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3 HEARING ON THE EFFECTS OF MIDDLE EAST EVENTS ON U.S. ENERGY

4 MARKETS

5 THURSDAY, FEBRUARY 10, 2011

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 9:38 a.m., in
11 Room 2123 of the Rayburn House Office Building, Hon. Ed
12 Whitfield [Chairman of the Subcommittee] presiding.

13 Members present: Representatives Whitfield, Sullivan,
14 Shimkus, Walden, Terry, Burgess, Scalise, McMorris Rodgers,
15 Olson, McKinley, Gardner, Pompeo, Griffith, Barton, Upton (ex
16 officio), Rush, Inslee, Markey, Green, Capps and Waxman (ex
17 officio).

18 Staff present: Garrett Golding, Professional Staff;

19 Maryam Brown, Chief Counsel, Energy and Power; Carly
20 McWilliams, Legislative Clerk; Elizabeth Lowell, Research
21 Analyst; Cory Hicks, Policy Coordinator, Energy and Power;
22 Aaron Cutler, Deputy Policy Director; Phil Barnett,
23 Democratic Staff Director; Greg Dotson, Democratic Chief
24 Counsel, Subcommittee on Energy and Power; Jeff Baran,
25 Democratic Counsel; Alison Cassady, Democratic Professional
26 Staff Member; and Caitlin Haberman, Democratic Policy
27 Analyst.

|
28 Mr. {Whitfield.} Good morning and welcome, and I am
29 very sorry we are 8 minutes late but we do appreciate this
30 panel being with us this morning. We look forward to your
31 testimony as we have this hearing on the effects of Middle
32 East events on U.S. energy markets.

33 We convene today's hearing to have a discussion on
34 recent developments in the Middle East and North Africa and
35 their effect on world energy markets. Violent protests and
36 political uncertainty in Egypt 2 weeks ago caused a sudden
37 spike in oil prices that, over the past few days, has
38 gradually subsided. The price increase was driven by
39 investor fears over the possible shutdown of the Suez Canal
40 and Sumed Pipeline, which transport up to 3 million barrels
41 of oil per day.

42 These events provide a catalyst for deeper examination
43 of the economic and geopolitical factors that contribute to
44 the pricing of oil and its impact on the United States.
45 Events in the Middle East also demonstrate a number of facts.
46 One, oil is a globally traded commodity, the price of which
47 is influenced by basic laws of supply and demand; two,
48 political events can play a major role in influencing the
49 price of oil; and three, half the world's oil is produced in
50 OPEC member states and Russia. Some of these nations are

51 politically and economically unstable, and in a tightening
52 market, unreliable sources of oil will prove increasingly
53 detrimental to price stability and international security.
54 It also certainly reinforces the issue of the importance of
55 Canada and our relationship with Canada as it relates to
56 energy.

57 With these facts in mind, we should turn our attention
58 to the current state of international energy markets. We
59 have a booming demand in China, which greatly outpaces that
60 of the OECD countries. We have seen in 2008 how OPEC spare
61 capacity can reach dangerously low levels during periods of
62 high global demand. We have new frontiers of oil production
63 ranging from the Arctic to enhanced recovery technologies
64 here in the United States. Additionally, we have restricted
65 vast supplies here in North America by government action, or,
66 in many cases, government inaction.

67 Now, how do all of these factors relate to domestic
68 energy policy? For starters, there are numerous steps we can
69 take to protect ourselves from price and supply shocks. The
70 National Petroleum Council estimates we have upwards of 40
71 billion barrels of oil locked away in the eastern Gulf of
72 Mexico, Atlantic and Pacific Coasts, on- and offshore Alaska,
73 that are currently off-limits for production. These 40
74 billion barrels are double the proven reserves in the United

75 States today. These resources could easily double our
76 domestic production capacity and replace our imports from the
77 Middle East. This is the quickest and most efficient way of
78 reducing dependence on foreign sources and ensuring
79 environmental safety. Any barrel we do not produce here in
80 the United States or Canada will have to be produced in a
81 remarkably less safe, less regulated, and more
82 environmentally damaging manner in Nigeria, Venezuela, Angola
83 and other states where environmental quality is a
84 depressingly low priority. Essentially, failing to produce
85 domestic energy guarantees environmental harm elsewhere in
86 the world. Events in Tunisia, Egypt, Jordan, Algeria and
87 Yemen show how uncertain and dangerous this world is.
88 Furthermore, these developments show how the price of oil can
89 bend to the will of protesters thousands of miles away from
90 our shores. How we react and adapt to this inconvenient
91 reality is a test of political leadership that will play a
92 major role in the economic and national security of America,
93 and that is why we are so appreciative of all of you being
94 here and we look forward to your testimony.

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

96 ***** COMMITTEE INSERT *****

|
97 Mr. {Whitfield.} With that I will recognize the
98 gentleman from Illinois for his opening statement.

99 Mr. {Rush.} I want to thank you, Mr. Chairman, and I
100 want to thank all the witnesses for their presence here
101 today, and I want to thank you for holding today's hearing to
102 highlight our Nation's growing need to address our energy
103 security and to improve our energy independence.

104 Energy supply and demand are key components to the
105 American economy. They all affect all dimensions of our
106 lives from driving to work, feeding our families to heating
107 and cooling our homes. Notwithstanding energy's fundamental
108 important, the markets and exchanges on which are energy
109 sources are traded remains extremely volatile and
110 unpredictable. I think I can safely say that a consistent
111 theme we will be hearing throughout this morning is that it
112 is in America's best strategic and economic interests to
113 become less and less dependent on foreign oil, gas and other
114 fossil fuels in as short a time frame as possible.

115 The Obama Administration understands this perfectly
116 well, which is why it has set the ambitious goals of, one,
117 putting 1 million electric automobiles on America's streets
118 and highways and into America's families' garages and parking
119 lots by 2012; two, unleashing a clean energy revolution to

120 double the supply of renewable energy by the end of 2012;
121 three, doubling America's exports by the end of 2015; and
122 four, dramatically decreasing American dependence on
123 traditional fossil fuels so that by 2035 approximately 80
124 percent of America's electricity is sourced by renewables.
125 That is also why the Obama Administration is putting our
126 country on a prudent course to disrupt our existing paradigms
127 and business models which yield insufficient energy
128 reliability and efficiency, disastrous environmental
129 consequences and lackluster competitiveness in international
130 trade. Rather, the new paradigm focuses on making
131 substantial public investments and designing incentives to
132 encourage major private investments as well as leveraging
133 speedier deployments of advanced electric and smart grid
134 technologies and networks.

135 In past sessions of Congress, we have set policies aimed
136 at achieving this. We have lowered dependency on volatile
137 world oil markets by reducing our appetite for oil and gas.
138 Under Congress's direction and the stewardship of the
139 Department of Energy and the Environmental Protection Agency,
140 the EPA, we have made sufficient and significant progress
141 towards improving our Nation's energy efficiency. But our
142 dependency as individuals, families and businesses on
143 imported energy sources is still far too great.

144 Allow me to commend you, Mr. Chairman, for calling this
145 timely hearing, especially as we are in the midst of winter
146 with record-breaking low temperatures and snowfalls in many
147 parts of the country, including my own city and State, while
148 at the same time our lagging economy imposes added pressures
149 on America's budgets, especially those of the unemployed and
150 the working poor.

151 I must say that regardless of the policy choices that
152 have been made by this Administration or this Congress, our
153 low-income families must always be offered and given needed
154 assistance to cook and heat their homes in winter. I have
155 been a staunch supporter and advocate for the crusade and led
156 by the effort in Congress to fully fund LIHEAP at \$5.1
157 million in fiscal year 2010 and to increase access and
158 eligibility for low-income families, the elderly and seniors
159 all over the country. However, I am very disappointed and
160 disturbed that the Administration in proposing its fiscal
161 year 2012 budget plans to reduce LIHEAP by roughly \$3.1
162 million. This would amount to a steep cut in funding from
163 \$5.1 million at which the program had been funded for the
164 past 2 years. That is just unacceptable to me and to others.

165 Today's hearing should not be used, Mr. Chairman, to
166 criticize EPA's permitting process to build refineries or to
167 sanction more domestic drilling. In case you have forgotten,

168 let me remind you that EPA's mission, as its name indicates,
169 is to protect the American environment and the country that
170 we inherit.

171 Mr. Chairman, I want to thank you so much. My time is
172 concluded and I yield back whatever balance of time that I
173 have.

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

175 ***** COMMITTEE INSERT *****

|
176 Mr. {Whitfield.} Thank you, Mr. Rush. And at this time
177 I recognize our chairman emeritus, Mr. Barton of Texas, for 5
178 minutes.

179 Mr. {Barton.} I am only going to use 1 minute, Mr.
180 Chairman.

181 Yesterday we had a hearing on a domestic issue, the
182 Environmental Protection Agency and its effort to regulate
183 the U.S. economy through regulating greenhouse gases. It is
184 a very important issue domestically. Today we are focusing
185 internationally, the situation in the Middle East,
186 specifically in Egypt, its impact on energy markets. I think
187 it is safe to say that in a global economy, unrest in the
188 Middle East with the Suez Canal and the political situation
189 not just in Egypt but in a number of the Islamic countries,
190 should give the United States pause. I think it points out
191 the fact quite plainly that we need to develop our domestic
192 energy resources.

193 I was heartened to hear President Obama in his State of
194 the Union talk about natural gas and clean energy. We don't
195 have a lack of energy resources in this country, Mr.
196 Chairman. We do have a lot of political consensus on how and
197 infrastructure to develop this. Hopefully, this hearing will
198 build the case that it is time to move forward domestically.

199 I notice we have a former member, Mr. John. I am sure he is
200 going to talk about the situation in the Gulf of Mexico and
201 the de facto moratorium on new exploration there.

202 So with that, I appreciate the hearing and I would like
203 to yield to the gentleman from Illinois, Mr. Shimkus.

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

205 ***** COMMITTEE INSERT *****

|
206 Mr. {Shimkus.} Thank you, Mr. Chairman.

207 Mr. Chairman, I am an Obama skeptic when it comes to
208 energy security. We have the resources available in North
209 American energy supplies to be energy independent when we
210 talk about North American.

211 It is great to see my friend Chris John here. He will
212 talk about the ``permatorium,' ' and when the economy starts
213 recovering and gas prices reach \$4, \$4.50, \$5 a gallon, we
214 are going to ask why does this Administration continue to
215 delay, obstruct oil and gas exploration in the Gulf. And
216 then--and I am very pleased to see Mr. Mar here on the
217 Canadian oil stand. You know, this Administration pending
218 with the State Department permission to obviously bring the
219 oil down to continental United States. In his testimony in
220 appendix A, it talks about jobs. Yesterday was about jobs.
221 There is no bigger job creator in the State of Illinois right
222 now than this pipeline and the direction straight to the Wood
223 River Refinery, which is right outside my district, a \$2
224 billion pipeline, \$2 billion expansion of refinery, the jobs.
225 Of course, another great Illinois company, Caterpillar, is
226 being used extensively up there. We are talking again the
227 increase in jobs between 2009 to 2025 of 26,000 jobs.

228 Folks, that has been my message consistently over the

229 past 5 years about high-paying, good jobs in the fossil fuel
230 industry that the past Congresses and this Administration
231 continue to want to destroy. And so as we look and have this
232 testimony, we are talking about the threat of constrained
233 crude oil based upon the geopolitical world. This would not
234 be as much of a dangerous situation if we accessed our
235 resources in the Gulf, if we accessed our resources with our
236 Canadian friends, allies, and if we don't do this pipeline,
237 that pipeline could go west and guess where? To China.
238 Which is part of our debate yesterday, whether we want to
239 create jobs in China or whether we want to create jobs in the
240 United States.

241 I am very excited about this hearing. I appreciate all
242 the panelists in attendance and I yield back my time.

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

244 ***** COMMITTEE INSERT *****

|
245 Mr. {Whitfield.} Thank you. At this time I recognize
246 Mr. Waxman of California, the ranking member.

247 Mr. {Waxman.} Thank you very much, Mr. Chairman.

248 The recent events in Egypt have once again exposed our
249 dependence on foreign oil. Although Egypt isn't a major
250 producer of oil, the Suez Canal and the Suez Mediterranean
251 pipeline are crucial shipping links for global oil and gas
252 markets. Instability there has increased oil prices around
253 the world.

254 For years, decades, really, the Energy Information
255 Administration projected that U.S. oil consumption would grow
256 year after year, and it did. By 2005, nearly 60 percent of
257 U.S. fuels were imported. Sixty percent is imported. And
258 the future looked bleak, higher oil consumption and more
259 imports far into the future.

260 The solution offered by the Bush Administration was to
261 drill out way out of the problem, and I know we are going to
262 hear this proposed solution again today. We will hear that
263 increased domestic production is the answer. But more U.S.
264 production is never going to be enough to appreciably reduce
265 global oil prices or U.S. imports of foreign oil. We use 25
266 percent of the world's oil but we only have 2 percent of the
267 world's oil reserves. So we can double it and we could even

268 triple it, and it is simply not going to affect global oil
269 prices much. The key to making progress is to focus on how
270 much oil we use. Reducing our share of global oil
271 consumption from 25 percent can have a real impact both on
272 global oil prices and on imports.

273 The new motor vehicle standards promulgated by the Obama
274 Administration are exhibit A for benefits of greater
275 efficiency. In 2009, the Administration brokered an
276 agreement to provide the auto industry with coordinated fuel
277 economy and greenhouse gas emissions standards for model
278 years 2012 through 2016. This effort was supported by the
279 auto industry, the States and environmental advocacy groups.

280 The carbon pollution tailpipe standards have had a
281 remarkable impact. This national program is projected to
282 save 1.8 billion barrels of oil. The Administration
283 estimates that the standard yields net savings to consumers
284 of roughly \$130 to \$180 per year and \$3,000 over the life of
285 the vehicle. Most remarkable is the impact of these
286 standards on U.S. oil imports and consumption. As this chart
287 shows on the screen, the Energy Information Administration
288 now projects that we will be importing less oil in the future
289 than we did in 2007, reversing decades of increasing reliance
290 on foreign oil. And in a fundamental and historic shift,
291 overall U.S. consumption of oil is predicted to stop growing.

292 As the second chart shows, by requiring improvements in
293 how efficiently we use oil, the Administration has reversed a
294 dangerous trend. The Administration wants to build on this
295 success with stronger standards after model year 2016, and it
296 is also working on standards for trucks and other commercial
297 vehicles. These standards could save even more money at the
298 pump while further reducing our dependence on foreign oil.

299 Incredibly, the new Republican Majority in Congress is
300 opposed to these efforts. Chairman Upton and Senator Inhofe
301 have proposed legislation to block EPA from setting new motor
302 vehicle standards. This subcommittee held a hearing on this
303 bill yesterday. We need more energy independence, not less.
304 We need more savings for consumers at the pump, not fewer.
305 We need to use oil more efficiently so that we can import
306 less of it, but the Upton-Inhofe bill would take us in
307 exactly the wrong direction. It would block one policy that
308 has proven that it works. The Upton-Inhofe bill is great for
309 oil companies like Koch Industries, which spent millions of
310 dollars electing Republicans, but it is a public health,
311 economic and national security disaster for all the rest of
312 us.

313 As we learn more today about the challenges of being
314 dependent on oil from the Middle East, I hope all members
315 will consider what is at stake. We are finally heading in

316 the right direction. It would be a costly mistake to halt
317 our progress. Yield back.

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

319 ***** COMMITTEE INSERT *****

|
320 Mr. {Whitfield.} Thank you.

321 At this time we are going to ask our panel to give their
322 opening statements, and we have with us this morning Mr.
323 Richard Newell, who is Administrator of the Energy
324 Information Administration. We have Mr. Gary Mar, Minister-
325 Counselor from the province of Alberta. We have Mr. Adam
326 Sieminski, Chief Energy Economist, Deutsche Bank. We have
327 Mr. Hofmeister, who is President of Citizens for Affordable
328 Energy. We have Mr. Chris Busch, Director of Policy and
329 Program, Apollo Alliance. And our former colleague, Mr.
330 Chris John, president of Louisiana Mid-Continent Oil and Gas
331 Association.

332 So Dr. Newell, I will call upon you to begin with the
333 opening statements. You are recognized for 5 minutes.

|
334 ^STATEMENTS OF RICHARD G. NEWELL, PH.D., ADMINISTRATOR,
335 ENERGY INFORMATION ADMINISTRATION; HON. GARY MAR, MINISTER-
336 COUNSELOR, PROVINCE OF ALBERTA; ADAM SIEMINSKI, CHIEF ENERGY
337 ECONOMIST, DEUTSCHE BANK AG; JOHN HOFMEISTER, FOUNDER AND
338 CEO, CITIZENS FOR AFFORDABLE ENERGY; CHRIS BUSCH, PH.D.,
339 DIRECTOR OF POLICY AND PROGRAM, APOLLO ALLIANCE; AND HON.
340 CHRIS JOHN, PRESIDENT, LOUISIANA MID-CONTINENT OIL AND GAS
341 ASSOCIATION

|
342 ^STATEMENT OF RICHARD NEWELL

343 } Mr. {Newell.} Mr. Chairman, I appreciate the
344 opportunity to appear before you today.

345 The Energy Information Administration is the statistical
346 and analytical agency within the Department of Energy. EIA
347 does not promote or take positions on policy issues and has
348 independence with respect to the information and analysis we
349 provide. Therefore, our views should not be construed as
350 representing those of the Department of Energy or other
351 federal agencies.

352 Given Egypt's small role in the global supply-demand
353 balance for both oil and natural gas, the primary issue for
354 global energy markets is driven by two other concerns.

355 First, there is the concern that unrest could spread to
356 countries with a larger role in supplying world oil markets.
357 There is no doubt that the Middle East and North Africa are a
358 major source of oil supply and other petroleum liquids,
359 supplying about 28 percent of global liquids consumption. At
360 the same time, there is about 5 percent spare crude oil
361 production capacity and roughly 10 percent spare
362 international oil shipping capacity available to the market,
363 and the amount of spare refining capacity is about 5 percent
364 higher now than it was in 2007. There is therefore more
365 flexibility in the global oil system than a few years ago.

366 Second, EIA has looked at a concern more directly
367 related to Egypt involving the possibility of disruption of
368 the Suez Canal or Sumed pipeline, which together carry about
369 3 million barrels a day of oil. The canal and pipeline
370 continue to operate normally, and for reasons outlined in my
371 written testimony, we would expect the direct effect of any
372 closures to be manageable, although there would be
373 undoubtedly an adjustment period.

374 Focusing next on the short-term outlook for oil, EIA
375 expects a continued tightening of world oil markets over the
376 next 2 years. World oil consumption grows by an annual
377 average of 1.5 million barrels per day in 2011 and again in
378 2012 in our outlook while supply growth from non-OPEC

379 countries averages about .3 million barrels per day this year
380 and remains flat in 2012. Consequently, we expect the market
381 to rely on increased OPEC members' production of crude oil
382 and other liquids and some drawdown in inventories to meet
383 world oil demand growth.

384 With tighter world oil market, EIA expects the price of
385 West Texas intermediate crude oil, the key U.S. pricing
386 benchmark, to average about \$93 per barrel in 2011 and \$98
387 per barrel in 2012. EIA expects the retail price of regular
388 gasoline will average \$3.15 per gallon this year and \$3.30
389 per gallon in 2012. However, oil and in turn gasoline price
390 forecasts are subject to a great deal of uncertainty. For
391 example, the market value of futures and options contracts is
392 telling us that there is close to a one in three chance that
393 the price of oil could be above \$110 per barrel at the end of
394 the year.

395 I will now turn to the longer-term projections for oil
396 and other liquids from EIA's annual energy outlook. The
397 reference case, which we released in December, represents an
398 energy future through 2035 that assumes continuance of
399 current market and technology trends, consumer behavior and
400 current laws and regulations. It does not include the
401 effects of potential future policies that have not yet become
402 law but the reference case represents a baseline that is a

403 useful jumping-off point for assessing alternatives.

404 Reference case crude oil prices continue to rise in our
405 long-term outlook as a growing global economy underpins oil
406 demand growth that is more rapid than supply growth from non-
407 OPEC producers. By 2035, the average real price of crude oil
408 in the reference case is \$125 per barrel in 2009 dollars,
409 although we examine a wide range of oil price scenarios.

410 Total U.S. consumption of oil and other liquid fuels
411 grows from about 19 million barrels per day in 2009 to 22
412 million barrels per day by 2025. This modest growth in the
413 reference case reflects increasing fuel prices and
414 implementation of finalized standards and statutory mandates
415 that drive the fuel economy of light-duty vehicles up to 35
416 miles per gallon by 2020. Virtually all of the increase in
417 U.S. liquids consumption is met by biofuels use driven by the
418 federal renewable fuel standard along with increases in
419 natural gas liquids. We expect domestic oil production
420 increases to come from onshore enhanced oil recovery projects
421 and shale oil plays.

422 As a result of this increased domestic production and
423 modest consumption growth, we expect U.S. dependence on
424 imported liquid fuels to continue to decline. After reaching
425 a high of 60 percent in 2005, the imported petroleum share of
426 total liquid fuel use fell to 52 percent in 2009 and

427 continues to decline in our projections to 42 percent by
428 2035.

429 In addition to preparing the baseline projections I have
430 reviewed this morning, our full annual energy outlook to be
431 released this spring will include a large number of
432 sensitivity cases that examine the impact of different market
433 technology and policy assumptions.

434 Mr. Chairman and members of the committee, this
435 concludes my testimony. I look forward to any questions you
436 may have.

437 [The prepared statement of Mr. Newell follows:]

438 ***** INSERT 1 *****

|

439 Mr. {Whitfield.} Thank you, Dr. Newell.

440 At this time I will call on Mr. Mar for his 5-minute

441 opening statement.

|
442 ^STATEMENT OF GARY MAR

443 } Mr. {Mar.} Thank you, Mr. Chairman.

444 For the record, Mr. Chairman, my name is Gary Mar,
445 Minister-Counselor here in Washington, D.C., and I represent
446 the government of Alberta, a province of Canada. I thank you
447 very much for the opportunity to be here today. As a former
448 elected official in the province of Alberta, I have had
449 ministerial responsibilities in areas including health and
450 environment, and I, like you, have had the privilege of
451 debating difficult issues and making tough decisions on
452 behalf of the people who elected me over a period of 14
453 years.

454 The issue before you here today is that of energy and
455 where and how you will obtain that energy, particularly oil,
456 and I believe that my home province, Alberta, has and will
457 continue to have a very important role in providing the
458 United States with an alternative to foreign oil supplies,
459 and I hope that nobody here takes offense with Alberta not
460 really considering itself to be a foreign supplier.

461 Now, if I can leave you with three things to take away
462 from my presentation on Alberta oil, they are, number one,
463 security of supply, number two, economic benefits, and number

464 three responsible development. This is a combination of
465 attributes that is not readily associated with many of the
466 other countries in the world that the United States gets is
467 oil from.

468 For the past 5 years, Canada has and continues to be the
469 largest supplier of imported oil to the United States. In
470 2009, Canada supplied 23 percent of America's oil imports,
471 more than double the imports that come from Saudi Arabia and
472 more than four times the imported oil that comes from Iraq.
473 The lion's share of Canada's exports comes from Alberta's oil
474 sands. If you look at Alberta in isolation, we provide 17
475 percent of your total crude oil imports, and that is in
476 volume 1.5 million barrels of oil per day that comes to you
477 from Alberta in a transportation system that doesn't move
478 called a pipeline. This number will grow, and the question
479 perhaps for you is, how much will it grow by.

480 The province of Alberta has the distinction of being the
481 largest OECD jurisdiction capable of substantially increasing
482 oil production to meet future demand. In fact, it is
483 forecast that by the year 2019 Alberta will be producing 3.3
484 million barrels of oil per day compared to current production
485 of 2 million barrels. That represents security of supply.
486 Moreover, our oil comes from a politically stable and
487 democratic neighbor and is sent to the United States via

488 pipeline so it is not affected by political unrest or other
489 disruptions, a point that was supported very recently by a
490 released report of the United States Department of Energy.

491 Alberta oil also far exceeds any other foreign source of
492 oil and economic return that it brings to the United States,
493 and Hon. Shimkus's example of Caterpillar is but one example.
494 I was at Caterpillar's offices in East Peoria yesterday. The
495 largest collection and concentration of Caterpillar trucks in
496 the world is around the area of Fort McMurray, is what I was
497 advised by the people from Caterpillar.

498 For every dollar that the United States spends on
499 Canadian products, you get 91 cents in return from the
500 products that we turn around and buy from you. The United
501 States is our largest trading partner by far. There are
502 currently estimated, and this is a very conservative
503 estimate, at the very least more than 900 U.S.-based
504 businesses that are suppliers for Canadian oil sands and
505 related pipeline projects. Mr. Chairman, your State is home
506 to three of those companies. The vice chairman's home state
507 is home to 36 of them. In addition, over the next 4 years
508 America will gain 343,000 new jobs as a result of oil sands
509 development.

510 Major U.S. companies like ConocoPhillips, Exxon, Devon
511 and Marathon have oil sands operations in the province of

512 Alberta. These companies all have firsthand understanding of
513 the stringent rules in place to ensure that energy is
514 developed responsibly in our province and with the highest
515 degree of care and concern for the environment. In 2007, the
516 province of Alberta was the first jurisdiction in North
517 America to regulate large industrial greenhouse gas emitters.
518 Alberta has a price on carbon. To date, we have collected
519 \$187 million as a result of this carbon tax. This money is
520 set apart from our general operating fund as a government.
521 It is wholly dedicated to developing clean energy projects.
522 Thus far, \$71 million has been invested into 16 different
523 clean energy projects.

524 In addition to this, the government of Alberta has also
525 committed \$2 billion to commercial-scale carbon capture and
526 storage projects to help reduce greenhouse gas emissions.
527 This is \$2 billion from a province whose population is only
528 3-1/2 million people. It is a significant contribution on a
529 per capita basis.

530 At the start of my remarks, I talked about being a
531 former elected official in Alberta, and now I have the
532 pleasure of working here in Washington and I spent much of my
533 time talking to our American friends about how Alberta can
534 help meet your energy demands. I want you to feel confident
535 that when the people who elect you go to a gas station to

536 fill up on their way to soccer practice or a baseball game
537 that they are using a product that came from a friend, a
538 friend with similar goals, with similar values. As the
539 President said last week, our countries are woven together
540 perhaps like no other two countries in the world. We match
541 up more than probably any country on earth, and I agree with
542 that statement emphatically.

543 So Mr. Chairman, Alberta oil can provide America with
544 security of supply. It does help create jobs and grows our
545 economies, and most importantly, it does both of these
546 responsibly, ensuring that the environment is a top priority,
547 and I look forward to working with the United States to
548 develop sustainable solutions as we continue to advance our
549 clean energy technologies. I thank you for the invitation to
550 be here.

551 [The prepared statement of Mr. Mar follows:]

552 ***** INSERT 2 *****

|

553 Mr. {Whitfield.} Thank you.

554 Mr. Sieminski, you are recognized for 5 minutes.

|
555 ^STATEMENT OF ADAM SIEMINSKI

556 } Mr. {Sieminski.} Thank you, Mr. Chairman and other
557 members of the committee. I thought that what I might do to
558 most valuably use your time today is to just try to give you
559 an overview of what is going on in the global oil markets and
560 how I see things developing over the next few years. Let me
561 just go through a few major points here.

562 Oil prices started rising in early 2009. It has raised
563 a lot of concerns that we have moved from \$40 to nearly \$100
564 a barrel. You just heard Dr. Newell talk about gasoline
565 prices up 15 percent this year. We might hit \$3.30 a gallon
566 next year. That certainly has issues for consumers. The
567 OPEC Secretariat interestingly makes an awful lot of
568 statements about fundamentals not being responsible for the
569 increase in oil prices, and I would like to talk about that a
570 little bit.

571 In my view, oil demand is driven mainly by economic
572 activity. Last year most of the economic forecasters were
573 saying the global economy grew by 5 percent, probably up
574 another 4 percent again this year. Those are pretty big
575 numbers. The average over the last 30 years for global GDP
576 growth is about 3.3 percent, so 5 percent and 4 percent GDP

577 growth is pretty stunning.

578 Speaking of stunning, the International Energy Agency
579 just this morning said that oil demand grew 2.8 million
580 barrels a day last year. That is a fundamental. That 2.8
581 million barrels a day far exceeds the million and a half
582 barrels a day that the EIA is forecasting for this year, and
583 it is a huge factor, I think, in the marketplace. A lot of
584 this growth is coming in the emerging market countries. It
585 is not the United States and Europe and Japan as it was
586 traditionally. That is an important issue.

587 Now, the good news for consumers around the world is
588 that non-OPEC supplies are growing pretty strongly. It is
589 600,000 barrels a day of growth this year. Last year, the
590 number was probably close to a million barrels a day. It is
591 not just places like Canada that you just heard about.
592 China, Brazil, the former Soviet Union and Colombia.
593 Interestingly, the State of North Dakota is seeing a huge
594 increase in oil production coming from the Bakken formation,
595 and if we could do more of that, more of the Gulf of Mexico
596 that you talked about and so on, I think that would really
597 help.

598 The demand is growing faster than non-OPEC supplies, so
599 what that means is, OPEC's market share is rising and without
600 further investments in capacity in OPEC countries, OPEC's

601 spare capacity is going to decline. Now, we also know that
602 inventories have been coming down on a global basis. We can
603 measure them best in the OECD countries. They were as high
604 as 63 days of forward demand cover. We are now down to about
605 59 days. My forecasts say that by the end of next year, we
606 will probably be down to 54 days, which is still in the
607 middle of the normal range, not low but the trend is down.
608 Now, this is really important. Most of the oil price
609 forecasting models use OPEC's spare capacity and inventories
610 as the main drivers, so now what I have just said is that
611 OPEC's spare capacity is likely to shrink and inventories are
612 also coming down. That implies strength in global oil prices
613 and it is something that I think we need to be cognizant of.

614 Over the last 4 years, financial factors have been very
615 important in driving oil prices. First it was the dollar
616 exchange range against the euro and other currencies that
617 seemed to be important. Since March of 2009 when oil prices
618 have gone up, there has been almost a lockstep move with the
619 S&P 500 equity index. So what is going on is, is that
620 everybody is so happy we are not having a depression that
621 stock markets are going up and lifting commodities in general
622 including crude oil. I think we are now moving into the area
623 where it is going to be fundamentals more than financial
624 factors. Just like the ad that by my calculations oil prices

625 aren't too far in the United States from what equilibrium
626 levels would be if you looked at it against things like
627 incomes and share of income.

628 Okay. Now, problems in the oil markets, low elasticity
629 of supply and demand. It is an economic phrase. Let me
630 translate that. It takes a long time to plan supply projects
631 and efficiency projects. Mr. Waxman's comments about auto
632 fuel efficiency--it takes a long time to turn the fleet over.
633 It takes a long time to do a development project in the Gulf
634 of Mexico or in the oil sands in Canada. That means that the
635 chances are good that you are going to have sharp movements
636 in oil prices if something else happens in the markets.

637 Let me just sum up this by saying that as you introduced
638 the hearing today, you said that what we are really trying to
639 get at was events in the Middle East and North Africa and
640 what it meant for the oil markets. The EIA has really good
641 numbers on that, and Dr. Newell talked about them. Clearly
642 the Middle East falls into this geo political category. One
643 of the things that I think you have to be very, very aware of
644 that it is not just things that are happening today that
645 matter is setting oil prices and influencing the oil markets,
646 it is expectations about the future, and if we expect that
647 demand is going to continue to grow strongly, if we expect
648 that supply might be constrained, if we expect that there are

649 going to be tensions in the Middle East, that is going to
650 tend to push prices up. That is a fundamental. It is not a
651 speculative kind of activity.

652 And with that I will close. Thank you very much.

653 [The prepared statement of Mr. Sieminski follows:]

654 ***** INSERT 3 *****

|

655 Mr. {Whitfield.} Thank you, Mr. Sieminski.

656 Mr. Hofmeister, you are recognized for 5 minutes.

|
657 ^STATEMENT OF JOHN HOFMEISTER

658 } Mr. {Hofmeister.} Thank you, Mr. Chairman, Ranking
659 Member Rush. I am John Hofmeister, the Founder and CEO of
660 Citizens for Affordable Energy. When I retired as the
661 president of Shell Oil Company in 2008, I started a
662 foundation to focus on grassroots energy education. In
663 addition, I am privileged to serve as the chairman of the
664 National Urban League, where we have 104 affiliates across
665 U.S. cities where the affordability of energy is a major
666 issue to the people who live in vulnerable circumstances
667 where unemployment in major urban areas exceeds national
668 averages. So I speak with a view that affordability of
669 energy is a critical issue for the United States of America.

670 Affordability goes directly to the price of crude oil,
671 no question about it. Every consumer in this country uses
672 crude oil in one way or another, and we do face the political
673 uncertainties as evidenced most recently by Egypt and the
674 threat to the Suez Canal and the Sumed pipeline. I am
675 reminded that while this Administration has strangled oil
676 production in the Gulf of Mexico for an unpredictable period,
677 China, according to Professor Wenren Jang at the University
678 of Alberta, is going in exactly the opposite direction.

679 China is planning to build 1.5 million kilometers of highways
680 over the coming decade, and in order to assure a steady crude
681 oil supply to China has loaned the following countries the
682 following amounts of money: Brazil, \$10 billion, Kazakhstan,
683 \$10 billion, Venezuela, \$20 billion, Ghana, \$16 billion, the
684 Democratic Republic of Congo, seven, Nigeria, \$23 billion,
685 and Russia, \$25 billion. China expects crude oil demand of
686 18 million barrels a day by the end of the decade. They are
687 currently at about nine. Meanwhile, in the United States,
688 today, tomorrow, Saturday, Sunday, Monday, we will consume
689 about 20 million barrels a day, producing only seven
690 domestically.

691 As long as the United States produces so limited amount
692 of its own supply, we are vulnerable to whatever happens
693 anywhere in the world. The United States forfeited its
694 energy security over a sustained period of decades by
695 prohibiting drilling on 85 percent of the Outer Continental
696 Shelf, by prohibiting drilling on 97 percent of federal land,
697 by standing the way of many infrastructure developments that
698 would otherwise enable enhanced oil production in many parts
699 of old oil fields. It is my view that while people focus on
700 transportation and the use of oil, we should not forget that
701 within that 20-million-barrel-per-day demand, there is an
702 entire petrochemical industry that needs crude oil as

703 feedstock. That petrochemical industry produces the fiber
704 which we use for clothing and other industrial purposes. It
705 produces the pharmaceuticals, the lubricants, the food that
706 we use to eat in this country. We have many more needs for
707 oil than simply transportation purposes. While it is great
708 to have a million new vehicles hybrids and battery cars on
709 the roads by 2015, the 250 million automobiles and tens of
710 millions of trucks, tractors, planes, boats, buses and other
711 transportation vehicles depend upon a daily supply of crude
712 oil.

713 I would like to use my remaining time to speak about
714 what I think are the concrete actions that could be taken
715 with a plan from this Congress or the Administration or
716 preferably both which would take this country forward to
717 create jobs in an unprecedented number. Example: we know we
718 have the natural resources in the ground to produce far more
719 oil than we do today. I am suggesting that with the billions
720 and billions of barrels that is enough to sustain an increase
721 in domestic production for all of the generations currently
722 alive in this country. We could move daily production from 7
723 barrels a day to 10 million barrels a day using not a dime of
724 public money, using private investment. The 10-million-
725 barrel-per-day production would create 3 million new jobs, 3
726 million new jobs over the course of the next decade, which

727 would be a tide to raise all ships because it is not just the
728 drilling workers that would be benefiting from this but it
729 would be the steelmakers, the automakers, the valve makers,
730 the pipe makers, the people who build the homes, the people
731 who set up the retail networks in order to supply these 3
732 million people with good-paying jobs with good benefits. We
733 currently employ 9.2 million in America in the gas and oil
734 business to produce 7 million barrels a day. Three more
735 million barrels a day and 3 million more jobs is an
736 unprecedented number that no one has talked about since the
737 beginning of the recession in this country, and if we are
738 looking for ideas to improve the economy, I can't think of a
739 better one that is right here at home, jobs which will not be
740 exported.

741 In addition, we have failed to deal with the need for
742 electricity going forward in material ways, and it is my
743 belief that we could build new power plants, coal as well as
744 nuclear, clean coal, which will in fact create additional
745 jobs on top of that.

746 Mr. Chairman, I will stop. Thank you.

747 [The prepared statement of Mr. Hofmeister follows:]

748 ***** INSERT 4 *****

|

749 Mr. {Whitfield.} Thank you very much.

750 Dr. Busch, you are recognized for 5 minutes.

|
751 ^STATEMENT OF CHRIS BUSCH

752 } Mr. {Busch.} Thank you, Chairman and Ranking Member
753 Rush. Thank you for the invitation to testify today. My
754 name is Chris Busch and I am the Policy and Program Director
755 for the Apollo Alliance. We are a national alliance of
756 labor, business, environmental and community groups working
757 towards clean energy solutions that also grow the economy and
758 improve American competitiveness.

759 Every President since Nixon has sought to lessen our
760 dependency on imported oil. Though we have started to turn
761 the corner thanks to policies like the 2010 clean car
762 standards, America still faces this challenge. Nearly 60
763 percent of U.S. demand is now met by imported oil. The
764 United States accounts for 22 percent of the world's oil
765 consumption but we only possess 1.4 percent of the world's
766 proven reserves. Those numbers are slightly different than
767 Mr. Waxman's but those are according to the EIA's 2009 data.
768 These numbers tell a simple truth. No matter how deep we
769 will, domestic oil supplies cannot solve this problem. We
770 must put in place policies to address the demand side of the
771 problem, and fortunately for America, there are promising
772 transportation policy options that work hand in glove with

773 market incentives to encourage energy savings and innovation.
774 These policies can help consumers save money. They also
775 position American industry to succeed in a fast-growing
776 global market for clean technologies.

777 Consider the example of the new federal car and light
778 truck fuel economy standards finalized last year. The EPA
779 estimates that the standards will reduce oil demand by 1.8
780 billion barrels for vehicles sold through 2016, and as Mr.
781 Waxman mentioned, when the standard is fully phased in, the
782 average consumer will save about \$3,000 over the life of
783 their vehicle. That is about \$150 per vehicle each year.

784 I would like to talk about some research I did in
785 California with James Fine of the Environmental Defense Fund
786 and Remy Garderet of Energy Independence Now. We calculated
787 the benefits of reduced oil dependency due to AB 32,
788 California's capstone clean energy law. AB 32 reduces
789 California's dependency on imported oil through clean car and
790 clean fuel standards and by providing alternatives to
791 driving. We found that in the year 2020, California will
792 avoid demand equal to 75 million barrels of oil, about an 18
793 percent decrease, due to AB 32 policies. At the 2009
794 Department of Energy's midrange price forecast, which was
795 \$114.50 per barrel, those were the numbers we were working
796 with when we were doing this research, that reduces

797 California's imported oil bill by about \$11 billion.

798 While shaving \$11 billion off the State's import bill is
799 a significant avoided cost, we also estimated the benefits
800 following an oil price shock. We have experienced six
801 significant price shocks in the past 40 years. We all
802 remember oil nearing \$150 per barrel in 2008. Oil price
803 shocks have been a reality of world oil markets, and surging
804 demand from China and other countries suggests they will
805 become more common, not less. Our analysis looked at two oil
806 price shocks that cause the price of gasoline and diesel to
807 jump by roughly a dollar or two above a starting point of
808 \$3.42 per gallon in the case of gasoline. The diesel jump is
809 more like \$2.50, and these were linked to the oil shocks we
810 were looking at. The result of these oil shocks is that AB
811 32 saves consumers an additional \$3 to \$7 billion, or about
812 \$200 to \$500 per household when the savings are distributed
813 over the households projected to exist in 2020 in California.

814 One of our objectives was to help policymakers
815 understand what is and is not included in the economic
816 analyses they receive and depend upon. Though oil price
817 shocks are a reality, economic studies are not capturing
818 these painful economic effects. Typically energy policy
819 analyses assume smooth prices. National security
820 implications as well as pollution reductions and related

821 public health benefits are also almost never integrated in
822 economic analyses of energy policy. Attacking the demand
823 side of our imported oil dependency is where real progress
824 will be made.

825 The Apollo Alliance has recently advanced a Clean
826 Transportation Manufacturing Action Plan that I would like to
827 ask be entered into the record. I have it here. The plan
828 calls for increased investment in public transit and railway
829 as well as stronger Buy America provisions and loan
830 assistance to help grow domestic manufacturing jobs. The plan
831 is projected to create 3.7 million jobs over 6 years. These
832 are new jobs in every region of the country and include more
833 than 600,000 manufacturing jobs.

834 This is part of the Sputnik challenge described by the
835 President. We have the technologies needed to get started,
836 and while the world needs American leadership in advancing
837 the innovation frontier further, the big winner will be the
838 American worker.

839 Thank you for considering my testimony.

840 [The prepared statement of Mr. Busch follows:]

841 ***** INSERT 5 *****

|

842 Mr. {Whitfield.} Thank you.

843 Mr. John, you are recognized for 5 minutes.

|
844 ^STATEMENT OF CHRIS JOHN

845 } Mr. {John.} Mr. Chairman, Chairman Whitfield, Ranking
846 Member Rush, thank you very much for inviting me to come and
847 testify in front of this very distinguished body that I was
848 privileged to serve in for 4 years. It seems like an
849 eternity ago. But it is a very important subject matter. I
850 was asked to specifically talk about world and international
851 events and how it affects what goes on domestically in our
852 oil production all over America.

853 As Chairman of Louisiana Mid-Continent Oil and Gas
854 Association, I represent all of the companies that explore,
855 produce, market, transfer from the ground to the tank is what
856 I like to say, and the fact of the matter is, when we look at
857 energy policy in this country, it cannot be an either/or.
858 The fact of the matter is, we need all drops and all kinds of
859 energy to make America more energy secure. But I think the
860 real factor, the factor that we must keep in focus like a
861 rifle shot as we debate some of these is the energy reality
862 that we have in this country. I think it is very important
863 not to deviate from it because we can talk about assumptions
864 and we can talk about politics and we can look at it from a
865 geographical standpoint. The fact of the matter is that you

866 must be grounded in our conversations about the energy
867 reality in this country, and that is what I would like to
868 spend a little bit of my time on.

869 The fact of the matter is that 78 percent--the energy
870 reality today, not tomorrow, not yesterday but today is that
871 78 percent of our fuel needs, our energy needs is going to
872 come from fossil fuels, 78 percent from fossil fuels. You
873 will have 12 percent from nuclear, you will have 3 percent
874 from hybrid, 1 percent from wind, a half a percent from solar
875 and then it goes down from there. I think that is an
876 important point as we discuss the future of energy policy in
877 this country because even DOE says that 60 percent of our
878 energy needs over the next 25 years is going to come from
879 fossil fuels. There have been experts that obviously have
880 said higher than that, and I believe it is closer to 80
881 percent for the next 50 years that fossil fuels are going to
882 play a very important part in providing energy security for
883 America.

884 And why should we care what goes on in different parts
885 of the country? Obviously the incidents in Egypt whether
886 perceived or reality has had an impact on the domestic oil
887 production and the price, and getting a little less attention
888 is what has happened off the coast of Oman where Somali
889 pirates have commandeered a Greek vessel with almost 2

890 million barrels of crude that is destined to the Gulf of
891 Mexico for refinery and use in our markets today. So it
892 really is important to understand the energy reality and
893 where it comes from, and that is my next point.

894 I want to talk about--you know, Mr. Hofmeister talked
895 about the 20 million barrels. I have used this several
896 times, Mr. Hofmeister, where I said, you know, we used 20
897 million yesterday, we are using it today, we need it
898 tomorrow, and that is just a fact. That is another energy
899 reality check fact that needs to be looked at. But when you
900 break down the 20 million barrels that we need, 7 million are
901 produced right here domestically and we import 13 billion.
902 Let me peel back the banana just a little bit more. Where
903 does that 7 million come from? Well, the 7 million comes
904 from basically 53 percent of our oil that we use domestically
905 or that is produced domestically in the United States, 30
906 percent comes from the Gulf of Mexico, 20 percent comes from
907 Texas and 4 percent comes from Louisiana onshore. So you are
908 looking at 54 percent of our domestic production coming from
909 the Gulf region, the Gulf of Mexico and the region.

910 But I think more important is to look at where we get
911 the 13 million barrels that we use every day. It comes from
912 countries that obviously do not share a lot of our values.
913 We spend billions of dollars in buying crude oil that could

914 be used right here in America to create jobs. When you look
915 at 23 percent, thank you very much, comes from Canada, our
916 neighbor to the north, 12 percent from Mexico, which are our
917 two largest importers, but then you have 26 percent from OPEC
918 countries, 15 percent from the Persian Gulf area of which 10
919 percent comes from Saudi Arabia. So I think that is very
920 important to not only understand how much we use domestically
921 but where it comes from domestically and also how much we use
922 and how much we have to import and where that comes from.
923 That in itself provides the answer to the question that this
924 committee is looking for, why should we care about
925 international events. When we are vulnerable to 13 million
926 barrels a day coming from regions all over the world, then
927 you are going to be very vulnerable to price fluctuations
928 like we have seen here of late.

929 And obviously the future of the Gulf of Mexico was very
930 bright. You know, I could spend another five or 50 minutes
931 talking about the Gulf of Mexico and the moratorium and the
932 pursuing ``permatorium'' that we are dealing with today but
933 the jobs that are created in this industry, I think Mr.
934 Hofmeister is absolutely correct. You know, only in
935 Louisiana--I can speak parochial a second here because I love
936 Louisiana and I certainly live and work there today--320,000
937 jobs in Louisiana alone are created by oil and gas, 9.2

938 million in America, \$70 billion in economic driver in the
939 State of Louisiana. This moratorium obviously has been an
940 issue that we have worked on and we are going to continue to
941 work through that. I have gotten a written statement that I
942 submitted that goes on to talk a little bit more about
943 different things but I believe there is more to a barrel of
944 oil than the BTUs, and you have got to look at the economic
945 impact that the oil and gas industry has both on jobs in
946 America and providing our energy security that we must have.

947 With that, thank you very much.

948 [The prepared statement of Mr. John follows:]

949 ***** INSERT 6 *****

|
950 Mr. {Whitfield.} Thank you, Mr. John, and thank all of
951 you for your testimony.

952 Mr. Hofmeister, in your opening statement you talked
953 about the possibility of increasing demand from 7 to 10
954 million barrels a day, and I think you indicated without any
955 public funds. Would you elaborate on that a little bit about
956 what regions of the country do you think that is possible to
957 do? Where would that happen and tell us a little bit about
958 that.

959 Mr. {Hofmeister.} If you break down where the oil sits,
960 and while I agree that the narrow definition of reserves as
961 required by the Securities and Exchange Commission suggests
962 the United States has only 2, maybe 3 percent of proven
963 reserves, there are probable reserves and there are resources
964 in ground not counted in that number. So we are looking at
965 more than a trillion barrels of oil in the United States
966 available that could be addressed from an exploration and
967 production. But specifically, East Coast offshore, eastern
968 Gulf of Mexico, western Gulf of Mexico, especially deep
969 water. Off the West Coast there are, you know, billions of
970 barrels. Off of the Alaska coast, Bristol Bay, Chukchi Sea,
971 Beaufort Sea, the Bakken formation, enhanced oil recovery
972 from former or existing oil fields and, and most importantly,

973 oil shale in the Piceance Basin of Colorado, which includes
974 Wyoming and Utah. The combination of all of those over the
975 period of a decade or more could take us way beyond 10
976 million barrels but I realize some people are concerned about
977 the sensitivities so I have only suggested a target of 10
978 million at this stage. When we get to 10, we could consider
979 more.

980 Mr. {Whitfield.} But if the proper government policies
981 were in place, do you think that 10 million could be reached
982 relatively quickly?

983 Mr. {Hofmeister.} If you could consider the capital
984 investment plans of not just the major oil companies but also
985 the major independents and the small oil companies, we are in
986 the hundreds of billions of dollars per year, much of that
987 targeted for outside the United States because that is where
988 they are welcomed. That is where they are wanted. That is
989 where they are creating jobs.

990 Mr. {Whitfield.} Right.

991 Mr. {Hofmeister.} Redirecting those billions to the
992 United States because we would in turn welcome them to create
993 American jobs in America would be a reversal of where we have
994 been over a number of decades.

995 Mr. {Whitfield.} Right. Well, as you well know, this
996 Administration has been totally focused on green energy

997 projects, which are fine and I know billions of dollars or
998 millions of dollar sin the stimulus fund went to green energy
999 projects, but I think most of us agree that this is a long,
1000 long, long, long-term solution to our problem.

1001 Mr. John, I know that the moratorium was put in place
1002 sometime last spring and then court ruled it was illegal and
1003 then a new moratorium was put into place, lawsuits were filed
1004 and then Mr. Salazar I think removed that moratorium, but in
1005 effect there is a moratorium because no permits have been
1006 issued in the Gulf, have they, or has there?

1007 Mr. {John.} No, that is correct. To my knowledge, as
1008 of yesterday, there were no new drilling permits issued in
1009 the Gulf of Mexico. The moratorium was set in place May
1010 27th, and then of course there was a subsequent court battle,
1011 which obviously throughout the moratorium and then I think
1012 just several, a week or 2 weeks later, the Administration
1013 came up with another moratorium, and that in itself, I think,
1014 Mr. Chairman, is very troubling. I like to believe, now,
1015 maybe this is a little subject, that the process at which
1016 this came down has been more harmful than the actual
1017 moratorium.

1018 Mr. {Whitfield.} Let me ask you, hasn't the federal
1019 judge that is holding that case, hasn't he actually held the
1020 Obama Administration in contempt of court?

1021 Mr. {John.} I am not sure.

1022 Mr. {Whitfield.} I read that yesterday or a couple days
1023 ago in the paper that the judge is now holding this
1024 Administration in contempt for violating his orders.

1025 Mr. {John.} Well, it has certainly been in and out of
1026 the courts and decisions and all of this time we have 30,000
1027 people at the minimum waiting to go back to work in the Gulf
1028 of Mexico.

1029 Mr. {Whitfield.} Well, Mr. Hofmeister's suggestion,
1030 which I certainly agree with, he said would create about 3
1031 million more jobs, certainly help make us dependent, create
1032 all these jobs as you said.

1033 Now, Dr. Busch, you talked about your Apollo Alliance,
1034 and you mention in here public transit rail projects. Are
1035 you talking about private expenditures there or are you
1036 talking about government expenditures?

1037 Mr. {Busch.} Well, government expenditures but I think,
1038 you know, there is a role for public-private partnerships and
1039 loan guarantees can help leverage.

1040 Mr. {Whitfield.} Well, I think the problem that we have
1041 today about any more government expenditures is just the fact
1042 of the financial situation we are in, and the great thing
1043 about what Mr. Hofmeister is talking about is that we are
1044 talking about private dollars here, and that in my view the

1045 way we need to go right now. But my time has expired so I
1046 will recognize Mr. Rush for 5 minutes.

1047 Mr. {Rush.} I certainly want to thank you, Mr.
1048 Chairman.

1049 Mr. Hofmeister, I agree with you that the level of
1050 investment that China is doing overseas, especially in
1051 emerging markets, is alarming. The United States is not
1052 doing well in these markets and it seems to me that it is
1053 almost akin to us killing our mothers and our fathers and
1054 then we complain about being an orphan. And I am a strong
1055 believer that the U.S. should invest in emerging markets and
1056 not leave all the strategic resources to our competitors'
1057 control. And that leads me, I looked at the world transit
1058 choke points through which almost half the world's oil
1059 productions are moving through. I looked at the map where
1060 each of these seven choke points are located, compared it to
1061 U.S. imports for major players, especially in the Middle East
1062 and from offshore and west African coast, That west African
1063 is where China is aggressively investing already, and I
1064 realize that none of these imports are going through these
1065 choke points. You were with Shell Oil with global
1066 operations. Can you tell me which other maritime routes
1067 would be used to supply the North American market and how you
1068 would characterize those routes? That is the first question.

1069 The second question is, in regards to overseas supply,
1070 putting aside our NAFTA partners, Mexico and Canada, how
1071 would you characterize the cost efficiencies of those two
1072 imports taking into account the quality of the crude
1073 transportation costs, the current and projected volume and
1074 security of supply?

1075 And my last question, if you answer all these, which of
1076 the major overseas exporting countries have favorable and
1077 positive policies and attitudes towards the United States,
1078 and I just want to make sure, I think the chairman in his
1079 opening remarks made note of the fact that he thought that
1080 there was some countries, Angola and Nigeria, I think he
1081 mentioned specifically, they have a hostile relationship with
1082 the United States and I just wanted to correct that. I think
1083 they have a very friendly relationship with the United
1084 States. So would you speak of choke points and those
1085 issues?

1086 Mr. {Hofmeister.} Thank you, Ranking Member. I think
1087 with respect to the choke points, the three most serious are
1088 the Suez Canal, the Hormuz Straits, which is separating Iran
1089 from Yemen--I am sorry--Oman and Iran, and the Straits of
1090 Malacca, which is between Malaysia and Indonesia. These
1091 choke points carry enormous amounts of crude oil. In fact, a
1092 former colleague, Matt Simmons, who passed away this past

1093 summer, used to speak of the Straits of Hormuz as, we live
1094 one day away from an oil Pearl Harbor. In other words, those
1095 Straits of Hormuz transport between 20 and 25 percent of
1096 daily consumption of global oil, and were they to be shut in,
1097 the world would be in a panic overnight if it were not
1098 possible to pass oil.

1099 With respect to your second question, I think the
1100 countries such as Venezuela, Nigeria, Angola, in the future,
1101 Brazil, also Russia, these are countries which are looking at
1102 the U.S. markets quite favorably. They want to be a
1103 supplier, but there are issues in each of those countries.
1104 The socialistic regime in Venezuela makes a very
1105 unpredictable supplier not only to the United States but
1106 elsewhere. While Nigeria has an officially favorable outlook
1107 on the United States market, as we know, Nigeria is infected
1108 by criminal gangs that not only deal with onshore but also
1109 now offshore oil. Russia has proven to Europe that it is an
1110 unpredictable supplier and we could find ourselves in the
1111 same boat.

1112 Mr. {Whitfield.} I recognize the gentleman from
1113 Michigan, the chairman of the committee, for 5 minutes, Mr.
1114 Upton.

1115 The {Chairman.} Thank you, Mr. Chairman.

1116 Mr. Mar, not long ago, as I recall, Canada was producing

1117 about a million per day from the tar sands, oil sands. Your
1118 testimony talks about getting that production up to maybe as
1119 much as from 1 million to 3.3 million barrels by 2019. What
1120 type of incentives, I mean, how are you getting from 1 to
1121 3.3? What have been the inducements to get there? Quickly.

1122 Mr. {Mar.} Thank you, sir. First of all, I should talk
1123 about the overall size of the resource of the oil that is in
1124 place in Alberta in the oil sands. It is roughly 1.7
1125 trillion barrels of oil of which with current technology and
1126 prices about 10 percent of it is accessible, so roughly 170
1127 billion barrels. So there is certainly ample room to move up
1128 our production to the 3.3 million barrels a day. It is a
1129 very realistic target.

1130 In terms of the policies of Alberta, there are policies
1131 in place to recognize that the upfront costs of developing
1132 oil sands are very, very high. There are no exploratory
1133 costs to speak of really because we know exactly where it is,
1134 but there are enormous costs upfront in terms of capital
1135 investment that is required by private sector investment to
1136 do that. The government policy permits those who will invest
1137 to pay royalties only after payout from their original
1138 investment and so that is really the only incentive that is
1139 the strongest incentive that the government puts in place to
1140 ensure that there is purchases of land leases to develop oil

1141 sands.

1142 The {Chairman.} What is likely to happen if the United
1143 States doesn't permit the Keystone Pipeline to be built?

1144 Mr. {Mar.} Well, we continue to using existing
1145 pipelines--

1146 The {Chairman.} But what will happen to the bulk of
1147 that new production?

1148 Mr. {Mar.} Well, there has been investment by many
1149 companies from around the world, not just American companies
1150 who are invested in the oil sands. State-owned enterprises
1151 from China have invested themselves in the oil sands.
1152 StatoilHydro of Norway has--

1153 The {Chairman.} So is China proposing to build a
1154 pipeline to the west?

1155 Mr. {Mar.} Well, there currently is a pipeline that
1156 goes from Alberta to the West Coast. Small amounts of that
1157 oil on the spot market end up going to China on tankers but
1158 there is a proposal currently by a private sector company,
1159 Endbridge Pipelines, to build a project called the Gateway
1160 Pipeline to--

1161 The {Chairman.} And just quickly, double, triple the
1162 capacity? How much capacity ultimately to the west,
1163 particularly if Keystone is not built?

1164 Mr. {Mar.} I actually don't know.

1165 The {Chairman.} If you could get that for record?

1166 Mr. {Mar.} I would be happy to.

1167 The {Chairman.} Mr. Hofmeister, some very troubling
1168 numbers in recent months really. As we look at our domestic
1169 production from the Gulf, which is basically about a third of
1170 our domestic production comes from the Gulf, we have gone
1171 from in 2009 1.56 million barrels per day to 2010 1.64, so a
1172 little bit of an increase. In this year, we are expecting
1173 that to decline to about 1.39 and in 2012 further decline to
1174 1.14 million barrels per day, in essence 420,000 barrels
1175 fewer than we got over 2-year span. As I understand it from
1176 some discussions in recent weeks, we are actually this year
1177 they are predicting that the 1.39 is 250,000 barrels less
1178 than they projected even a year ago. Alaska is the same. We
1179 have seen these numbers tail off as well, in essence going
1180 from .65 million barrels in 2009 to what will be .52 in 2012.
1181 Very troubling is this Wall Street Journal piece from last
1182 Friday, Shell postpones plan for offshore Alaska drilling. I
1183 want to say they had received 34 permits, and the last one,
1184 the Environmental Appeals Board pulled the air quality
1185 permit.

1186 From your days at Shell before, Shell I think has spent
1187 about \$3.5 billion on this particular site where they think
1188 there is as much as 25 billion barrels down below, tell us a

1189 little bit about what would happen if we follow through on
1190 what the President indicated in his State of the Union
1191 address that we are going to take away some of the incentives
1192 from domestic drilling, particular as you try to get from 7
1193 to 10 million barrels a day.

1194 Mr. {Hofmeister.} Chairman Upton, I have been on the
1195 record in many public forums suggesting that by the end of
1196 2012, this country will face \$5 gasoline, precisely because
1197 of the path that we are on which you describe, and I believe
1198 your numbers cited are optimistic. I believe that the
1199 decline--

1200 The {Chairman.} I am a Cubs fan. That is probably why.

1201 Mr. {Hofmeister.} The decline in the Gulf of Mexico I
1202 believe will be sharper and deeper than what anyone is
1203 currently projecting because the decline rate from existing
1204 wells, particularly deep water, fall off naturally very
1205 quickly, and the reason we had 34 rigs drilling in the Gulf
1206 of Mexico was not so much to increase the rate of production
1207 but to sustain the rate of production in the Gulf of Mexico.
1208 While there may have been some increase, absent drilling--I
1209 mean, we have made a horrible error as a country. The rest
1210 of the world did not discontinue offshore drilling.

1211 With respect to the Alaska project you mentioned, I no
1212 longer speak officially for my former company, but beginning

1213 in 2005 that company began the process of obtaining the
1214 permits through 2006, 2007, 2008, 2009. I retired in 2008.
1215 The company continues and it has now moved, according to the
1216 newspaper report, potentially 2012. Seven years to simply
1217 drill two exploratory wells but to see what is there. That
1218 is the degree of frustration that American companies
1219 experience, and if you notice, no other companies are
1220 mentioned in the Alaska, while they have leases, they are not
1221 going to spend money when the regulatory regime is so
1222 difficult to achieve a single permit which was granted at one
1223 time and then rescinded on appeal, so in terms of losing that
1224 particular air quality permit. So we have a real
1225 strangulation by regulation taking place for domestic
1226 production at the current time in this country.

1227 The {Chairman.} Thank you.

1228 Mr. {Whitfield.} Mr. Inslee, you are recognized for 5
1229 minutes.

1230 Mr. {Inslee.} Thank you. I wanted to explore with Dr.
1231 Newell whether or not substantially increased opening of
1232 federal lands would have an impact on the price of fuel at
1233 the pump, and I want to read your agency's evaluation of this
1234 issue. It is a study called Impact of Limitations on Access
1235 to Oil and Natural Gas Resources in the Federal Outer
1236 Continental Shelf. It is a study in 2009. Now, a lot of

1237 folks would think if we just open up the spigot off the Outer
1238 Continental Shelf and other places, problem solved on prices.
1239 I want to read what your agency concluded after looking at
1240 it. You concluded: ``The average price of imported low-
1241 sulfur crude oil in 2030 in 2007 dollars is \$1.34 per barrel
1242 higher and the average U.S. price of motor gasoline price is
1243 3 cents per gallon higher than in the reference case.'' Now,
1244 as I understand what you are saying, when you looked at this
1245 issue and really looked at the economics of this issue, your
1246 agency concluded that if we essentially removed all federal
1247 restrictions on Outer Continental Shelf drilling. In 2030,
1248 after everything had been exploited to the extent the human
1249 mind can consider, the price would be 3 cents different in
1250 2030.

1251 Now, that is pretty stunning because a lot of people,
1252 particularly on the other side of the aisle, figure we will
1253 just solve this cost problem by just opening up the spigot
1254 everywhere in the United States including Yellowstone
1255 National Park and the Mall. But your conclusion seems to
1256 suggest that there is a negligible, almost infinitesimal
1257 difference of we do that in price. Now, my understanding
1258 would be the reason for your conclusion is essentially it is
1259 a world market for oil, and since we have such a small amount
1260 of the world market at 3 percent top of the world market, we

1261 are not to affect the cost very much no matter where we drill
1262 in the United States, Outer Continental Shelf, Arctic, you
1263 name it.

1264 Secondly, there is a phenomenon that every time we
1265 increase our drilling OPEC can decrease theirs to maintain
1266 the price that they desire because that is where the oil is
1267 in the world. Now, are those the primary reasons that you
1268 concluded there would be a negligible, if almost
1269 infinitesimal, difference of price or are there others that I
1270 have not alluded to?

1271 Mr. {Newell.} I think you have captured some of the
1272 main factors that would come into play in analyzing that kind
1273 of question. In terms of the effect of increased access and
1274 production of domestic oil on global oil prices, in addition
1275 to the access issue, there is a question about whether or not
1276 those fields would be produced, which would depend on the
1277 cost of producing, it would depend upon the price of oil that
1278 would get in the marketplace. And so access is one piece of
1279 it. It would depend on the magnitude of areas that are open
1280 to access and the amount of production that would come from
1281 that, and then you would have to take that amount of
1282 production in the global context in terms of the overall oil
1283 supply and demand. In the previous analyses that EIA has
1284 done, the magnitude of increased production that tends to be

1285 associated with some of these actions is measured in the
1286 hundreds of thousands of barrels per day, which is a
1287 significant magnitude, but in the global scheme of things, it
1288 tends to be significantly less than 1 percent of global oil
1289 supply and so therefore in terms of global impacts on price,
1290 it tends to be small.

1291 Mr. {Inslee.} Quite negligible.

1292 Second question, you know, we look for bipartisanship.
1293 We haven't been able to find it on climate change. My
1294 Republican colleagues still insist on ignoring the clear
1295 scientific consensus about this. But there is a bipartisan
1296 consensus about concern for oil supplies, price that our
1297 people pay at the pump and national security issues, and I
1298 think there is room for bipartisanship by adopting a scenario
1299 where we try to maintain a climate that doesn't increase more
1300 than 2 degrees, and your colleagues at the International
1301 Energy Agency have concluded that if we embrace an effort to
1302 limit the amount of carbon dioxide in the atmosphere that
1303 would result in a 2-degree increase in world temperature, so
1304 if we try to limit it to that increase, we would have a
1305 significant reduction in decreasing the cost of oil. They
1306 have concluded that if we took action to limit it to 2
1307 degrees, we would essentially drop U.S. imports by 45 percent
1308 from 10.4 million barrels in 2009 to 5.7 million barrels in

1309 2035, last seen in the 1980s. They found under the 2-degree
1310 scenario, we have a significantly weaker demand with that
1311 demand falling briskly thereafter. Oil prices were much
1312 lower as a result. If we really do something about climate
1313 change by reducing CO2 emissions and reduced demand for oil,
1314 can that help us restrain the price increases of oil?

1315 Mr. {Newell.} We have not specifically evaluated a
1316 global scenario like the International Energy Agency has. I
1317 mean, we have on different occasions evaluated, you know,
1318 U.S. energy and climate policies. If there was a significant
1319 reduction in global oil demand as a result of some set of
1320 policies, that would tend to bring price down, other things
1321 equal in the world oil price. There might be a difference,
1322 though, between the world oil price and the retail price paid
1323 that one would need to take into account, though.

1324 Mr. {Inslee.} Just for the record, though--

1325 Mr. {Whitfield.} Mr. Inslee, I let you go over.

1326 One comment I would just make, we have been advocating
1327 additional exploration. Certainly one part of that figure is
1328 the price but just as important is having the supply to meet
1329 the demands of our economy.

1330 I recognize the gentleman from Texas, Mr. Barton, for 5
1331 minutes.

1332 Mr. {Barton.} Thank you. I would be happy to yield to

1333 my friend from Washington for that question if it is a short
1334 one, and if the answer could be relatively short. I don't
1335 want to cut him off in mid-sentence.

1336 Mr. {Inslee.} Mr. Barton, I appreciate your continued
1337 courtesy. I just want to point out, the study that I
1338 referred to suggested that the world oil price would be \$90
1339 per barrel in 2035 if we adopted measures to restrain demand
1340 consistent with reducing climate change to limit it to 2
1341 degrees. And thank you for your courtesy, Mr. Barton.

1342 Mr. {Barton.} Thank you. Of course, I think everyone
1343 knows that Mr. Inslee and I don't share the exact same view
1344 on climate change, but we do share that we need to discuss
1345 views in this committee. That is what it is all about.

1346 Mr. Newell, I know the Energy Information Administration
1347 is more of a data collection and reporting agency within the
1348 Department of Energy. Do you in your position have any
1349 authority to speak on behalf of the Obama Administration or
1350 Secretary Chu on policy issues?

1351 Mr. {Newell.} No.

1352 Mr. {Barton.} So you are more of a reporting and data
1353 collection. And that is fine. That is not pejorative. I
1354 was going to ask some policy questions of you, but if you are
1355 not authorized to answer, I won't do that.

1356 I will ask you this, though. Do you have any

1357 projections within your agency that show a significant
1358 reduction in oil demand worldwide?

1359 Mr. {Newell.} The scenario that I discussed earlier,
1360 our reference case scenario for domestic liquids consumption,
1361 we expect an increase, a modest increase in domestic liquids
1362 production. Petroleum consumption in the United States we
1363 expect to be--

1364 Mr. {Barton.} No, I am talking about worldwide, not
1365 just the United States.

1366 Mr. {Newell.} Worldwide, we are projecting under
1367 current laws and policies internationally a significant
1368 increase in global liquids consumption.

1369 Mr. {Barton.} Significant increase?

1370 Mr. {Newell.} Yes.

1371 Mr. {Barton.} Is there anybody on the panel that has an
1372 alternative view that we can somehow bend the demand curve
1373 and send it significantly lower?

1374 Mr. {Sieminski.} Mr. Barton?

1375 Mr. {Barton.} Yes, sir.

1376 Mr. {Sieminski.} Let me just jump in here. In my
1377 forecasts, about the year 2020 overall global demand begins
1378 to level off, and I think that that is mainly going to be a
1379 function of a better consumption per unit of economic output
1380 numbers in the emerging market countries. So we are already

1381 seeing the OECD countries' overall demand numbers flattening,
1382 probably coming down, and in another 10 years we should begin
1383 to see that happening in the emerging market countries.

1384 Mr. {Barton.} Well, I would postulate that based on the
1385 economy worldwide, if we are able to restart the U.S. economy
1386 and the European and the Asian economies and the Chinese
1387 economy grow that there is going to be a substantial increase
1388 in demand for oil, even with the best efforts on energy
1389 conservation and things like that. So that would tell me
1390 that for U.S. energy security, we should try to increase U.S.
1391 energy production of all sorts--natural gas, oil, clean coal,
1392 wind, solar. We should support research into clean coal, CO2
1393 sequestration if we can see a light at the end of the tunnel
1394 on the technology. But we definitely need to, in my opinion,
1395 increase our domestic energy resources.

1396 Mr. John, do you have any information if we could really
1397 restart exploration in the Gulf, what kind of an increase we
1398 could get in production from that, say in the next 2 to 3
1399 years?

1400 Mr. {John.} Well, in my statement that I submitted, it
1401 talks about kind of the production curve of what is in the
1402 Gulf and what can be produced in the Gulf, and it shows
1403 really somewhat of a decline. However, it is important to
1404 understand that you just don't turn the switch on and off.

1405 In a deep water project where you have a billion-dollar piece
1406 of equipment in a floating drill ship from start to finish,
1407 by the time you actually lease the property until you
1408 explore, then produce, pipeline and it gets into the market
1409 is somewhere in the 2- to 5-year range just depending on a
1410 lot of elements. In fact, the deep water Macondo well, the
1411 lease sale of that piece of property was in 2008, so that was
1412 a 2-year span and they weren't in production. So the lag
1413 time is what is very critical because there is going to be a
1414 bubble any time you take 30 percent of our domestic
1415 production offline, and it has been offline since the 27th of
1416 May, there is a bubble. It won't happen tomorrow or the next
1417 day but it is coming and it is going to have some sort of
1418 impact, a negative impact on the supply.

1419 Mr. {Barton.} My time is expired, Mr. Chairman. Thank
1420 you very much.

1421 Mr. {Whitfield.} Yes, sir. Mr. Green was next, but I
1422 see he is not here. Mr. Markey, you are recognized for 5
1423 minutes.

1424 Mr. {Markey.} I thank the chairman very much.

1425 Yesterday, this subcommittee held a hearing on
1426 Republican legislation that will bar EPA from doing anything
1427 further to reduce oil use from cars, trucks, planes, boats or
1428 any other source. The legislation might even nullify the

1429 progress that has already been made at the EPA in reducing
1430 demand for oil from cars and trucks and through the
1431 development of homegrown renewable fuels. The Republican
1432 bill could result in an increase in our oil dependence of
1433 more than 5 million barrels a day by the year 2030, more than
1434 we currently import from OPEC. We have heard disturbing
1435 rumors that this legislation could be marked or even added to
1436 the Continuing Resolution on the House Floor next week, but
1437 today, here we are holding a hearing on the effect of Middle
1438 East unrest on the oil market as though the Republican
1439 legislation that will dramatically increase our dependence on
1440 Middle Eastern oil didn't even exist. It reminds me a lot of
1441 when Monsignor O'Malley used to go up into the pulpit on
1442 Sunday and lecture to the congregation that on Wednesday in
1443 the church hall, Father Ganney will lecture on the evils of
1444 gambling; on Thursday night in the church hall, bingo. Well,
1445 yesterday we are lectured on the evils of the EPA. Today,
1446 bingo, Egypt, bingo, Iraq, Iran, Tunisia, bingo, bingo,
1447 bingo, bingo.

1448 So let me ask each of you. Let us go down the list and
1449 I would like a yes or no on whether or not you feel it is
1450 important for us to stop \$162 billion a year going to OPEC,
1451 going to Middle Eastern countries that are paid for by
1452 American consumers at \$90 a barrel so that we are not

1453 subsidizing religious fanaticism in Saudi Arabia, we are not
1454 subsidizing rockets being constructed in Iran that are then
1455 used by Hezbollah and Hamas against Israel and against our
1456 country. So let me just ask each of you if you believe,
1457 number one, that reducing our dependence upon imported oil
1458 from the Middle East is important. Dr. Newell, yes or no?

1459 Mr. {Newell.} That would tend to involve a policy
1460 position which I am not in a position to answer.

1461 Mr. {Markey.} Okay. Mr. Mar, is that important?

1462 Mr. {Mar.} Sir, as a representative of another
1463 government, I am not--

1464 Mr. {Markey.} Mr. Sieminski, is that important? We are
1465 talking about Egypt here. It is a hearing on Egypt and its
1466 impact on oil prices, and we are talking about the Middle
1467 East here, not Canada. We are not talking about Norway. Mr.
1468 Sieminski?

1469 Mr. {Sieminski.} Mr. Markey, I am going to try to
1470 answer your question actually but I can't do it in one word.
1471 I will try to be brief.

1472 Mr. {Markey.} No, thank you.

1473 Mr. Hofmeister, yes or no, is it important for us to
1474 reduce our oil dependence on the Middle East?

1475 Mr. {Sieminski.} Mr. Markey, my answer to that would be
1476 no then if I can only say one word.

1477 Mr. {Markey.} It is not important. Okay. Thank you.
1478 Mr. Hofmeister?
1479 Mr. {Hofmeister.} Absolutely critical to reduce
1480 dependence on the Middle East.
1481 Mr. {Markey.} Thank you.
1482 Dr. Busch?
1483 Mr. {Busch.} Yes.
1484 Mr. {Markey.} Yes?
1485 Mr. {John.} I think it is important to increase our
1486 domestic production, and if that means reduced from the
1487 Middle East, then my answer is yes.
1488 Mr. {Markey.} But should our goal be to reduce
1489 dependence upon Middle Eastern oil?
1490 Mr. {John.} Yes.
1491 Mr. {Markey.} Okay. Thank you.
1492 Now, so given that, should we be unilaterally disarming
1493 ourselves of any of the weapons, any of the weapons that we
1494 have in our arsenal to reduce demand for Middle Eastern oil?
1495 Mr. John?
1496 Mr. {John.} Mr. Markey, you are still on the top of
1497 your game.
1498 Mr. {Markey.} And under the 5-minute rule.
1499 Mr. {John.} Yes. So four corners doesn't work here
1500 then. You know, obviously you bring a very good point. The

1501 point is that America and the world consumption of oil is
1502 going to increase.

1503 Mr. {John.} Bottom line--can I say this? I am going to
1504 run out of time. Bottom line here is, we can't afford to not
1505 improve the fuel economy standards of the vehicles which we
1506 drive. That is our number one weapon against the Middle
1507 East. That is where we are teaching them a lesson. That is
1508 President Kennedy telling Khrushchev we are putting a man on
1509 the moon in 10 years and bringing him back, you are not
1510 controlling outer space, we are using our technology to
1511 dominate you. That is our message to the Middle East. They
1512 have 70 percent of the oil reserves in the world, the Middle
1513 East. We cannot beat them at that game with only 3 percent
1514 of the oil reserves. It is irresponsible to talk about
1515 basically tying the hands of the EPA to improve our ability
1516 to make ourselves efficient to back out this oil from the
1517 Middle East, and next week's vote if we have it will be a
1518 historical one.

1519 Mr. {Whitfield.} Mr. Sullivan, you are recognized for 5
1520 minutes.

1521 Mr. {Sullivan.} Thank you, Mr. Chairman, and thank you
1522 for having me follow Mr. Markey. It is not something I enjoy
1523 very much, and he is very good, by the way, at what he does.

1524 I just want to touch on this again for a little bit.

1525 According to the National Petroleum Council, technically
1526 recoverable resources in North America currently restricted
1527 by law or regulation amount to over 40 billion barrels of
1528 oil. The answer to our energy security question is staring
1529 us right in the face, but the simple fact is that the Obama
1530 Administration is hostile to developing oil and gas, and they
1531 have taken a decisive regulatory position against increased
1532 domestic oil production, and let us just take a look at this
1533 again. On December 1, 2010, the Obama Administration
1534 announced a new offshore drilling ban that will keep the
1535 eastern Gulf of Mexico and the Atlantic and Pacific coasts
1536 off limits to new offshore exploration until 2017, and the
1537 Administration just announced that new drilling permits in
1538 the Gulf may not happen until June 2011. These actions send
1539 terrible signals to the world oil markets and it makes our
1540 Nation more vulnerable to oil price swings due to rising
1541 demand and political upheaval.

1542 I guess my question would be to Congressman John and Mr.
1543 Hofmeister. Congressman John, you referenced that 38,000
1544 jobs are at risk because of the moratorium or ``permatorium''
1545 in the deep water Gulf. That doesn't mean every job has been
1546 lost. Companies are doing what they can to keep workers on
1547 the payroll while drilling projects remain in a standstill,
1548 and that means companies in many cases are spending millions

1549 of dollars a day to keep mass layoffs from occurring, and I
1550 have a company in my district that in the Gulf right now, and
1551 I met with them not long ago, and they are sitting idle
1552 paying like a million dollars a day to service companies and
1553 the rig operators, and they asked me when am I going to get a
1554 permit. They said, believe it or not, that the regulators
1555 and the bureaucrats don't even return their phone calls. Are
1556 you hearing that? And how much longer do you think these
1557 companies can last without opening for new drilling, and do
1558 you have any indication how much money has been lost by
1559 exploration companies since the initial drilling moratorium,
1560 and if you could help me, what should I say to these
1561 companies? When will they get their permit?

1562 Mr. {John.} Well, Congressman Sullivan, that is a
1563 question that I get every day because I live amongst the
1564 people that actually make a living day to day, and it is not
1565 just in a pipe company or a wild line company. It is the
1566 caterer in the poor boy shop, the caterers and the ice
1567 companies and the hardware stores, so I get that question
1568 every day. The math is very easy to do. There were 33 drill
1569 ships. There are 240 people per drill ship that work, full-
1570 time equivalent. If you multiply that out, that is about
1571 38,000 people whose job is at risk today.

1572 Now, let us back that back. Six drilling ships are

1573 gone, and those drill ships, as I mentioned earlier, a
1574 billion-dollar piece of equipment, you don't just move them
1575 one day in an area of the world and move them back 6 months
1576 later. They are gone for 3 years to 5 years because that is
1577 the contractual obligations that they are insisting on
1578 having. Those drill ships are \$400,000 a day, a day rate.
1579 That is how much they were getting. Some of the companies
1580 now negotiated a day rate below 100. How long can they stay?
1581 I think we are getting towards the end of that. I think that
1582 you see that we have got 27 drill ships that are idled right
1583 now kind of waiting to see, but at some point in time, two of
1584 which are already in the middle of negotiations, that are
1585 going to leave, and when they leave, it is 5 years, and it is
1586 about 2,000 jobs per drill ship when you multiply the factor
1587 of 4.1 to each job that is created.

1588 Mr. {Sullivan.} Mr. Hofmeister?

1589 Mr. {Hofmeister.} I would suggest that the effects of
1590 the shutdown in the Gulf of Mexico will be felt for the next
1591 3 to 5 years from where we are today, even if we started
1592 permits in the next 6 months. If you followed the fourth-
1593 quarter reports of most of the major oil companies from
1594 Chevron and others, they are reporting hundreds of millions
1595 of dollars of expenses in maintaining capability for the Gulf
1596 of Mexico for which there is no return, so these are absolute

1597 out-of-pocket costs. How long they can continue is unknown.

1598 Fortunately, most of the companies have alternative
1599 projects where they can reassign people, avoiding layoffs,
1600 but the overall reduction in domestic production in the
1601 United States will be felt for years into the future.

1602 Mr. {Sullivan.} Thank you, and I yield back the balance
1603 of my time. Thank you, Mr. Chairman.

1604 Mr. {Whitfield.} Thank you, Mr. Sullivan.

1605 I recognize the gentleman from Texas, Mr. Green, for 5
1606 minutes.

1607 Mr. {Green.} Thank you, Mr. Chairman, and I thank all
1608 the panel. I will talk about our susceptibility to any
1609 little minor thing that happens because of our dependence on
1610 oil, and coming from Texas, I can see it, in fact, all the
1611 testimony we have, whether it be from our former colleague or
1612 John Hofmeister or anyone else on the panel, we are based on
1613 susceptible to it simply because we import so much. And when
1614 we have what has happened in the Gulf of Mexico for almost
1615 the last 10 months, there are very few permits. We fought
1616 over shallow water permits as compared to deep water permits,
1617 and it is really frustrating with some of our companies
1618 actually saying okay, when did you apply for it, we will try
1619 and work it through, and we are hitting the same stone wall
1620 that most folks are having. Maybe our energy subcommittee,

1621 maybe the oversight committee should invite someone from the
1622 Department of Interior. We have some jurisdiction over
1623 that, and I know we did last year and we might do that again.

1624 The frustrating thing is, I have a district in Texas. I
1625 have five refineries, we need the crude oil. If we don't get
1626 it from the Gulf, and all the fracking we can do, we get very
1627 little oil from the fracking although there is some great
1628 things going on in south Texas in the Ford shale but still
1629 not enough, so that is why the Canadian pipeline is important
1630 because we need that crude oil. I would rather have it from
1631 domestic sources but the next place is Canada because we know
1632 Venezuela and Mexico's production is decreasing. We can buy
1633 everything from Mexico if we want but obviously President
1634 Chavez is not our best friend. So that is the issue that I
1635 am concerned about, and particularly to my constituents in
1636 East Harris County and North Harris County.

1637 Mr. Hofmeister, I have to say, we have known each other
1638 for a long time obviously as CEO of Shell and one of those
1639 refineries is a Shell facility. We also have a chemical
1640 plant. But in your testimony, you said we live in both-and
1641 world and not an either-or. I have supported alternative
1642 research for everything on alternatives but it still won't
1643 get us where we need to get. We still need oil to fuel our
1644 economy.

1645 My questions are really for Administrator Newell, and I
1646 think the concern I have, how can--we know the production
1647 from 2010 to 2011. We saw an increase in production actually
1648 from 2009 projected but now we are seeing a decrease in
1649 production, particularly because of what is happening in the
1650 Gulf of Mexico. How would our annual energy outlook differ
1651 if the offshore moratorium had not been put in place and if
1652 we were not now facing endless permitting delays? Have you
1653 been able to quantify that at the EIA?

1654 Mr. {Newell.} We have not specifically looked at what
1655 if the moratorium had never happened. There have been
1656 implications of that in our short-term and long-term outlook,
1657 though. We are forecasting that for this year, 2011, about
1658 250,000 barrels per day lower production offshore and another
1659 decline of similar magnitude in 2012, which is in part due to
1660 the moratorium, in part due to natural decline at existing
1661 fields, so there is an impact there. It is very difficult to
1662 isolate one particular factor but that would be a significant
1663 piece of that.

1664 Mr. {Green.} Well, it is interesting, because some of
1665 the deep water projects actually have potential for 250,000
1666 barrels a day. Now, we don't see that in shallow water, so
1667 that might even be a very conservative estimate on the loss.
1668 And remember, every barrel that we don't bring out of the

1669 Gulf of Mexico we either bring it through the Suez Canal or
1670 somewhere else and so that is why this hearing is important.

1671 If you haven't quantified about the moratorium and
1672 permitting, can you do that or do you need the direction from
1673 the Department of Energy or can you do it on your own
1674 request?

1675 Mr. {Newell.} No, I mean, we can do that in part.
1676 Again, it is difficult to ask the ``what if'' question
1677 because one is looking back and, you know, you need to look
1678 at particular drilling, and it is something about what would
1679 have occurred and what did occur and provide a comparison.
1680 As I mentioned, we do in our short-term outlook have about a
1681 250,000-barrel-per-day decline in 2011 and another one in
1682 2012, and a significant part of that would be due to the
1683 moratorium but then also the delay in permitting after that.
1684 To get it more fine-tuned than that would be a challenge.

1685 Mr. {Green.} Well, I know we have about a 10-month
1686 experience now, and again, like the testimony showed, we are
1687 not just talking about oil tomorrow or next month, we are
1688 talking about 2 to 3 to 5 years from now if those permits
1689 continue.

1690 Mr. Chairman, I appreciate your patience. Obviously I
1691 have a lot of other questions and I would just like to submit
1692 them if we are not going to have a second round.

1693 Mr. {Whitfield.} Thank you.

1694 The gentleman from Illinois, 5 minutes.

1695 Mr. {Shimkus.} Yes. Thank you, Mr. Chairman. Great
1696 hearing. I appreciate you all showing.

1697 A couple things, and first directed to Mr. Hofmeister
1698 and Mr. Newell, and I don't know, Mr. Newell, if you have
1699 been asked, many of us believe we could be energy
1700 independent. We all know that we are independent on
1701 electricity generation in this country. You know, I talk
1702 about energy and the different types of issues, electricity
1703 versus transportation fuel issues. Can we--based upon North
1704 American energy supplies, North American energy supplies, if
1705 we adequately access those, could we be energy independent?
1706 Mr. Hofmeister?

1707 Mr. {Hofmeister.} I think it would be very, very
1708 difficult to achieve full independence on the path that we
1709 are on. We would need to address the transportation industry
1710 somehow to--

1711 Mr. {Shimkus.} Well, and that makes a good point, and
1712 Mr. Markey left the room, but he keeps saying that in the
1713 hearing yesterday that we are going to turn back the clock on
1714 fuel economy standards where the legislation drafted
1715 yesterday particularly protects those standards. It still
1716 allows NHTSA to perform the role in the 2012-2016 car rule.

1717 So we also believe that efficiency standards is part of all-
1718 of-the-above energy strategy, and if we did that, continued
1719 to move on energy security, could we be?

1720 Mr. {Hofmeister.} Well, I think if you look over a 20-
1721 to 25-year road map and you substituted the internal
1722 combustion engine with other technology--

1723 Mr. {Shimkus.} Well, in the all-of-the-above energy
1724 strategy, we also talk about expanding the nuclear portfolio,
1725 so then you can have electricity--so I believe they have--Dr.
1726 Newell, have you all done an analysis on North America energy
1727 and energy independence by accessing available resources?

1728 Mr. {Newell.} We do track North American energy both
1729 statistically in terms of what is currently going on in our
1730 projections. We have not specifically addressed the question
1731 about what actions could one undertake in order to achieve
1732 energy independence. We have not looked at that.

1733 Mr. {Shimkus.} Great. Thank you.

1734 Let me follow up. I want to again highlight that in the
1735 legislation yesterday, and my colleague is coming back, I
1736 want to make sure he understands up, the big political banner
1737 from last year was, read the bill, and I will ask my
1738 colleague from Massachusetts, make sure he read the bill
1739 because we do not affect the 2012-2016 car rule and truck.
1740 We don't do it.

1741 So I need to move to a couple other issues. Mr.
1742 Chairman, I would like to ask for unanimous consent that the
1743 Cambridge Energy Research Associates article in growth in the
1744 Canadian oil sands be placed into the record.

1745 Mr. {Whitfield.} Without objection.

1746 [The information follows:]

1747 ***** COMMITTEE INSERT *****

|
1748 Mr. {Shimkus.} And also I have an article from AP
1749 Energy on North Dakota, and I am going to use these in my
1750 comments.

1751 Mr. {Whitfield.} Without objection.

1752 [The information follows:]

1753 ***** COMMITTEE INSERT *****

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1754 Mr. {Shimkus.} Mr. Busch, with all due respect, I will
1755 invite you to come to my Congressional district. Organized
1756 labor, where it thrives, thrives in the fossil fuel industry.
1757 We are expanding a big refinery. We have several thousand
1758 members of organized labor, laborers, iron workers, operating
1759 engineers, carpenters, painters, been on site during this
1760 economy working in the fossil fuel industry. I would then
1761 point to Prairie State generating facility, which is a 1,600-
1762 megawatt plant where we have also had thousands, several
1763 thousand members of organized labor, the same construction
1764 workers expanding and building this new state-of-the-art
1765 power plant. I mentioned that in my opening statement with
1766 the oil sands and what is in the testimony, I think 23,000
1767 jobs that would then come--23,000 would come on this one
1768 project alone for the State of Illinois.

1769 Energy security and jobs, we are focusing on jobs for
1770 people to move to destroy and attack the fossil fuel industry
1771 when it is a major job creating, low-cost energy. That is
1772 what fires up a lot of us.

1773 I want to end with this story which also talks about
1774 energy security, and really what we haven't addressed is the
1775 vast resources of natural gas in this country. That is a
1776 paradigm shift. And look what it has done to North Dakota

1777 and jobs. I know Speaker Pelosi once said natural gas is not
1778 a fossil fuel but it is, okay? Unemployment in North Dakota
1779 has fallen to the lowest level in the Nation at 3.8 percent,
1780 less than half of the national rate of 9 percent. The influx
1781 of mostly male workers to the region has left local men
1782 lamenting the lack of women. Convenience stores are
1783 struggling to keep shelves stocked with food. Why? They are
1784 accessing this new great resource, natural gas oil shales. I
1785 yield back my time.

1786 Mr. {Whitfield.} Thank you.

1787 Ms. Capps, you are recognized for 5 minutes.

1788 Mrs. {Capps.} I am glad that my colleague is still here
1789 so that I can say that California, where do have a strong
1790 labor movement, rejected the Koch Brothers' attempt to remove
1791 all the clean air regulations that we have in California by
1792 voting down Proposition 23 in the last election.

1793 And I just want to address a few questions to you, Dr.
1794 Busch, because we also really support the Apollo Alliance as
1795 a jobs alliance in California, and I believe that we can look
1796 at renewable energy without being disparaging on any other
1797 form of energy and say this is a job opportunity for the
1798 future. We hear from the majority today that the way to
1799 reduce our dependence on foreign oil is to drill our way out
1800 of the problem. We know in California but I think we know in

1801 our country that that is not true by a long shot. We use so
1802 much oil in this country. I think it is actually too
1803 precious to waste on energy because of the other products
1804 that oil can offer us, lifesaving products. There is no way
1805 we could either produce enough to meet our needs
1806 domestically. If we had adopted what many of us on this side
1807 on the dais and some on the other side as well had called for
1808 in the 1990s like efficiency standards for our vehicles,
1809 homes and appliances, we may not have found ourselves in the
1810 situation we are in today.

1811 Dr. Busch, the Republican Majority also claims that
1812 taking action to reduce carbon pollution would be too
1813 expensive, but that is not what you found when you looked at
1814 the demand side, and that is what I want to ask you about
1815 today. You and your colleagues examined the effects of
1816 California's clean energy law, which will lead to the
1817 adoption of more-efficient vehicles and lower carbon fuels.
1818 California's standards will reduce the amount of oil used by
1819 cars.

1820 Dr. Busch, what impact on oil demand in imports did
1821 California's measures have?

1822 Mr. {Busch.} Well, we actually built on the analysis of
1823 the California Air Resources Board, and so using their
1824 numbers, we found that AB 32 policies would lead to a

1825 reduction of 75 million barrels per year. About an 18
1826 percent reduction is the forecasted reduction.

1827 Mrs. {Capps.} And that is going to save California a
1828 little money? About how much?

1829 Mr. {Busch.} At \$114.50 per barrel, that is about \$11
1830 billion reduction in the import bill.

1831 Mrs. {Capps.} I hope that is being listened to by
1832 everyone here today. I think that is not pocket change.

1833 In your study, you examined an additional benefit of the
1834 clean cars standards, the protection they offer from oil
1835 price shocks. Please tell us about that benefit.

1836 Mr. {Busch.} Right. Well, we didn't actually separate
1837 the car standards but the overall sort of protection under
1838 the price shock scenarios, and these were increases in gas or
1839 diesel of about 25 percent in the lower scenario and 50
1840 percent in the higher scenario, so about a dollar or a little
1841 more than \$2 increase in the price of gasoline reduces the--
1842 you know, saves consumers about \$3 billion to \$7 billion more
1843 or roughly \$200 to \$500 if you would spread that over across
1844 households.

1845 Mrs. {Capps.} And that is not a partisan estimate, that
1846 is a study that is across the board, right?

1847 Mr. {Busch.} Yes.

1848 Mrs. {Capps.} Now, you weren't here yesterday but we

1849 had a hearing in our same subcommittee, received, I think,
1850 quite compelling testimony from the EPA Administrator and
1851 from the American Public Health Association witness that
1852 greenhouse gas emissions do threaten the public's health.
1853 Are there additional benefits to the public's health from oil
1854 reduction policy? And by that, I want to extrapolate that it
1855 is important to save people's health not only for their well-
1856 being because healthy people make better working people and
1857 can actually help us to grow our economy. Can you please
1858 tell us some of the policies that will get us the most bang
1859 for the buck in terms of public health being an economic
1860 driver?

1861 Mr. {Busch.} Well, I guess broadly speaking in terms of
1862 economic drivers, I would point out in California clean jobs
1863 have been going about three times faster than jobs overall.
1864 In 2008 while overall jobs were shrinking, green jobs grew in
1865 California by 5 percent. In 2009, they grew 3 percent while
1866 overall jobs grew 1 percent, so again about three times
1867 faster. And green manufacturing grew at a 10 percent rate in
1868 2009. And 24 percent of green jobs are manufacturing jobs in
1869 California versus 11 percent of the overall employment.

1870 But on the health cost issue, I would say, I mean, the
1871 broader macroeconomic analyses haven't factored in the
1872 benefits to public health in addition to the price spikes in

1873 insurance and the national security implications. So, I
1874 mean, in California the number I have seen, a Cal State
1875 Fullerton study, was \$28 billion per year in health costs
1876 from the burning of fossil fuels in California. We don't
1877 burn much coal so most of that would be on the transport
1878 side, so the big winners would be cleaning up transportation.

1879 Mrs. {Capps.} Thank you very much.

1880 Mr. {Whitfield.} Yes, ma'am.

1881 Dr. Burgess, you are recognized for 5 minutes.

1882 Dr. {Burgess.} And I thank the chairman.

1883 Mr. Hofmeister, I appreciated your thoughtful and well-
1884 prepared statement that you provided for us. You mention in
1885 there very briefly--and in this committee we had a lengthy
1886 hearing in the summer of 2008 when gasoline prices were so
1887 high. We had a lengthy hearing on the effects of speculation
1888 on driving the cost, and you mentioned that tangentially in
1889 your remarks, and while I realize that is not the principal
1890 source or the reason for this hearing today, can you expound
1891 upon that a little further and do you have any information
1892 that you would like for this committee to consider going
1893 forward? Because it was an issue in the summer of 2008, I
1894 felt, though we never really came to a conclusion as an
1895 investigative body in the Oversight Subcommittee on Energy
1896 and Commerce, and yet clearly before the worldwide economic

1897 downturn occurred, we were on a trajectory where the average
1898 person was going to be priced out of the retail gasoline
1899 market.

1900 Mr. {Hofmeister.} In my own investigation of the role
1901 of speculation, I conclude that it is a minor impact on
1902 overall crude oil price for the 2007-2008 period. The real
1903 issue that took place--and I testified to this in June of
1904 2008 in my previous role--was the demand for middle
1905 distillates, that is, diesel, aviation fuel, heating oil,
1906 where there was not enough crude oil barrels in the market to
1907 satisfy the demand for those middle distillates drove the
1908 price to \$147. In any commodity trading, there will always
1909 be some degree of speculation from orange juice to pork
1910 bellies to coffee beans, true also in oil, but based on my
1911 own analysis, to get more than, say, 5 percent as speculated
1912 price to me is a real stretch and it just is the reality of
1913 supply-demand. The supply-demand equation works extremely
1914 well across the world and also in this country, and the real
1915 issue is, you know, the availability of crude oil or the
1916 insecurity about obtaining future contracts of crude oil, and
1917 that shortage of crude oil is what really drives price.

1918 Dr. {Burgess.} And of course, as you correctly point
1919 out, the time horizon for new development bears a 7- to 10-
1920 year lag between starting a project and actually having a

1921 deliverable in the marketplace. So I don't think there is
1922 any question, even though supply and demand during that
1923 hearing was discounted as a source of the problem. If there
1924 is a problem coming 7 years down the road and we don't deal
1925 with it today, if the problem today is speculation but there
1926 still is going to be a supply-demand inequity in 7 years, it
1927 is obviously the producers who need to be making the
1928 preparation and doing the investments necessary.

1929 And yet still it was hard to separate out--I mean, I
1930 know that the head of Southwest Airlines makes money on the
1931 fact that he is able to hedge the fuel prices and did that
1932 more effectively than any other airline in the country, and
1933 in 2008 profited handsomely from that, yet there were other
1934 people who were buying large quantities who never intended to
1935 take delivery of that product, in fact, had no ability to
1936 take delivery, and it did seem that that affected the overall
1937 price for the end user. Is there still work to be done on
1938 that? I know we are at a time now where I think even it was
1939 mentioned by the gentleman next to you that the price of
1940 crude does seem to track the stock market. It is a safe
1941 place for money to go right now while other things seem not
1942 so safe. So is there still a role to play? Does Congress
1943 need to pay attention to this as a regulatory body?

1944 Mr. {Hofmeister.} Well, I think in the interest of

1945 consumers overall, the answer to your question is yes, I
1946 think there is an oversight role that needs to be played
1947 because there can be manipulation. I didn't find it in the
1948 2007-2008 period, and many of those who hedged in the summer
1949 of 2008 were burned badly later in the year when the price
1950 collapsed.

1951 Dr. {Burgess.} Yes, we bailed them out, if you will
1952 recall.

1953 Mr. {Hofmeister.} But I think from an oversight--

1954 Dr. {Burgess.} I voted against that, just for the
1955 record, so everyone understands.

1956 Mr. {Hofmeister.} From an oversight standpoint there is
1957 always a role in any market for the potential abuse that
1958 could exist, and those who don't own the product I think are
1959 the most likely to need to be watched over.

1960 Dr. {Burgess.} Let me just ask you quickly, because you
1961 also referenced some of the shale formation productions going
1962 on, and you are the only person on the panel who actually has
1963 any experience with production. I agree with you about that.
1964 In my area of north Texas in the Barnett shale, it is a big
1965 deal, but there is also concern and the general public in the
1966 area is not convinced that they are being protected from air
1967 quality issues, water quality issues. There is a big fight
1968 going on between federal regulators and state regulators back

1969 where I live. It seems like there is a lot of responsibility
1970 that has to fall on the producers, and I would think that the
1971 producers would be more proactive about ensuring that things
1972 are done properly so that they don't lose this very precious
1973 resource because of pushback by the general public.

1974 Mr. {Hofmeister.} There is a very serious effort
1975 underway by a number of producers to try to arrive at
1976 appropriate standards because you are absolutely right. When
1977 people operate below standard or do not operate the best
1978 practice, best in class, then abuses can take place and
1979 people do suffer. So between a number of associations and a
1980 number of major companies, there is an effort to agree on
1981 what should those standards be and then find a way to, you
1982 know, get people to comply with such standards.

1983 Mr. {Whitfield.} Mr. Scalise, you are recognized for 5
1984 minutes.

1985 Mr. {Scalise.} Thank you, Mr. Chairman. I appreciate
1986 you hosting this hearing dealing with the Middle Eastern
1987 crisis and especially how it relates to U.S. energy markets.

1988 I want to walk back a little bit and first go through
1989 some of the things that got us to the situation we are in in
1990 the Gulf of Mexico, which Congressman John did a really good
1991 job of outlining. Right after the explosion of the Deepwater
1992 Horizon, the President commissioned a team of scientists and

1993 commissioned them to go out and come back with a safety
1994 report, a report on not only what went wrong as much as how
1995 we can improve safety in the Gulf operations, and there was a
1996 30-day safety report that was put together that the
1997 Department of Interior issued that was peer reviewed by
1998 scientists, and there were some good recommendations on how
1999 to improve safety, many things that most of the companies,
2000 unlike BP, were already doing. The problem that came out of
2001 this was, this was the document that was referenced to create
2002 the moratorium, and I want to submit this for the record. I
2003 ask unanimous consent that we can submit this report.

2004 Mr. {Whitfield.} Without objection.

2005 [The information follows:]

2006 ***** COMMITTEE INSERT *****

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2007 Mr. {Scalise.} We later found out that this document
2008 was fraudulently doctored by the Obama Administration to
2009 suggest that the scientists themselves recommended the
2010 moratorium, and I think it is really important for everybody
2011 to understand that the moratorium that came out that two
2012 courts now have said the Administration doesn't even have the
2013 legal authority to administer, that moratorium was based on
2014 fraudulent doctoring of this document, and in fact the
2015 scientists, a majority of those scientists that were peer
2016 reviewing the document that the President himself appointed,
2017 that were appointed by the White House, a majority of those
2018 scientists said they not only disagreed with the moratorium
2019 but they point out how the moratorium reduces safety of
2020 drilling operations in the Gulf of Mexico, and they have some
2021 very sound reasons why that moratorium reduces safety in the
2022 Gulf and why they disagreed with it, even though they name
2023 was attached to it. Of course, the Obama Administration
2024 later had to apologize to these scientists for that
2025 fraudulent doctoring, and that has never really been covered
2026 thoroughly enough and I think it is something we do need to
2027 pursue, but I want to ask unanimous consent to also include
2028 this in the record because I think it is important--

2029 Mr. {Whitfield.} Without objection.

2030 [The information follows:]

2031 ***** COMMITTEE INSERT *****

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2032 Mr. {Scalise.} --to establish that the moratorium
2033 itself came from fraudulent activities by the Obama
2034 Administration, which now has brought us to the point of the
2035 ``permatorium'' as was described where they are not issuing
2036 permits in the Gulf today for any drilling activities in the
2037 deep water, which dramatically is reducing America's energy
2038 security and I think is one of the contributing factors to
2039 why we are over 90 approaching \$100 a barrel on the price of
2040 oil on the spot market.

2041 So I want to ask Congressman John, because you work
2042 directly with these companies and you talked a little bit
2043 about it in your opening statement, the things that you are
2044 seeing on the ground--I know I hear from people every day not
2045 just the people who are exploring for energy but all of the
2046 service industry people, all of the ancillary. We have
2047 gotten reports from the White House alone that 12,000 jobs
2048 have already been lost in south Louisiana, not even getting
2049 into the rest of the country. In south Louisiana, we lost
2050 12,000 jobs because of the moratorium, now the
2051 ``permatorium'' that is going on, so if you can tell me if
2052 you have got any more numbers on how much wider that is
2053 approaching because there are so many companies that are just
2054 literally holding on by a vine, companies that are small

2055 businesses, local American businesses that are about to go
2056 under, about to go bankrupt because of the Administration's
2057 fraudulent activity.

2058 Mr. {John.} As far as the direct jobs, and again, there
2059 are a lot of number out there, Congressman Scalise, and we
2060 try to put our arms around the realistic of what is happening
2061 out there, and the math is pretty easy to do. When you look
2062 at the jobs that are lost today, you know, there are these
2063 six drill ships that are gone. They are gone. And if you
2064 multiply those number out, it is right in the 5,000 to 6,000
2065 direct jobs, and then you have to multiply that times four
2066 because according to a study that was commissioned by
2067 Louisiana Mid-Continent Oil and Gas by Dr. Lawrence Scott, it
2068 is a multiplier of four. So, you know, yes, is there some
2069 debatableness about the numbers.

2070 Mr. {Scalise.} But it is well in the thousands, maybe
2071 approaching the tens of thousand?

2072 Mr. {John.} It is well over 10,000 jobs that have been
2073 lost as of today, and G&O Inc. predicted that Woods McKinsey
2074 study said that a permanent moratorium or a moratorium that
2075 lasts for longer than a year or so and with a total shutdown
2076 of the Gulf, it is 175,000 jobs that are--

2077 Mr. {Scalise.} I appreciate that. I know we have got a
2078 list here of the rigs, as you talked about the 33, and these

2079 are very valuable assets, a billion-dollar asset each in many
2080 cases, that have already left. I will tell you some of the
2081 countries that some of these assets have gone to: Libya,
2082 Nigeria, Congo. Two of them have actually gone to Egypt, and
2083 it is a sad state of affairs in this country when a major
2084 employer thinks that it is better to do business in Egypt
2085 than it is in the United States because of the Obama
2086 Administration's policies that are leading us to a higher
2087 dependence on Middle Eastern oil. Egypt, two of these assets
2088 have gone to, and I would like to ask unanimous consent to
2089 submit this into the record as well, and I thank you for
2090 being here and for what all of you are doing, and I yield
2091 back the balance of my time.

2092 Mr. {Whitfield.} Without objection.

2093 [The information follows:]

2094 ***** COMMITTEE INSERT *****

|
2095 Mr. {Whitfield.} I might also say that toward the end
2096 of the year, we sent a letter to Michael Bromwich asking for
2097 some response to questions regarding the moratorium. We
2098 never heard anything from him. We are getting ready to
2099 recontact him a little more forcefully this time and
2100 hopefully we can get some additional answers.

2101 The gentleman from Texas, Mr. Olson, is recognized for 5
2102 minutes.

2103 Mr. {Olson.} Thank you, Mr. Chairman. Thank you to the
2104 witnesses for coming today to give us your expertise on this
2105 critically important matter.

2106 I would like to ask my first question to Mr. Hofmeister.
2107 First of all, thank you, sir for your service to the town of
2108 Houston, greatly, greatly, greatly appreciate that, and I
2109 want to talk about national security and the Middle East. I
2110 think you believe as I do that we have to develop all the oil
2111 and gas resources that God has given our country. That means
2112 the East Coast, the Gulf Coast, the West Coast, Alaska, you
2113 know, the public lands, wherever it is, we need to develop
2114 that oil. We are very vulnerable geographically
2115 particularly, I mean, with these Straits of Hormuz and with
2116 the Suez Canal where most of the oil that our country depends
2117 upon flows through, and I was in the Navy for 10 years, flew

2118 P-3s and did many, many patrols through the Straits of
2119 Hormuz, and it is a very, very, very narrow choke point,
2120 about 10, 15 miles wide at its widest, and when we flew
2121 through there, we had devices on our aircraft that we were
2122 being tracked by fire control radar from the Iranians, and I
2123 can guarantee you that they are doing that with the tankers
2124 that are coming through. I mean, if they want to cause big,
2125 big trouble for the world, you know, take out a tanker right
2126 there in the middle of the straits and cut off the whole
2127 Persian Gulf to traffic.

2128 And so, you know, my point here, you know, we are
2129 depending right now--we have got two very unstable nations,
2130 Egypt with what is going on there internally and Iran with a
2131 leadership who doesn't live on this planet, and I know you
2132 predicted \$5-a-gallon gasoline by the end of this year. If
2133 some of these things happen in the Middle East that I am
2134 concerned about, if Iran does something to the Straits of
2135 Hormuz or Egypt shuts down the Suez Canal, how would that
2136 impact your prediction of \$5 per gallon of gasoline?

2137 Mr. {Hofmeister.} The Straits of Hormuz watch about 20
2138 to 25 percent of the world's daily crude oil production move
2139 through it, and if the world were to lose that amount of oil
2140 because of a shutdown in the Straits, I think that the
2141 immediate impact on crude oil prices would be to not just

2142 double but even triple the current crude oil price of the
2143 panic that would set in in terms of future contracting.
2144 There might be a slight delay to see how long it make take to
2145 clean up the mess that might be created there but it is such
2146 a critical pinch point and there is so much of that oil that
2147 goes both east and west that it is not only energy security
2148 for the United States, it is energy security for the world's
2149 second largest economy, China. And so the consequence would
2150 be dramatic. Five dollars would look cheap in terms of a
2151 gasoline price in the event of the Straits of Hormuz being
2152 shut in.

2153 Mr. {Olson.} Thank you for that rather sobering answer.

2154 One question for you, Congressman John. Thank you also
2155 for your service. And as you know, we have been talking
2156 about it, we have a moratorium, now a ``permatorium'' in the
2157 deep water in the Gulf since April of last year, and I have
2158 known of at least five rigs that have gone overseas that my
2159 colleague, Mr. Scalise, had mentioned. Amazingly, most of
2160 the rigs that I have talked to are taking it on the chin at
2161 about \$500,000 a day just sitting idle but most of them are
2162 still staying here in our country in these waters because
2163 they believe we have the best sort of regulatory system,
2164 judicial system, and, you know, they believe it is less risk
2165 to them long term than some of them going overseas. I think

2166 the President missed an opportunity during his State of the
2167 Union when he could have at least mentioned the oil spill and
2168 what he has done to lift the moratorium and make a commitment
2169 to get the rigs, the permitting going and get those rigs back
2170 out there working, and unfortunately 2 days after the
2171 President's speech, we had one more rig announce that they
2172 are going to go overseas, and it was one of the Noble Corp's
2173 rigs, the Clyde Boudreaux, and they announced that they are
2174 going to take their rig--I hope I pronounced that right. I
2175 am not from Louisiana. But they were going to take their rig
2176 to Brazil, and this is a quote that just sticks out with me
2177 about the impact of this moratorium, this ``permatorium'' on
2178 our oil supply. One of the Noble employees was quoted as
2179 saying ``There is life after the Gulf of Mexico, and that
2180 would be Brazil.''

2181 Is there a tipping point, Congressman, where somewhere
2182 we are going to be hearing not just that there is life after
2183 the Gulf of Mexico, life is in Brazil, life is in Sudan, life
2184 is in Nigeria, life is in Norway, wherever, life is somewhere
2185 else, not American waters, and we are going to lose those
2186 American jobs permanently and more depend upon foreign oil?

2187 Mr. {John.} Well, I guess I can only answer your
2188 question as, picture yourself in a boardroom where you may
2189 have 4 or 5 or 6 billion dollars in your cap budget for the

2190 next 3 or 4 or 5 years, where would you as a board member
2191 want to decide to put those kinds of dollars. Is it in the
2192 Gulf where today there is an enormous amount of uncertainty
2193 today, or is it somewhere else? And that is only way really
2194 I can answer that question. I think the fact that seven
2195 rigs, six have gone and a brand-new one is leaving, I think
2196 is the initial signal of what to come because there is a
2197 tipping point, and I think we are very, very close to that
2198 point because of the fact that industry and the Bureau of
2199 Energy Management have worked together to come up with safety
2200 regulations, task force that the industries have put
2201 together. The Marine Well Containment Company, a billion-
2202 dollar commitment by four companies and more adding today to
2203 put a billion dollars into a company for containment. So we
2204 have done, I think the industry has done an enormous amount,
2205 a good job of all the regulations in doing what is required
2206 of them to get back and the goalpost keeps moving, and I
2207 think that that is very troubling in a lot of ways, and you
2208 only have to look at the amount of money that is being
2209 invested out there to give you an idea of where else could it
2210 go, and there are a lot of other places that it could go.

2211 Mr. {Olson.} Thank you, Congressman.

2212 Mr. Chairman, I ask unanimous consent that the article
2213 from the Houston Chronicle about the ship going over to

2214 Brazil be placed in the record.

2215 Mr. {Whitfield.} Without objection.

2216 Mr. {Olson.} Thank you.

2217 [The information follows:]

2218 ***** COMMITTEE INSERT *****

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2219 Mr. {Whitfield.} Mr. McKinley, you are recognized for 5
2220 minutes.

2221 Mr. {McKinley.} Thank you, Mr. Chairman. I left the
2222 private sector, an architectural practice to get back into
2223 the political arena, because I had a fundamental belief that
2224 our national security and the welfare of our country has been
2225 at risk with us not having an energy policy and being
2226 independent from foreign oil. I think it is something we
2227 have talked about, what this hearing was supposed to be about
2228 is the concept of what is happening over in the Middle East.
2229 I don't think it is going to end with Egypt. It is going to
2230 continue. And I am here, have come to Congress because I
2231 want to deal with energy independence. But yet I have come
2232 here, now I have come to the realization when I look across
2233 the aisle and I hear their remarks and some of the people and
2234 the policy.

2235 One thing that we are short of here is naiveté. It is
2236 rampant in this community, and I am very concerned about
2237 where we are going. This idea of alternate travel, driving--
2238 look, West Virginia is a very rural mountainous area. The
2239 largest community I have in my district has 35,000 people on
2240 it. The idea of high-speed rail and other isn't going to
2241 work. What I am looking for here is to find way that we can

2242 become energy independent, and that is to mine coal and drill
2243 into the Marcellus shale and the oil and gas that we have had
2244 in West Virginia. But all I have heard for the last several
2245 years has been to stop this dagger in the heart of West
2246 Virginia, the cap and trade, fly ash challenges, water
2247 discharge, greenhouse gas emissions, the revocation of mine
2248 permits. It is as though Congress really doesn't want to
2249 have us independent. We know how to do it. I am sure there
2250 are panels like this elsewhere that are saying we can do
2251 that, we can be energy independent but we are just not.

2252 I want to hear--the discussion we had yesterday, Mr.
2253 Hofmeister, you stressed jobs in your opening remarks. I am
2254 so frustrated. We have 15 million people out of work in
2255 America, union, non-union Americans out of work. I want to
2256 try to do something, and mining coal and making us energy
2257 independent will get us that direction. My question to you,
2258 do you think denying EPA's authority to regulate greenhouse
2259 gases is a responsible means to reduce our dependence on
2260 foreign oil?

2261 Mr. {Hofmeister.} In my judgment, Congressman, I
2262 believe that the Environmental Protection Agency is going way
2263 too far, too fast without the means, the mechanisms or the
2264 technology available to change the game the way they are
2265 trying to change the game.

2266 I visited Pike County, Kentucky, before Christmas just
2267 to see what is going on in the coal region of eastern
2268 Kentucky, and what I learned from operators in eastern
2269 Kentucky is, they haven't had a new mine permit in years
2270 because they can't get past EPA regulations on water quality,
2271 and the water quality that they are expected to reach has to
2272 have Evian bottled water consistency coming down a stream in
2273 a natural forest. It doesn't exist in nature, Congressman,
2274 and I think there is a reach going on that is job destructive
2275 and that doesn't take into account the fact that over the
2276 coming decades I believe the ingenuity and the innovation
2277 that is possible in the hydrocarbon world can dramatically
2278 clean up the use of hydrocarbons so that we can continue to
2279 use natural resources found in this country.

2280 Mr. {McKinley.} Dr. Newell, can we be energy
2281 independent if we mine coal and let us drill? And if so, why
2282 aren't we doing it so we can be energy independent?

2283 Mr. {Newell.} Currently, coal goes primarily, almost
2284 exclusively, 90 something percent, for electricity
2285 generation, the vast, vast majority of which is already
2286 domestically produced, so the main issue with regard to fuel
2287 imports relates to petroleum. We have currently got about 50
2288 percent of our liquids consumption comes from imported
2289 petroleum so there are certainly actions that would tend to

2290 affect that. You know, lower consumption and higher domestic
2291 production tend to squeeze out imports but we currently have
2292 about 9 million barrels per day. We are projecting that--

2293 Mr. {McKinley.} My question is, can we be independent
2294 if we mine our coal and drill for our gas in America?

2295 Mr. {Newell.} It would be a matter of primarily
2296 domestic liquids production that would change the oil import
2297 picture, and it would be a significant change from where we
2298 currently are.

2299 Mr. {McKinley.} So the answer is yes?

2300 Mr. {Whitfield.} Do you want to respond to that, Mr.
2301 Newell?

2302 Mr. {Newell.} The answer would depend upon the actions
2303 that were taken. On current market trends, that is not where
2304 things are currently headed.

2305 Mr. {Whitfield.} Mr. Gardner, you are recognized for 5
2306 minutes.

2307 Mr. {Gardner.} Thank you, Mr. Chairman. Thank you as
2308 well for this timely hearing. I certainly appreciate your
2309 efforts to do this today. And thank you to the members of
2310 the panel for taking time away from work to be here. I
2311 appreciate your time.

2312 Dr. Newell, I will start with you to talk a little bit
2313 about some of the testimony. In your testimony, you talked

2314 about some of the cost impacts on a per-barrel basis of
2315 energy disruption out of the Middle East and some other
2316 issues that we face should something continue to disrupt
2317 energy supplies in the Middle East. What would the overall,
2318 in terms of economic impact, the overall economic impact be
2319 should an incident close the Suez Canal to transport, should
2320 an incident close some of the choke points that we are
2321 talking about here, whether it the Gulf of Aiden, the Red Sea
2322 off of Yemen, whether it is the Suez Canal, if those were to
2323 close, what would--in real dollars, what would that impact be
2324 to our economy?

2325 Mr. {Newell.} The impact would depend upon any, you
2326 know, price effect of some type of an international
2327 disruption. What would tend to happen in terms of oil price
2328 increases tends to decrease the amount of household
2329 disposable income that can go to other things. It tends to
2330 act like an additional cost on production, and if you cost
2331 more to have one major input into our national production, it
2332 would tend to lead to a decline in GDP. You know, a rough
2333 rule of thumb is that every \$10-per-barrel increase of the
2334 price of oil might shave roughly .2 percent off of GDP over
2335 the next year. It depends upon the nature of any kind of a
2336 price shock that would occur. If it is a supply-side price
2337 shock, it would tend to have the kind of effects that I said.

2338 It would also depend whether it is temporary or permanent. A
2339 permanent increase is obviously more damaging. If it is an
2340 increase that is caused from demand increases like faster
2341 global economic growth, it is a less negative impact because
2342 along with global economic growth goes increased demand for
2343 U.S. products and so that tends to offset any effect. So it
2344 depends.

2345 Mr. {Gardner.} So is there any way to get a number in
2346 terms of if this were to happen, if these two cases were to
2347 happen, if there was a disruption, total disruption as a
2348 result in the Suez Canal what it would cost? I mean, what
2349 would that number be? A billion, 2 billion? I know you said
2350 .2 shaving off the GDP but what would that number be?

2351 Mr. {Newell.} It really would depend on the specific
2352 scenario. So closing different transit points doesn't
2353 necessarily take production off of the market, and so if you
2354 can reroute that production through other transit points,
2355 there may be a short-term impact, but once things adjust, it
2356 would tend to bring it back down. It would depend on the
2357 magnitude of any kind of a production shortfall. It would
2358 depend upon the response of remaining supply sources. So,
2359 for example, if one country had a decline in production,
2360 there significant spare crude oil production capacity in
2361 other countries that could offset it. There is also

2362 Strategic Petroleum Reserves that could offset certain
2363 impacts. So I am not trying to evade the question but it
2364 really depends on a very specific scenario and the responses
2365 that one imagines to that scenario.

2366 Mr. {Gardner.} Well, thank you.

2367 Mr. Sieminski, just a broader question. Based on our
2368 energy policy in the United States today, are we becoming
2369 more or less globally competitive in the United States?

2370 Mr. {Sieminski.} Well, Mr. Gardner, and I think
2371 everybody in the room, since I was only one that said no to
2372 Congressman Markey's question, I now get a chance to explain.
2373 I wish he were here. In fact, when I testified before Mr.
2374 Markey a couple years ago, and what I said was, the most
2375 troubling thing I find about hearings like this is what seems
2376 to an outsider to be an unappreciation for the fact that
2377 these solutions are not mutually exclusive, that getting more
2378 oil in the Gulf of Mexico or not having a moratorium is not
2379 mutually exclusive to fuel efficiency standards for
2380 automobiles. I serve on the National Petroleum Council.
2381 Several years ago we did a study that was widely well
2382 received that basically said there is no single solution to
2383 our energy policy problem, that we need to do all those
2384 things that make economic sense on the supply side and the
2385 demand side in order to move forward, and so let us come back

2386 to the Middle East thing.

2387 I keep hearing virtually everybody in this room saying
2388 well, we have got to reduce our dependence on Middle Eastern
2389 oil. That makes sense if it is good economics and good
2390 foreign policy. I am not so sure that it is unless we can
2391 produce the oil here less expensively. It would reduce jobs
2392 here in this country to say well, we are just not going to
2393 import from the Middle East.

2394 Mr. {Gardner.} So in 10 seconds, are we more or less
2395 competitive as a result of current U.S. energy policy?

2396 Mr. {Sieminski.} I would say that current U.S. energy
2397 policy is probably not doing a whole lot either way--

2398 Mr. {Gardner.} So the answer--

2399 Mr. {Sieminski.} --to our dependence on the Middle
2400 East.

2401 Mr. {Gardner.} We are less competitive?

2402 Mr. {Sieminski.} Are we less competitive? We would be
2403 more competitive if we did not exclusive development of
2404 domestic resources for what seems to me to be poor policy
2405 reasons.

2406 Mr. {Hofmeister.} In my view, we are far less
2407 competitive as a Nation by virtue of not producing domestic
2408 resources, which I believe are eminently affordable to
2409 produce.

2410 Mr. {Whitfield.} Mr. Pompeo, you are recognized for 5
2411 minutes.

2412 Mr. {Pompeo.} Great. Thank you, Mr. Chairman. Thank
2413 you all for being here this morning.

2414 Mr. Hofmeister, you mentioned Matt Simmons early on, and
2415 it reminded me, Dr. Newell, in your analysis, there is his
2416 theory of peak oil theory. What is the assumption that you
2417 all have made? I don't want to get into the complexities but
2418 what is the assumption you have made with respect to total
2419 capacity and the ability to get at that?

2420 Mr. {Newell.} We are projecting an increase in both
2421 U.S. domestic production of crude oil in the next 25 years as
2422 well as a significant increase internationally in crude oil,
2423 so we at this point in time, you know, for the next 25 years,
2424 which is how far our projection goes out, we don't see a
2425 peaking of world oil production capacity.

2426 Mr. {Pompeo.} I appreciate that. And did you also
2427 assume--you gave some pricing for the next several decades
2428 which you were forecasting for pricing. Did you continue to
2429 assume that oil would be priced in dollars, that that
2430 commodity would largely be continued to be trading in the
2431 U.S. dollar?

2432 Mr. {Newell.} It is not something we explicitly assume.
2433 I mean, that is certainly the way that we track it through

2434 our model. If that were to change, I don't think that would
2435 significantly change the outlook if you priced it some other
2436 way.

2437 Mr. {Pompeo.} I think some of Mr. Sieminski's folks
2438 would be very concerned if we decided to price oil in a
2439 different way. I know that I certainly would too, so would
2440 the folks in Kansas who are producing here. I sit here
2441 today. Forty days ago, I was running a company that was a
2442 member of KIOGA, the Kansas Independent Oil and Gas
2443 Association, and so there are national security implications
2444 and cost implications for consumers too in terms of how we
2445 price oil in the marketplace.

2446 I don't think anybody has talked this morning either
2447 about refining capacity in America, and I think that is
2448 important. We focused on getting the crude here. Mr.
2449 Hofmeister or Mr. John, could you speak to me too about, we
2450 have a huge problem getting refineries built in the United
2451 States. We can talk about how long it has been since there
2452 has been one. I see that as a huge component when it comes
2453 to gasoline prices in addition to the crude oil inputs.

2454 Mr. {John.} Yes, I would be glad to comment. Actually,
2455 in my written testimony, I have a whole paragraph where I did
2456 talk about refining capacity, because you really can't talk
2457 about crude oil and oil production and how it all fits into

2458 the puzzle of energy policy without talking about refinery
2459 because a barrel of oil without a refinery is just a barrel
2460 of oil. You must be able to boil that oil to get the value
2461 added out of it. And I guess the most alarming part of our
2462 refining capacity is, is we haven't built a grassroots from
2463 the grass up in almost 30 years. In fact, the opening and
2464 the expansion of the Garyville refinery, Marathon Garyville
2465 refinery down in Louisiana, was as close as it is going to
2466 get to a new refinery in this country. It just hasn't
2467 happened for a myriad of reasons. But I think the fact of
2468 the location of all the refining capacity in this country
2469 should be of some concern. Not only are we vulnerable from
2470 the importation of oil from countries that don't share our
2471 values but it doesn't take long to look at in 2008 when
2472 Hurricane Gustav and Hurricane Ike came through the Gulf of
2473 Mexico and the refining capacity from Corpus Christi, Texas,
2474 to Pascagoula, Mississippi, is 50 percent of this Nation, and
2475 every one of those refineries at some point in time during
2476 those 2-1/2 weeks of those two hurricanes were either shut
2477 down, cold or warm, and what the implications of that were
2478 that the lines up in the Northeast, because all of the
2479 refined products, the gasoline that is used in Chattanooga
2480 and Atlanta and in Alabama and Mississippi come from the Gulf
2481 Coast, and if you remember correctly, there were lines

2482 waiting on where is our gasoline. It was because of that.
2483 And that just shows the vulnerability that we have had. We
2484 need some more refining capacity. However, I think it is
2485 important that we must get the crude oil into the pipelines
2486 to be able to actually refine and value-add that.

2487 Mr. {Pompeo.} Mr. Hofmeister, do you care to comment?

2488 Mr. {Hofmeister.} I think that has been well said.

2489 There have been a few additions to existing refineries but
2490 only in recent years.

2491 Mr. {Pompeo.} One last question. Mr. Busch, you said,
2492 and I think I got this right, you said there were green jobs
2493 created while the overall jobs decreased. Do you think those
2494 could be related? And here is my point. When you create
2495 rules and regulations that cause folks to go try and create
2496 these jobs where government regulation would not have
2497 permitted them to be before, when federal policy encourages
2498 these green jobs, that you do in fact destroy the economy so
2499 you see green jobs growing while overall jobs are growing?
2500 Do you think those are disconnected thoughts?

2501 Mr. {Busch.} I don't believe they are related, no. I
2502 mean, the trend has been continuing for a long period so I
2503 don't.

2504 Mr. {Pompeo.} Thank you. I yield back the balance of
2505 my time, Mr. Chairman.

2506 Mr. {Whitfield.} Mr. Griffith, you are recognized for 5
2507 minutes.

2508 Mr. {Griffith.} Thank you, Mr. Chairman.

2509 Dr. Newell, if you would, I noticed answering one of the
2510 earlier questions you were able to project or had at least
2511 some idea of what oil production was going to do in the
2512 United States. Can you tell me what coal production is going
2513 to do in the United States between now and 2025?

2514 Mr. {Newell.} We do have the projections for that. I
2515 don't have the specific number in front of me right now.
2516 Most of--this depends largely on the outlook coal-based
2517 electricity generation. It also depends somewhat on what
2518 your starting point is. We have seen during the economic
2519 downturn over the last several years and also a significant
2520 decline in natural gas prices over the last several years and
2521 there has been a significant decline in the demand for coal
2522 for electric power generation. We do--

2523 Mr. {Griffith.} If I could stop you there and ask you,
2524 do you believe that the reason for the significant downturn
2525 in demand for coal for electric generation is due to federal
2526 regulations on coal and the use of it in the electric
2527 generation?

2528 Mr. {Newell.} Not at this point, I actually don't think
2529 so. The main factors that have led to a decline in coal over

2530 the last several years are the economic downturn, which has
2531 an effect on overall electricity generation, and a very
2532 significant decline in natural gas prices as well, and so I
2533 think that would be the main factor.

2534 Looking forward, obviously regulations would tend to
2535 have an impact if they would focus on coal.

2536 Mr. {Griffith.} How many electric generation facilities
2537 have switched from coal to natural gas?

2538 Mr. {Newell.} There has been a--I have an answer to
2539 your question here. In 2009, coal production was 1,075
2540 million metric tons, and it goes up to 1,315 million metric
2541 tons by the end of our projections, so it increases. Now,
2542 largely this is in existing electric power plants, which we
2543 project most of those would continue to stay online that are
2544 existing laws and regulations. I don't know if I answered
2545 the other part of your question, though.

2546 Mr. {Griffith.} Go ahead.

2547 Mr. {Newell.} I am--

2548 Mr. {Griffith.} Oh, you want me to rephrase?

2549 Mr. {Newell.} Sorry.

2550 Mr. {Griffith.} I am going to switch gears on you
2551 anyway.

2552 Mr. {Newell.} Okay.

2553 Mr. {Griffith.} I note with some interest that in

2554 getting prepared for today, since we are supposed to be
2555 focused on Egypt but I don't have much oil in my district, I
2556 got a lot of coal and got a lot of natural gas. But I did
2557 notice with some interest that apparently we imported 442
2558 short tons, not a lot of coal, from Egypt during the last
2559 year, and I am wondering if you can tell me what was special
2560 about that coal? It must have been somebody needed something
2561 particular. Do you have any clue?

2562 Mr. {Newell.} I really don't but it is something we can
2563 find out for you.

2564 Mr. {Griffith.} If you can get me an answer later? I
2565 did not expect you to have that on the tip of your tongue.

2566 If I could shift now to Dr. Busch, you got into a
2567 discussion earlier about health, and we have concerns in my
2568 area. Electric rates have gone up significantly, and I would
2569 have to say since the previous questioner asked you questions
2570 about public policy and health concerns, I don't think there
2571 is any question that if we regulate the way that the EPA
2572 wants to on greenhouse gases it is going to cause even more
2573 spikes in electricity or fuel for the people in my district,
2574 who already are facing difficulties with median income for
2575 the household of about \$35,000. Would you not agree that if
2576 we have significant increase in the cost of the ability to
2577 heat your home with electricity powered by coal or from home

2578 heating fuel that we are going to be affecting adversely,
2579 particularly during the winter months, the health of the
2580 people who are having a hard time affording it right now,
2581 affording the energy sources to provide heat in their homes
2582 currently?

2583 Mr. {Busch.} Thank you, Mr. Griffith. I would
2584 certainly agree that affordable energy to keep a home warm in
2585 the winter and cool in the summer, for places that have high,
2586 you know, heat spikes, that is important to health. I
2587 wouldn't have an opinion on whether increases in energy costs
2588 would be more detrimental than reductions in pollutants that
2589 might be released from electricity generation. I don't know
2590 which would be more--

2591 Mr. {Griffith.} You don't know?

2592 Mr. {Busch.} I don't know.

2593 Mr. {Griffith.} But it is something that should be
2594 considered by agencies of the United States government as
2595 they go forward in determining our policies on greenhouse
2596 gases, would you not agree?

2597 Mr. {Busch.} I agree it is important to consider all
2598 the tradeoffs amongst the options, yes.

2599 Mr. {Griffith.} I appreciate it.

2600 Thank you, Mr. Chairman. Yield back my 10 seconds.

2601 Mr. {Whitfield.} Thank you very much.

2602 Do any of you have one additional question you would
2603 like to ask? Do you have one?

2604 Mr. {Rush.} Yes, Mr. Chairman. Thank you for being so
2605 kind.

2606 I want to go back to Mr. Hofmeister. Mr. Hofmeister, I
2607 am really kind of intrigued by your opening statement, and I
2608 am in a district where my constituents probably suffer from
2609 environmental ill effects, asthma, all those kinds of
2610 illnesses and diseases that might occur. You know, we don't
2611 have a lot of oil in my district but we have got high
2612 unemployment. That is one of the characteristics of my
2613 district. And you mentioned in your opening statement about
2614 job creation. Can you elaborate a little bit more on that in
2615 terms of what you really mean by job creation? Because that
2616 intrigues me.

2617 Mr. {Hofmeister.} Thank you, Ranking Member Rush. If
2618 we look at a significant commitment by this country to
2619 increasing its domestic oil production, could include gas,
2620 could include power plant construction, the number of jobs
2621 that would be created through the capital investment made
2622 necessary to produce this additional oil would in effect, I
2623 believe, raise jobs all over the country, not just in the oil
2624 patch. The reason is, the distributed manufacturing system
2625 that supplies oil companies includes companies that make

2626 equipment in places like Wisconsin, Illinois, Michigan. Many
2627 north Great Lakes States are producing the kind of skilled
2628 metalworking crafts that are necessary. The steel industry
2629 makes pipe. The automotive industry makes the trucks and
2630 many other components that go into oil rigs and offshore
2631 platforms, and so the equipment manufacturing is a big part
2632 of it. In addition, there is a whole services industry that
2633 comes with it and there is an education industry that comes
2634 with it because somebody's skills would need to be trained in
2635 community college systems and in 4-year schools and it would
2636 encourage high school students to stay in school to go to
2637 community college to get the skills. The average wage we are
2638 talking about in the oil and gas industry for semi-skilled
2639 workers is in the \$60,000 to \$80,000 a year range, which is
2640 almost double the median wage in the country. And so these
2641 high-wage jobs enable people to buy many more things and that
2642 is why I say it is a tide that lifts all ships.

2643 Mr. {Rush.} Thank you, Mr. Chairman. Mr. Chairman, on
2644 behalf of the ranking member, Mr. Waxman, I would ask
2645 unanimous consent to introduce into the record a report
2646 prepared by the NRDC on concerns with tar sands.

2647 Mr. {Whitfield.} Well, I reluctantly won't object to
2648 that.

2649 Mr. {Rush.} Thank you.

2650 [The information follows:]

2651 ***** COMMITTEE INSERT *****

|
2652 Mr. {Whitfield.} Thank you.

2653 Mr. Scalise, do you have another question?

2654 Mr. {Scalise.} Yes. Thank you, Mr. Chairman, for the
2655 opportunity.

2656 Just I guess I will ask the whole panel a yes or no
2657 question. With this Administration's current policy of not
2658 issuing permits in the Gulf of Mexico for now 10 months, not
2659 allowing people to go back to work drilling safely in the
2660 Gulf of Mexico, is that 10-month and potentially longer
2661 refusal to issue any new permits on deep water drilling, is
2662 that going to increase or decrease our country's dependence
2663 on foreign oil? I will start with you, Mr. Newell.

2664 Mr. {Newell.} I am going to have to decline to take a
2665 policy position on this.

2666 Mr. {Scalise.} Or just a judgment. I mean, there was a
2667 policy decision made but its impact, how is that policy's
2668 impact going to be on our Nation's dependence on foreign oil?
2669 Would it increase or decrease? And if you don't want to
2670 answer, I respect that.

2671 Mr. {Newell.} Okay.

2672 Mr. {Scalise.} Mr. Mar?

2673 Mr. {Mar.} Sir, as a representative of a foreign
2674 government, I cannot advise on that matter.

2675 Mr. {Sieminski.} I think it is a huge mistake to not
2676 develop the resources in the Gulf of Mexico, and unnecessary
2677 delays in permitting are a mistake. I don't think that
2678 carrying that to the next step of your question is
2679 particularly important. Whether that does anything to our
2680 use of Middle Eastern oil I don't think is really critical.

2681 Just very quickly 10 seconds on this, Saudi Arabia was
2682 brought up in this hearing. If it weren't for the fact that
2683 Saudi Arabia has 3 or 4 million barrels a day of spare
2684 capacity that is available in the marketplace or if it
2685 weren't for the fact that we have the Strategic Petroleum
2686 Reserve both here and elsewhere around the world, we would be
2687 in a lot worse shape with problems in the Suez Canal or
2688 anywhere else in the Middle East.

2689 Mr. {Scalise.} But there has been no suggestion to tap
2690 the Strategic Petroleum Reserve that I have heard. I am not
2691 sure if you have heard anything different.

2692 Mr. {Sieminski.} Well, you would do it if there was a
2693 problem.

2694 Mr. {Scalise.} Right, but if our demand--you know,
2695 maybe you think our demand might be decreasing but if our
2696 demand is going to remain the same or increase and yet our
2697 actual access to known sources of reserves is shut off by
2698 policy, you don't think that would cause an increase in--

2699 Mr. {Sieminski.} I said that--

2700 Mr. {Scalise.} --the need for it to come from someplace
2701 else?

2702 Mr. {Sieminski.} Well, we might just get more oil from
2703 Canada, which--

2704 Mr. {Scalise.} Well, that is why I said foreign oil,
2705 and I would include Canada in that. I would sure like to
2706 completely eliminate our country's dependence on Middle
2707 Eastern oil, and I think if we invoked a real smart strategy,
2708 we absolutely could eliminate our dependence on Middle
2709 Eastern oil. Canada is a good friend and a trading partner
2710 but clearly we are still getting, as he pointed out, our 20
2711 percent of our oil from Middle Eastern countries.

2712 Mr. {Sieminski.} What we want to eliminate our
2713 dependence on is uneconomic oil. Whether it comes from the
2714 Middle East or somewhere else is not the question.

2715 Mr. {Scalise.} Right. But would it increase our
2716 decrease based on a shutting off of the supply that we
2717 currently know is there?

2718 Mr. {Sieminski.} Without that domestic oil we are going
2719 to need more oil from somewhere, and it could be coming from
2720 the Middle East.

2721 Mr. {Scalise.} Thank you.

2722 Mr. Hofmeister?

2723 Mr. {Hofmeister.} It is a very serious problem in both
2724 the short and the long term, and yes, it would require
2725 greater dependence on foreign sources.

2726 Mr. {Scalise.} Thank you.

2727 Mr. {Busch.} I don't have a great amount of expertise
2728 in this area but I am happy to offer my opinions if you would
2729 like.

2730 Mr. {Scalise.} Sure.

2731 Mr. {Busch.} It seems--from what I know, it takes a
2732 while to get a new well online so I would imagine in the
2733 short run it wouldn't make much of a difference but all else
2734 equal, it seems obvious to me if we are providing more
2735 domestically and we are not changing demand that there would
2736 be less dependence on imported oil.

2737 Mr. {Scalise.} Thank you. And Mr. John?

2738 Mr. {John.} I think, Congressman Scalise, you know,
2739 from a logical economic standpoint, the answer to your
2740 question is absolutely it would make us more dependent on
2741 foreign sources. However, with the assumption of 1-1/2
2742 million barrels that come out of the Gulf of Mexico, can we
2743 do without that. The question is, can we reduce our demand
2744 by a million and a half right now, then the answer to your
2745 question would be no. I think I know the answer to that
2746 question.

2747 Mr. {Scalise.} I haven't seen that demand reduce, and I
2748 appreciate it, and I will just end on this final thought. I
2749 know there are provisions in current leases that are ``use it
2750 or lose it'' provisions, and as this ``permatorium'' is going
2751 on, the clock is still ticking on those leases so there are
2752 many employers out there in the Gulf of Mexico who have
2753 leases who want to use it and are not even being allowed to
2754 use it by the federal government in a safe way and yet the
2755 clock is still ticking even though they are not being allowed
2756 to go and extricate those resources, and when you look at
2757 what is happening in Egypt and even in other parts, as you
2758 pointed out, the supertanker that was hijacked by Somali
2759 pirates in the Arabian Sea right off of Oman, there are major
2760 threats out there to supply chains. Notwithstanding Canada,
2761 but there are major supplies, especially in the Middle East,
2762 and increased volatility and yet you have got a policy that
2763 shut off those reserves in the Gulf of Mexico, and with the
2764 ``use it or lose it'' provisions, this is a point that has
2765 never really been explored. If that clock keeps ticking and
2766 those people aren't allowed to go and explore those
2767 resources, if that lease runs out, the government could take
2768 those leases back and not leave them out on the open market
2769 so you are now even closing off more known resources. There
2770 are few areas of the OCS that are currently available to

2771 explore. You would actually be pulling back as a policy.
2772 The country would be pulling back even more of the very few
2773 reserves that are already out there available for
2774 exploration, and I don't know if you want to finish on that.

2775 Mr. {John.} Just a quick comment there, Congressman
2776 Scalise. Since 2008, \$8 billion has been spent by oil and
2777 gas companies leasing in the Gulf of Mexico. The highest and
2778 the second highest lease sale in the history of the Gulf of
2779 Mexico happened in 2009. So you have got an enormous amount
2780 of capital in leasing this 3 by 3 square mile of water for a
2781 5-year period of time, so I think your point is well taken.

2782 Mr. {Scalise.} Thank you, and I yield back, Mr.
2783 Chairman. I appreciate the opportunity.

2784 Mr. {Whitfield.} Dr. Newell, I just have one question
2785 for you. In your levelized cost analysis of electricity, why
2786 does the EIA add the equivalent of \$15-per-ton carbon tax in
2787 the determination of the cost of the new plants?

2788 Mr. {Newell.} Yes. What we do is to reflect existing
2789 market behavior of investors and how they are perceiving
2790 investment in new coal generation capacity. What we do is,
2791 we have a roughly 3 percent additional capital to the capital
2792 cost in terms of financing, and this is to reflect behavior
2793 that we see in the marketplace in terms of interest on the
2794 part of investors in new electricity generation capacity from

2795 coal, which has been colored by any number of things
2796 including the possibility of future regulations that would
2797 affect coal generation, so that is what that is meant to do,
2798 to reflect market behavior with regard to coal and coal-
2799 intensive technologies.

2800 Mr. {Whitfield.} Thank you all so much. We really
2801 appreciate it. Yes, Mr. Mar?

2802 Mr. {Mar.} Mr. Chairman, may I supplement an answer in
2803 response to Congressman Upton's earlier question about
2804 pipelines going to the West Coast from Alberta?

2805 Mr. {Whitfield.} Sure.

2806 Mr. {Mar.} The proposed Gateway pipeline would have the
2807 capacity to take 525,000 barrels a day from Alberta to the
2808 West Coast. A proposal for oil by rail has the capacity to
2809 take an additional 200,000 barrels a day, and the currently
2810 existing Kinder Morgan transmountain pipeline has current
2811 capacity of 300,000 barrels per day, which would be a total
2812 of just over a million barrels a day total. There is
2813 currently also a proposal to expand the Kinder Morgan
2814 pipeline, so that gives you some sense of the volumes that
2815 could be moved to the West Coast.

2816 Mr. {Whitfield.} Well, thank you very much, and once
2817 again I appreciate your testimony. We look forward to
2818 continuing working with you.

2819 Members will have 10 days to submit additional material,
2820 and record will be open for 30 days.

2821 With that, we will conclude this hearing. Thank you.

2822 [Whereupon, at 12:25 p.m., the Subcommittee was
2823 adjourned.]