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4 THE AMERICAN ENERGY INITIATIVE

5 WEDNESDAY, MARCH 7, 2012

6 House of Representatives,

7 Subcommittee on Energy and Power

8 Committee on Energy and Commerce

9 Washington, D.C.

10 The Subcommittee met, pursuant to call, at 10:37 a.m.,  
11 in Room 2322 of the Rayburn House Office Building, Hon. Ed  
12 Whitfield [Chairman of the Subcommittee] presiding.

13 Members present: Representatives Whitfield, Sullivan,  
14 Shimkus, Burgess, Scalise, Olson, McKinley, Gardner, Pompeo,  
15 Griffith, Barton, Upton (ex officio), Rush, Castor, Markey,  
16 Engel, Green, Capps, Doyle, Gonzalez, and Waxman (ex  
17 officio).

18 Staff present: Anita Bradley, Senior Policy Advisor to

19 Chairman Emeritus; Maryam Brown, Chief Counsel, Energy and  
20 Power; Allison Busbee, Legislative Clerk; Garrett Golding,  
21 Legislative Analyst, Energy; Cory Hicks, Policy Coordinator,  
22 Energy and Power; Ben Lieberman, Counsel, Energy and Power;  
23 Phil Barnett, Democratic Staff Director; Alison Cassady,  
24 Democratic Senior Professional Staff Member; Greg Dotson,  
25 Democratic Energy and Environment Staff Director; Caitlin  
26 Haberman, Democratic Policy Analyst; and Alexandra Teitz,  
27 Democratic Senior Counsel, Environment and Energy.

|  
28           Mr. {Whitfield.} I want to thank you all, those of you  
29 who are testifying today, we appreciate you being here. We  
30 are going to wait just a few minutes for our Ranking Member,  
31 Mr. Rush, and then we will get started with this hearing.

32           I am going to call this hearing to order, and once again  
33 I want to thank the witnesses for being here today. We look  
34 forward to your testimony. I am delighted that our referees  
35 are back with us today. They have attended a few of our  
36 hearings and it is always good to have referees here to make  
37 sure that everyone presents a balanced view. And we welcome  
38 the rest of you as well.

39           Today, we are going to focus on increasing gas prices,  
40 an issue that has an impact on the pocketbook of practically  
41 every American. When President Obama took office, the  
42 average gasoline price was around \$1.85 a gallon, and today  
43 it is over \$3.60 per gallon. Now, I do not intend today to  
44 place all of the blame on the President, but I am going to  
45 give him some blame. But I think the facts clearly show that  
46 if we continue to follow his policies, gas prices are not  
47 going to go down, they are going to go up.

48           Now, the President's supporters like to say, and they  
49 are correct, that oil production is up in the U.S. since  
50 President Obama became the President, but it is important to

51 recognize that the increase in production is due to  
52 production on private and State lands, the Baaken Field being  
53 a prominent example of that. In fact, oil production is down  
54 on federal lands, and that is what the President has control  
55 of. In fact, one of the President's first initiatives in  
56 2009 was to cancel oil leases on federal lands and to delay  
57 the offshore leasing program, and he cancelled five offshore  
58 leases even before the Horizon--Deepwater Horizon incident.  
59 I might also say that when he became president, offshore  
60 drilling was possible in the Atlantic and in the Pacific.  
61 Today it is not.

62 In a speech at the University of Miami a few weeks ago,  
63 in the wake of criticism for denying the permit to build  
64 Keystone, the President said he has approved dozens of new  
65 pipelines. Well, presidential permits are applicable only on  
66 international pipelines, and since he has been President,  
67 only one has come before him for approval, and that has been  
68 Keystone and he denied that.

69 The President and his Administration have decided to  
70 address energy costs by spending billions of taxpayer dollars  
71 to develop electric cars. They have raised the CAFÉ  
72 standards, which is fine, and they are imposing more  
73 regulations instead of encouraging production of our domestic  
74 resources. They are putting regulations on refineries and

75 they are encouraging--discouraging production, as I said.

76 For example, GM received millions of dollars and they  
77 curtailed the production of the Volt automobile because sales  
78 are lagging. Tesla and Fisker, both recipients of federal  
79 taxpayer dollars, have curtailed production primarily because  
80 Americans cannot afford to buy an automobile that costs  
81 around \$100,000.

82 Now, we all recognize that it is important to improve  
83 the mileage of automobiles, and so CAFÉ standards are  
84 important, but it is also important to recognize that it does  
85 raise the cost of cars. EPA itself said that by the year  
86 2016, cars are going to increase by \$1,000 and by 2025, they  
87 are going to increase by \$3,000. So rather than trying to  
88 reduce the cost of existing regulations by EPA, they are  
89 considering adding more regulations, such as new source  
90 performance standards targeting greenhouse gas emissions from  
91 refineries and new Tier 3 regulations.

92 So I think there is a clear contrast here. This  
93 Administration is looking way, way, way into the future,  
94 which is important, but we need some immediate assistance and  
95 the best way to go on that avenue to address this need is to  
96 make production of our domestic resources more available to  
97 the American people.

98 [The prepared statement of Mr. Whitfield follows:]

99 \*\*\*\*\* COMMITTEE INSERT \*\*\*\*\*

|  
100           Mr. {Whitfield.} At this time, I would like to  
101 recognize the gentleman from Illinois, Mr. Rush, for 5-minute  
102 opening statement.

103           Mr. {Rush.} I want to thank you, Mr. Chairman.

104           Mr. Chairman, we all know that gas prices are set on the  
105 global market and there are a variety of real political  
106 factors that determine the price of fuel, many of which are  
107 beyond the control of the much-maligned President of which  
108 you speak, or this Congress, which in the last 2 years has  
109 been basically described as a ``do nothing'' Congress.

110           But there are some factors that we do not have control  
111 over, including the role of speculators in setting fuel  
112 prices.

113           Mr. Chairman, while we understand that speculation plays  
114 a significant role in setting gas prices, it is very  
115 difficult to get a clear answer on how big a role speculators  
116 actually play. That is why on March 1, I sent a letter to  
117 the Chairman Gensler, who is the Chairman of the Commodities  
118 and Futures Trading Commission, the CFTC, asking him to  
119 conduct an investigation into the practices of Wall Street  
120 traders, and also to examine how much of an impact these  
121 speculators actually have on increasing gas prices.  
122 Additionally, on Friday I entered my name to a bicameral

123 letter to the CFTC, calling for strict position limits on all  
124 futures contracts in order to eliminate excessive  
125 speculation. In fact, Mr. Chairman, I believe it would  
126 benefit this Subcommittee to hold a hearing strictly on this  
127 issue, in order to bring transparency to the American people  
128 so that we all can better understand the role that  
129 speculators play in raising fuel prices.

130 In an ABC News article entitled ``How Wall Street is  
131 Raising the Price of Gas'' dated February 23, 2012, one CFT  
132 commissioner estimate that speculators do indeed contribute  
133 significantly to raising fuel prices. Commissioner Chilton  
134 estimated that Wall Street speculators raised the price an  
135 additional \$7 to \$14 every time a consumer fills up the tank,  
136 depending on the size of the car

137 While industry groups dispute these figures, I think it  
138 would behoove us all to shed some light on this issue in  
139 order to bring transparency and help the American consumer  
140 better understand this relationship between the speculators  
141 and rising fuel prices and raising fuel prices also. And  
142 while some may argue that rising fuel prices are simply a  
143 matter of supply and demand, today's sharp increases are  
144 happening at a time when under President Obama we are  
145 producing more oil than at any time in our history. We are  
146 importing less oil than at any time in the past 13 years, and

147 the American demand for oil is actually lower than it was a  
148 year ago.

149 Now you take that and think on those facts. An article  
150 by ``The Washington Post'' with Bloomberg Business entitled  
151 gas prices rise for the 27th straight day, oil recovers late  
152 to close above \$107 a barrel, dated February 29, 2012,  
153 Washington Post and Bloomberg business both reported that  
154 Americans were paying an average of \$3.73 cents a gallon for  
155 regular gasoline, which is 30 cents higher than it was just  
156 last month, and 36 cents higher than it had been at this time  
157 last year. At the same time, the Department of Energy  
158 recently reported that average demand has actually dropped  
159 6.7 percent as compared to nearly the same time last year.

160 So Mr. Chairman, I am not blaming speculators for these  
161 sharp increases in gas prices, but I do believe it is worth  
162 examining this issue more closely to better understand the  
163 role that speculation played in impacting the price at the  
164 pump.

165 Mr. Chairman, with that I yield back the remaining time  
166 that I might have.

167 [The prepared statement of Mr. Rush follows:]

168 \*\*\*\*\* COMMITTEE INSERT \*\*\*\*\*

|  
169 Mr. {Whitfield.} Thank you, Mr. Rush.

170 At this time I would like to recognize the Chairman of  
171 the Full Committee, Mr. Upton, from Michigan for a 5-minute  
172 opening statement.

173 The {Chairman.} Thank you, Mr. Chairman.

174 Let us face it. There are many factors that contribute  
175 to the high price of gas. Some, like Middle East instability  
176 and rising global demand, are largely outside of the Federal  
177 Government's control. For that reason, it is absolutely  
178 critical to get right those things that we can control. None  
179 of America's pain at the pump should be self-inflicted, which  
180 is why we need to do more to increase domestic and North  
181 American oil supply, and to streamline the federal regulatory  
182 burden on gas.

183 At last weekend in my district, gas prices averaged 3.99  
184 a gallon. Though the President has begun to say some of the  
185 right things about high gas prices, he continues to do all  
186 the wrong things as well. In fact, the President's approach  
187 has not changed since he took office in January of 2009. Gas  
188 was about \$1.85 a gallon back then, and one of the  
189 President's first initiatives before Deepwater Horizon was to  
190 cancel many of the oil leases on federal lands. And his 2012  
191 to 2017 offshore leasing plan re-imposes the moratorium that

192 Congress and the White House lifted back in 2008. But the  
193 Administration's hostility towards domestic drilling has not  
194 changed, only the rhetoric has. The President now boasts  
195 that domestic drilling is up, but he neglects to mention that  
196 the increase is due to the production on private and State-  
197 owned lands where federal regulators have little or no power  
198 to block drilling. Production actually declined on federal  
199 lands from 2010 to 2011, and the Administration has offered  
200 up no policy changes that would reverse that disturbing  
201 trend.

202         Some in D.C. claim that producing more domestic oil  
203 won't make any difference in prices, but the American people  
204 know better. American people also know that when it comes to  
205 Keystone XL pipeline expansion, they would allow more  
206 Canadian oil to reach the American market is a good thing.  
207 Compare the rejection of Keystone to something that the  
208 President did approve last June, tapping SPR for 30 million  
209 barrels. However, SPR is not a new supply of oil, it is a  
210 stockpile previously set aside for an emergency, and it can  
211 only be tapped for a short while and then would need to be  
212 replenished, which the President hasn't, by the way. In  
213 contrast, Keystone would represent a genuine addition to our  
214 Nation's oil supply, and one that would last for decades  
215 rather than months.

216           Rarely has the contrast between a real solution and a  
217 gimmick been more clear than this pipeline and SPR.

218           So some may scratch their heads and pretend that the  
219 closure of several East Coast refineries is some kind of  
220 mystery, but it is no mystery to me that existing and  
221 anticipated future regulatory costs are a key contributor.  
222 At the very least, we need to hold the line against  
223 additional regulations likely to raise the cost of producing  
224 gasoline.

225           I would yield the balance of my time to Mr. Barton.

226           [The prepared statement of Mr. Upton follows:]

227           \*\*\*\*\* COMMITTEE INSERT \*\*\*\*\*

|  
228           Mr. {Barton.} Mr. Chairman, thank you for yielding.  
229 Let me simply say that Chairman Upton has just pointed out,  
230 gasoline prices are going up. He said it was 3.99 a gallon  
231 in Michigan, and in my hometown of Ennis, Texas, it was 3.58  
232 a gallon, so come to Texas and you will save 40 cents.

233           But that is still quite a bit more than it was when  
234 President Obama became President. It was \$1.80 a gallon 3  
235 years ago. For every penny a gallon, that is \$1.4 million a  
236 day--billion? Is it billion or million? Billion, okay. If  
237 the Chairman says billion, I am going to go with billion.  
238 But I am talking on an annual basis, that is about \$262  
239 billion a year, and that is too much.

240           So we look forward to hearing from our witnesses what we  
241 can do to get prices down. I think it is obvious that part  
242 of the solution is to drill more here in the United States.  
243 If you are going to drill more, you need regulatory relief.  
244 You need to use hydraulic fracturing for oil like we have  
245 been doing for natural gas, and I think we can do that.

246           And with that, I will yield to--

247           [The prepared statement of Mr. Barton follows:]

248 \*\*\*\*\* COMMITTEE INSERT \*\*\*\*\*

|  
249 Mr. {Shimkus.} You would rather yield to him than me.

250 Mr. {Barton.} I have to yield to seniority. Mr.

251 Shimkus.

252 Mr. {Shimkus.} I will try to go quick, thank you.

253 Because I want to ask questions, I want to get a few points  
254 off. The renewable fuels standard which we passed, and  
255 really, it was supported by both sides of the aisle, has been  
256 very, very successful. Ten percent of our Nation's gasoline  
257 supply is now through renewable fuels. You know, just  
258 talking about the mixing of E-10 or E-15, that is lowering  
259 the rate, and we have to remember that the tax credit is  
260 gone. So for my colleagues who don't like this, we don't  
261 have a blenders tax credit anymore, and it is still  
262 competitive and it is a source of success. A gallon of  
263 ethanol is currently selling for nearly a dollar less per  
264 gallon than a gallon of gasoline. American oil demands have  
265 decreased, and national import dependence has fallen from 60  
266 percent to 45 percent.

267 And I will end and yield--I don't have much time, Doc,  
268 so ethanol provides gasoline refiners with a cost effective  
269 source of octane with an octane rating of 113. Research  
270 octane number.

271 I apologize, Dr. Burgess. I yield back my time.

272 [The prepared statement of Mr. Shimkus follows:]

273 \*\*\*\*\* COMMITTEE INSERT \*\*\*\*\*

|  
274 Mr. {Whitfield.} Gentleman's time is expired.

275 At this time I recognize the gentleman from California,  
276 Mr. Waxman, for 5-minute opening statement.

277 Mr. {Waxman.} Mr. Chairman, today this Subcommittee  
278 examines the issue of rising gasoline prices. We have seen  
279 this movie over and over again for the last 30 years.  
280 Gasoline prices go up, politicians make false promises about  
281 how they will bring prices down, and nothing gets  
282 accomplished. We have seen it with the push to open our  
283 coastlines to more drilling. There is no moratorium. In  
284 fact, 74 percent of the coastline is now being leased for  
285 drilling, primarily in the Gulf of Mexico, unlike the  
286 statements we have heard so far. We have seen it with the  
287 enactment of legislation to promote refineries in 2005.  
288 Still prices raised. Now the Republican mantra is that we  
289 need to drill, baby, drill. This slogan may sound good, but  
290 it is based on a complete fiction. We are drilling more, but  
291 prices are still going up. U.S. crude oil production is the  
292 highest it has been in 8 years, and the U.S. has more oil and  
293 gas drilling rigs operating right now than the rest of the  
294 world combined. Net oil imports as a share of our total  
295 consumption declined from 57 percent in 2008 to 45 percent in  
296 2011, the lowest level since 1995.

297           We need to face reality, and the reality is that oil  
298 prices are determined on a global market. Now matter how  
299 much we drill, our gasoline prices are going to rise if there  
300 is a crisis in the Middle East, labor unrest in Nigeria, or  
301 any of a host of other factors we can do little about. There  
302 is only one way we can protect ourselves from the impacts of  
303 rising oil prices. We need to reduce our dependence on oil.  
304 There are not short-term solutions. There is no silver  
305 bullet. The effects of a short--of releasing oil from the  
306 SPR could be short-term, as it has in the past, if we are  
307 working with other countries to accomplish that goal. We  
308 need to invest in clean energy to diversify and reduce our  
309 energy use.

310           The President has taken important steps. He has acted  
311 to cut the emissions of cars and trucks, doubling the fuel  
312 efficiency of our fleet. As a result, our dependence on oil  
313 has declined, but he needs our help. Oil companies are  
314 making record profits, yet they are still getting \$4 billion  
315 in subsidies from taxpayers each year. We can't afford to  
316 take money from taxpayers struggling to pay their mortgages  
317 and fill up their tanks and hand it to oil companies making  
318 billions in profits. That is why we need to repeal the oil  
319 subsidies and use the money to develop sources of clean  
320 energy that reduce our dependence on oil.

321 Today, we are going to hear a lot of the same old  
322 unsupported claims. The American Petroleum Institute will  
323 tell us that we can bring down global oil prices by drilling  
324 more in the United States. That is the line we are hearing  
325 from the Republicans. The refiners will tell us to help  
326 consumers, we need to send a ``message to the market'' by  
327 producing more oil in the United States. The National  
328 Association of Convenience Stores will say that making ``an  
329 announcement of a long-term commitment by the United States  
330 to increase its contribution to the international crude oil  
331 market could help calm some of the inflationary influences in  
332 the futures market.'' These claims have no foundation in  
333 reality. My staff contacted some of the Nation's leading  
334 energy economists. They told us the so-called solutions we  
335 will hear today from the oil industry will not reduce our  
336 gasoline prices. John Parsons, an economist at MIT, one of  
337 the Nation's leading experts on the oil market, told us  
338 ``that the industry claims are not remotely plausible because  
339 drilling more will have at best a miniscule impact on  
340 gasoline prices.'' Oil industry expert Phil Verliger told us  
341 that announcing more production would have ``no impact, zero,  
342 on the current price.'' He predicted that the people who buy  
343 or sell oil would simply ridicule these recommendations as a  
344 plan for reducing gasoline prices. The President said it

345 best when he said ``Anyone who tells you we can drill our way  
346 out of this problem doesn't know what he or she is talking  
347 about, or isn't telling you the truth.''

348         This Committee has a responsibility to set the Nation's  
349 energy policy. We should start by facing facts, listening to  
350 experts, and crafting policies that would reduce our  
351 dependence on oil.

352         Yield back my time.

353         [The prepared statement of Mr. Waxman follows:]

354 \*\*\*\*\* COMMITTEE INSERT \*\*\*\*\*

|  
355 Mr. {Whitfield.} Gentleman's time is expired. That  
356 concludes the opening statements, and so at this time I would  
357 like to introduce our witnesses this morning.

358 First we have Mr. Robert McNally, President of the  
359 Rapidan Group. We appreciate your being here. We have Mr.  
360 Jack Gerard, President and CEO, American Petroleum Institute.  
361 We have Mr. Charles Drevna, President, American Fuel and  
362 Petrochemical Manufacturers. We have Mr. Chris Milburn,  
363 owner of CarbM Trucking. We have Mr. Daniel Weiss, Senior  
364 Fellow, Center for American Progress, and we have Mr. Michael  
365 Breen, Vice President, Truman National Security Project, and  
366 we have Mr. John Eichberger, Vice President of Government  
367 Relations, NACS. We appreciate all of your being here and we  
368 look forward to your testimony on this very important subject  
369 of increased gasoline prices.

370 So I am going to be calling, beginning with Mr. McNally,  
371 on each one of you and you will be recognized for 5 minutes  
372 for your opening statement. There is a little instrument  
373 there on the table and when your time is up, it will say red.  
374 It will be red, so that means your time is up.

375 So Mr. McNally, we look forward to your testimony and I  
376 recognize you for 5 minutes.

|  
377 ^STATEMENTS OF ROBERT MCNALLY, PRESIDENT, THE RAPIDAN GROUP;  
378 JACK GERARD, PRESIDENT AND CEO, AMERICAN PETROLEUM INSTITUTE;  
379 CHARLES DREVNA, PRESIDENT, AMERICAN FUEL AND PETROCHEMICAL  
380 MANUFACTURERS; CHRIS MILBURN, OWNER, CARBM TRUCKING; DANIEL  
381 J. WEISS, SENIOR FELLOW, CENTER FOR AMERICAN PROGRESS;  
382 MICHAEL BREEN, VICE PRESIDENT, TRUMAN NATIONAL SECURITY  
383 PROJECT; AND JOHN EICHBERGER, VICE PRESIDENT, GOVERNMENT  
384 RELATIONS, NACS

|  
385 ^STATEMENT OF ROBERT MCNALLY

386 } Mr. {McNally.} Chairman Whitfield, Ranking Member Rush,  
387 members of the Committee, thank you for the opportunity to  
388 testify to you today. I have spent the bulk of my career  
389 analyzing energy, oil markets, and economic policymaking, and  
390 served on the White House National Economic Council and  
391 National Security Council between 2001 and 2003. I am an  
392 independent analyst. I do not represent any entity, and the  
393 views I express here today are my own.

394 The subject is rising gas prices, but let us step back  
395 and note, this is the sixth big run up in gasoline prices in  
396 7 years. For most Americans, from the 1970s until about  
397 2005, following the price of gasoline was like riding the

398 Disney World ride It's a Small World: shifting, but basically  
399 an unremarkable experience. Since 2005, it has felt more  
400 like Space Mountain: unpredictable, scary, gut-wrenchingly  
401 volatile. This ride is no fun for our families and for our  
402 businesses. They are confused and angry and deserve to know  
403 why prices have been rising and gyrating so much.

404         Let me come right to the point. Gasoline prices are  
405 rising mainly because crude oil prices are rising. Crude oil  
406 accounts for over 2/3 of the cost of retail gasoline. So far  
407 this year, crude oil is up 14 percent, gasoline prices are up  
408 16 percent. Crude oil prices are rising because the global  
409 market in which they are formed is tight. Official data  
410 reports show that global demand is at historic highs and  
411 still soaring, supply has been disappointingly small,  
412 commercial inventories outside the United States are low,  
413 supply interruptions have occurred, OPEC's spare capacity is  
414 much lower than officially estimated just months ago. On top  
415 of that, this year a rash of refinery closures in the  
416 Northeast, the U.S. Virgin Islands, and Europe, and tension  
417 surrounding Iran's nuclear program are contributing to high  
418 gasoline oil price strength, respectively.

419         It is crucial to understand that oil prices naturally  
420 gyrate sharply when demand and supply are unbalanced. To  
421 suppress this national volatility, throughout history oil

422 producers have held back production in spare, called spare  
423 capacity. Spare capacity is held back from fields that can  
424 be quickly tapped to act as a shock absorber when demand is  
425 strong or disruptions occur to avoid the need for wild price  
426 swings. Since the 1980s, OPEC has used spare capacity to  
427 stabilize prices, but over the last 7 years, OPEC's spare  
428 capacity has eroded and they can no longer do the job. The  
429 reason is a mix of voracious, relentless oil demand growth in  
430 fast-growing Asia and the Middle East on the one hand, and  
431 disappointingly small net oil production oil growth on the  
432 other. While experts differ, many see this strong demand,  
433 weak supply, tight spare production capacity lasting for the  
434 foreseeable future. If so, crude oil prices will continue  
435 gyrating wildly, and as go crude oil prices, so go gasoline  
436 prices.

437       As many have said, there is no silver bullet or short-  
438 term solution for our predicament. Using the Strategic  
439 Petroleum Reserve to smooth gasoline prices, absent a severe  
440 supply disruption, would be deeply unwise and  
441 counterproductive. The SPR and the Department of Energy are  
442 not well-suited to stabilizing global oil prices. Reserves  
443 are too small relative to market flows, information is too  
444 poor, and SPR interventions would be politicized. If  
445 Washington sold SPR oil every time gasoline prices rise, we

446 will end up with no SPR, more volatile prices, and less  
447 protection against supply interruptions.

448         Now 7 years into the Space Mountain era of gasoline  
449 prices, it is time to get beyond the blame games and on with  
450 solutions. Yes, OPEC, oil companies, investors, EPA,  
451 consumers, geopolitical trends and events, central banks,  
452 poor data, subsidies, all these factors have and will play a  
453 role in the world's enormous and complicated oil market. But  
454 the real reason for gyrating oil prices is a tidal wave of  
455 new demand outside the United States that is colliding  
456 against an oil industry struggling to increase oil supply  
457 enough to meet it. These are iron laws of economics and we  
458 will have to live with them. It is past time to enact easy,  
459 common sense steps like improving data or bolder ones, such  
460 as vastly increasing domestic and international energy  
461 supply, moderating demand, strengthening our resilience to  
462 oil price gyrations. We should act quickly and resolutely as  
463 if our jobs, our standard of living, and national security  
464 depended on our success. Taking counsel from President  
465 Lincoln, who said in regard to a different crisis ``The  
466 dogmas of the quiet past are inadequate for the stormy  
467 present. The occasion is piled high with difficulty. We  
468 must rise to the occasion. As our case is new, so must we  
469 think anew and act anew.''

470 Thank you.

471 [The prepared statement of Mr. McNally follows:]

472 \*\*\*\*\* INSERT 1 \*\*\*\*\*

|

473 Mr. {Whitfield.} Thank you, Mr. McNally.

474 Mr. Gerard, you are recognized for 5 minutes.

|  
475 ^STATEMENT OF JACK GERARD

476 } Mr. {Gerard.} Thank you, Chairman Whitfield, Ranking  
477 Member Rush, and Members of the Subcommittee. Thank you for  
478 inviting me here today to speak to you about the rising cost  
479 of fuel.

480 Americans are understandably frustrated by rising fuel  
481 costs, which is the direct result of weak energy policy.  
482 America is energy-rich, yet too many talk like we are  
483 powerless to do anything but watch global events drive energy  
484 costs higher and that there are no solutions.

485 Members of the Committee, that is just not so. With  
486 sound policy and bold leadership, we can put this country's  
487 vast resources to work to literally change the energy  
488 equation.

489 Gasoline prices are climbing primarily because of the  
490 cost of crude oil, which accounts for 76 percent of the price  
491 at the pump. The market forces driving crude higher are  
492 challenging, but America doesn't have to be held captive to  
493 them. We have choices. By increasing access to North  
494 American energy, we will help put downward pressure on  
495 prices. Supply matters. That is not just API saying so, it  
496 is others who have called on the Saudis to produce more,

497 others who have called on other sources, such as the  
498 Brazilians, and yet others who recognize supply matters by  
499 calling for release from the Strategic Petroleum Reserve.  
500 This is not a long-term energy strategy. Government  
501 estimates say we will still get more than 55 percent of our  
502 energy from oil and natural gas over the next 2 decades, 57  
503 percent of which currently comes from outside the United  
504 States. The question is whether we produce that energy here  
505 or rely on less stable sources in the future.

506         With actions today, over the next 2 decades we could add  
507 the oil and natural gas equivalent of 10 million barrels a  
508 day. The markets would see that America plans to be an  
509 energy leader, not a follower, and American consumers would  
510 see that help is on the way.

511         But current policies block this vision. The call for an  
512 ``all of the above'' energy approach sounds good, but we are  
513 seeing actions that hinder oil and natural gas development.  
514 The Administration says one thing, does another, and sends  
515 mixed signals to the marketplace. The Administration says it  
516 is for more oil and gas, but rejects the Keystone XL  
517 pipeline, which would bring 800,000 barrels of oil per day.  
518 It says it is for boosting domestic production, but new  
519 leasing and the number of new wells on federal lands are both  
520 down. Its latest offshore plan keeps 87 percent of these

521 areas off limits, and the Gulf of Mexico production is  
522 forecast to be down nearly 21 percent in 2010. The  
523 Administration says it is for natural gas, but 10 federal  
524 agencies are now considering new regulations that could  
525 needlessly restrict our ability to produce here on own shore.  
526 It calls for all of the above, but then threatens companies  
527 that could lead on energy with an \$85 billion discriminatory  
528 tax increase.

529         Mr. Chairman, this is sending the wrong message and must  
530 change. Soaring production on State and private lands should  
531 be our model. Shale plains in North Dakota, Pennsylvania,  
532 and Texas are game changers, creating jobs, helping  
533 consumers, and producing record levels of oil and natural  
534 gas. We need that model nationally. Bold action that says  
535 we are serious about energy, action that will actually  
536 increase supply.

537         With the right policies and with strong resolute  
538 leadership, we can secure our energy future instead of  
539 surrendering to outside forces. The President has an  
540 opportunity right now to signal the markets and help put  
541 downward pressure on fuel prices by showing we are serious  
542 about developing our own vast resources. Our industry will  
543 help re-urge the President to act now.

544         Thank you very much, and I look forward to answering

545 your questions.

546 [The prepared statement of Mr. Gerard follows:]

547 \*\*\*\*\* INSERT 2 \*\*\*\*\*

|

548 Mr. {Whitfield.} Thank you, Mr. Gerard.

549 Mr. Drevna, you are recognized for 5 minutes for an  
550 opening statement.

|  
551 ^STATEMENT OF CHARLES DREVNA

552 } Mr. {Drevna.} Chairman Whitfield, Ranking Member Rush,  
553 and Chairman Upton, Ranking Member Waxman, thank you for  
554 giving me the opportunity to testify at a very critical  
555 hearing here today. I am Charlie Drevna, and I serve as  
556 President of the AFPM, the American Fuel and Petrochemical  
557 Manufacturers.

558 We are a trade association that was just recently known  
559 as NPRA, the National Petrochemical Refiners Association,  
560 until early this year, who represent the high tech American  
561 manufacturers who use oil and natural gas to make almost all  
562 the fuels, heating oil and petrochemicals used in our Nation  
563 today.

564 As has been stated previously and is absolutely 100  
565 percent accurate, current gasoline prices are primarily  
566 driven by high global crude oil prices. The cost of crude  
567 accounts for 76 cents of each dollar that consumers pay for  
568 gasoline. That is followed by an average of taxes at 12  
569 cents. Next comes distribution and marketing at 6 cents.  
570 That leaves refining just 6 cents on every dollar to pay  
571 wages, run the refinery in a safe and efficient manner, and  
572 produce the fuels that Americans need and deserve. So

573 refiners don't set the price of oil any more than automakers  
574 set the price of steel or bakers set the price of wheat. Oil  
575 is an international commodity that trades in a free market.

576 Now historically, the best mechanism to address high  
577 crude prices has been to increase global oil supply. When we  
578 have done this as a Nation, we have sent that message that  
579 the U.S. is serious about meeting our energy and national  
580 security needs. American companies could increase the supply  
581 of crude oil in two ways. First, the Federal Government  
582 would allow increased production of oil in the United States  
583 and off our shores. As Mr. Gerard so stated, we are not an  
584 energy-poor Nation. We are an energy-rich Nation who lack  
585 the political will to develop our own natural resources and  
586 to provide consumers with the products they need at a  
587 reasonable cost.

588 Second, President Obama should approve the construction  
589 of the Keystone XL pipeline to bring Canadian oil refineries  
590 to the U.S. Gulf Coast.

591 I recently saw a clip on TV, a member of Congress  
592 talking about the SPR, and that equated it to Kryptonite in  
593 that the SPR was like Kryptonite to the cost of oil. Well, I  
594 am not so sure about that, but I am sure that we do have a  
595 strategic reserve. Unfortunately, it is locked up. It is  
596 locked up off the shores of the Atlantic, it is locked up off

597 the Eastern Gulf, up through the Pacific and all the way  
598 through Alaska. It is locked up on federal lands. It has  
599 been locked up for over 30 years, and the critics will say  
600 well, it is going to take a lot of time to develop. It is  
601 going to take 4 years, it is going to take 4 more years.  
602 Well, if we had that same mentality, we wouldn't have the  
603 Transcontinental Railroad, we wouldn't have the Hoover Dam,  
604 we wouldn't have the Golden Gate Bridge or any other  
605 structure that was so needed in this Nation.

606         So developing our own resources as well as our own  
607 natural gas resources is going to produce jobs for American  
608 workers and revenues for the government at all levels.

609         Today, our high crude prices and logistical constraints  
610 on a movement of oil and fuel around the country are creating  
611 challenges for both refiners and American consumers. In  
612 addition, fuel manufacturers are hit with a regulatory  
613 blizzard that threatens refinery operations in our Nation.  
614 These include Tier 3 regulations to reduce sulfur in  
615 gasoline, greenhouse gas regulations, lengthy permit  
616 regulations, and finally requirements under the Renewable  
617 Fuel Standards involving biofuels. Proposed new federal  
618 regulations threaten to raise the energy costs further for  
619 every American consumer, with little or no environmental  
620 benefit. These regulations would also threaten American jobs

621 and weaken--further weaken our economic and national  
622 security.

623         One bright spot on the horizon is our export of refined  
624 petroleum products, primarily diesel fuel. Exports don't  
625 raise gasoline prices; rather, exports bring billions of  
626 dollars to America, preserve and create jobs, and strengthen  
627 our own economy and reduce our trade deficit. Producing more  
628 oil and natural gas right here in America, getting more from  
629 Canada and reducing harmful overregulation can't take place  
630 overnight, but they would give us our best shot at creating a  
631 secure and stable energy supply to serve the American people.  
632 Doing these things would also create a manufacturing  
633 renaissance, and more American jobs.

634         Thank you again.

635         [The prepared statement of Mr. Drevna follows:]

636         \*\*\*\*\* INSERT 3 \*\*\*\*\*

|  
637           Mr. {Whitfield.} Thank you, Mr. Drevna, and Mr.  
638 Milburn, we look forward to your testimony. You are  
639 recognized for 5 minutes.

|  
640 ^STATEMENT OF CHRIS MILBURN

641 } Mr. {Milburn.} Thank you. Good morning. My name is  
642 Chris Milburn. I am from Hilliard, Ohio, and have been a  
643 professional truck driver for close to a decade. I own my  
644 own truck and haul retail merchandise while leased to a motor  
645 carrier. I am here on behalf of the Owner-Operators  
646 Independent Drivers Association, commonly known as OOIDA.  
647 OOIDA's approximately 150,000 members are small business  
648 truckers from all 50 States. The majority of trucking in  
649 this country is small business, as 93 percent of our Nation's  
650 motor carriers own 20 or fewer trucks. My testimony will  
651 focus on the impact that high energy prices have on small  
652 business truckers like me.

653 I can assure that these impacts are not only very real,  
654 but even more significant when you consider them in context  
655 with the snowballing cost of regulations coming out of  
656 agencies like the Department of Transportation and the  
657 Environmental Protection Agency. Just last Monday, the  
658 average highway diesel fuel was over \$4 per gallon, an  
659 increase of 33 cents over 2011. To give you some  
660 perspective, the average OOIDA member runs their truck over  
661 100,000 miles each year. At \$4 per gallon, annual fuel costs

662 can be well over \$80,000. When the price of a gallon of  
663 diesel increases by a nickel, a trucker's annual costs  
664 increase by \$1,000. This results in an extra burden on the  
665 small business trucker whose average annual income is  
666 approximately 40,000.

667         Trucking is a hyper-competitive business, and each of us  
668 operates on extremely thin margins, so any cost increase,  
669 especially those related to fuel or regulatory mandates, has  
670 an impact. For me, the impact of fuel costs is best shown  
671 through the hundreds of dollars I pay to drive miles that I  
672 am not directly compensated for. When price spikes occur, it  
673 becomes much more difficult to manage our businesses.  
674 However, when prices are not spiking, truckers can take steps  
675 to manage these realities. Extra dollars spent on fuel means  
676 fewer dollars available to put back into my business.  
677 Countless truckers over the years have felt the pain of high  
678 fuel prices on their businesses and have had to put off  
679 buying new equipment, or worse. For many truckers, business  
680 income and family income are basically one in the same.  
681 Money isn't available to put towards what is important to  
682 their family, including basic household expenses like  
683 mortgage payments.

684         OOIDA has long supported energy policies focused on  
685 addressing the impact of energy costs on small business

686 truckers. OOIDA supports a comprehensive approach that  
687 combines increasing domestic energy production with other  
688 efforts, including greater market transparency, increasing  
689 the focus on natural gas as a future energy source, and  
690 passing a new surface transportation bill.

691         Let me talk a little about the role of domestic energy  
692 production from the perspective of a small business trucker.  
693 In the past, U.S. production has effectively served as a  
694 relief valve by helping to mitigate price spikes. However,  
695 the strength of that relief has decreased as regulatory  
696 roadblocks have reduced domestic production on federal lands  
697 and waters. Impeding domestic production is something  
698 truckers find very difficult to understand, particularly  
699 during these high energy prices. Like most truckers, the  
700 cost of fuel is far and away my largest annual operating  
701 expense. Trust me when I tell you that no government agency  
702 is more motivated than I am to make certain that I am running  
703 my vehicle as efficiently as possible. I do not need  
704 government regulations telling me how to operate efficiently  
705 or forcing me to buy a truck that meets some prescribed  
706 government efficiency standard, but misses that standard, the  
707 operating and efficiency standards I need for my business.

708         Unfortunately, that is just what happened when EPA  
709 completed the first ever fuel efficiency rule for heavy duty

710 trucks. This regulation ignores the collective knowledge of  
711 millions of truckers, instead imposing technologies that work  
712 for certain types of trucking operations on every one of our  
713 Nation's trucking companies. EPA claims this regulation will  
714 save each trucker tens of thousands of dollars; however, such  
715 a claim is bordering on little more than junk science. There  
716 are over 500,000 motor carriers, each running on varied  
717 terrain and hauling varied cargo. For many, there is no way  
718 this regulations mandates will result in any true fuel  
719 savings; yet the only new trucks available after 2014 will be  
720 those that comply. Those trucks will cost an additional  
721 \$6,200 because of these regulations. The truck I have today  
722 gets fewer miles to the gallon and is \$30,000 more expensive  
723 because of EPA mandated emissions reduction equipment and  
724 today's diesel fuel costs because of these mandates. We can  
725 no longer regulate without recognizing the impact of  
726 regulations, and we cannot view regulations as the end all,  
727 be all solutions to high fuel prices.

728 Mr. Chairman, thank you for this opportunity to testify,  
729 and I look forward to any questions.

730 [The prepared statement of Mr. Milburn follows:]

731 \*\*\*\*\* INSERT 4 \*\*\*\*\*

|

732 Mr. {Whitfield.} Thank you, Mr. Milburn.

733 Mr. Weiss, you are recognized for 5 minutes for an

734 opening statement.

|  
735 ^STATEMENT OF DANIEL J. WEISS

736 } Mr. {Weiss.} Thank you, Mr. Chairman, Ranking Member  
737 Rush, and members of the Subcommittee. Thank you very much  
738 for the opportunity--

739 Mr. {Whitfield.} I am sorry, I am not sure your  
740 microphone is on, Mr. Weiss.

741 Mr. {Weiss.} Sorry. Okay. Do I get the seconds back  
742 on the clock? Just kidding. It is like the referee putting  
743 the time back on a football game.

744 My name is Daniel J. Weiss. I am a senior fellow at the  
745 Center for American Progress, which is a progressive think  
746 tank.

747 The question is why are there high oil and gasoline  
748 prices in 2012? There has been no major supply disruption at  
749 home or abroad. Wall Street speculators are preying on  
750 commercial end users' fears of such an interruption to drive  
751 up prices and make a profit. An analysis by McClatchy  
752 Newspapers found that these speculators are making nearly 2/3  
753 of the trades compared to 1/3 of the trades by end users of  
754 oil. The Washington Post just yesterday found that ``Many  
755 analysts agree that trading activity is pushing up oil prices  
756 over and above what supply and demand would normally

757 dictate.' ' Last year, the CEO of ExxonMobil told the Senate  
758 that the oil price was \$30 to \$40 higher than supply and  
759 demand would indicate.

760 Now this oil and gasoline price spike that we are  
761 experiencing now is not a first time event. Fortunately, we  
762 can better withstand its impact because of President Obama's  
763 leadership. We are using the least amount of oil in 11 years  
764 due to the vehicle fuel economy standards adopted in 2009.  
765 We are also producing the most oil in at least 8 years, 13  
766 percent more since President Obama took office. If we could  
767 go to the slide, that would be great.

768 [Slide.]

769 The U.S. has more oil and gas rigs than the rest of the  
770 world combined. As you can see, the blue line at the bottom  
771 is the increase in number of rigs, the red line at the top  
772 shows that gasoline prices. And as you can see, even as the  
773 number of rigs we have in operation has climbed dramatically,  
774 the price of gasoline has also climbed. The--in addition,  
775 the Interior Department reports that 3/5 of the leases for  
776 oil held on public lands are undeveloped and there are also  
777 thousands of leases in the western Gulf of Mexico that are  
778 held but undeveloped. Fortunately, for the first time in 15  
779 years, the U.S. produces a majority of its oil, but because  
780 oil is prices on the global market led by the OPEC cartel,

781 more production here does not lower prices and growing  
782 worldwide demand can offset our lower consumption.

783       There are no quick fixes to reduce high oil or gasoline  
784 prices. In 2008, President George W. Bush said ``If there  
785 was a magic wand to wave, I would be waving it to lower  
786 prices.'' President Obama agreed. ``There are no silver  
787 bullets short-term when it comes to gas prices, and anybody  
788 who says otherwise isn't telling the truth.'' He noted that  
789 the United States uses 20 percent of the world's oil, but  
790 only has 2 percent of the reserves. Instead, an ``all of the  
791 above'' strategy is necessary and should feature investments  
792 in modern fuel economy standards, alternative fuels, and  
793 public transportation. Ultimately, we have to lower our  
794 dependence on oil.

795       Reducing oil use saves families money. The next  
796 improvement of fuel economy standards will reduce oil use by  
797 more than two million barrels a day. Modern 2025 cars will  
798 go twice as far on a gallon of gas, and will save their  
799 owners \$8,000 and lower gas purchases compared to 2010 cars.  
800 Additionally, Congress should pass bipartisan bills to invest  
801 in electric passenger vehicles and natural gas powered  
802 trucks, the bill sponsored by Mr. Sullivan.

803       But instead of investing in such innovative  
804 technologies, we fund \$40 billion per decade in tax breaks

805 for big oil companies. Recipients include BP, Chevron,  
806 ConocoPhillips, ExxonMobil and Shell, which made a combined  
807 profit of \$137 billion in 2011 while they produced 4 percent  
808 less oil. In 2005, President Bush supported ending oil tax  
809 incentives. ``I will tell you, with \$55 oil, we don't need  
810 incentives for the oil and gas companies to explore. There  
811 are plenty of incentives.''

812 As Mr. Whitfield said earlier--Chairman Whitfield said  
813 earlier, we need to provide immediate assistance to help  
814 consumers. One way to do that for the short-term is to sell  
815 a small amount of oil from the nearly full Strategic  
816 Petroleum Reserve in coordination with sales from  
817 international reserves. Past sales have lowered oil and  
818 gasoline prices every time, even when the Congress under  
819 Speaker Gingrich in 1996 sold reserve oil to reduce the  
820 deficit. Such a sale would burst the bubble caused by Wall  
821 Street speculators driving up prices for a quick profit.  
822 Additionally, the Dodd-Frank law includes potent weapons to  
823 limit these speculators'' ability to dominate the market, and  
824 it should be fully implemented and enforced. One more thing  
825 about the Keystone pipeline. The State Department found that  
826 building the pipeline would not have an impact on crude oil  
827 supplies or prices.

828 Today's hearing on high gasoline prices is like the

829 rerun of a bad movie. It is up to you to change the ending.

830 The American people would give you a standing ovation.

831 Thank you.

832 [The prepared statement of Mr. Weiss follows:]

833 \*\*\*\*\* INSERT 5 \*\*\*\*\*

|  
834           Mr. {Whitfield.} Thank you. Mr. Breen, you are  
835 recognized for 5 minutes.

|  
836 ^STATEMENT OF MICHAEL BREEN

837 } Mr. {Breen.} Thank you, Chairman Whitfield, Ranking  
838 Member Rush, members of the Committee. Ladies and gentlemen,  
839 I am honored to appear before you today to discuss this  
840 issue.

841 I come before you first and foremost as fellow citizen,  
842 one deeply concerned about the future prosperity and security  
843 of this great Nation. I serve as the Vice President of the  
844 Truman National Security Project, a leadership institute  
845 dedicated to forging strong, smart, and principled national  
846 security policy for America. As a former Army Captain and an  
847 Iraq and Afghanistan combat veteran, I am also proud to be  
848 one of the leaders of Operation Free, a non-partisan  
849 nationwide community of veterans dedicated to the common  
850 belief that our national addiction to oil poses a clear  
851 national security threat to the United States.

852 The veterans of Operation Free have seen the  
853 consequences of our dependence on oil first-hand on the  
854 battlefield. As a young lieutenant on my first combat tour,  
855 I served on an isolated fighting camp in an area south of  
856 Baghdad known as the ``Triangle of Death.'' My unit was  
857 entirely dependent on daily fuel convoys to power our

858 generators and fuel our vehicles. Recognizing this, Iraqi  
859 insurgents consistently ambushed the convoys while my  
860 infantry company fought to protect them, leading to almost-  
861 daily firefights we jokingly called ``fighting for our  
862 supper.'' The insurgents had recognized a crucial weakness,  
863 one that our Nation shares, one that Osama bin Laden once  
864 referred to as America's ``Achilles heel'': our dependence on  
865 oil as a single source of fuel.

866         America sends over \$1 billion per day overseas for oil.  
867 It should not be a surprise, then, that oil is the single  
868 largest contributor to our foreign debt, outpacing even our  
869 trade imbalance with China. Worse, far too many of those  
870 dollars wind up in the hands of regimes that wish us harm.

871         For every \$5 rise in the price of a barrel of crude oil,  
872 Putin's Russia receives more than \$18 billion annually,  
873 Chavez's Venezuela an additional \$4.9 billion annually, and  
874 Iran an additional \$7.9 billion annually.

875         Today, our Nation remains locked in a high-stakes  
876 confrontation with a volatile Iran. Iran's pursuit of a  
877 nuclear weapons capability and support for terrorism are  
878 among our gravest national security challenges. As we  
879 grapple with those challenges, we must not forget that  
880 neither nuclear weapons nor support for terrorism comes free.  
881 According to the CIA, over 50 percent, over half of Iran's

882 entire national budget comes from the oil sector. That is  
883 enough to pay for their nuclear program, support for  
884 terrorism, and aid to despots and dictators like Syria's  
885 Assad.

886 But Iran is not America's only oil-funded security  
887 threat. Even Afghanistan's Taliban benefits from ever-  
888 increasing oil prices. According to former Special Envoy  
889 Richard Holbrooke, the Taliban's major source of funding is  
890 private donations from individuals in oil-rich Iran, Saudi  
891 Arabia and other Persian Gulf states. Opium is number two.

892 Congress must act to meet this danger in the only way  
893 that makes sense, by developing a broad set of alternatives  
894 to oil. As has been said frequently, there is no single  
895 solution, no silver bullet, that can break oil's grip on our  
896 national fortunes, but fortunately, Congress has silver  
897 buckshot in its arsenal. We can and must aggressively pursue  
898 policies that open a broad range of alternatives to oil.

899 This morning in North Carolina, President Obama is  
900 announcing a ``Race to the Top'' challenge to encourage  
901 communities across America to adopt advanced vehicles,  
902 building infrastructure, removing regulatory barriers, and  
903 creating local incentives. What is most exciting about this  
904 proposal is that it embraces choice. Communities themselves  
905 are free to decide if electric vehicles, natural gas, or

906 alternative fuels are the best for them. The Administration  
907 has also proposed improvements to the current tax credit for  
908 electric vehicles, tax incentives for alternative fuel  
909 commercial trucks, and a research and development grand  
910 challenge designed to bring down the cost of electric  
911 vehicles. These proposals may not be perfect, but they are  
912 certainly steps in the right direction, and I hope that this  
913 Congress will work with the Administration to improve and  
914 expand upon them.

915 My earliest military training taught me to anticipate  
916 threats and take action to defeat them. Our military leaders  
917 understand this when it comes to the cost of oil, and our  
918 sole dependence on this single source of fuel. This is a  
919 cost that extends beyond the gas pump. It extends onto the  
920 battlefield.

921 So I respectfully conclude with a simple request: lead  
922 us. Lead us in building an alternative energy economy that  
923 can break our dependence on oil, and finally put Americans in  
924 control of our own energy future.

925 Thank you.

926 [The prepared statement of Mr. Breen follows:]

927 \*\*\*\*\* INSERT 6 \*\*\*\*\*

|  
928           Mr. {Whitfield.} Thank you. Mr. Eichberger, you are  
929 recognized for a 5-minute opening statement.

|  
930 ^STATEMENT OF JOHN EICHBERGER

931 } Mr. {Eichberger.} Thank you, Mr. Chairman. My name is  
932 John Eichberger. I am with the National Association of  
933 Convenience Stores.

934 Convenience stores sell about 89 percent of the gasoline  
935 at retail in the country through 121,000 stores. Of those  
936 121,000 stores that sell fuel, 58 percent are single store  
937 companies, true mom and pops. What I want to talk about a  
938 little bit is how retailers set prices, and basically I  
939 describe it as it is truly a street fight. Retailers look at  
940 competition, they look at their cost. We post our prices on  
941 20-foot signs. Customers can shop for the best value driving  
942 45 miles an hour without even stopping. We did a survey  
943 earlier this year that 40 percent of consumers will drive 5  
944 minutes out of their way to save as little as 3 cents a  
945 gallon. That means that retailers have to figure out the  
946 best price from a competitive standpoint to sell fuel.

947 In our industry, 2/3 of our overall sales are fuel  
948 related. Three-quarters of our profit, however, comes inside  
949 the store, so we need to set prices that attract customers to  
950 our facilities, and then figure out ways to get them inside  
951 the store to sell them items where we make more money, such

952 as coffee and sandwiches.

953         We also have to pay close attention to cost, however.  
954 In 2011, we calculated the average cost to sell a gallon of  
955 gasoline is about 17 cents. That means we need to mark up  
956 our fuel about 17 cents just to break even. Unfortunately in  
957 2011, the average margin was actually 18.2. The average  
958 retailer is making 1.2 cents per gallon in 2011. But even  
959 that is difficult sometimes because the cost of wholesale  
960 fuel changes rapidly, several times in one day. Because each  
961 retailer incurs different costs, if a retailer gets a 10-cent  
962 increase today, they might not be able to pass that along to  
963 their customers immediately because the competition won't  
964 allow them to, so they eat some of that increase and they  
965 lose margin going up, and they try to recover when the prices  
966 come back down, but the pricing decisions are constant among  
967 all retailers at the same time. They are fighting for that  
968 customer every single day.

969         Our wholesale prices are heavily dependent on crude oil.  
970 Both products are traded on the open market, and as has been  
971 mentioned many times today, speculative investment into these  
972 commodities markets has an inflationary influence on the  
973 price that we pay. Any type of indication of what future  
974 supply and demand may have can change the way traders bid the  
975 price up or down, and that affects the price consumers pay at

976 the pump. Right now we know oil is making about 75 to 80  
977 percent of the retail price of gasoline, and that needs to be  
978 addressed.

979         So a couple things that I think we can do to help  
980 address the issue, unfortunately, retailers don't have a  
981 whole lot of flexibility. Our margin right now this year so  
982 far is averaging 3.6 percent. There is not a whole lot of  
983 room to maneuver to give customers a better deal at the pump.  
984 They are trying, though. A lot of customers--a lot of  
985 retailers are offering discounts to customers to entice them  
986 to come to their stores. Our goal is to give them the best  
987 value at the pump so they will buy more products inside the  
988 store.

989         But there are some things I think Congress can do, and  
990 Mr. Waxman mentioned in my written statement, I do believe  
991 that if we increase international supplies of oil,  
992 domestically and internationally, that will have an effect on  
993 traders and hopefully will bring prices down on the market to  
994 benefit consumers. I also think we need to take a careful  
995 look at our regulatory structure. Whether a regulation being  
996 proposed and considered is beneficial to the environment, to  
997 consumers or not, it is going to have a cost and we need to  
998 recognize those costs will be passed on to customers. So as  
999 we are thinking about regulatory structures, let us think

1000 about how we can accomplish our objectives in the least  
1001 costly manner possible at the benefit of our customers.

1002         And finally, I think we need to really think about  
1003 harmonizing our fuel regulations. We have great objectives.  
1004 Let us reduce our dependence on oil, improve efficiency,  
1005 become more energy secure, benefit our customers with lower  
1006 prices. Unfortunately, we don't always take our regulatory  
1007 proposals and balance them and coordinate them. For example,  
1008 the current proposal to increase CAFÉ standards takes about  
1009 54.5 miles per gallon. A great objective, however, I took a  
1010 look at EIA's projections on a more modest CAFÉ proposal. If  
1011 you compare that to the Renewable Fuel Standard, in 2022, we  
1012 are supposed to bring 36 billion gallons of renewable fuels  
1013 to the market. If we have a more modest CAFÉ proposal, to  
1014 make that happen we have to include 37 percent of every  
1015 gallon of gasoline is going to have to be renewable.  
1016 Unfortunately, my stores are not capable of selling that type  
1017 of product. If we have to replace all of our tanks and  
1018 dispensers, the cost is going to be about \$22 billion. Not  
1019 to mention EIA projects that the only vehicles right now that  
1020 can run on that fuel are flex fuel. In 2022, they are only  
1021 going to be 15 percent of the market. We have two policies  
1022 that from a logical perspective may make sense, but together  
1023 they can't work together. We need to really think about a

1024 comprehensive coordinated fuels policy. How do we obtain our  
1025 objectives in a way that makes sense? Let us get these  
1026 projects to market, let us reduce our dependence, improve our  
1027 efficiency, help the customer at the pump, and let us do it  
1028 in a smart way. That is going to take a fresh approach to  
1029 regulatory standards and objectives.

1030 I thank you very much for your time.

1031 [The prepared statement of Mr. Eichberger follows:]

1032 \*\*\*\*\* INSERT 7 \*\*\*\*\*

|  
1033 Mr. {Whitfield.} Thank you, Mr. Eichberger.

1034 At this time I recognize myself for 5 minutes of  
1035 questions. We do appreciate the testimony of all of you.

1036 Whenever we talk about gasoline prices, we get into this  
1037 inevitable discussion of moving to new technology versus the  
1038 internal combustion engine, and the basic question comes out  
1039 to be, in my view, how much can the Nation afford? You  
1040 cannot just snap your finger and move to new technology very  
1041 quickly. And I know, Mr. Weiss, the topic of today's hearing  
1042 is about gasoline prices and what do we do to get these  
1043 prices down. And we are not talking about, you know, 25  
1044 years from now or 30 years from now, although that is  
1045 important in the long run. But I was reading, for example,  
1046 that your organization called for a tax at \$9.50 per barrel  
1047 on imported oil. Now obviously that would raise gasoline  
1048 prices, so why would your organization be advocating that?

1049 Mr. {Weiss.} Well first, Mr. Chairman, the proposal is  
1050 designed to provide money to rehabilitate our crumbling  
1051 infrastructure here, particularly highways and public transit  
1052 systems. Doing both of those things will actually reduce oil  
1053 use here.

1054 Second, we could phase in a proposed oil import fee over  
1055 a few years so the impact on gasoline prices would be

1056 relatively minimal, compared to these swings that we are  
1057 seeing today, and we take those funds and invest in  
1058 infrastructure, then we will actually be saving consumers  
1059 money in the long run.

1060 Mr. {Whitfield.} But you think you could put this tax  
1061 on and have a very small increase in actual gasoline prices,  
1062 is that your--

1063 Mr. {Weiss.} The rule of thumb is every \$10 increase in  
1064 the price of oil is a quarter or 25 cent increase in the  
1065 price of gasoline. So if you phased it in over, say, 3  
1066 years, you are talking about adding 8 cents to the cost of a  
1067 gallon of gas at a time where you will be helping consumers  
1068 save more by increasing their fuel economy by having roads  
1069 that aren't crumbling, avoiding detours for bridges that are  
1070 out, helping transit systems which are--

1071 Mr. {Whitfield.} Let me ask you another question. I  
1072 know you are advocating removal of any tax breaks for oil  
1073 companies. Now are you also in favor of removing any tax  
1074 breaks for wind power, solar power, electric cars?

1075 Mr. {Weiss.} Well as you know, Mr. Chairman, in this  
1076 country we have a long history of providing assistance for  
1077 emerging industries, starting--going back--as far back as the  
1078 railroads, the internet, radios, television. What we are  
1079 proposing--may I finish, sir? We are proposing that we help

1080 these emerging industries like wind and solar. Some of these  
1081 tax breaks for the oil industries are nearly 100 years old.

1082 Mr. {Whitfield.} Do you realize we have spent millions  
1083 of dollars and many of these companies have already gone  
1084 bankrupt, and I don't think that that is protecting the  
1085 taxpayer dollars.

1086 Mr. Gerard, one question I would like to ask you, when  
1087 Al Gore was in the U.S. Senate he used to talk frequently  
1088 that the U.S. possesses only 2 percent of the world's proven  
1089 oil reserves, and as far as I know, Al Gore was the first  
1090 person ever to use that figure. There is a difference in  
1091 proven and unproven reserves. Now when we talk about the  
1092 U.S. only possesses 2 percent of the world's proven oil  
1093 reserves, what is the difference in that and unproven?

1094 Mr. {Gerard.} I can only assume he uses that particular  
1095 number to suggest or imply that we have little oil in this  
1096 country.

1097 Mr. {Whitfield.} Right.

1098 Mr. {Gerard.} Let me say, first and foremost, we have  
1099 vast resources here in the United States. In fact, for the  
1100 past 30-plus years, we have had 85 percent of it off limits  
1101 so we can't even go out and define, look for it, and identify  
1102 it. Look at the situation in North Dakota today. Five years  
1103 ago we thought we had 100, 200 million barrels of oil there.

1104 Today it is estimated to be somewhere between 14 and 20  
1105 billion barrels of oil under the State of North Dakota. So  
1106 there are vast resources here in the country.

1107 The term that is being used is a very technical term  
1108 showing only those that have been proven by drilling, so it  
1109 shows 2 percent. Even the EIA, the Department of Energy  
1110 recently said our reserve--our estimated reserve is at least  
1111 10 times that, but when you go beyond that, our experience in  
1112 the Gulf of Mexico, for example, we have developed and  
1113 produced eight times what was estimated to be there early on.  
1114 Give us the opportunity. We will invest our risk--we will  
1115 risk our capital. We can produce a lot of energy in this  
1116 country by Americans for Americans. We have vast resources.

1117 Mr. {Whitfield.} Thank you. My time is basically  
1118 expired, so Mr. Rush, I recognize you for 5 minutes.

1119 Mr. {Rush.} Thank you, Mr. Chairman.

1120 Mr. Weiss, a growing number of people are concerned that  
1121 Wall Street speculation is also playing a role in driving up  
1122 oil and gasoline prices. What is your thoughts on this and  
1123 how concerned should we be about speculation driving up the  
1124 price of oil?

1125 Mr. {Weiss.} Thank you, Mr. Rush. I think we should be  
1126 very concerned. The evidence is fairly strong that Wall  
1127 Street speculators and not commercial end users, like Mr.

1128 Milburn, for example, are the ones that are driving up  
1129 prices. The Washington Post reported yesterday that there  
1130 was an analysis by the Federal Reserve Bank in St. Louis that  
1131 determined ``Financial speculative demand shocks were  
1132 responsible for at least 15 percent of the huge run up in oil  
1133 prices between 2004 and 2008.'' And there is a whole host of  
1134 other studies that all point in that direction. The Dodd-  
1135 Frank law does provide tools to the Commodities Future  
1136 Trading Commission to help reign in Wall Street speculators,  
1137 but those tools have yet to be implemented and we should urge  
1138 the agency to do so.

1139 Mr. {Rush.} Are there any other actions that we can  
1140 take to reduce the impact of speculators?

1141 Mr. {Weiss.} I think the most important one is to have  
1142 CFTC set position limits for Wall Street speculators, which  
1143 really limits them to a certain amount of oil they can hold.  
1144 They worked on their part of this rule, but they have to work  
1145 out some definitions with the Securities and Exchange  
1146 Commission, which to my knowledge hasn't happened yet. They  
1147 are planning on implementing the rule sometime next year. I  
1148 believe that we ought to urge that they speed up the  
1149 implementation of that rule.

1150 Mr. {Rush.} Twenty percent of the world's oil is  
1151 consumed by this Nation, and we only have 2 percent of the

1152 oil reserves in the world. We are not going to be able to  
1153 drill our way out of this problem, as the President has said  
1154 many, many times. We are producing more oil now than we have  
1155 in years, but gasoline prices are continuing to go up. Is  
1156 there any reason to believe that drilling more would result  
1157 in lowering gasoline prices?

1158         Mr. {Weiss.} Well first, I believe that responsible  
1159 drilling is a very important component of our energy policy,  
1160 because the more we produce here, the less we have to import,  
1161 the more it helps our balance of payments and you can recycle  
1162 those dollars in the U.S. instead of sending them overseas.  
1163 It is unfortunate that in the Department of Interior, for  
1164 example, just found that 3/5 of the leases for onshore oil  
1165 production that are held by oil companies are not being  
1166 developed. There are thousands of leases in the western Gulf  
1167 of Mexico that oil companies hold that are not being  
1168 developed. In fact, the Energy Information Administration  
1169 found that 75 percent of the offshore oil and gas in the  
1170 lower 48 States is already open for development, so we have  
1171 got the oil resources there. Let us develop them in a  
1172 responsible way. By the end of this year, we are going to  
1173 have more rigs in the Gulf of Mexico than we had before the  
1174 BP oil disaster occurred in 2010.

1175         So we are making progress in that regard. Let us use

1176 our existing leases that oil companies hold but they haven't  
1177 developed yet.

1178 Mr. {Rush.} Well let us get moved to what I will  
1179 consider some real--some of our realities. You said that the  
1180 fear of disruptions of oil production in the Middle East  
1181 creates the price of oil, just the fear of it. Can you  
1182 explain the--that relationship? How does fear increase the  
1183 price of oil and cause potential disruption?

1184 Mr. {Weiss.} Sure. Well commercial end users like, for  
1185 example, Mr. Milburn and people who are truckers, need to  
1186 have oil to power their vehicles and we need it to power our  
1187 economy. If people believe there is going to be a supply  
1188 disruption, then they will bid on contracts to lock in a  
1189 certain price now. Once that happens, then other people say  
1190 wow, the price is going up, I better lock in my contract now  
1191 before the price goes up any further. And then somebody else  
1192 says well, you know, Mr. Milburn just locked in his price, I  
1193 better lock in my price too. And that process leads to sort  
1194 of an inflationary psychology. And what--it is being driven  
1195 not by commercial end users, it is being driven by Wall  
1196 Street speculators who are making 2/3 of the trades right  
1197 now. Normally commercial end users make about 2/3 of the  
1198 trade and Wall Street speculators make about 1/3. Now it is  
1199 the opposite.

1200 Mr. {Whitfield.} Gentleman's time is expired. At this  
1201 time I recognize the gentleman from Illinois, Mr. Shimkus,  
1202 for 5 minutes.

1203 Mr. {Shimkus.} I love this Committee. I love this  
1204 Subcommittee. I have so much anxious questions. I will try  
1205 to be calm, but if fear drives up speculation--you know how  
1206 you drive the stake in the heart of a speculator? You flood  
1207 the market with commodity product. I mean, everyone talks  
1208 about the risk taker when they make profit because they bet  
1209 right. No one talks about the risk taker when he bets wrong  
1210 and loses everything. You know how you flood the market with  
1211 oil? You do Keystone XL pipeline. You send an immediate  
1212 signal to the country--thank you, my fans--you send immediate  
1213 signal to the country that we are going to open up the third  
1214 largest oil reserve on earth to the U.S. market. You think  
1215 that doesn't affect the speculators? It will scare the  
1216 bejeebers out of them, and those who take in big positions  
1217 now will lose their shirt. And that is how you do it.

1218 Then we can talk about the OCS. Another point, just  
1219 because you have a lease doesn't mean there is oil underneath  
1220 there. You have to look for it. It takes capital expense.  
1221 And one more thing, because I am from southern Illinois and  
1222 we drill for oil in southern Illinois, little marginal wells,  
1223 great prices. We are doing it right now. I am tired--I am

1224 really tired of this attack on drilling, because my little  
1225 mom and pop drillers, all they want to do is if they don't  
1226 hit the well, they want to record that as an expense. That  
1227 is all this tax break for big oil is. If they don't hit,  
1228 they don't count it as an expense. You can write it off as a  
1229 business expense if you drill and you don't hit the oil.  
1230 That is all it is. Now multiply that to a multi-national  
1231 corporation, it is the same thing. If they go deepwater  
1232 drilling and they don't hit, should they not write that off  
1233 as a business expense? Sure they should. Just like my mom  
1234 and pop should do it locally. All right, I got that off my  
1235 chest. Thank you.

1236 Secretary Chu said we want European gas prices. You  
1237 know what they are right now? March in London, 8.17 a  
1238 gallon. That is going to take us off--this hearing is about  
1239 gas prices, and this Administration from day 1 says we want  
1240 high gas prices. Guess what? They are going to get it. The  
1241 President was asked yesterday. Oh, I don't want high gas  
1242 prices now because I am up for reelection. You know, what  
1243 was the unsaid part of that statement? But I don't mind if  
1244 they go up after the election. That is the untold part of  
1245 his response because as we know, the secretary--which we will  
1246 get a chance to talk to him next week--wants European gas  
1247 prices for a lot of reasons that we have addressed before.

1248           Let me talk to Mr. Breen a while, because really, the  
1249 thing that brings us together is really the debate. We are  
1250 all about energy security, we are all about decreasing our  
1251 reliance on imported crude oil. Twenty percent still comes  
1252 from the Middle East. We have got Iran, we have got the  
1253 Strait of Harmuz, we know we deployed there. Mr. Engel and I  
1254 have a bill called the Open Fuel Strategy which makes the  
1255 basic premise, let us break the monopoly of crude oil and a  
1256 liquid transportation fuel, and let us allow the individual  
1257 consumer to make a choice on their liquid transportation at  
1258 the pump. What do you think about that? Have you looked at  
1259 that bill?

1260           Mr. {Breen.} I can't say I have, sir, but in principle,  
1261 that sounds great to me.

1262           Mr. {Shimkus.} Yes, and I would encourage you to look  
1263 at it. We have got a lot of great national security guys  
1264 looking at it. It would be--it would bring all comers--all  
1265 we got to do is get the liquid blend. My friend from the  
1266 convenience stores, obviously we have some issues, but once  
1267 we get the blend, then free the consumer. The monopoly is  
1268 crude oil. Bring all comers to the liquid transportation  
1269 market and then compete, and let the consumer--let them fight  
1270 for the lower price. I have done that before. I drive a  
1271 flex fuel vehicle. I--when I get a chance, I pump E-85 into

1272 that baby. But there was a time I drove up and the E-85 was  
1273 actually more than conventional unleaded. Being the  
1274 conservative fiscal Republican that I am, guess what I did?  
1275 I filled up on the unleaded regular. I wasn't going to  
1276 subsidize it. Get the competition. What is the problem with  
1277 this, John?

1278 Mr. {Eichberger.} The only issue we have with  
1279 alternative fuels is one, do the customers want to buy them,  
1280 and two, can we lawfully sell them?

1281 Mr. {Shimkus.} Yeah, talk about lawfully sell them.

1282 Mr. {Eichberger.} Lawfully sell them, we talk about E-  
1283 15, for example. We have to have equipment that is certified  
1284 as compatible with that equipment--with that fuel or we can't  
1285 sell it. We are grossly negligent, we are violating a bunch  
1286 of federal laws. If we sell it to a customer and they put it  
1287 in a car that is not permitted to use that fuel, we can be  
1288 held responsible with a Clean Air Act violation, \$37,500  
1289 fine, and we could be responsible for voiding a warranty or  
1290 damaging an engine. Those are things that need to be  
1291 resolved if we want to bring these new fuels to market.

1292 Mr. {Shimkus.} Thank you, Mr. Chairman. I am going to  
1293 encourage my colleagues to talk to me about a way to fix that  
1294 problem.

1295 Mr. {Whitfield.} At this time I would like to recognize

1296 the gentleman from California, Mr. Waxman, for 5 minutes.

1297 Mr. {Waxman.} Thank you, Mr. Chairman.

1298 This recent spike in oil--gasoline prices is just too  
1299 familiar. We have been there before. If you want to fix a  
1300 problem, I think we have to figure out the diagnosis  
1301 correctly. You can't cure pneumonia by treating a broken  
1302 leg. The fundamental problem isn't that we are not drilling  
1303 enough or even that we are too inefficient. In my view, the  
1304 fundamental problem is the United States is heavily dependent  
1305 on a single commodity, oil, and we don't control the vast  
1306 majority of the oil supply on most of the oil demand. Oil  
1307 prices are set in the world market, which means that we--even  
1308 if we produce as much as we consume, even if we produce as  
1309 much as we consume, we would still have to pay the world  
1310 market prices for crude. Does anyone on the panel disagree  
1311 that as long as the U.S. is heavily dependent on oil, we will  
1312 be vulnerable to price volatility in the global oil market?

1313 Well, I want to ask Mr. Weiss, it has become a  
1314 Republican mantra that the solution to high gas prices is  
1315 more domestic production. Do you agree with that notion, and  
1316 if not, why not?

1317 Mr. {Weiss.} Thank you. No, I don't agree with it. I  
1318 think more drilling is an important piece for our national  
1319 security as we talked about, but it is not going to solve

1320 high gasoline prices in the way that you--for the reason you  
1321 just described. I think what we need to do is begin to  
1322 invest in alternatives like electric vehicles. Mrs. Biggert  
1323 of Illinois has a bill that would help create infrastructure  
1324 for recharging. I believe that is what the President will be  
1325 talking about today.

1326 Mr. {Waxman.} Well the question that I really wanted  
1327 you to answer is if we had more domestic production, would we  
1328 have lower gasoline prices?

1329 Mr. {Weiss.} No, we would not.

1330 Mr. {Waxman.} And the reason we would not?

1331 Mr. {Weiss.} Because as you noted, oil prices are set  
1332 on the world market. The price of oil is about 78 percent of  
1333 the price of gasoline right now, and it is too easy for any  
1334 of the OPEC countries to change their production in order to  
1335 keep the price at a certain level. In fact, the Saudi oil  
1336 minister in January said that they thought an ideal price for  
1337 oil was \$100 a barrel. Presumably, they will take actions to  
1338 try and keep that the case.

1339 Mr. {Waxman.} So if we produce more oil in the United  
1340 States, it won't make a difference to the world price if the  
1341 OPEC cartel decides to reduce the supply?

1342 Mr. {Weiss.} That is correct.

1343 Mr. {Waxman.} Some countries, like Canada, produce more

1344 oil than they can use. We are talking about if we can get  
1345 self-sufficiency on oil, but they have more than self-  
1346 sufficiency. They produce more oil than they use, and they  
1347 are still subject to the world market and they suffered from  
1348 gas price spikes just as we do.

1349 Under President Obama, U.S. oil production is the  
1350 highest it has been since 2003. You wouldn't know it from  
1351 some of the comments that were made, but gas prices are still  
1352 spiking. The idea that our problem is insufficient oil  
1353 production is a fantasy, and I believe it is a very dangerous  
1354 fantasy.

1355 Mr. Breen, you are an expert on national security. Do  
1356 you think that just focusing on production is a dangerous  
1357 approach?

1358 Mr. {Breen.} Yes, sir, I do.

1359 Mr. {Waxman.} And why?

1360 Mr. {Breen.} Because as you said, it doesn't change the  
1361 overall dynamic, and more importantly, it doesn't change our  
1362 single source dependence. As long as we need this fuel for  
1363 95 percent of our transportation sector and virtually all of  
1364 our military operations, we are stuck with whatever the  
1365 market does.

1366 Mr. {Waxman.} Mr. Weiss, what progress have we seen  
1367 from President Obama in reducing our oil dependence?

1368           Mr. {Weiss.} We have made great progress in reducing  
1369 our oil dependence. We are using less oil than at any time  
1370 since February of 2001, and that is even as our economy is  
1371 recovering. It is due to the oil--I am sorry, the fuel  
1372 economy standards put into place by this Administration that  
1373 was signed into law by President Bush. The fuel economy  
1374 standards that the President put in place in 2009 were  
1375 originally signed into law by President Bush in 2007. They  
1376 are starting to have impact on reducing oil consumption and  
1377 that effect will only grow. By the time the final standards  
1378 are implemented in 2025, cars will go twice as far on a  
1379 gallon of gas and we will save over two million barrels of  
1380 oil a day.

1381           Mr. {Waxman.} Mr. Breen, the President has called for  
1382 eliminating the \$4 billion in tax breaks for oil companies,  
1383 and instead investing it in alternative energy. Would this  
1384 improve our economy and national security?

1385           Mr. {Breen.} Sir, I believe it would improve our  
1386 national security in that it would incentivize alternatives.  
1387 Again, the fact that we are stuck with this single source of  
1388 energy for all of our needs with military and civilian is a  
1389 huge national security weakness that Iran and others exploit  
1390 daily.

1391           Mr. {Waxman.} The top five oil companies earned \$137

1392 billion in profits last year and gas prices are rising. We  
1393 have an economic and national security imperative to reduce  
1394 our dependence on oil, and we are in a tight fiscal  
1395 situation. I think the President is right. The last thing  
1396 we should do right now is give the oil companies \$4 billion a  
1397 year in tax breaks.

1398 Mr. {Whitfield.} The gentleman's time is expired. At  
1399 this time I recognize the gentleman from Texas, Mr. Barton,  
1400 for 5 minutes.

1401 Mr. {Barton.} Thank you, Chairman Whitfield. I would  
1402 like to ask Mr. Gerard if he knows what the peak production  
1403 per day of U.S. oil production has ever been?

1404 Mr. {Gerard.} I don't have that with me, Congressman.  
1405 I would be happy to get it for you.

1406 Mr. {Barton.} Is there anybody in the panel that knows?

1407 Mr. {Weiss.} I think, Mr. Chairman--again, this is--I  
1408 am glad we are not sworn in. I don't want to be held to  
1409 this.

1410 Mr. {Barton.} This is not a trick question.

1411 Mr. {Weiss.} I believe it is somewhere around 10 or 11  
1412 million barrels per day.

1413 Mr. {Barton.} Yeah, and we are--the latest number I  
1414 have is that we are producing about 5-1/2 million barrels of  
1415 oil production per day right now. That is of 2010, and that

1416 is obviously 2 years old, so it may be a little bit higher  
1417 than that.

1418 Mr. {Weiss.} It is about--excuse me, sir. It is about--  
1419 -almost six million barrels a day now. It is about 5.9, I  
1420 believe.

1421 Mr. {Barton.} So we are at six today, which the trend  
1422 is up. We have been as high as 10 or 11. We are consuming--  
1423 my number that I have in my mind is about 20 million barrels  
1424 a day, it is probably less than that. What is it now?

1425 Mr. {Drevna.} Closer to 18.

1426 Mr. {Barton.} Eighteen. So we have got imports going  
1427 down, which is a good thing. We have got domestic production  
1428 going up, which is a good thing, but we are still importing  
1429 quite a bit. And most of us on the Republican side do  
1430 believe that a robust domestic drilling program would  
1431 significantly improve production, especially if we do not  
1432 over-regulate hydraulic fracturing, which is now being used  
1433 for oil production as well as for natural gas production. I  
1434 am told that all, all of the oil wells that are being drilled  
1435 up in North Dakota are hydraulic refractured. Is that  
1436 correct?

1437 Mr. {Gerard.} Clearly the majority of them are.

1438 Mr. {Barton.} They are, so what is a reasonable  
1439 estimate of--if we changed our policy to actually lease in a

1440 timely fashion and drill in a normally regulated fashion on  
1441 federal lands as we have been doing on private lands, how  
1442 much additional oil production per day could we reasonably  
1443 expect in the United States, including Alaska and OSC, say in  
1444 the next 4 or 5 years?

1445       Mr. {Gerard.} Well, a lot of it would depend,  
1446 Congressman, based on the permit process. Back to the  
1447 earlier comments about the leases not being used, today in  
1448 the typical leasing process from the point of acquiring a  
1449 lease to getting to the point of drilling is somewhere  
1450 between 3 and 7 years. So you are going to have to look at  
1451 the permitting process. Earlier it was commented that we  
1452 have idle leases today. Let me tell you about one so-called  
1453 idle lease. It is a lease in Alaska today that has been in  
1454 place for 5 years. The company has spent \$4 billion on the  
1455 lease. They haven't drilled one hole yet.

1456       Mr. {Barton.} I think that is the Shell--

1457       Mr. {Gerard.} It is the Shell.

1458       Mr. {Barton.} --and I think we are finally going to get  
1459 to drill some this summer. I am told that.

1460       Mr. {Gerard.} Well let me correct that, if I can. Not  
1461 to take your time, but what has happened recently is because  
1462 they have a 475-page oil spill response plan that has been  
1463 filed, they only have a 3-month window to drill. They are

1464 fearful somebody is going to litigate that question and take  
1465 them through the 3 months window, thus putting them into the  
1466 sixth year of this lease, which by this Administration is  
1467 defined as an idle lease. So a week ago they essentially  
1468 sued themselves to try to get a judge to declare the oil  
1469 spill response plan was sufficient so they could have  
1470 certainty that this summer during the drilling window they  
1471 could drill. That is the problem.

1472 Mr. {Barton.} On federal lands, the number that you  
1473 just gave is 3 to 7 years.

1474 Mr. {Gerard.} Correct.

1475 Mr. {Barton.} Does anybody refute that? I mean, that  
1476 is a pretty wide range, but even at that, 3 years, compare  
1477 that with what it would take to get a lease on private lands  
1478 approved in Texas. How long would that take?

1479 Mr. {Gerard.} I will defer to other Texans here who say  
1480 a week, but--

1481 Mr. {Barton.} Well I am told 2 days.

1482 Mr. {Gerard.} Typically it would be considerably less,  
1483 and it is focused on moving the process so we can produce the  
1484 activity.

1485 Mr. {Barton.} Which is best for domestic oil  
1486 production, a permitting process that takes weeks or a  
1487 permitting process that takes years?

1488 Mr. {Gerard.} Clearly one that takes weeks.

1489 Mr. {Barton.} Okay, I yield back, Mr. Chairman.

1490 Mr. {Whitfield.} Thank you. At this time I recognize  
1491 the gentlelady from California, Ms. Capps, for 5 minutes.

1492 Mrs. {Capps.} Thank you, Mr. Chairman, and thank you to  
1493 each of our panelists for your testimony today.

1494 Mr. Breen, I will start with you, and thank you as well  
1495 for your military service to our country.

1496 Mr. {Breen.} Thank you, ma'am.

1497 Mrs. {Capps.} Operational energy accounted for 75  
1498 percent of the military's total energy costs in 2010.  
1499 Despite the increase in power saving technologies, the  
1500 Pentagon remains tethered to oil, as you said, and continues  
1501 to pay the price for our dependence in dollars and, of  
1502 greatest concern, in lives. The Pentagon knows this is a  
1503 serious problem. Last year it released an operational energy  
1504 strategy to transform the military's use of energy, and the  
1505 President's fiscal year 2013 budget request includes new  
1506 support for alternatives. As a member of the bipartisan  
1507 Defense Energy Security Caucus, I strongly support the goals  
1508 of the Administration in this area.

1509 So I want to ask you about the need for the Pentagon to  
1510 use less energy and develop new clean energy technologies,  
1511 especially as we try to reign in the budgets and become a

1512 more effective fighting force. My first question is what can  
1513 the Pentagon do for clean energy?

1514 Mr. {Breen.} Thank you, Congressman Capps, and thank  
1515 you for raising this issue because I think it is critical to  
1516 these hearings.

1517 The Pentagon can do a lot. Every time there is a \$10  
1518 increase in the price of a barrel of oil, it costs the  
1519 Department of Defense about \$1.3 billion. That is about the  
1520 weapons budget for the Marine Corps. That is a huge amount  
1521 of money. It also costs, as you mentioned, lives. About 50  
1522 percent of the convoys that traversed Iraq and now traverse  
1523 Afghanistan, those dangerous roads, carry fuel. One in 24 of  
1524 those convoys ends in an American casualty. This is a very  
1525 costly business, moving this fuel around the battlefield.

1526 As the largest consumer of energy in the Federal  
1527 Government, the Department of Defense can and is doing quite  
1528 a bit. The U.S. Navy, for example, is committed to reducing  
1529 petroleum use by 50 percent by 2015, with a goal of 40  
1530 percent of total energy consumption from alternative sources  
1531 by 2020. We talk about alternative fuel mixes in cars. The  
1532 Navy is flying the Green Hornet. It is an F-18 high  
1533 performance strike fighter. These things go twice the speed  
1534 of sound. They are flying it very successfully on a 50  
1535 percent blend that is 50 percent jet fuel and 50 percent of

1536 it biofuel derived from the Camalina plant. So if you can do  
1537 that with a supersonic strike fighter, I am sure you can do  
1538 it with a car.

1539 Mrs. {Capps.} So conversely, you just--do you want to  
1540 give another example of what clean energy can do for the  
1541 Pentagon?

1542 Mr. {Breen.} Absolutely, and this, again, extends to  
1543 fuel and it extends to other things. There is a sort of  
1544 famous story of one of the Marine Corps senior leaders  
1545 travelling through Marja, a very contested area in  
1546 Afghanistan, and taking a photograph on his cell phone of an  
1547 Afghan man who had a tiny little solar panel outside of his  
1548 hut, and he sent that back to the Pentagon. He said why is  
1549 this guy kicking our butts? He is self-sufficient on energy  
1550 and we are relying on fuel convoys. It is a major issue for  
1551 operational forces out there in the field.

1552 Mrs. {Capps.} Thank you for answering the question so  
1553 thoroughly. This relationship is a win-win. Clean energy  
1554 solutions make our military more effective. They save war  
1555 fighter lives, and the DoD procurement drives the American  
1556 clean energy economy. So I appreciate your being on the  
1557 panel today.

1558 Mr. Weiss, thank you also for your testimony. As Mr.  
1559 Breen told us, our national and economic security will be

1560 strengthened by the military's increased use of clean energy  
1561 technology. Can you please tell us how increased use of  
1562 clean energy technologies are going to benefit American  
1563 families and businesses, and help us prevent these  
1564 fluctuating oil prices?

1565         Mr. {Weiss.} Thank you for your question,  
1566 Representative Capps. I think that these investments, first  
1567 of all, in these new technologies create jobs. American--the  
1568 American economy and the American manufacturing economy has  
1569 always benefited from innovation. We need to continue to  
1570 innovate in the transportation field by technologies like the  
1571 Chevrolet Volt, which is the first plug-in hybrid electric  
1572 vehicle that is commercially available, and it is important  
1573 to remember there has been a lot of talk about the Volt, but  
1574 in fact, the Volt combined with the Nissan Leaf in 2011 sold  
1575 twice as many cars as the Prius did in its first year. It  
1576 takes time for every technology to be developed and  
1577 commercialized and then see the price come down. So I think  
1578 those are the kinds of benefits that we will see.

1579         I also believe, as Mr. Breen was talking about, the  
1580 development of non-oil based fuels for the military will  
1581 eventually have commercial application, whether it is for  
1582 commercial aviation or as a fuel for transportation. I think  
1583 that is very important as well.

1584           One difficulty we have right now is that with--we have  
1585 flex fuel vehicles that use the fuel E-85 that is only  
1586 available in about 2,000 service stations out of about  
1587 160,000 nationwide.

1588           Mrs. {Capps.} Thank you very much. I yield back the  
1589 balance of my time.

1590           Mr. {Whitfield.} Mr. Breen, you know, you mentioned the  
1591 Green Hornet, which is absolutely true and it is good that  
1592 they are doing that, but that fuel is costing over \$70 a  
1593 gallon right now that they are using in the Green Hornet.

1594           At this time I recognize the gentleman from Texas, Dr.  
1595 Burgess, for 5 minutes.

1596           Dr. {Burgess.} I thank the Chairman for the  
1597 recognition, and let me just say, because the President came  
1598 out yesterday and said he wants to improve efficiency energy  
1599 use in this country by the use of efficiency, and I agree  
1600 with that. I was an early adopter of the hybrid technology  
1601 early in the last decade. I didn't buy it so much because  
1602 gas was expensive, because back then it wasn't. I really  
1603 bought it for that sense of moral superiority I had when  
1604 driving on the road, and it continues to this day.

1605           Just like Mr. Shimkus, I got to get some stuff off my  
1606 chest. Look, we had a hearing in this Committee June or July  
1607 of 2008. It lasted all day. We had all kinds of people

1608 here. In fact, we had Walter Luken at that time was the  
1609 acting head of the Commodity Futures Trading Commission, and  
1610 I kind of wish we had Mr. Gensler here today to ask him some  
1611 of these questions about the great things he is doing with  
1612 the Dodd-Frank regulations, because I haven't seen them.  
1613 However, one of the things we heard that day over and over  
1614 again was that part of the problem with speculation was that  
1615 the perception was the market was very tight. And although  
1616 there might be some additional supply here and there, there  
1617 was growing concern because of the worldwide demand and that  
1618 tightness led to the proper environment for speculation to  
1619 make a difference. And we were also told, just as we have  
1620 heard I think here today, it was 4 to 7 years to go from  
1621 drilling to production of product that could be sold, so my  
1622 question today would be if we had made some decisions about  
1623 production 4 years ago, we might be reaping the benefits  
1624 today. And if President Clinton had not vetoed drilling in  
1625 Anwar in 1996 or 1997, we would have the benefit of that  
1626 product today, and in fact, we would be selling it at a  
1627 higher price than was available in '96 or '97, and that would  
1628 help our balance of trades. So I think I would be all for  
1629 that scenario.

1630 Let me just also say as a consequence of that hearing on  
1631 speculation, I have done a lot of looking into this in the

1632 time since then, and I do believe that it is possible to  
1633 manipulate markets. After all, I grew up in a time when the  
1634 air oil embargo was in effect. I remember the cold showers  
1635 of '73 and '74, but that was an attempt by a sovereign nation  
1636 to influence political decisions in our country by  
1637 manipulating the price of oil. I don't know if it is widely  
1638 reported, but I think it was the collapse of natural gas  
1639 prices that led to the collapse of the Soviet Union in the  
1640 late 1980s. So clearly, worldwide events can be dictated by  
1641 the cost of energy. As we heard earlier today, without  
1642 energy, life is cold, brutal, and short, and expensive. So  
1643 we don't want to go back to those times. We want to have the  
1644 energy available.

1645 But I do want to ask our witness, Mr. McNally, I mean,  
1646 your brow was furrowed during some of the discussion that Mr.  
1647 Weiss was having, so I just wanted to give you a chance to  
1648 expound on that a little bit.

1649 Mr. {McNally.} Thank you. I have to work on my body  
1650 language.

1651 I want to comment on the point that there haven't been  
1652 interruptions and the market is smooth and normal, and for  
1653 some odd reason gasoline prices have just suddenly leapt to  
1654 all-time highs. As President Obama said in his news  
1655 conference yesterday, there have been severe supply--some

1656 supply interruptions. One he mentioned was Sudan. Recently  
1657 the Congress instructed the Energy Information Agency as part  
1658 of the sanctions bill in Iran to report on the supply  
1659 inadequacy of--the supply adequacy and the price of oil  
1660 outside of Iran. That report came from EIA last Wednesday,  
1661 and let me just quote one sentence or two. ``With respect to  
1662 supply, the world has experienced a number of supply  
1663 interruptions in the last 2 months, including production  
1664 drops in south Sudan, Syria, Yemen, and the North Sea.``  
1665 Also they talked about demand, and they said--about the  
1666 market they said ``EIA estimates the world oil market has  
1667 become increasingly tight over the first 2 months of the  
1668 year. Global liquids fuel consumption is at historically  
1669 high levels.`` So I guess I want to just correct some facts  
1670 there.

1671 Dr. {Burgess.} And I am just pointing out in that  
1672 environment, the people who do deal with speculation--there  
1673 are people who do--that makes their environment much more  
1674 favorable to make money off of the buying of futures  
1675 contracts when they never intend to take delivery of the  
1676 product. And I do wish there were a way to make people eat  
1677 their own dog food if they make bad decisions. I would like  
1678 to see the enforcement of those contracts rather than  
1679 allowing them to roll them over and move that money down the

1680 road. I think there are some things that I think Mr. Gensler  
1681 could do, and for the life of me I don't understand why he  
1682 hasn't done them.

1683 I have to ask one quick question. I think, Mr. Milburn,  
1684 the natural gas vehicles--I have got a Peterbilt plant in my  
1685 district. They make an off the line natural gas vehicle. I  
1686 noticed this morning that GE and Chesapeake are talking about  
1687 building some of the infrastructure that would allow more of  
1688 these vehicles to be used, not waiting on the Federal  
1689 Government to fund that project. Were you aware of that?

1690 Mr. {Milburn.} In the trucking industry, compressed  
1691 natural gas is not a viable alternative at this time.

1692 Dr. {Burgess.} But locally for like our bus market in  
1693 Ft. Worth, Texas, they run on compressed natural gas. I  
1694 think the Metro buses outside here--

1695 Mr. {Milburn.} Yes, sir, that--

1696 Dr. {Burgess.} So you can in certain applications?

1697 Mr. {Milburn.} In certain--yes, sir, in certain  
1698 applications yes, it can be a viable alternative. For  
1699 municipalities, for smaller areas, but the range of  
1700 compressed natural gas vehicles in the class 8 markets today  
1701 are not sufficient for us in our operations.

1702 Dr. {Burgess.} But now you have two private companies  
1703 making the investment to the infrastructure, and I would say

1704 that is a good thing. Waiting on the Federal Government, we  
1705 are broke. We are probably not going to be able to help you.

1706 Mr. {Whitfield.} Gentleman's time--

1707 Dr. {Burgess.} But I would look to the private sector  
1708 to do this.

1709 Mr. {Whitfield.} Gentleman's time is expired. At this  
1710 time I recognize Mr. Gonzalez of Texas for 5 minutes.

1711 Mr. {Gonzalez.} Thank you, Mr. Chairman.

1712 I know we led off with opening statements and everyone  
1713 in this room heard about the gas fight during the Obama years  
1714 of his presidency. But I guess I need to ask, who was  
1715 President on December the 17th, 2001? It was George W. Bush.  
1716 The price of gasoline for that week was \$1.04. Who was  
1717 President on July 7, 2008? George W. Bush. Average weekly  
1718 price of a gallon of gas, \$4.05. Neither President Bush nor  
1719 President Obama can really control the price at the pump, and  
1720 I wish we would just acknowledge that. The issue is not that  
1721 we have not found greater resources and because of technology  
1722 we can draw more product out of the ground. That really  
1723 shouldn't be the issue. The issue should be is how do we  
1724 free ourselves from market manipulation that is going to  
1725 continue, world markets, emerging countries that are going to  
1726 be our biggest competitors.

1727 Mr. McNally, you must admit that if you own the oil, you

1728 have the contract, and you are out there in the marketplace  
1729 to sell it, it is going to go to the highest bidder. It is  
1730 that simple. If you have a customer in the United States  
1731 that is paying only a dollar for something but you can sell  
1732 it to someone outside our boundaries for \$2, you are going to  
1733 sell it for \$2. Those are market principles. Those are free  
1734 market forces working, and we all agree with that. It is  
1735 going to continue as long as we continue to say just produce  
1736 more product, continue dependency on it. This is not about  
1737 dependency on fossil fuel that we are importing; this is  
1738 about dependency on fossil fuel, period. When we started  
1739 this debate, we always had it in the context that fossil  
1740 fuel-based transportation fuel was transitory in nature, that  
1741 we were transitioning to something else. We have stopped,  
1742 for all intent and purposes, and the problem with what we are  
1743 discussing today, it gives a false sense of security that if  
1744 we continue this, just because there is more supply, that  
1745 everything is going to be all right. I don't believe that.  
1746 It is a transition fuel, but I believe that it is going to be  
1747 a number of years that we are going to be still dependent on  
1748 fossil fuel for many, many reasons.

1749         Now, we can't control this. Not the United States, not  
1750 our domestic producers, not our Canadian friends, not our  
1751 Mexican friends, all in North America. The Saudis couldn't

1752 do it in 2008. Mr. McNally, you know what I am talking  
1753 about, because President Bush asked, increase production and  
1754 the Saudis said we will do it, and they did. But then they  
1755 said hey--in all those cables that came out later, what did  
1756 they say? Hey, it is not about supply, it is about  
1757 speculation. And we better do something about how this is  
1758 being controlled and who owns it, and how they are  
1759 determining the price. We are not going to stop that. I  
1760 don't see that it is going to stop, and I know that Dodd-  
1761 Frank and the commodities futures and such--I don't think we  
1762 are going to stop it, because market forces are market  
1763 forces. Fiduciary duties to investors will always remain the  
1764 same. You will sell it to the highest bidder.

1765 Mr. Drevna, if you are going to tell me that because it  
1766 is based in the United States that somehow--and it should be  
1767 cheaper because transportation and other costs, and if you  
1768 have a competing bid that is higher, that you are not  
1769 violating your duty to your investor or to your shareholder,  
1770 we have got problems. So I have got 1 minute, just yes or  
1771 no, and I am going to ask this to the entire panel. Do you  
1772 believe that this country should continue to rely on fossil  
1773 fuel-based transportation fuels, that is, for the next 25  
1774 years before we make any real progress? Yes or no.

1775 Mr. {McNally.} I believe we will, not that we should,

1776 but we will.

1777 Mr. {Gerard.} Sixty-two percent of our energy today is  
1778 oil and gas. The Administration will tell you 57 percent of  
1779 our energy in 2035 will still be oil and natural gas.

1780 Mr. {Drevna.} Mr. Gonzalez, 60 percent--57 to 60  
1781 percent of the crude oil that we use in this country is  
1782 imported. We do not export crude oil. We get crude oil from  
1783 a number of sources. Let us get it from our own country.  
1784 Let us keep the American refineries working with American  
1785 jobs, exporting and supplying our own costs consumers.

1786 Mr. {Gonzalez.} I think we exported a tremendous amount  
1787 of refined products last year.

1788 Mr. {Drevna.} Well, refined products, sir, refined  
1789 product, not crude oil.

1790 Mr. {Gonzalez.} Well you know to the customer, it is  
1791 called gasoline and that is a refined product.

1792 Mr. {Drevna.} But we don't--

1793 Mr. {Gonzalez.} And I am really wondering how I explain  
1794 to my constituent that we are exporting a tremendous amount  
1795 of it, and yet, we are still charging them \$4 a gallon for  
1796 the refined product.

1797 Mr. {Milburn.} May I answer that, Mr. Gonzalez?

1798 Mr. {Gonzalez.} We will discuss this a little later,  
1799 Mr. Milburn.

1800 Mr. {Milburn.} Thank you.

1801 Mr. {Gonzalez.} I just want to know if you guys see the  
1802 next 25, 30 years going down the road that we are going down  
1803 now.

1804 Mr. {Milburn.} I do, sir, and until such time as  
1805 technology can provide me with an alternative-based fuel that  
1806 is not going to drive up the cost of my truck and my  
1807 operations, I am still going to have to rely on diesel.

1808 Mr. {Weiss.} With the kinds of investments that are  
1809 suggested by Representative Biggert's bill and Representative  
1810 Sullivan's bill for electric gas and natural gas trucks, I  
1811 believe that no, we will not be entirely reliant on oil for  
1812 our transportation system.

1813 Mr. {Breen.} Sir, I think it would be a tragic national  
1814 mistake if we were still reliant. Our military leaders are  
1815 doing everything they can to get us off of this stuff, and  
1816 the rest of us should follow suit.

1817 Mr. {Eichberger.} Diversification will happen, but it  
1818 is going to take a very long time. In the interim, petroleum  
1819 is going to be the source of transportation.

1820 Mr. {Gonzalez.} Thank you very much. Thank you, Mr.  
1821 Chairman.

1822 Mr. {Whitfield.} At this time I recognize the gentleman  
1823 from Texas, Mr. Olson, for 5 minutes.

1824 Mr. {Olson.} I thank the Chairman, and welcome to the  
1825 witnesses. Thank you all for coming and giving us your time  
1826 and expertise.

1827 Being a former naval aviator, it is a pleasure to see  
1828 someone else who has worn the uniform of our country. And  
1829 Mr. Breen--do I call you Mr. Breen, Captain Breen, Major  
1830 Breen?

1831 Mr. {Breen.} Just mister these days, sir.

1832 Mr. {Olson.} Mister these days, okay, sir. My first  
1833 question is going to be for you, Mr. Breen. Throughout your  
1834 written testimony, you frequently use the term ``dependence  
1835 upon a single source of energy, oil,' ' and you mentioned  
1836 countries that don't like us to benefit from our dependence  
1837 on foreign oil. You specifically mentioned Russia,  
1838 Venezuela, Iran--although I know you know that we don't get  
1839 any oil directly from Iran--but you didn't mention Saudi  
1840 Arabia, even though 1/2 of our foreign imports come from  
1841 Saudi Arabia. My question for you is what about Canadian  
1842 oil?

1843 Mr. {Breen.} That is an interesting question. Sir, as  
1844 you say, it is--

1845 Mr. {Olson.} I got a little bit more, here we go.

1846 Mr. {Breen.} Okay.

1847 Mr. {Olson.} Little--we are pilots, you know, we--

1848           Mr. {Breen.} I should have brought my glasses to the  
1849 hearing.

1850           Mr. {Olson.} This is the Keystone XL pipeline, and as  
1851 you know, the Keystone XL pipeline will create 20,000 jobs,  
1852 bring 800,000 barrels of oil to the United States, the Gulf  
1853 Coast area where I represent. Canada has been one of our  
1854 greatest allies. You were there. You know that they lost  
1855 almost 400 of their soldiers fighting beside us against the  
1856 war in Iraq and Afghanistan, fighting the war against terror.  
1857 In recognizing these facts, last week the Administration  
1858 announced that they were not going to oppose the construction  
1859 of the first portion of this pipeline from the farms here in  
1860 southeast Texas, my home, Port Arthur/Houston, up to Cushing,  
1861 Oklahoma, this part there. And Jay Carney had a great quote  
1862 when they announced what they were doing. He said ``Moving  
1863 oil from the Midwest to the world class state of the art  
1864 refineries on the Gulf Coast will modernize our  
1865 infrastructure, create jobs, and encourage American energy  
1866 production.'' And so my question for you is do you support  
1867 the Administration's decision to go forward with this part of  
1868 the pipeline? Yes or no answer, please, sir.

1869           Mr. {Breen.} Sir, I don't have an opinion on it because  
1870 it is not going to change the global price of oil, and that  
1871 is my biggest concern. Based on the information I have seen,

1872 the dynamic is fairly ironclad. U.S. demand is fairly  
1873 static, U.S. production is up, but global demand driven by  
1874 China and India, which are never going to need less oil than  
1875 they do now and are ever going to need more, that demand is  
1876 continuing to go up and as long as it does, the global price  
1877 goes up. As you said, it doesn't matter--

1878         Mr. {Olson.} I have to cut you off. I only have a  
1879 little time here, but one thing that concerns me most about  
1880 your written testimony is you never mention the purely  
1881 domestic abundant source of energy we have, natural gas used  
1882 for transportation. I mean, I want to--here you concluded  
1883 your written statement with this comment. ``I respectfully  
1884 conclude with a simple request: lead us in building an  
1885 alternative energy economy that can break our dependence on  
1886 oil, ensure our future prosperity and security, and finally  
1887 put Americans in control of our own energy future.'' Natural  
1888 gas is the answer to your request. And all these enhanced  
1889 recovery techniques, directional drilling, have changed the  
1890 paradigm of U.S. energy.

1891         I toured a UPS plant--facility in my home district in  
1892 Stafford, Texas. They got about 200 trucks there. About 40  
1893 of them are being converted to pressed natural gas now. They  
1894 actually built a facility there to refuel them. The Clear  
1895 Creek School District, they are converting about 60 of their

1896 buses to natural gas, again, built a 60-pump, for lack of a  
1897 better term, facility right there off of the Gulf Freeway to  
1898 get the school buses powered by natural gas. It is here. It  
1899 is real. It is clean. It is cheap. It is American. It  
1900 gets us off foreign oil. I am just concerned, was the  
1901 omission of natural gas in your testimony, was that an  
1902 oversight?

1903           Mr. {Breen.} No, sir, it wasn't. As you may recall, I  
1904 mentioned it in my oral testimony. I think one of the things  
1905 that is fantastic about the President's plan as he announced  
1906 it today is that it embraces choice, and one of those choices  
1907 for communities in this race to the top is exactly what you  
1908 said, compressed natural gas. There is also something in the  
1909 plan the President has put forward designed to create  
1910 corridors for compressed natural gas trucking to get us  
1911 closer to the point where Mr. Milburn and his colleagues are  
1912 able to use that fuel for longer and longer distance  
1913 trucking.

1914           So I mean, again, it is not a silver bullet solution,  
1915 sir, it is a silver buckshot, and I am in favor of just about  
1916 anything that is going to safely and cleanly give us choice.

1917           Mr. {Olson.} Again, I appreciate--I notice that you did  
1918 include the comments about the President in your oral  
1919 testimony. I appreciate that.

1920 I just want to ask one more question about some of the  
1921 comments that have been coming out of the Administration that  
1922 some of my colleagues alluded to. When the President was  
1923 running for office, he made the statement that under his  
1924 policies, energy prices will necessarily skyrocket. Our  
1925 current sector of energy, when he was--that same time period,  
1926 the quote is that he said ``Somehow we have to figure out how  
1927 to boost the price of gasoline to levels in Europe,'' which  
1928 is about \$10 a gallon. Recently Secretary of Interior  
1929 Salazar said ``I will object to OCS drilling even if the  
1930 price at the pump goes to \$10.'' Surely you don't support  
1931 increasing the price of gas for the American people to \$10  
1932 per gallon?

1933 Mr. {Breen.} No, sir, I think that would have a  
1934 catastrophic impact on our economy and also on our military  
1935 operations, but unfortunately--pardon me, Mr. Chairman, but  
1936 unfortunately given the fact that 95 percent of our  
1937 transportation sector is still reliant on that single source  
1938 of fuel, if it goes that high we are going to have ot pay  
1939 unless we come up with alternatives.

1940 Mr. {Olson.} Well, you are a man of intellect, I can  
1941 see you have a closed mind. Come on down to Texas, I would  
1942 love to take you around.

1943 Mr. {Breen.} I would love to go, sir. Thank you.

1944           Mr. {Whitfield.} The gentleman--at this time I  
1945 recognize the gentleman from Massachusetts, Mr. Markey, for 5  
1946 minutes.

1947           Mr. {Markey.} Thank you, Mr. Chairman. We had been  
1948 told by the American Petroleum Institute in their TV ad  
1949 campaign that voters all over the country are voting for  
1950 American energy, but is American energy really what the  
1951 American Petroleum Institute is representing? The American  
1952 Petroleum Institute tells us we need Canadian oil from the  
1953 Keystone Export pipeline to strengthen our energy security  
1954 needs. Maybe the institute should be called the Canadian  
1955 Petroleum Institute. But wait. You don't even want to keep  
1956 the Canadian oil here, since the API says that my amendment  
1957 to keep Keystone oil and fuels in this country would make us  
1958 just like North Korea. Does that make the API the South  
1959 Korean Petroleum Institute? We are told by the API that the  
1960 adoption of my proposal to keep Keystone fuels here would  
1961 cost us tax revenue, even though the oil is headed straight  
1962 to a foreign trade zone where it will be refined and re-  
1963 exported tax free. So maybe it should be called the Cayman  
1964 Islands Petroleum Institute. We are told by the API in their  
1965 TV ad campaign that eliminating the \$4 billion in tax  
1966 subsidies big oil gets each year would send us back into a  
1967 depression, even though the big five oil companies spent

1968 almost 10 times that much buying back shares of their own  
1969 companies in 2011. I guess that would make you the Wall  
1970 Street Petroleum Institute. We are told by the API in their  
1971 TV ad campaign that we could create one million new oil and  
1972 gas jobs in the United States, even though Exxon, BP, Shell,  
1973 and Chevron made \$546 billion in profits between 2005 and  
1974 2010 and cut 11,200 jobs in the United States.

1975           So what is the real story about the American Petroleum  
1976 Institute and its members? Big oil is cutting American jobs.  
1977 Big oil is fighting efforts to end their free oil and tax  
1978 holidays, and big oil wants to sell our oil and gas to the  
1979 highest international bidders, even if it means Americans all  
1980 over our country will pay more at the gas pump and more in  
1981 electricity each month. It isn't the American Petroleum  
1982 Institute. It is the World Petroleum Institute that you are  
1983 representing here today, the huge multinational corporations  
1984 who have no loyalties other than their shareholders, and I  
1985 appreciate that. I appreciate the loyalty to shareholders,  
1986 but it is not about American energy in the United States.

1987           So let me begin. Mr. Gerard, earlier you said that API  
1988 supports energy produced by Americans for Americans. So let  
1989 me ask you, does the American Petroleum Institute support my  
1990 amendment to require that the oil from the Keystone pipeline  
1991 be kept in the United States for Americans?

1992           Mr. {Gerard.} First, let me say, Congressman, I am  
1993 thrilled that you are watching our advertising, but I clearly  
1994 have to come up and spend a few more minutes with you to help  
1995 you better understand what it really means--

1996           Mr. {Markey.} Do you want the oil from the Keystone  
1997 pipeline--do you support keeping it here in the United States  
1998 or allowing it to be exported? Yes or no?

1999           Mr. {Gerard.} We strongly oppose your amendment, like  
2000 the majority of the Committee did because it doesn't make  
2001 economic sense for the oil and gas industry anymore than it  
2002 makes sense for the farm community--

2003           Mr. {Markey.} That is fine.

2004           Mr. {Gerard.} --or exporting Caterpillar or any of the  
2005 other products we make in America by America.

2006           Mr. {Markey.} It is Keystone Export pipeline, just so  
2007 we get it down. Does the API--

2008           Mr. {Gerard.} Well let us be clear that the experts  
2009 will tell you the vast majority of that will be consumed,  
2010 refined in the United States and will likely displace imports  
2011 from Venezuela and Mexico.

2012           Mr. {Markey.} Does the American Petroleum Institute  
2013 support my bill to call a time out on any further approvals  
2014 of liquefied natural gas export terminals so we can keep all  
2015 that new natural gas from Sellers, Barnett, and Utica here in

2016 America for Americans and keep prices low here? Do you  
2017 support not having it be exported around the world?

2018 Mr. {Gerard.} If we, just like in the case of gasoline  
2019 today, produce more than the market demands, exports are a  
2020 good thing. The President has called on us to double our  
2021 exports in this country--

2022 Mr. {Markey.} It is going to raise--

2023 Mr. {Gerard.} They create jobs, they bring billions of  
2024 dollars--

2025 Mr. {Markey.} The Energy Information Agency says that  
2026 going to--it is going to increase rates of natural gas--

2027 Mr. {Gerard.} The positive free market thing to do--

2028 Mr. {Markey.} How about the oil that we drill for off  
2029 of--under the Republican proposal that we voted on 2 weeks  
2030 ago off of the beaches of Florida and California and New  
2031 England? If we find the oil and gas there, my amendment said  
2032 on the House Floor keep that oil and gas here. How about the  
2033 American Petroleum Institute, keep it here or allow it to be  
2034 shipped overseas?

2035 Mr. {Gerard.} The key is to add supply to the  
2036 marketplace as we talked about today, because it is supply  
2037 that will change the global economic dynamic and put downward  
2038 pressure on the price of crude oil, because it is the crude  
2039 oil--

2040 Mr. {Markey.} If you say drill here, drill now, there  
2041 will be less.

2042 Mr. {Whitfield.} Gentleman's time is expired.

2043 Mr. {Markey.} Drill here, ship there, pay more for  
2044 American consumers, and I just think everyone has to  
2045 understand that the gas and oil industry is interested in  
2046 shipping out--

2047 Mr. {Whitfield.} Gentleman's time is expired. At this  
2048 time I recognize the gentleman--

2049 Mr. {Gerard.} Mr. Chairman, let me just say first, the  
2050 Congressman is wrong and I would be happy to come by and  
2051 visit with you about all that--

2052 Mr. {Whitfield.} At this time I recognize the  
2053 gentleman--

2054 Mr. {Gerard.} --and educate you further. Thank you.

2055 Mr. {Whitfield.} --from Kansas, Mr. Pompeo, for 5  
2056 minutes.

2057 Mr. {Pompeo.} Thank you, Mr. Chairman. You know, you  
2058 can see on this side it is--there are a lot of folks who just  
2059 don't get how the--we come to these hearing and hear folks  
2060 try to repeal the law of supply and demand. We hear folks  
2061 who normally talk about favoring exports trying to create  
2062 enormous programs so that Americans can manufacture here at  
2063 low cost, fight low cost energy sources for our manufacturing

2064 companies. And you see folks on this Committee who are  
2065 arguing about all these Chinese imports they don't like and  
2066 we can't compete around the world and we can't export,  
2067 arguing we shouldn't export. It is a stunning thing for  
2068 those of us on this side to listen to.

2069 I want to talk a little bit about this notion of  
2070 speculation, Mr. McNally. Every time--I will keep this  
2071 simple. Any time somebody goes long in a particular  
2072 commodity, who is on the other side? There is someone with  
2073 an equal and opposite position.

2074 Mr. {McNally.} For every buyer, there is a seller.

2075 Mr. {Pompeo.} And for every trade that there is a  
2076 winner, there must be a loser. And so we come and have these  
2077 hearings and we hear about speculation when the price of  
2078 commodities go up, but I have seldom witnesses--I am new, so  
2079 I would not have been part of this before--but I have seldom  
2080 seen these hearings when the price goes down. Would there be  
2081 equal speculation about folks trying to drive prices lower as  
2082 well? I am confused about why speculation is a one-way  
2083 ratchet, according to at least some who have testified here  
2084 today.

2085 Mr. {McNally.} I think the American public and members  
2086 of Congress are more concerned about rising prices, so they  
2087 are more concerned when prices are going up and people are

2088 buying and they are less concerned when it is selling, so  
2089 market participants don't get the credit when contributing to  
2090 downward price movement or helping prices peak when they are  
2091 rising.

2092 But we don't have to take it from me. the IEA, the  
2093 CFTC, the EIA, officials at unbiased regulatory agencies with  
2094 the access to the information who have looked at this closely  
2095 have concluded that financial market participants have not  
2096 been distorting the price of oil.

2097 Mr. {Pompeo.} I appreciate that.

2098 Mr. Gerard, I want to ask you, you are experienced in  
2099 this as well. Natural gas 2.50 at MCF, was 14, driven by  
2100 speculation?

2101 Mr. {Gerard.} Well, what has happened, Congressman, as  
2102 you well know, in this country because on State and private  
2103 lands we are producing trillions of cubic feet of natural  
2104 gas. There have been recent announcements by a number of  
2105 major manufacturers who are going to bring jobs right back  
2106 here to the United States because the market has driven the  
2107 price of natural gas down to where it is affordable, it is  
2108 reliable, and if we are allowed to produce it in this country  
2109 it has multiple implications for us, job creation, revenue to  
2110 governments, and energy security.

2111 Mr. {Pompeo.} So supply and demand.

2112 Mr. {Gerard.} Supply and demand.

2113 Mr. {Pompeo.} So 2.50, that is not some boogeyman on  
2114 Wall Street or--

2115 Mr. {Gerard.} In fact, Congressman, if I can, I don't  
2116 want to take your time, but there is an experience we had in  
2117 July of 2008 that was alluded to earlier that we ought to go  
2118 back and look closely at. The price of crude oil drove to  
2119 \$145 a barrel. Then President Bush announced the opening of  
2120 the Outer Continental Shelf and lifted the moratorium. The  
2121 price of crude oil over 3 days dropped \$15 a barrel and  
2122 continued to move down. Markets are driven on a global basis  
2123 by expectation. If the market heard the President of the  
2124 United States say I am serious about producing my vast energy  
2125 resources, you will see an impact in the market.

2126 Mr. {Pompeo.} Yes, I would agree with that. I would  
2127 love to see that from our President.

2128 Let me talk for a second--Mr. McNally, you talked a  
2129 little bit about the Strategic Petroleum Release. We had one  
2130 during my time in Congress last year. To what effect?

2131 Mr. {McNally.} The release you are referring to is the  
2132 sale of 30 million barrels announced on June 23 of 2001, and  
2133 the price of oil dipped for 4 days and then made a new high.

2134 Mr. {Pompeo.} And the President continues to talk about  
2135 an additional release from the Strategic Petroleum Reserve.

2136 What would your expectation be that would result from such a  
2137 release?

2138 Mr. {McNally.} In my view, as long as the underlying  
2139 supply demand fundamentals remain tight and as long as the  
2140 prospect of a potential conflict remains with Iran, were we  
2141 to release oil now and achieve a day or two dip in supply, we  
2142 would be releasing cheap oil to traders who would buy it and  
2143 expect a profit from it later this year.

2144 Mr. {Pompeo.} Great, not a very effective thing for  
2145 folks who are driving their cars around or Mr. Milburn, who  
2146 has got to drive his vehicle around and deliver product to  
2147 consumers all across the country.

2148 I yield back the balance of my time. Thank you.

2149 Mr. {Whitfield.} At this time I recognize the gentleman  
2150 from Texas, Mr. Green, for 5 minutes.

2151 Mr. {Green.} Thank you, Mr. Chairman.

2152 Eddie, I want you to sit here. You know, for one thing  
2153 let me follow up my colleague from Massachusetts. Nobody is  
2154 going to build a pipeline from Canada to Texas and Louisiana  
2155 to export the oil. You know, we have the biggest refinery  
2156 complex between literally from the Mississippi River down to  
2157 Corpus Christi, Texas, and I know the pipeline is supposed to  
2158 send in maybe a million barrels a day. I currently represent  
2159 five refineries that need a little less than a million

2160 barrels a day, and that is just in the district I represent.  
2161 So it is a huge amount and we want it, but we are not going  
2162 to export that oil. We do export refined products. Just  
2163 because we export steel--and I am sure my colleague from  
2164 Pennsylvania loves that, and I liked that when I used to have  
2165 steel plants. We want somebody else to buy our products that  
2166 we make. So I don't want to export the oil, I want to export  
2167 the refined products or the chemicals that we make from the  
2168 natural gas. I would rather not export natural gas. But if  
2169 we can have the downstream jobs in the chemical industry,  
2170 then let us export those products. But we still need to  
2171 export natural gas because we had people in '05 after we  
2172 streamlined the federal permitting for importing LNG, now  
2173 because of success in hydrofracking, we have so much we need  
2174 to export it. Because again, I have a lot of companies that  
2175 would really like to see that export market, and again, if we  
2176 can use it here, let us use it, but if we can't, let us help  
2177 our balance of trade with it.

2178         Mr. Gerard, API claims that the oil and gas earnings are  
2179 typically in line with the rest of the U.S. industry,  
2180 averaging about 7 cents for each dollar of sales over the  
2181 last 5 years. Is that true?

2182         Mr. {Gerard.} That is correct.

2183         Mr. {Green.} Where did you get the information?

2184 Mr. {Gerard.} We developed this information by the  
2185 Bureau of Labor Statistics. These are governmental numbers.

2186 Mr. {Green.} Thank you. One of the concerns that I  
2187 have is we reconcile to push to eliminate the Section 199 as  
2188 the manufacturing deduction that allows all U.S.  
2189 manufacturers to take a 9 percent deduction on their costs  
2190 while limiting the natural gas industry to 6 percent. One of  
2191 my arguments here is that energy production is manufacturing.  
2192 It is domestic manufacturing. Why would we want to punish  
2193 domestic energy production by a lower percentage?

2194 Mr. {Gerard.} I would hope we wouldn't, but that is  
2195 what the current law is. We are limited to 6 percent, and  
2196 the President's proposal suggests that that provision of the  
2197 tax code which is allowed to many other industries be  
2198 repealed for only the oil and gas industry. That is what he  
2199 describes as a subsidy. We get no subsidies in the oil and  
2200 gas business.

2201 Mr. {Green.} Again, natural gas is large companies that  
2202 are--energy companies are large companies that produce in the  
2203 United States, they employ United States citizens, and they  
2204 are going to--they are getting treated differently than other  
2205 manufacturing companies, and that is just not fair because a  
2206 few years ago we commissioned a poll on the Democratic side  
2207 on domestic manufacturing. We showed that in the South, the

2208 support for domestic manufacturing was higher in the South  
2209 than it was in Ohio, Pennsylvania and those States. And  
2210 somebody said well, do we still have textiles in North  
2211 Carolina? I am not so sure about that, from the Mississippi  
2212 River to Corpus Christi, Texas, our manufacturing is refined  
2213 products, chemicals, and things that come from the energy  
2214 industry. And that is manufacturing. Those jobs pay just as  
2215 good as anywhere else, and I don't think they ought to be  
2216 punished.

2217         Mr. Drevna, you talked about anticipated Tier 3  
2218 regulations affecting the sulfur content in gasoline would  
2219 increase the cost of refining, could result in smaller, less  
2220 profitable refineries shutting down. Could you elaborate on  
2221 this? And I am asking because I know my colleague from  
2222 Pennsylvania is concerned about the two near Philadelphia  
2223 shutting down. We have actually expanded ours in our  
2224 district. Can you talk about that?

2225         Mr. {Drevna.} Yes, sir, Congressman Green. Thank you.

2226         Tier 3 gasoline would take the current sulfur level of  
2227 gasoline from 30 down to less than 10, another 90 percent  
2228 reduction. We have already spent \$9 to \$10 billion in taking  
2229 90 percent out of the gasoline in Tier 1 and Tier 2 from over  
2230 300 down to 30, and it cost, like I said, \$9 billion to \$10  
2231 billion. The additional 90 percent would cost upwards of \$20

2232 billion to get those last little bits of molecules that don't  
2233 want to come out. The question is why? The question is what  
2234 is the net environmental impact on taking it down, and our  
2235 analysis says it is nil, because autos are already marketing-  
2236 -20 different brands of autos are already marketing their  
2237 product under Tier 2 gasoline as a Tier 3 vehicle because of  
2238 how the engines are made. It goes back, Congressman Green,  
2239 to the conflicting regulations that we see and how costly  
2240 they are ultimately to the consumer. We are going to lower  
2241 sulfur more at an unprecedented amount of dollars; therefore,  
2242 we are going to make--raise CO2 emissions at the refinery  
2243 because it is a heck of a lot of a more robust treatment that  
2244 you need to get those little bit of sulfur molecules out, and  
2245 then the EPA is going to turn around and say well we got to  
2246 lower greenhouse gas emissions. Well we are in this--

2247       Mr. {Green.} Let me interrupt you so I can get one more  
2248 statement in to Mr. McNally. The President took the 30-year  
2249 moratorium off of the Executive Order in June of 2008. A  
2250 Democratic Congress in September took the 30-year moratorium  
2251 off the Department of Interior for exploration in Outer  
2252 Continental Shelf. So we have a bipartisan support for more  
2253 domestic exploration, and that is part of our problem. We  
2254 need more supply. But if you drill an oil well in your  
2255 backyard, believe me, you are going to want \$100 a barrel

2256 because you are not going to sell it any cheaper, but we do  
2257 need to get more supply to the market.

2258 Mr. Chairman, I know my time is up.

2259 Mr. {Whitfield.} At this time I recognize the gentleman  
2260 from West Virginia, Mr. McKinley, for 5 minutes.

2261 Mr. {McKinley.} Thank you, Mr. Chairman. I have got a  
2262 series of questions, maybe building back a little bit just  
2263 quickly on the thing Mr. Barton was talking about. There is  
2264 a chart that talks about how production is down but prices  
2265 are up. Back in 1985, we were drilling--producing about nine  
2266 billion--nine million barrels a day and we were paying \$1.34,  
2267 now we are at 5.3 million and the price is 3.79, so I think  
2268 he is on to something there. But more importantly is I am  
2269 trying to understand, all of you began your remarks, a lot of  
2270 you talked about speculation. I am trying to understand the  
2271 role of speculators. Is this a recent phenomenon, these  
2272 speculators, or just in the last 3, 4 years? Mr. McNally,  
2273 can you just touch on that briefly? Is this a recent  
2274 phenomenon? Have speculators been able to buy into the oil  
2275 market for longer than 3 years?

2276 Mr. {McNally.} Yes, sir, starting in the early 1980s we  
2277 shifted from what we called a posted price for oil to pricing  
2278 it in the futures markets in the New York Mercantile  
2279 Exchange, and that futures market is composed of physical

2280 participants, producers of oil, users of oil like airlines,  
2281 and--

2282           Mr. {McKinley.} Thank you, because am curious about  
2283 this because I went back and looked at what crude--what  
2284 happened to crude during the four events that I looked at,  
2285 the Iran/Iraq wars, back in '81 and '87, and when you look at  
2286 that and the net effect of that time from begin to the end,  
2287 actually price of crude dropped up. During the seizure, when  
2288 we had that crisis that was there and it was on the front  
2289 page of every American paper about our 53 Americans seized in  
2290 Tehran, crude didn't increase. During the Gulf War, it went  
2291 about \$10 a barrel. And during the Yom Kippur War, it went  
2292 about \$22, so going back to what was remarked was if you look  
2293 at those numbers, you are only talking about 25 cents--I  
2294 shouldn't say only, but that is an increase. How do we get  
2295 from--where was it, \$1.85 at the beginning of this  
2296 Administration to now at 3.79 if crises of global magnitude  
2297 are only having 25 cents?

2298           Mr. {Milburn.} Mr. McKinley, may I interject here?

2299           Mr. {McKinley.} If you could.

2300           Mr. {Milburn.} Regulation in the trucking industry by  
2301 the EPA has driven up our costs on a gallon of diesel fuel.  
2302 Eight years ago when I started driving a truck, we didn't  
2303 have the ultra low sulfur diesel that we do today. You know,

2304 we are less than 15 parts per million on the ultra low sulfur  
2305 diesel versus the old regular diesel. Back then, diesel was  
2306 30 cents a gallon less than a gallon of gasoline. Today, on  
2307 the street, diesel is over 30 cents a gallon higher than a  
2308 gallon of gasoline.

2309 Mr. {McKinley.} If I could recover my--I concur with  
2310 what you are saying. I am just saying I think that  
2311 speculation has been used as an excuse perhaps. Are they a  
2312 player? Of course they are, but are they that dramatic when  
2313 you look at the sheer numbers of it? I am not so sure. I  
2314 think the regulations and other--but let me pose a question  
2315 that is more hypothetical.

2316 If we produce no oil in America and we refine nothing,  
2317 what we will be paying in America for our oil and gas? Ten  
2318 dollars, what they are paying in Europe?

2319 Mr. {Drevna.} That is--a hypothetical is difficult to  
2320 answer. What--we would be producing nothing in America  
2321 because mostly everything we produce begins with fuel, begins  
2322 with energy, begins with petroleum products.

2323 Mr. {McKinley.} Why is this Administration making it so  
2324 difficult? If we understand that if we don't produce  
2325 anything, if we didn't drill at all, we are probably going to  
2326 pay 9 to \$10, but if we drill, then we have problems. Look  
2327 during the Keystone pipeline discussion. How many people--

2328 and you heard the amendment that was offered. We don't want  
2329 any of it to go overseas, it is only to be consumed in  
2330 America. Are we not in a global market or not?

2331 Mr. {Drevna.} That is the fallacy of the argument,  
2332 Congressman McKinley, is that we are in a global market but  
2333 there are certain folks who say well, we can do something  
2334 different within our own market. Maybe one admits we are in  
2335 a global market, but we are going to have some different kind  
2336 of economic system in our market. It simply doesn't work  
2337 that way. As Congressman Green pointed out, you know,  
2338 exports for us are a major part of it, keeping American jobs  
2339 and American workers here are a major part of it.

2340 Mr. {McKinley.} Well let us just close--I have 18  
2341 seconds--17 seconds left on it. If we did--go back to that  
2342 premise, that hypothetical. If we drilled none, and that is  
2343 what I think this Administration would like, to wean us off  
2344 our fossil fuels--if we did not drill in America, what would  
2345 be the cost of gasoline in America?

2346 Mr. {Drevna.} The cost I can't--

2347 Mr. {McKinley.} Project.

2348 Mr. {Drevna.} I could just project that China, India,  
2349 Russia, Brazil would be ecstatic.

2350 Mr. {McKinley.} Would be what?

2351 Mr. {Drevna.} Ecstatic.

2352 Mr. {McKinley.} Pretty sure, because why? We would be  
2353 paying \$10 a gallon?

2354 Mr. {Drevna.} If not more.

2355 Mr. {McKinley.} Okay, thank you.

2356 Mr. {Whitfield.} Thank you, Mr. McKinley. At this time  
2357 I recognize the gentlelady from Florida, Ms. Castor, for 5  
2358 minutes.

2359 Ms. {Castor.} Thank you, Mr. Chairman, thank you,  
2360 gentlemen, for being here today. I represent the State of  
2361 Florida and we are very sensitive to gas prices because we  
2362 are a large State. We are a very dynamic State, and we are  
2363 very spread out. But also because our economic is integrally  
2364 tied to travel and tourism. It really ticks people off at  
2365 home because it seems like every year at spring break or the  
2366 summer driving season there is some racket because of gas  
2367 prices go up, and people, our neighbors and businesses, they  
2368 are very sophisticated. They understand there are things  
2369 that are outside of their control or the government's  
2370 control. For example, the explosion of demand across the  
2371 globe, particularly from China, you know, they don't have  
2372 much control over that, or term oil in the Middle East that  
2373 complicates the market. But there are some things that are  
2374 within our control that they expect us all to focus on and  
2375 work together on. One is domestic production, and when you

2376 explain to folks now that the United States is a net  
2377 exporter, they are very surprised because for decades and  
2378 decades and decades we have relied on imports. So that is  
2379 very positive there, you know. The number of oil rigs  
2380 operating in the United States has quadrupled in just the  
2381 past 3 years. There are more rigs operating in the United  
2382 States than in the rest of the world combined, and we are  
2383 sensitive to that in Florida because we--while we support  
2384 domestic production, we want it to happen in the right places  
2385 and with the appropriate safeguards.

2386         What else is in our control? Fuel economy. This--we  
2387 didn't make much progress in the '80s and '90s, but boy, are  
2388 we on the right track now to put some dollars back into the  
2389 pockets of our hardworking families because what we have done  
2390 and the Obama Administration is built upon now is our  
2391 direction to make sure that cars achieve 54 miles per gallon  
2392 by 2025. That is very positive for families. In fact, a  
2393 member of my family bought one of these vehicles. He gets 50  
2394 miles per gallon, and I know Mr. Eichberger, you don't  
2395 appreciate, he is driving by your stores and enjoys doing  
2396 that, no matter what price is posted. Fifty miles per  
2397 gallon. And so we have got to continue to boost that and  
2398 encourage that.

2399         What else is in our control? Speculators. They--people

2400 just know that they are being taken for a ride, that there is  
2401 significant market manipulation, and Mr. Weiss, I am going to  
2402 ask you to explain to us the difference between the folks  
2403 that should be in that market because they control oil, but  
2404 there are people outside of the oil markets who get in and  
2405 take these prices up for a ride and it is costing all of us.

2406         The other thing that is in our control that we have got  
2407 to take action on is the--is don't ask consumers to pay  
2408 twice. Don't ask us to go to the gas pump and pay and then  
2409 when we file our taxes, we have to pay \$4 billion more every  
2410 year to the oil and gas companies. That is not fair. That  
2411 is not fair the five largest oil companies made over \$137  
2412 billion in profit last year, and with our debt and deficit or  
2413 the things we can do with \$4 billion annually, we have got to  
2414 turn this around.

2415         I would like, Mr. Weiss, also--secondarily, ask what--if  
2416 we took that \$4 billion, what is the best bang for the buck  
2417 if we took a significant portion of that and plowed it into--  
2418 you tell me, diversification, alternative fuels, doing more  
2419 on fuel economy, unleashing the good old American know-how  
2420 and technology to get us off this long-term oil addiction.

2421         Mr. {Weiss.} Well those are a lot of questions. I will  
2422 do my best.

2423         When it comes to speculation, there is basically two

2424 kinds of people in the market. Commercial end users like in  
2425 airlines or refinery or an oil company that take physical  
2426 possession of the product when the contract is due, and then  
2427 there are Wall Street speculators, money managers, pension  
2428 funds, hedge funds that are there just trying to make a  
2429 profit by guessing whether prices are going to go up or down.  
2430 Traditionally, according to a study by McClatchy,  
2431 traditionally the end users, commercial users are about 2/3  
2432 of the trades and the Wall Street speculators are about 1/3.  
2433 We saw in last year it has been reversed. About 2/3 of the  
2434 trades are now Wall Street speculators and 1/3 are end users.  
2435 That is one of the signs that they are involved in the  
2436 market. In addition, Mr. McNally talked about a report that  
2437 the CFTC did in the summer of 2008 that said there was no  
2438 speculation involved in the record oil prices. Well that was  
2439 a draft report. The final report which came out in 2009  
2440 said, in fact, there was, and there is a whole host of  
2441 studies, at least a dozen, that I could send the Committee  
2442 for the record if you are interested, that list--that suggest  
2443 that speculation did play a role, including one by the  
2444 Federal Reserve Bank of St. Louis that the Post just reported  
2445 about yesterday.

2446       Mr. {Whitfield.} Thank you. At this time I recognize  
2447 the gentleman from Virginia, Mr. Griffith, for 5 minutes.

2448           Mr. {Griffith.} Thank you, Mr. Chairman. I just have  
2449 to say coming from coal country that nobody has mentioned  
2450 coal. There are ways that we can use coal to increase our  
2451 fuel. I like to talk about the four D's: drill, which we  
2452 have talked about a lot today; dig, which includes our coal  
2453 resources. We are number one in the world. Let us not  
2454 forget we have got it. Discover, which of course, includes,  
2455 you know, finding new ways to use new technologies and use  
2456 old fuels and new technologies as well, which our  
2457 universities and think tanks should be working on, and last  
2458 but not least, we have also heard today about deregulating,  
2459 which means the EPA has got regulations coming out of our  
2460 ears that affects every sector of our market and we are  
2461 consistently seeing problems.

2462           And along those lines, Mr. McNally, could you tell me,  
2463 is there one regulation in particular that is so onerous, so  
2464 hard for business in your area or your field to deal with  
2465 that is preventing or limiting production or increasing  
2466 employment? Can you name me one?

2467           Mr. {McNally.} Well I am just in the research and  
2468 analysis business, but I would think--and my friends in the  
2469 industry can speak perhaps better, but I think the biggest  
2470 concern or two really, one would be that the government is  
2471 going to stand in the way of infrastructure projects that are

2472 needed to get investment in domestic oil and gas production,  
2473 and the second would be uncertainty about regulation of  
2474 hydraulic fracturing going forward. That is probably one of  
2475 the biggest concerns I think industry has about investment.

2476 Mr. {Griffith.} All right. Mr. Gerard, did you have  
2477 some thoughts on that?

2478 Mr. {Gerard.} Very quickly I would just add three  
2479 things. The first one is access itself. That is a decision  
2480 on the part of the Administration. They can make it today.  
2481 The second one is the lag time in permitting that Congressman  
2482 Barton talked about. If you are given access and you can  
2483 expedite that permitting process, it will happen quickly.  
2484 The third one is, which goes back to the comment the  
2485 Congresswoman made earlier, there is always talk about  
2486 subsidies the oil and gas business for taxation. We get no  
2487 subsidies from the tax code, but more important than that,  
2488 today's hearing is on gasoline prices. Congressional  
2489 Research Service has looked at the proposal, the President's  
2490 proposal, to discriminate against our industry and repeal  
2491 those standard business deductions that we receive and  
2492 concluded that it would have the effect of decreasing  
2493 exploration, development, and production while increasing  
2494 consumer prices and possibly increasing the Nation's  
2495 dependence on foreign oil.

2496 Mr. {Griffith.} So what you are saying is that third D,  
2497 discovery, which would also include exploring, would go down  
2498 and prices would still go up?

2499 Mr. {Gerard.} It is a net adverse hit to our ability to  
2500 impact the price of gasoline the Congressional Research  
2501 Service views.

2502 Mr. {Griffith.} All right. Let me ask you, Mr. Breen,  
2503 if I might for a second. It has been said that 70 percent of  
2504 American casualties in Iraq and Afghanistan have been  
2505 sustained on logistical missions, i.e., convoys. If our  
2506 troops had more energy efficient generators, batteries, and  
2507 vehicles without any deduction in safety or functionality, we  
2508 can lessen the amount of required supply missions and reduce  
2509 our troops exposure to attack. Such advancements are  
2510 obviously positive, but if we convert, as I think I heard you  
2511 suggest, if we convert our military vehicles and aircraft to  
2512 biofuel, such as the Green Hornet in your testimony  
2513 highlights, what is the difference between a convoy that  
2514 transports ethanol and one that transports diesel or GPA,  
2515 except that the ethanol products are far more expensive for  
2516 the American consumer, and in this case, for the Pentagon?

2517 Mr. {Breen.} Well, sir, you mentioned fuel convoys  
2518 which is a facet of life in a counter insurgency environment  
2519 where you have isolated forward operating bases. This is one

2520 of the ways the military posture is different from our  
2521 civilian posture. On those forward operating bases, we  
2522 require--

2523 Mr. {Griffith.} So you are saying it is safer to do  
2524 ethanol than it would be to do gas?

2525 Mr. {Breen.} No, sir, I am saying that we require  
2526 liquid fuel, be it ethanol or whatever else, to fuel  
2527 generators to generate the power on those bases, as well as  
2528 to fuel the vehicles, so there is a huge push in the ground  
2529 forces to move to solar, wind, and other renewable  
2530 technologies. You don't have to move any kind of solid fuel.

2531 Mr. {Griffith.} So then your testimony about the Green  
2532 Hornet would be slightly off. You are talking about going to  
2533 some individual solar items, because--

2534 Mr. {Breen.} In the ground force, sir, but the Navy,  
2535 for example, highly interested in making sure that it can use  
2536 a diverse set of--the Navy wants to be sure that if the  
2537 supply of liquid crude oil is disrupted for whatever reason,  
2538 the Iranians close the straits, that the Navy, which is a  
2539 huge liquid fuel user, can--

2540 Mr. {Griffith.} In the futures market--let me ask Mr.  
2541 McNally, if the futures market was occupied solely by  
2542 physical consumers of oil, what would the result be?

2543 Mr. {McNally.} The market wouldn't function because

2544 physical consumers of oil need to transfer price risk to  
2545 those willing to take it, by definition, people who are  
2546 willing to speculate, and if they didn't have the speculators  
2547 or financial market participants, the market wouldn't  
2548 function. It would be much less efficient and prices would  
2549 be more volatile.

2550 Mr. {Griffith.} And of course, a lot of us don't have  
2551 natural gas that comes to our homes and we can't use it--I  
2552 think Mr. Milburn, you testified that it wasn't good for  
2553 trucking probably because there is not a supply network set  
2554 up where you can stop and get more CNG. I know that in my  
2555 neighborhood, even though I live in the largest city in the  
2556 newly configured Ninth Congressional District of Virginia, I  
2557 don't have natural gas coming to my house. Mr. Eichberger,  
2558 who used to be a proud constituent of mine in the Ninth  
2559 Congressional District of Virginia, used to live in the  
2560 Reiner area, did you have natural gas in that county, which  
2561 is the largest county in the Ninth District?

2562 Mr. {Eichberger.} We were 100 percent electric.

2563 Mr. {Griffith.} Yes, which is based on my favorite,  
2564 coal, in that area. You can't have electricity without coal,  
2565 and that raises prices up. It just looks like to me that  
2566 this Administration has an ``all of the above'' policy to  
2567 raise the cost of energy on all of the above.

2568 Thank you, I yield back.

2569 Mr. {Whitfield.} Thank you. At this time I recognize  
2570 the gentleman from Pennsylvania, Mr. Doyle, for 5 minutes.

2571 Mr. {Doyle.} Thank you, Mr. Chairman.

2572 I have been in Congress long enough that to see a  
2573 hearing called ``Rising Gas Prices'' this is, you know, déjà  
2574 vu all over again. We go through this from time to time, and  
2575 sometimes listening to my friends talk about the Obama  
2576 Administration, I feel like I am living in an alternative  
2577 universe, that somehow there is some magic wand that Newt  
2578 Gingrich is going to wave and we are going to have \$2.50 a  
2579 gallon gasoline. I think it is time we just stop BS-ing the  
2580 American people. In Pittsburgh, people I represent have  
2581 highly refined BS meters, and they are going off loud and  
2582 clear with all this talk about gasoline prices.

2583 Can we just agree on one thing? A barrel of oil that is  
2584 made--that is produced in Venezuela costs the same amount of  
2585 a barrel of oil that comes out of the ground in Texas. It is  
2586 a world commodity. We don't control the price. We don't  
2587 control the price. People seem to think in this country that  
2588 if you get oil out of American soil, that somehow we get a  
2589 discount on it. Well is it not American's oil. Once an oil  
2590 company buys that lease, it is Exxon's oil. It is their oil  
2591 and they are going to sell it for the best price they can get

2592 it. Now that is just a fact of life, and if most of the  
2593 price of a gallon of gasoline is the cost of the crude, then  
2594 it is what it is going to be. It is a world market. People  
2595 talk about natural gas. Natural gas isn't priced on the  
2596 world market, okay? It is \$2.50 at MCF here. That is not  
2597 what it is selling for in other parts of the country, which  
2598 is why we would like to export some of the excess natural gas  
2599 so that there can be better profit margins and we have the  
2600 supply to do that. But let us quit BS-ing the American  
2601 people that there is some magic wand or some policy that  
2602 Congress or any President, Democrat or Republican, can do to  
2603 affect the price of a world priced commodity.

2604 We were a net exporter of gasoline last year. The price  
2605 of gasoline didn't go down. We can produce all the oil we  
2606 want in this country and all the cartel over there has to do  
2607 is turn the spigot down a little bit and they will keep the  
2608 price wherever they want to keep the price. So let us just  
2609 quit BS-ing the American people that there is some way to  
2610 control the price of a barrel of oil, and if we drill more in  
2611 this country that somehow it gets cheaper. I mean, if you  
2612 want to talk about let us not be dependent on buying it  
2613 elsewhere and you want to increase the supply domestically,  
2614 that is a valid statement. I mean, you can talk about that,  
2615 but let us not talk about it in the context of prices of

2616 gasoline. We talk about the price of gasoline in Europe  
2617 being \$10 a gallon. They put taxes on top of their gasoline.  
2618 The oil isn't more expensive over in Europe. They put tax on  
2619 it so people will drive smaller cars. They use mass transit,  
2620 they use trains. We built the interstate highway in America.  
2621 We love our automobiles. Okay, we are different than over in  
2622 Europe. There is not going to be \$10 a gallon gasoline in  
2623 the United States of America. Just quit making the American  
2624 people believe there is some fix to this.

2625         This young man has hit the nail on the head. What they  
2626 want from us and from the President is some vision and some  
2627 leadership about the future. The future of our country is to  
2628 get us off of this addiction to oil, to start to transition  
2629 to natural gas vehicles and eventually to battery technology  
2630 where we don't use any fossil fuel to power a car. When we  
2631 got a battery that will take a car 400 miles before you have  
2632 to recharge it, that is going to change the whole world.  
2633 That is going to change our policy in the Middle East, and  
2634 that is going to allow us to quit sending young men and women  
2635 like Mr. Breen overseas to fight for all this oil that is so  
2636 precious to us. That is what the American people want from  
2637 us, some visionary leadership from their President and their  
2638 Congress, not this constant BS that there is somehow you can  
2639 make gasoline \$2.50 a gallon before the presidential election

2640 in November.

2641           So let us just quit this kind of talk and let us be real  
2642 with the American people, and let us talk about how we invest  
2643 in the future for our kids and our grandkids to make a  
2644 difference. There is a Chinese proverb that says ``The best  
2645 time to plant a tree is 20 years ago. The next best time to  
2646 plant a tree is today.'' What this Congress ought to be  
2647 talking about is what we can do today for generations 20, 30,  
2648 40, 50 years from now so that our grandkids aren't sitting in  
2649 a congressional hearing room having the same conversation  
2650 that we had in 1970, that we had in 1980, that we had in  
2651 1990, when these prices start to fluctuate up and down. That  
2652 is what the American people need from us.

2653           Well, I just took 5 minutes on my soapbox, Mr. Chairman,  
2654 and I am sorry about that. I would like one question, if one  
2655 witness can answer.

2656           I do have a concern about these refineries in Eastern  
2657 Pennsylvania shutting down. Pittsburgh uses a special blend  
2658 of gas in the summertime that is not made anywhere else that  
2659 I am aware of, except at these three refineries near  
2660 Philadelphia, and they are about to close. I would like to  
2661 ask Mr. Drevna, the refinery person, is there any other  
2662 refineries that make that kind of gas currently or is there a  
2663 refinery that could ramp up to make that kind of gas to meet

2664 the needs of some of the communities in the Northeast, and  
2665 specifically in Western Pennsylvania, that are going to be in  
2666 a bad situation if these three refineries in Eastern PA  
2667 absolutely do shut down?

2668 Mr. {Drevna.} The answer to your question is no, there  
2669 are no other refineries in an immediate area that can make  
2670 the 7.2 pound gasoline. It is the summertime gasoline.

2671 Now I understand just as recently as yesterday,  
2672 Congressman Doyle, that Pennsylvania legislature passed a  
2673 bill that would lift that 7.2 and go to a 9.0 RBP. It  
2674 wouldn't be summer gasoline. I understand the governor  
2675 might--probably will sign that. Now problem being is EPA is  
2676 going to have to bless it, and that--the reason why there is  
2677 that gasoline there is that Pittsburgh, my hometown, by the  
2678 way, would--did not need to go all the way to the more and  
2679 more expensive RFG, reformulated gasoline. So over time, it  
2680 was a better deal for the folks in Western Pennsylvania. You  
2681 are right, with the unfortunate shutdown of those refineries  
2682 and all the heartache that comes with it, but I--if we can  
2683 start now, because we have got to get that stuff into the  
2684 pipeline by, you know, probably May so if we could start now  
2685 and get EPA to help the state of Pennsylvania, to help those  
2686 refineries in Ohio and West Virginia to get that gasoline  
2687 there, it will be fine.

2688 Mr. {Whitfield.} At this time I recognize the gentleman  
2689 from Louisiana, Mr. Scalise, for 5 minutes.

2690 Mr. {Scalise.} Thank you, Mr. Chairman. I appreciate  
2691 you having this hearing on the rising price of gasoline. I  
2692 know it is a concern of many not only constituents of mine,  
2693 but of my colleagues all across the country. It is a problem  
2694 that is facing many families that are holding them back from  
2695 being able to do the things that they do to enjoy the quality  
2696 of life that they had. It is hurting our job creators in the  
2697 abilities that they have to hire more people in this country,  
2698 and yet, when we look at why we got here, there are some  
2699 people that just want to act like policy has nothing to do  
2700 with it, like supply and demand doesn't exist in a free  
2701 market.

2702 And so, you know, what I first want to point out is  
2703 those of us that have supported an ``all of the above''  
2704 energy strategy for a long time and this House has passed  
2705 many bills--in fact, Mr. Chairman, you brought a number of  
2706 those bills through this Subcommittee that we have passed  
2707 through the House and are sitting in the Senate that would  
2708 increase the supply, not just of oil, of natural gas, coal,  
2709 nuclear power, and yes, wind and solar as well. But  
2710 addressing each of those in a realistic way that allows  
2711 America to utilize our energy resources that are here that

2712 are currently blocked by federal policy. And you know, for  
2713 people to just ignore that when the President shuts down  
2714 supply, that somehow that has no effect on cost, then maybe  
2715 they didn't take basic economics. But it absolutely does,  
2716 and I know a few of our panelists have talked about this.

2717 I want to start by going through the record, and let us  
2718 just talk about where we are with gas prices and look at the  
2719 statements that the President himself made. You know, back  
2720 in 2008 Barack Obama said that he would prefer a ``gradual  
2721 adjustment to near \$4 a gallon gasoline.'' President Obama  
2722 said this. He said it when gasoline was about \$1.80 a  
2723 gallon. The President got his wish. He asked for \$4 a  
2724 gallon gasoline. He said he wanted it. He has implemented  
2725 policies to get us there, and now that the price is there and  
2726 people across the country are furious with the price, the  
2727 President is trying to blame somebody else, and it is some  
2728 speculator. You know, we don't--we need to open up the  
2729 Strategic Petroleum Reserve or the President is the most  
2730 energy-producing President in history. It is a disingenuous  
2731 statement when you look at the fact that oil production on  
2732 federal lands is actually down, down by more than 10 percent.  
2733 Lands where the President actually has control through his  
2734 regulators, that production is down. Where it is up is on  
2735 private lands and many States like North Dakota where they

2736 have used hydraulic fracturing and new technologies to get  
2737 oil in other areas, and the President is trying to shut that  
2738 down, too, ironically. So on one hand, he is trying to take  
2739 credit for something that he has no control over, but he is  
2740 trying to control it through the EPA and shut it down.  
2741 Fortunately, he hasn't been successful and in fact, we passed  
2742 legislation to block the EPA from shutting it down. The  
2743 President's own energy secretary, the President's own energy  
2744 secretary says ``Somehow we have to figure out how to boost  
2745 the price of gasoline to the levels in Europe.' ' Well, he  
2746 figured it out and we are getting there. And people are  
2747 furious with the high price that they imposed. The Obama  
2748 Administration did this. I mean, you can look at the price  
2749 of gasoline and you can track that the President has gotten  
2750 what he wanted. It is just now he is getting the heat for  
2751 it. People are furious that the President got his wish of \$4  
2752 a gallon gasoline that we are approaching, and so now he is  
2753 trying to shift the blame.

2754 But look at the record. The permatorium in the Gulf of  
2755 Mexico, we have seen it directly in Southeast Louisiana.  
2756 After the Deepwater Horizon explosion, the President imposed  
2757 a moratorium on drilling that actually went against the  
2758 advice of his own handpicked safety experts. The President's  
2759 handpicked experts said don't impose a moratorium, it will

2760 actually decrease safety in the Gulf. And what happened?  
2761 The President did it anyway and still to this day, there is a  
2762 permatorium where it is almost impossible to know what the  
2763 rules are to get a permit. So what happened? We have seen a  
2764 dozen deepwater rigs leave not only the Gulf of Mexico, leave  
2765 the country. Over 12,000 jobs, American jobs have left the  
2766 country because of that one decision by President Obama that  
2767 went against the advice of his own safety experts. So how is  
2768 that policy working out? Look at lease sales. In the  
2769 President's lease sales that he recently issued, over 50  
2770 percent of the federal lands that were getting ready to come  
2771 open for exploration are closed now by President Obama, and  
2772 the price keeps going up. If you look at Keystone XL, we  
2773 were going to be able to get a million barrels of oil a day  
2774 from a friend. Canada is a great friend of America, great  
2775 trading relationship. The President said no, not only to  
2776 that Canadian oil that now we wouldn't have to get from these  
2777 Middle Eastern countries who don't like us or Venezuela, but  
2778 he said no to 20,000 jobs. China wants the oil, so China is  
2779 going to get the oil because President Obama said no. And  
2780 the price keeps going up.

2781 And you wonder, after all of these things happen, what  
2782 is their answer? The President's latest answer now, it looks  
2783 like they are going to try to go down that road of tapping a

2784 Strategic Petroleum Reserve again. When they tried it the  
2785 last time it didn't work. It is there for national  
2786 emergencies. The Strategic Petroleum Reserve is not a  
2787 bailout fund for President Obama's failed policies.

2788         So Mr. Gerard, I know you had given some good comments  
2789 on this. If I could just get your take, you know, as you  
2790 talked about how markets drive expectation. As all of these  
2791 policies that President Obama to shut off so many areas of  
2792 federal energy have now taken an impact. Has that had an  
2793 impact on price?

2794         Mr. {Gerard.} Absolutely. The market is driven by  
2795 expectation and there tends to be a lot of focus here,  
2796 particularly today on the Middle East question and Iran and  
2797 the Straits of Hormuz. The reality is that global demand  
2798 coming out of China, India, and elsewhere, but the rest of  
2799 the world also looks at the United States. When they see  
2800 policies, they understand the vast resources we are sitting  
2801 on, but when the policies fundamentally discourage those and  
2802 there is no expectation in the marketplace that we are ever  
2803 going to bring serious production to bear, and that all gets  
2804 accounted into the price. So today, one of the reasons the  
2805 price is being driven up is a lot of people believe that the  
2806 United States won't take action. That is why we said if we  
2807 call on the President to send a strong signal, we are not

2808 going to let this happen. We hear a lot of talk about well,  
2809 let us quit talking about drilling for oil. We have been 40  
2810 years in the country and we haven't had a policy of drilling  
2811 for oil. Why don't we try it once? We have tried everything  
2812 else. Let us produce our own resource. Let us do it by  
2813 Americans for Americans. It is in a global marketplace. The  
2814 price is determined by the price of crude oil. But we put  
2815 crude oil into the marketplace and it has downward pressure  
2816 on that price. It is pretty fundamental, it is Economics  
2817 101, and we just can't seem to get ourselves there.

2818 Mr. {Scalise.} Thank you. I yield back, Mr. Chairman.

2819 Mr. {Whitfield.} At this time I recognize the gentleman  
2820 from New York, Mr. Engel, for 5 minutes.

2821 Mr. {Engel.} Thank you. Thank you very much, Mr.  
2822 Chairman. I listened to a lot. You know, it is such  
2823 nonsense to try to point the finger politically at the  
2824 President of the United States and say that there is rising  
2825 gasoline prices because of him. As some of our colleagues  
2826 pointed out before, you could look at when President Bush  
2827 first came to office and when he left, and prices doubled and  
2828 tripled and quadrupled. So it is just nonsense. Everybody  
2829 knows that there are all kinds of pulls and tugs in China and  
2830 India and other countries for forcing things, changes the  
2831 prices because of it. You know, we can tinker at the edges

2832 and we can try our best and we can do it from our different  
2833 perspectives, but to say it is the President's policies is  
2834 just poppycock, as far as I am concerned.

2835 I would rather focus on a few bipartisan things. Our  
2836 colleague, Congressman Shimkus, mentioned earlier our bill,  
2837 his bill and my bill, the Open Fuel Standard, H.R. 1687,  
2838 which requires new automobiles to be alternative vehicles  
2839 capable of operating on another fuel in addition to or  
2840 instead of gasoline. Any type of fuel would qualify, natural  
2841 gas, electricity, biodiesel, hydrogen, alcohol-based fuels,  
2842 or anything else. And the beauty of this bill which I have  
2843 been sponsoring for a number of years is that it would open  
2844 up the marketplace so that other fuels could compete with  
2845 gasoline. Any other fuel on the market can decide. When I  
2846 was in Brazil, when you pull up to a refueling station you  
2847 can choose to put methanol, ethanol, or gasoline into your  
2848 vehicle. It is competition. Competition helps drive down  
2849 prices. You can base that choice on cost or whether the fuel  
2850 is produced domestically, or whatever criteria the consumer  
2851 chooses. So I think we should have similar choice. We could  
2852 have flex fuel vehicles in this country for \$100 or less per  
2853 car, and I think is it criminal that we are not doing it. So  
2854 that is what the Open Fuel Standard Act would provide, it  
2855 would provide a choice.

2856 I would like permission to submit for the record two  
2857 studies. One is the interdisciplinary study from the  
2858 Massachusetts Institute of Technology called ``The Future of  
2859 Natural Gas'' from June 9, 2011, which finds that the  
2860 conversion of natural gas to methanol would provide a cost  
2861 effective route to manufacturing an alternative or supplement  
2862 to gasoline. Methanol can also be produced from other fossil  
2863 fuels or from renewable resources such as agricultural  
2864 products, municipal waste, and biomass. And I would also  
2865 like to submit for the record a CAN report entitled  
2866 ``Ensuring America's Freedom of Movement: A National Security  
2867 Imperative to Reduce U.S. Oil Dependence'' from October of  
2868 2011, which notes that a light duty tri-flex fuel vehicle  
2869 running on methanol, ethanol, and gasoline would be an  
2870 effective and cost efficient way that could greatly reduce  
2871 our dependence on foreign oil.

2872 I also want to note that the 2010 Work Truck Show is  
2873 going on in Indianapolis just this week. General Motors is  
2874 introducing two new bi-fuel compressed natural gas and  
2875 regular petroleum gas-powered trucks, the 2013 Chevrolet  
2876 Silverado and the 2013 GMC Sierra 2500 HD. Both of these  
2877 vehicles can burn either fuel and GM promises that the on-  
2878 the-go switch between the different fuel types is seamless.  
2879 I really want to mention that.

2880 I also would like to ask a couple of quick questions on  
2881 behalf of the travel and tourism industry. The impact of  
2882 rising gasoline prices is really felt by industries like the  
2883 travel and tourism industry. It is enormously sensitive to  
2884 high gas and energy prices. I am wondering if some of the  
2885 panelists can comment on that. Fifty cents rising in  
2886 gasoline since December, the estimates are that a 50-cent  
2887 increase in gasoline prices in 1 year translates to a 70  
2888 billion impact on the economy as a whole, so I would like any  
2889 one of the panelists to comment on that, and also to comment,  
2890 we have tinkered around the Strategic Petroleum Reserve and  
2891 the risk of opening it up to address the problem now. I  
2892 would like anyone who cares to comment on this.

2893 Mr. {Milburn.} Mr. Engel, in the trucking industry our  
2894 diesel fuel costs have a direct impact every day on the whole  
2895 economy. We are transporting goods and materials across this  
2896 country every day. You weren't here for my opening  
2897 testimony, but the regulations regarding the new fuels is  
2898 going to add \$6,200 to the cost of a new vehicle for me.  
2899 With the increase in fuel, I cannot afford to keep putting  
2900 back money to replace my truck, which is currently 3 years  
2901 old and has over half a million miles on it, by 2014 with the  
2902 new standards that the EPA is requesting. But when I am out  
2903 here every day driving and transporting goods and services,

2904 it has a direct effect upon the economy and raising inflation  
2905 and the cost of everything we do out here. The suit you are  
2906 wearing, the car you are driving, we all haul it.

2907 Mr. {Engel.} Let me just--I know I am running out of  
2908 time. Mr. Milburn had his hand up.

2909 Mr. {Weiss.} Thank you, and your question about the  
2910 Strategic Petroleum Reserve--

2911 Mr. {Engel.} Weiss, I am sorry.

2912 Mr. {Weiss.} That is okay. I knew who you meant. I  
2913 know we are both very good looking fellows, so it easy to mix  
2914 us up.

2915 There was a misstatement made earlier. In fact, the  
2916 price of oil dropped 17 percent from the day that the  
2917 President announced the sale on June 23 to the day that the  
2918 last barrel of oil was sold on September 30, and the price of  
2919 gasoline dropped almost 6 percent during that same time, or  
2920 about 25 cents a gallon. So in fact, selling 30 million  
2921 barrels of oil last year of our reserves and 30 million  
2922 barrels of our ally's reserve, putting that on the market did  
2923 actually reduce prices during that time.

2924 Mr. {Drevna.} Mr. Engel, thank you. As comment on  
2925 that, yes, the 30 million barrels we put out in that little  
2926 bit of timeframe was about 9 hours worth of oil on the global  
2927 market. Imagine what would happen if we opened up more

2928 resources, if we got off the 60 percent of imported oil that  
2929 we are now to use our own and use Canada's. That is number  
2930 one.

2931         Number two, you talked about your free choice--your free  
2932 fuel, free car act. It would be free if we--if the refiners  
2933 weren't obligated parties to a mandate. So you can't say  
2934 something is free if we are mandated to use 36 billion  
2935 gallons of non-free kinds of fuels. So we would be more than  
2936 willing to talk to you about how this would work, but let us  
2937 keep the consumer in mind and let us keep the free market in  
2938 mind. So if we are going to do something that is based on a  
2939 free market, let us have free market in competition, and it  
2940 ultimately will help the consumer.

2941         Mr. {Whitfield.} Gentleman's time is expired. At this  
2942 time I recognize the gentleman from Oklahoma, Mr. Sullivan,  
2943 for 5 minutes.

2944         Mr. {Sullivan.} Thank you, Mr. Chairman, and my first  
2945 question is to Mr. Gerard.

2946         Mr. Gerard, the President stated in the State of the  
2947 Union address, he called for increased American made energy  
2948 resources. But as we know, actions speak louder than words.  
2949 At the same time, he is calling for more oil and gas. His  
2950 Administration has 10 different federal agencies considering  
2951 ways to overregulate hydraulic fracturing, the process we use

2952 to get tight oil and natural gas out of the ground. Some of  
2953 these agencies looking to potentially take hydraulic  
2954 fracturing regulation from the States, where it belongs,  
2955 including the Department of Energy, EPA, and the Department  
2956 of Interior. Do you have any concerns that this  
2957 Administration will make hydraulic fracturing economically  
2958 prohibitive to drill oil on both public and private lands,  
2959 and can you go into how hydraulic fracturing can increase the  
2960 supply of oil in America?

2961 Mr. {Gerard.} Yes, we are very concerned by what is  
2962 going on at the federal level. As you know, hydraulic  
2963 fracturing has been around for 60 years. We have drilled  
2964 over a million wells with this technology. We have improved  
2965 it greatly. The technology is advanced. And today--and  
2966 going back to Mr. Engel's point earlier when he was talking  
2967 about natural gas vehicles, all that is made possible in the  
2968 United States today because of the vast supply of natural  
2969 gas. It is a game changer. It literally changes the energy  
2970 equation in this country, so we are very concerned about what  
2971 we see going on within the Administration.

2972 A week or so ago EPA Administrator Jackson commented,  
2973 she said well, the States are doing a good job of regulating.  
2974 Well, they have been there for many, many years. The  
2975 governors think they are protecting their land, their water

2976 and their people very well. Our greatest concern is the  
2977 Federal Government is now going to come in and overlay yet  
2978 another layer of regulation to duplicate, conflict, or to  
2979 crank down our ability to produce these vast resources here  
2980 in the United States.

2981 As you mentioned today, there are 10 federal agencies  
2982 looking to regulate natural gas. Now we have got the Center  
2983 for Disease Control, we have got the Army Corps of Engineers,  
2984 we have got the Department of Agriculture. All these you  
2985 probably haven't thought of before are looking to regulate  
2986 hydraulic fracturing in one way or another. So it is a very  
2987 serious consideration.

2988 The other thing I would add, in talking to governors  
2989 around this country, those in North Dakota, Pennsylvania, and  
2990 elsewhere that have seen this vast change, in the last 18  
2991 months we have created 83,000 jobs in the State of  
2992 Pennsylvania as a result of these newfound preferred  
2993 technologies to produce natural gas. Governors are very  
2994 worried the Federal Government is going to come in and  
2995 overlay another level of regulation that will discourage this  
2996 production. Over the next 5 years, if we are not allowed to  
2997 use natural gas, it will by and large take off the table 45  
2998 percent of our gas production, 17 percent of our oil  
2999 production by stopping the use of that proven technology.

3000 Mr. {Sullivan.} And you mentioned that we have done  
3001 fracking for 60-some odd years. I believe there are probably  
3002 over a million fracks, I believe.

3003 Has there ever been one instance, Mr. Gerard, that you  
3004 can point to that it has ever gotten into groundwater?

3005 Mr. {Gerard.} There are zero confirmed cases of  
3006 groundwater contamination after 60 years of hydraulic  
3007 fracturing over a million wells.

3008 Mr. {Sullivan.} Why do you think that we have done it  
3009 for--it is not a new technology. We have done it for a long  
3010 time. Why all the sudden all this talk about it is so bad?

3011 Mr. {Gerard.} Well it tends to be heavily driven by  
3012 those who would prefer to move us off of fossil fuels and  
3013 specifically off of natural gas and oil.

3014 Mr. {Sullivan.} Thank you very much.

3015 Mr. Drevna, my next question is for you. President  
3016 Obama's Executive Order 13563 required agencies to look for  
3017 existing regulations that could be streamlined or repealed.  
3018 Has EPA done this for refinery regulations? This is a three-  
3019 part question. The Executive Order also requires agencies to  
3020 look at the cumulative burden of regulations, which would  
3021 seem particularly important for refiners which have been  
3022 subject to a very long list of EPA measures. Has EPA looked  
3023 at the cumulative burden on refineries? The Executive Order

3024 also urges agencies to take pains to minimize the cost of new  
3025 rules and ensure that the benefits justify the costs. Do you  
3026 see evidence of this at the EPA?

3027 Mr. {Drevna.} In short order of the three questions,  
3028 no, no, and no.

3029 Now if I may be permitted to expand upon that somewhat,  
3030 not only have they not, you know, looked at regulations that  
3031 have impacted refiners and ultimately the consumer, which I  
3032 think this hearing--I hope this hearing is about, it is the  
3033 fact that they are giving us conflicting regulations. They  
3034 are piling more on. I mean, you look at what we have to do,  
3035 Congressman, on the Renewable Fuel Standard, so we are  
3036 blending more and more in and we are at a point now where we  
3037 are going to have to make a decision. Do we comply with ISA  
3038 07, or do we protect the consumer?

3039 And then we are asked to lower--I mean, to have better  
3040 CAFÉ standards. That is a good thing, but so we are blending  
3041 more stuff into gasoline that gets less mileage. And then we  
3042 are asked to take more sulfur out that increases--at a cost,  
3043 and then we are going to increase CO2. So you wonder why we  
3044 are, you know, running around in circles as refiners. Just  
3045 say wait a minute, has anyone gotten out of their own little  
3046 vacuum here and looked at the overall impact of all these  
3047 regs and how they are conflicting?

3048           And just to go back a little in history, I testified in  
3049 2008 in February--I mean, the ink wasn't dry on ISO 07 that  
3050 Senator Bingaman was holding a hearing on oversight on that  
3051 bill, and you know, of course Tier 3 wasn't on the table at  
3052 that time, but at that time we testified and we said Senator,  
3053 which one of these bills, which one of these things do you  
3054 want us to comply with? And then now we have EPA talking  
3055 about well, it is okay to use E-15 in automobiles, except the  
3056 automobile folks are saying oh, no way. We are not going to  
3057 warranty those. It is okay to use, you know--we have to  
3058 blend nine million gallons of something called cellulosic  
3059 ethanol that doesn't exist, you know, and you wonder why  
3060 refineries are scratching their heads right now, and that--so  
3061 the answer is no. We need the EPA to really take a long,  
3062 hard look at what the President said and act in earnest to  
3063 try to work with us to figure out a path forward out of this  
3064 thing. Right now we keep running into brick walls.

3065           Mr. {Sullivan.} Thank you very much.

3066           Mr. {Whitfield.} The gentleman's time is expired. At  
3067 this time I recognize the gentleman from Colorado, Mr.  
3068 Gardner, for 5 minutes.

3069           Mr. {Gardner.} Thank you, Mr. Chairman, for holding  
3070 this hearing today, and thank you as well to the witnesses  
3071 for their time and thoughtful comments.

3072           Just a couple of questions. I heard Mr. Weiss say that  
3073 the Strategic Petroleum Reserve had an impact on price, and I  
3074 can't help but thinking the minority leader has talked about  
3075 increasing--you know, tapping or drawing down the Strategic  
3076 Petroleum Reserve. We have heard others say that they want  
3077 to tap into the Strategic Petroleum Reserve. Now my guess is  
3078 that is for a very simple reason. People would tap into the  
3079 Strategic Petroleum Reserve because of supply and because of  
3080 price, and the economic argument says that if you increase  
3081 supply, if you increase the amount of oil that comes out of  
3082 the Strategic Petroleum Reserve, then it has an impact on  
3083 price. It was said here at this Committee hearing, that it  
3084 impacted price. Well that in itself is an argument for  
3085 increased supply. So all this argument that supply doesn't  
3086 matter is defeated by the argument that the Strategic  
3087 Petroleum Reserve had an impact on price.

3088           So the answer is before us. If we increase domestic  
3089 supply, then it will impact price and it will reduce the  
3090 price, just as the tap of the Strategic Petroleum Reserve  
3091 did, so that is pretty obvious.

3092           Mr. McNally, is that an incorrect analysis?

3093           Mr. {McNally.} No, you are right. Increasing supply  
3094 does reduce the price. In the case of the SPR, though, it  
3095 bought us 4 days in 2011, and we did a little better in 2000

3096 when 60 days before the election, President Clinton invited  
3097 Al Gore to announce a stock draw, over the objections of his  
3098 Treasury Secretary and the Federal Reserve chairman. That  
3099 was a little better, that was 12 days, but it is short-term.  
3100 What we really need is to increase production and supply over  
3101 the long term. That will have a permanent effect.

3102 Mr. {Gardner.} And because as the Strategic Petroleum  
3103 Reserve drawdown suggested, supply had an impact on price.

3104 Mr. {McNally.} Correct.

3105 Mr. {Gardner.} And so if you have more supply available  
3106 in the United States, whether it is domestic drilling,  
3107 whether it is the Keystone XL pipeline, whether it is using  
3108 the oil developed through Niobrara oil formations in  
3109 Colorado, that increases supply and will have an impact on  
3110 price.

3111 Mr. {McNally.} Correct.

3112 Mr. {Gardner.} Thank you. And so the question I have  
3113 then is do you think it is wise to access the Strategic  
3114 Petroleum Reserve now or increase our domestic supply?

3115 Mr. {McNally.} I think--well, it is better to increase  
3116 our domestic supply for the long term, but as we have been  
3117 saying, there is no short-term solution to the prices we have  
3118 right now. It would have been nice to have had the 700,000  
3119 barrels a day that would have flown to our Gulf refineries

3120 through Keystone by now, because we could have said to our  
3121 Saudi friends, our Kuwaiti friends, we don't need that  
3122 700,000 barrels a day, please send it to China and India,  
3123 because we are asking them to lower their imports of Iranian  
3124 crude. That would be nice, but we can't fix that overnight.

3125 Mr. {Weiss.} Mr. Gardner, can I address that since,  
3126 you--

3127 Mr. {Gardner.} Actually I have a couple of questions  
3128 for Mr. McNally. Thank you.

3129 What are the signs of true market manipulation by  
3130 speculators, and then just a follow up question to that,  
3131 historical examples that exist in oil companies or oil and  
3132 other commodities?

3133 Mr. {McNally.} Traditionally in order for speculators  
3134 to distort prices, they have to manipulate or hoard physical  
3135 supply. There have been cases in the past, Mark Rich, et  
3136 cetera, where physical people bought the actual commodity,  
3137 hid it somewhere, took it off the market, and then went along  
3138 the futures and squeezed people, and we police very carefully  
3139 for that. There was no evidence anywhere that we saw a  
3140 hoarding of inventory or some indication that either OPEC or  
3141 some private company was hoarding oil prices were rising--as  
3142 oil prices were rising into 2008 and even now, as I  
3143 mentioned, inventories are actually very low and spare

3144 capacity is tight. It is the absence of inventory hoarding  
3145 which I think convinces the independent unbiased experts have  
3146 looked at this, including myself as a private market analyst,  
3147 that there is no distortion going on.

3148 Mr. {Gardner.} Thank you.

3149 Mr. Milburn, a couple of questions for you. You  
3150 mentioned talking about some of the regulations and the  
3151 impact those regulations are having on the price of diesel.  
3152 They have increased the price of diesel fuel, is that  
3153 correct?

3154 Mr. {Milburn.} Significantly.

3155 Mr. {Gardner.} And you are not able to get as many  
3156 miles as you were per gallon of diesel because of  
3157 regulations?

3158 Mr. {Milburn.} No, sir. Prior to the advent of the  
3159 ultra low sulfur diesel, which I talked about earlier, the  
3160 trucks were actually getting better fuel mileage. The ultra  
3161 low sulfur diesel has reduced the lubricity of the diesel,  
3162 causing, you know, more wear and tear on the engines, and yet  
3163 we are talking about going to compressed natural gas for a  
3164 future energy source, but we are not there yet. That  
3165 compressed natural gas engine for Class A trucks is going to  
3166 be able to do the job hauling, in your State of Colorado, up  
3167 the Rocky Mountains. We are going to need the power.

3168 Mr. {Gardner.} And Mr. Milburn, are you using--if there  
3169 was something else available that was as affordable--actually  
3170 less cost than gasoline or diesel that was equally available,  
3171 that you could go to any convenience store and find, would  
3172 you use that?

3173 Mr. {Milburn.} If it--

3174 Mr. {Gardner.} If it was efficient for your--

3175 Mr. {Milburn.} If it was efficient for my trucking  
3176 operation, yes, I would.

3177 Mr. {Gardner.} And so you are not just using oil for  
3178 the sake of using oil?

3179 Mr. {Milburn.} No, sir. You know, OOIDA's position is  
3180 that we want to see further use--

3181 Mr. {Gardner.} But it is the most economical thing that  
3182 you have right now, which--

3183 Mr. {Milburn.} It is right now.

3184 Mr. {Gardner.} --is why we need to--

3185 Mr. {Milburn.} Plus the compressed natural gas stations  
3186 are not en route. There is one in Baytown, Texas. That is  
3187 the only one that I know of at this point, is in Baytown,  
3188 Texas, for commercial trucks.

3189 Mr. {Gardner.} Mr. McNally, if I could ask you one  
3190 final question. The Rocky Mountain region, we have seen  
3191 consumers paying 50 to 54 cents less per gallon in the Rocky

3192 Mountain region because of the availability of West Texas  
3193 Intermediate. What would happen if others had--you know, I  
3194 guess what I am asking is how--if we had a better balance of  
3195 West Texas Intermediate or of some of the supplies, what  
3196 would happen around the country?

3197 Mr. {McNally.} The Energy Information Administration  
3198 has noted because the Rocky Mountains, what we call Pad 4, is  
3199 relatively self sufficient in refining, it has been able to  
3200 enjoy the lower crude prices and have lower gallon gasoline  
3201 prices. Everywhere else though in the Midwest, consumers are  
3202 not enjoying the benefit of the glutted crude. Refiners who  
3203 are in the Midwest are unable to gorge on low price crude and  
3204 so world gasoline prices are doing very well. Canadian  
3205 producers and U.S. producers, not so well, but American  
3206 consumers outside of the Rocky Mountain region really haven't  
3207 seen any benefit, and when that distortion is removed and  
3208 that oil flows, they won't see prices--

3209 Mr. {Gardner.} So once again, a supply issue?

3210 Mr. {McNally.} Yes, sir.

3211 Mr. {Gardner.} Thank you.

3212 Mr. {Whitfield.} Thank you. Well, that--

3213 Mr. {Rush.} Mr. Chairman?

3214 Mr. {Whitfield.} Yes?

3215 Mr. {Rush.} Mr. Chairman, I have a unanimous consent

3216 request. One, that I have two letters here that I spoke of  
3217 in my opening statement. One is to the chairman of the  
3218 Commodities Futures Trading Commission dated March 1, 2012.  
3219 It was sent by me to Chairman Gensler. I want that  
3220 introduced into the record. I request unanimous consent that  
3221 that be introduced into the record.

3222 Mr. {Whitfield.} Without objection.

3223 Mr. {Rush.} The second is a bicameral letter dated  
3224 March 5, 2012, to the entire Commission, and I would like  
3225 that introduced into the record.

3226 Mr. {Whitfield.} Without objection.

3227 [The information follows:]

3228 \*\*\*\*\* COMMITTEE INSERT \*\*\*\*\*

|  
3229           Mr. {Rush.} My last unanimous consent request is that  
3230 Mr. Weiss indicated that he had--he indicated in his  
3231 testimony or during his testimony that there was a report, a  
3232 2009 report by the Commodities Futures Trading Commission. I  
3233 would like to, of course, through the Chair, get that and  
3234 have that entered into the record, and any additional reports  
3235 that you might have also, to get those introduced into the  
3236 record.

3237           Mr. {Whitfield.} Without objection. Does anyone else  
3238 have a document they would like to submit for the record?

3239           Well that concludes today's hearing, but we will keep  
3240 the record open for 10 days in case someone feels moved to  
3241 submit additional information. I want to thank all of you  
3242 for taking time to be with us today to explore this important  
3243 issue of gasoline prices and the impact on our economy.

3244           And with that, the hearing is concluded. Thank you.

3245           [Whereupon, at 1:30 p.m., the Subcommittee was  
3246 adjourned.]