quality, affordable alternative and renewable fuel sources;
- Provide regulatory certainty to existing nuclear facilities and support the expansion of new facilities through financial guarantees;
- Promote technological advances in the exploration and production of traditional and unconventional energy resources to ensure further gains in environmental stewardship;
- Ensure public lands are utilized in a manner consistent with public desire;
- Support the maintenance and expansion of the infrastructure necessary to transport energy to consumers now and in the future;
- Expand research and development programs for new energy sources, as well as energy-efficient technologies and practices; and
- Promote a comprehensive program aimed at maintaining U.S. intellectual competitiveness by supporting the education of skilled scientists, engineers, and trade professionals.

Expansion of domestic oil and gas production will reduce our dependence on imports and significantly reduce the billions of dollars we send abroad. Although oil prices are determined by a global market, domestic oil production can help insulate American consumers during a supply disruption and mitigate the influence that foreign producers have on global markets. Investing in domestic resource production, as part of a balanced energy policy, will also generate new economic activity and add new jobs.

Conclusion

Last year, CEA produced a document titled “Energy, Jobs & the Economy: Powering America’s Energy Future,” that showed the impact that energy has on a number of sectors of our economy. It truly illustrates how important sound energy policies are to jobs and the economy, and to individual families and citizens like those who are now suffering from high gasoline prices. (See Appendix II)

However, we can do something about it. America is the best nation in the world at producing energy in an environmentally responsible way, developing new technology and meeting market challenges through diverse and creative means. Conventional and alternative energy markets need the federal government to work more cooperatively with our energy producers, rather than adding new and increasingly complex layers of regulation and sending inconsistent and confusing signals to the market.

Recent examples of how lower U.S. energy prices are helping to fuel our nation’s economy, create jobs, and lower energy and commercial good costs for consumers, include the following:

- An ammonia plant owned by **CF Industries** that was shuttered by its former owner in 2004 is now running again;
- Steel maker **Nucor** is building a factory in Louisiana;
- **SeaRiver Maritime**, Inc. signed an agreement recently with Aker Philadelphia Shipyard for the construction of two new Liberty Class tankers valued at \$400 million, which will create more than 1,000 direct jobs;
- **Shell** is building the first petrochemical plant outside the U.S. Gulf Coast in the Marcellus Shale region;
- **Dow, Bayer, PPG, LyondellBasell** and others are announcing massive new investments in the United States.; and
- The French company **Vallourec** is building a \$650 million plant in Youngstown, Ohio to make steel tubes for the wells.

We have a unique opportunity to take these benefits and apply them more broadly by enacting policies that will maximize America’s capacity to produce energy, thereby increasing our domestic supply and reducing our vulnerability to imports. Let’s embark on sensible policies by acting like we are on the same team. If we do that, markets will react and we will all benefit.

Thank you for the opportunity to testify before the Subcommittee.

¹<http://fuelgaugereport.aaa.com/?redirectto=http://fuelgaugereport.opisnet.com/index.asp>

²http://www.usatoday.com/USCP/PNI/Business/2012-02-17-APOilPrices_ST_U.htm

³<http://www.usnews.com/news/blogs/rick-newman/2012/03/16/5-things-that-change-when-gas-prices-spike>

⁴<http://www.usatoday.com/money/industries/energy/story/2012-02-18/US-Gas-Prices/53141866/1>

⁵<http://www.usnews.com/news/blogs/rick-newman/2012/03/16/5-things-that-change-when-gas-prices-spike>

⁶<http://www.bloomberg.com/news/2012-03-16/consumer-sentiment-in-u-s-unexpectedly-decreased-in-march.html>

⁷http://www.cnbc.com/id/25691496/Bush_Says_Drill_Drill_Drill_And_Oil_Drops_9

⁸http://articles.orlandosentinel.com/1986-02-20/news/0200180074_1_oil-prices-lower-oil-search-for-oil

⁹<http://247wallst.com/2011/09/19/global-energy-demand-will-grow-by-53-by-2035/>