Find More, Use Less

Energy Recess Packet

SENATE REPUBLICAN CONFERENCE
Lamar Alexander, Chairman
John Cornyn, Vice Chairman

SENATE
REPUBLICAN
CONFERENCE

110th Congress

LAMAR ALEXANDER, CHAIRMAN

Dear Colleague,

As we head into the August work period, we must continue to focus on the energy crisis facing our country and how high gas prices are hurting Americans. To assist you in your messaging efforts, the Senate Republican Conference staff has prepared a recess packet on energy that includes messaging points, suggested events to hold in your state, and policy background information. I hope you and your staff find this information useful as you carry our message of finding more and using less energy to the American people.

If you need assistance during this work period, feel free to contact me, or your staff may contact the Conference office at 202-224-2764.

I look forward to working with you when we return in September as we continue to develop solutions for our energy future.

Sincerely,

Lamar

Message

Find More, Use Less

Republicans Ready to Act, Democrats Won't

Economics 101: Supply and Demand

- Supply of oil is not growing as fast as demand
- So prices are going up

Democrats Ignore Supply

- Ignore half the law of supply and demand
- Focus only on using less
- Propose begging Saudi Arabia for more oil
- Say “No, we can’t” to more American energy

Republicans will do BOTH

- Find more energy at home – offshore, shale, biofuels, renewables
- Use less foreign oil – plug-ins, fuel efficiency, green buildings
- Say “Yes, we can” to more American energy

Time to Act

- Let's begin today
- President Kennedy: 10 years to get to the moon
- Once we start, speculators will get nervous
- Prices will stabilize

Find More, Use Less

$4 per gallon gasoline hurts Americans

- Squeezing family budgets
- Stressing communities and businesses
- Threatening jobs

Find More

- Deep sea exploration
- Western oil shale
- Advanced biofuels
- Renewables: wind, solar, geothermal

Use Less

- Plug-in electric and hybrid cars and trucks
- Fuel efficiency standards
- Green buildings
- “Smart” electric meters

Real Results

- Lower gas prices
- More energy independence
- Stop sending billions of dollars to the Middle East

Gas Price Reduction Act

Find More, Use Less

Promote Deep Sea Exploration for American Oil and Natural Gas

- Allow states to explore for deep sea oil and natural gas 50 miles or more from the coast.
- Could provide America with billions of barrels of oil and boost state budgets by billions of dollars for conservation.
- With two-thirds of Americans now in favor of deep water exploration, it's clear that Americans would rather get oil from Virginia than from Venezuela.

Tap America's Vast Western Oil Shale Resources

- American oil shale resources could provide our country with over 800 billion to two trillion barrels of oil, more than three times the reserves of Saudi Arabia.
- Repeal a federal moratorium on the Department of Interior's development of oil shale regulations so Americans can have the option of getting their oil from states like Wyoming, Colorado, and Utah rather than from Middle Eastern countries seeking to do us harm.

Use Less Gasoline and Diesel with Plug-In Electric Cars and Trucks

- Increase use of plug-in electric cars and trucks to use less gasoline and diesel fuel. With plug-in vehicles, the first 40 miles of travel can be powered by electricity before the combustion engine kicks in.
- Increase research and development for advanced batteries to maximize electricity range and use less gas.
- Provide direct loans for advanced battery manufacturing facilities.
- Encourage the federal government to increase its purchases of plug-in hybrid vehicles.

Strengthen U.S. Futures Markets

- Address speculation through increased transparency in energy futures markets.
- Authorize increased funding and staff for the Commodity Futures Trading Commission (CFTC).
- Direct the President's Working Group on Financial Markets to study the international regulation of commodities markets.
- Codify CFTC action on position limits and transparency for foreign boards of trade.
- Require the CFTC to gather information on index traders and swap dealers.

Americans Support Republican Plan to Find More, Use Less

- 88% of Americans favor increasing domestic energy production
- Energy sources by the numbers:
    - 94% favor encouraging development of wind and solar power
    - 71% favor expanding access to domestic sources like OCS
    - 62% favor expanding access to domestic sources like ANWR
- On the energy issue, who would you agree with more?
    - 61% say someone who says we should explore
    - 29% say someone who says we should not drill

Energy Issues, Jan Van Lohuizen, Voter Consumer Research, July 20-24, 2008

- Support for Using More Domestic Energy Resources By Party:
    - 85% of Republicans
    - 83% of independents
    - 76% of Democrats

American Solutions for Winning the Future poll, June 4, 2008

- Find More
    - 75% favor "increasing drilling for oil in the US immediately" as a way to reduce dependence on foreign oil
    - 71% favor drilling offshore
    - 54% favor ANWR energy exploration

Fox News/Opinion Dynamics poll, July 17, 2008

All Ideas Were Welcome When Gas Was a Fraction of Today's Price

Majority Suggests Americans Who Are Struggling With Today's Skyrocketing Gas Prices Aren't Worthy of A Similar Debate

SEN. HARRY REID (D-NV): "They can offer their drilling amendment, and we would offer our own alternative. Both measures would receive a vote. That is how the legislative process is supposed to work." ("Road Map: Reid Says One Amendment Each About Right," *Roll Call*, 07/22/08)

Energy Independence and Security Act of 2007 (EISA)

- Days On The Floor: 15
- Average Gas Price During Debate: $3.06/Gallon
- Roll Call Votes On Amendments: 16
- Total Roll Call Votes Regarding The Bill: 22
- Total Senate Amendments Proposed: 331
- Total Senate Amendments Agreed To: 49

Energy Policy Act of 2005 (EPACT05)

- Days On The Floor: 10
- Average Gas Price During Debate: $2.26/Gallon
- Roll Call Votes On Amendments: 19
- Total Roll Call Votes Regarding The Bill: 23
- Total Senate Amendments Proposed: 235
- Total Senate Amendments Agreed To: 57

###

Compiled by the Senate Republican Communications Center staff

Dems Shut Down Energy Bill After Fears Of "Defections In The Ranks" On Domestic Energy Production

"But The GOP Is Positioning Itself As The Party Willing To Do Whatever It Takes To Lower Gas Prices"

THE NEW YORK TIMES: "Democrats, worried about defections in the ranks, are scrambling to avoid votes on expanded drilling and this week canceled a series of Senate committee sessions that could have provided an opening for Republicans." ("Spotlight on Gas Prices, and Parties in Stalemate," The New York Times, 07/24/08)

WALL STREET JOURNAL: "Majority Leader Reid has decided that deliberation is too taxing for "the world's greatest deliberative body." This week he cut off serious energy amendments to his antispeculation bill." (Editorial, "Democrats Against Drilling," Wall Street Journal, 07/24/08)

DOW JONES: "While U.S. Democrats consider a bill that seeks to rein in speculation in the petroleum markets, they've suddenly found themselves on the defensive from an orchestrated Republican attack pushing the majority to 'Drill More, Use Less.'" ("Dems On The Defensive Over GOP Push For More Oil," Dow Jones, 07/24/08)

CQ: "Democratic leaders have tried to stave off a floor vote on the issue, in part, GOP leaders say, out of fear that some Democrats may cast pro-drilling votes." ("Republicans Refuse to Discuss Futures Bill Without Coastal Drilling Vote," CQ, 07/24/08)

THE HILL: "But the GOP is positioning itself as the party willing to do whatever it takes to lower gas prices. The Republicans say Democrats are scared to cast votes on new drilling in the face of voter anger over high gasoline prices, and they point to the majority's decision to scrap appropriations bills to avoid a debate over lifting the congressional ban on drilling along the Outer Continental Shelf." ("Senate GOP issues ultimatum to expand oil drilling," The Hill, 07/24/08)

POLITICO: "Democratic leaders, caught off guard by a swing in public opinion and undermined by some of their own members, are scrambling to run down the clock on calls to lift the ban on offshore oil drilling." ("'Gang Of 10' Fights For Increased Drilling," *Politico*, 07/23/08)

Meanwhile…13 Democrats Tell Their Constituents "We Have To Do Some Drilling"

SEN. KENT CONRAD (D-ND): "We Have Got To Deal With Conserving, Using Less. We Also Have To Produce More." "Well, I think we all know there are several elements to this. We have got to deal with conserving, using less. We also have to produce more. Those are the two sides of the equation in terms of the supply/demand relationship." (CNN's "American Morning," 07/15/08)

SEN. MAX BAUCUS (D-MT): "There Should Be Offshore Drilling, If Appropriate … All The Measures Should Be There On The Table." ("'Gang Of 10' Fights For Increased Drilling," *Politico*, 07/23/08)

SEN. MARY LANDRIEU (D-LA): "There's Going To Be Substantially More Drilling." "'There's going to be substantially more drilling and substantially more conservation,' Sen. Mary L. Landrieu (D-La.) said of the plan her moderate colleagues are hoping to cobble together." ("'Gang Of 10' Fights For Increased Drilling," *Politico*, 07/23/08)

SEN. JEFF BINGAMAN (D-NM): "I've Supported Increased Production Of Domestic Oil And Gas. And I Also Think It Makes Sense To Look At Whether Or Not There Are Some Areas In The Outer Continental Shelf That Could Be Opened For Production." "First of all, as all of you know, I'm from an oil producing state, oil and gas producing state, and I've supported increased production of domestic oil and gas. And I also think it makes sense to look at whether or not there are some areas in the outer continental shelf that could be opened for production in addition to what's already open." (Sen. Bingaman, Press Conference, 07/14/08)

SEN. DICK DURBIN (D-IL): "I'm Open To Drilling And Responsible Production." ("Top Democrat May Back New Offshore Drilling: Report," *Reuters*, 07/09/08)

SEN. BEN NELSON (D-NE): "We Have To Do Some Drilling. Let's Accept The Fact That We Have To Do Some Drilling." (Fox News' "Your World With Neil Cavuto," 07/07/08)

SEN. BLANCHE LINCOLN (D-AR): "I Think You Would Find A Lot Of Support For Offshore Drilling." "I think you would find a lot of support for offshore drilling if it was tied to other things like -- renewable fuels, wind energy, solar energy & other renewable transportation fuels." ("Offshore Drilling?" KNWA, 06/24/08)

SEN. BYRON DORGAN (D-ND): "I Support Drilling Offshore." (Sen. Dorgan, Congressional Record, S.6351-2, 07/07/08)

SEN. TOM CARPER (D-DE): "Sen. Tom Carper (D-Del.) Said He Sensed There Were Enough Votes From His Democratic Colleagues To Expand Offshore Drilling Into New Areas…" ("Dems Searching Their Souls On Drilling," *Politico*, 07/10/08)

SEN. JOHN TESTER (D-MT): "[W]e Must Take Advantage Of Our Untapped Oil resources In Places Where It Makes Sense." "Although our country cannot simply drill our way out of this energy crisis, we must take advantage of our untapped oil resources in places where it makes sense." ("Guest Column From Senator Tester: Energy Independence This Independence Day," 06/30/08)

SEN. SHERROD BROWN (D-OH): "Ohio Sen. Sherrod Brown, Who Had Adamantly Opposed Such Drilling, Is Among Those Warming To The Idea. He says any exploration would have to be far from the coast and that the oil produced would be used in the United States, not abroad." ("Do We Lift The Ban On Offshore Drilling?" *The Columbus Dispatch*, 07/11/08)

SEN. JIM WEBB (D-VA): "We Need To Look At All Our Assets." "Sen. Jim Webb (D-Va.), fresh from his GI Bill victory, said that he is now making energy a major priority. 'We need to look at all our assets,' he said, suggesting a large package including expanded offshore drilling, alternative energy, nuclear power and technology to make coal cleaner." ("Dems Searching Their Souls On Drilling," *Politico*, 07/10/08)

SEN. MARK PRYOR (D-AR): "We Need To Really Sit Down And Talk About All The Options On The Table." "Partisan bickering will not lower gas prices or put us on a course toward energy independence. … We need to really sit down and talk about all the options on the table, evaluate their merits and move full speed ahead on meaningful reform." (Sen. Mark Pryor, Letter To Senators Harry Reid And Mitch McConnell, 06/26/08)

###

Compiled by the Senate Republican Communications Center staff

DEMS CITE SPECULATION STATS THAT DON'T MATCH THE FACTS

SEN. HARRY REID (D-NV): "Academics, economists say that the costs of oil is 20% to 50% speculation." (Sen. Harry Reid, Remarks on the Senate Floor, 07/22/08)

"ACADEMICS AND ECONOMISTS" ACTUALLY SAY "IT'S NOT SPECULATION, IT IS SUPPLY AND DEMAND"

WARREN BUFFETT: "It's not speculation, it is supply and demand. … We don't have excess capacity in the world anymore, and that's what you're seeing in oil prices." (Warren Buffett, Chairman & CEO, Berkshire Hathaway, 6/25/08)

WALTER LUKKEN, CHAIRMAN OF THE COMMODITY FUTURES TRADING COMMISSION: "We haven't evidence that speculators are broadly driving these prices." ("Hitting Rock: Dems Oblivious On Oil," Union Leader, 07/13/08)

INTERNATIONAL ENERGY AGENCY: "There is little evidence that large investment flows into the futures market are causing an imbalance between supply and demand, and are therefore contributing to high oil prices… Blaming speculation is an easy solution which avoids taking the necessary steps to improve supply-side access and investment or to implement measures to improve energy efficiency." (International Energy Agency, Medium-Term Oil Market Report, July 2008)

CHAIRMAN BEN BERNANKE: "If financial speculation were pushing all prices above the level consistent with the fundamentals of supply and demand, we would expect inventories of crude oil and petroleum products to increase as supply rose and demand fell. But, in fact, available data on oil inventories shows notable declines over the past year." (Ben Bernanke, Chairman Of The Federal Reserve, 7/15/2008)

DANIEL YERGIN, CHAIRMAN OF CAMBRIDGE ENERGY RESEARCH ASSOCIATES: "When an issue is this hot, it would be so much easier if there was a single reason to blame… But calling it speculation is way too simplistic." (Daniel Yergin, Chairman, Cambridge Energy Research Associates)

JOHN CHAPMAN, AMERICAN ENTERPRISE INSTITUTE: "The truth is that increased speculation in oil futures is not a cause of rising oil prices, but rather an effect of those prices, which have skyrocketed due to growth in global demand, geopolitical instability, and constricted supply in several producing countries. (John Chapman, Researcher at the American Enterprise Institute, 7/16/2008)

MICHAEL HAIGH, FORMER CHIEF ASSOCIATE CHIEF ECONOMIST WITH THE CFTC: "If Congress is literally going over the CFTC's head and talking about imposing legislation or making the CFTC exercise its emergency powers to limit excess speculation when they don't even know what that means. I don't even know what excess speculation means." (Michael Haigh, Senior Commodity Analyst At Societe Generale Corporate And Investment Banking And Former Associate Chief Economist With The CFTC, 6/30/2008)

CRAIG PIRRONG, MEMBER OF THE CFTC ENERGY MARKETS ADVISORY COMMITTEE: "There's no evidence of speculative influence. Speculators are not contributing to the demand for physical oil as they almost always roll positions prior to

delivery." (Craig Pirrong, Professor Of Finance At The University Of Houston, Member, CFTC Energy Markets Advisory Committee, 6/24/08)

PAUL KRUGMAN, NEW YORK TIMES COLUMNIST: "On any given day, expectations determine the price; but the spot market also has to clear, and the way this happens is that excess supply must be added to physical stocks. Even with fairly inelastic supply and demand, any large speculative deviation from the "fundamental" price should show up in a noticeable increase in inventories." (Paul Krugman, New York Times Columnist, 6/28/08)

###

Compiled by the Senate Republican Communications Center staff

Find More, Use Less

Suggested Events

20 Ways to Get Your Energy Message Out This August

With high gas prices continuing to dominate the news cycle, events you host in your state will give reporters a local angle to the story. If you need assistance setting up a local event, the Senate Republican Conference staff is available to consult with your staff.

1. Tour your state as part of a "High Gas Prices Tour"

Senators George Voinovich and Kit Bond have both held statewide tours to talk directly to constituents about efforts to lower gas prices. Packaging energy events as a "tour" will show the public that high gas prices are your top priority. You could even drive an electric or hybrid car to reach stops on the tour. Some stops to consider making on the tour could include:

- Police station or fire department
- Rail or bus station
- Truck stop
- Family farm
- Manufacturing facility
- Family-owned restaurant
- Food bank

2. Highlight constituents who are doing their part to "Use Less"

Each month, Senator Richard Lugar profiles a student, professional, scholar, or member of the business community who has demonstrated leadership and initiative in taking concrete action to reduce America's dependence on foreign oil. In addition to having their profiles posted on Senator Lugar's website, Lugar Energy Patriots receive a certificate and a letter of congratulations. Following the announcement, your office can send out a press release to the local paper announcing how innovative the person has been in using less energy.

3. Visit a business to talk about conservation

Senator Mel Martinez visited a UPS facility in Central Florida to discuss ways the company is using less energy. This gave Senator Martinez a chance to discuss ways that constituents can reduce their demand for energy through conservation efforts.

4. Hold an energy forum in your state

Set up the forum to look like an official hearing. Bring in experts to talk about conservation, alternative sources of energy, and the need for more domestic energy. Let the experts do a short speech and take questions from audience members. Invite the press and do interviews following the forum. Conference staff can help your office secure Administration experts to speak at events in your state.

5. Schedule time to call in to radio stations throughout the state

During rush hour, you have a captive audience who will be very interested in hearing about your efforts to lower gas prices. Senator Chuck Grassley dominates Iowa radio by

reaching out on a consistent basis to radio talk shows. Utilize this format by scheduling calls to multiple stations in all markets across your state to maximize your visibility on this issue. If you alert the Conference office in advance, the segment can be recorded for your office to post on your website.

6. Solicit and share your constituents' stories about high gas prices

Reach out to your constituents and ask them to tell you their stories about how the rising cost of energy is affecting their daily lives. Share these personal stories at every event you attend. Senator Mike Crapo e-mailed his constituents and got hundreds of responses that he mentions in media interviews to add a personal angle to why he is fighting to lower gas prices.

7. Write on op-ed on high gas prices

Submit an op-ed to state newspapers talking about the impact of high gas prices on the family budget and the ways you have been working to lower energy costs for your constituents. Senator Roger Wicker wrote one for the *Natchez Democrat* in Mississippi to talk about the provisions of the Gas Price Reduction Act that will help lower gas prices for Mississippians. Follow up with another op-ed on the need for our country to focus more on conservation and alternatives.

8. Travel with a floor chart that has your top-line messaging

Senator Voinovich traveled around Ohio recently with a floor chart highlighting the Republican top-line message of "Find More, Use Less." At each stop, photographers were able to capture the senator with our winning message behind him. The graphics team in the Conference office can design a chart that can be easily shipped back to your state.

9. Host a roundtable with small business owners

Let small business owners tell you their stories about how high gas prices are affecting them and their employees. Spend the first part of the event listening and then discuss your efforts to help small businesses by lowering gas prices.

10. Test-drive a plug-in electric car or hybrid

Show your commitment to using alternative sources of energy by test-driving a hybrid or electric car. This event creates a great visual for the media and shows your efforts to look beyond oil. When Senator Alexander attended an event in Nashville with hybrid and electric cars, TV and print outlets from across the state covered the event.

11. Tour an alternative energy facility in your state

Set up a visit at a solar, wind, or advanced biofuels facility and meet with the employees who work there. Invite the press along to talk about building a bridge to our country's energy future and how you have supported alternative energy in the Senate.

12. Meet with farmers

Not only can you talk to farmers about how the high cost of gasoline and natural gas is affecting them, but you can also discuss topics like switchgrass and cellulosic ethanol and the importance of looking to new agricultural technologies for fuel.

13. Visit a nonprofit

Organize a visit to your local food bank, Meals on Wheels program, or faith-based organization to talk about how the high price of gas has resulted in a decline of volunteers, a decline in donations, or an increase in costs. Take a tour of the facility and then have a media availability with the leaders of the nonprofit.

14. Visit a university research facility

Meet with academics who are doing research on new energy technologies. This will give you a chance to provide a local angle to the national story.

15. Blogger pen and pad or conference call

This event will give you the opportunity to reach out to bloggers in your state and will give you a chance to talk about how Democrats are opposed to legislation that would lower gas prices. You can also give them a preview of your statewide schedule for August.

16. Highlight the local decline in tourism that could be reversed by lower gas prices

Visit with leaders at a local tourist destination that is suffering because fewer people are traveling due to high gas prices.

17. Hold a tele-town hall

Reach out to areas of your state that you may not be able to be in during the August recess. Let your constituents know about all of the activities you are working on to lower gas prices. For assistance in setting up a tele-town hall, your staff can contact the Conference office staff.

18. Meet with local fishermen on a dock

Talk with local fishermen about how the high cost of gas is raising the cost of fuel for boats and taking a toll on their livelihood. Invite the media to a local pier or dock to get the personal story of how the energy crisis is hitting this industry.

19. Host an event at a school

Meet with teachers, principals, and bus drivers to talk about how high gas prices are affecting local school districts. This event will give you a chance to talk about how some school districts are cutting the school week down to four days or reducing bus service in order to conserve energy. This event gives you a chance to have a press availability outside near a school bus for a good visual.

20. Meet with local mayors

Host a roundtable with local mayors to talk about how gas prices are affecting local municipalities and your efforts to lower gas prices.

Find More, Use Less

Policy Background

RPC BULLETIN
U.S. Senate Republican Policy Committee

July 29, 2008

Producing More American Energy: Allow the Senate to Vote for Action to Lower Gas Prices

According to polling data, 77 percent of the American people now support "drilling for oil in the Gulf of Mexico."[1] In addition, when it comes to addressing energy and gas prices, 59 percent of Americans believe that it is incumbent on Congress to "take the lead."[2] Senate Republicans have shown that leadership by putting forward a plan that would produce more energy here at home by utilizing America's offshore resources and oil shale, and that would encourage conservation through the use of hybrids and plug-in vehicles.[3] Unfortunately, Senate Democrats, who have opposed efforts to increase production in the past, are preventing the Senate from voting on this legislation.

Historically, the United States Senate has allowed significant debate and an open amendment process on issues affecting domestic energy production. That has been the case even when Democrats and Republicans held opposing views on this issue. As the charts on the following page demonstrate, the Senate has voted many times over the last 15 years on measures that would encourage or restrict U.S.-based energy production in the Outer Continental Shelf (OCS) and in the Arctic National Wildlife Refuge (ANWR).

As the first chart demonstrates, Senate Republicans have generally supported deep-sea exploration which would have increased U.S. energy production and helped reduce our nation's dependence on foreign oil, while Democrats have generally voted against those measures.[4] Despite these policy differences, the Senate has voted numerous times on the issue, including in 1992 when the price for a gallon of gasoline was $1.01 per gallon, in 2001 and 2003 when the price of gas hovered around $1.50 per gallon, and even as recently as last year and earlier this year as gasoline prices rose from $3.00 to $3.72 per gallon.

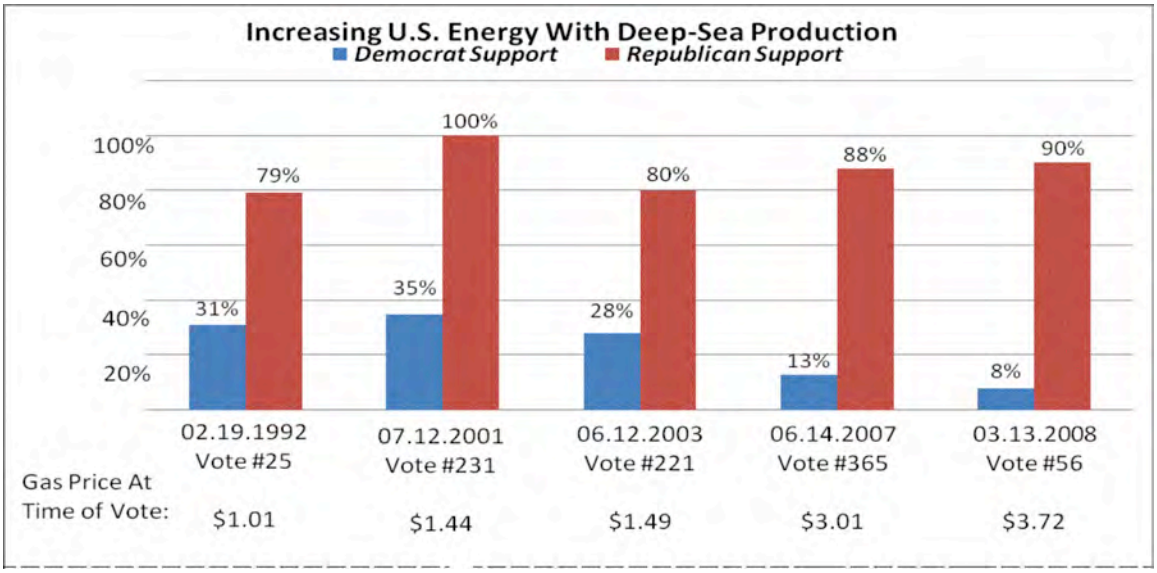
---

[1] Fox News Opinion/Dynamics Poll, June 17-18, 2008. See: http://www.pollingreport.com/energy.htm

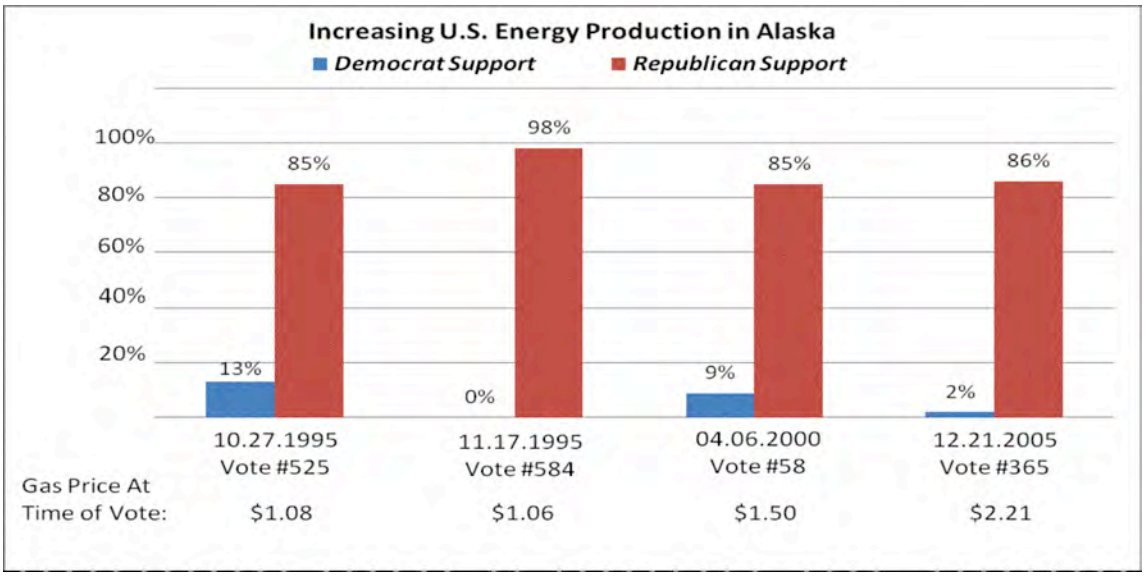
[2] NBC News/*Wall Street Journal* Poll, June 6-9, 2008.

[3] S. 3202, The Gas Price Reduction Act of 2008.

[4] Additional information regarding these votes, and other energy production votes that have occurred between 1992 and 2008, are available from the Republican Policy Committee.



The second chart demonstrates that Republicans have also generally supported increasing domestic energy production in ANWR while Democrats have generally opposed those efforts to increase domestic energy production. This chart reveals that from 1995 to 2005, when the cost of gas ranged from $1.08 to $2.21, the Senate voted numerous times on measures affecting domestic energy production.[5]



These two charts demonstrate that Senators have historically been able to offer and obtain votes on amendments affecting energy production. But today, when the American people are suffering as a result of near record gas prices and the American public supports more

[5] Additional information regarding these votes, and other energy production votes that have occurred between 1992 and 2008, are available from the Republican Policy Committee.

exploration, the Senate is being prevented from voting on Republican amendments to increase U.S. energy production.

With Near Record High Gas Prices, Republicans Say "Yes, We Can" to U.S. Energy

What Democrats Have Said:

Democratic leaders have spoken out against not only increasing domestic energy production but also against oil and gas as a whole. For example:

- Senate Majority Leader Harry Reid has said: "Coal makes us sick. Oil makes us sick…. We've got to stop using fossil fuel."[6]
- Senator Richard Durbin said in a colloquy with Senator Patty Murray that drilling "makes the problem worse,"[7] to which Senator Murray replied: "I would say to my colleague that drilling for oil is a false promise…."[8]
- When asked by CNN's Wolf Blitzer during a television interview if she would allow "offshore drilling to come up for a vote on the House floor," House Speaker Nancy Pelosi responded by saying, "I have no plans to do so."[9]
- Senator Robert Byrd said the following after cancelling an appropriations markup after Republican Senators indicated an amendment would be offered to end the congressional production moratorium: "Given the uncertainty in how the oil and gas drilling issue is currently playing out on the Senate floor, I have decided to postpone the July 24th appropriations markups at this time."[10]
- Senator Barack Obama said earlier this month that lifting the federal offshore drilling ban was "another example of short-term political posturing from Washington, not the long term leadership *we need to solve our dependence on oil*."[11]
- The *Washington Post* recently reported that: "[Senator] Schumer suggested that… Congress will not move on a larger energy plan until after the election."[12]

---

[6] *Investor's Business Daily*, "Fossil Fool," July 1, 2008 (quoting Senator Reid in Fox News interview). Available here: http://www.ibdeditorials.com/IBDArticles.aspx?id=299804021452063. See also, *The Wall Street Journal*, "Democrats Against Drilling," July 24, 2008.

[7] Senator Richard Durbin, *Congressional Record*, July 24, 2008, S7212.

[8] Senator Patty Murray, *Congressional Record*, July 24, 2008, S7212.

[9] House Speaker Nancy Pelosi with Wolf Blitzer, CNN's The Situation Room, July 17, 2008.

[10] Senator Robert Byrd, Press Release following cancellation of markup.

[11] *Associated Press*, "Obama Criticizes McCain on Offshore Drilling," June 20, 2008 and *The Hill's Blog Briefing Room*, "Obama & McCain Battle over Offshore Drilling," June 17, 2008.

[12] *Washington Post*, "Oil May Become GOP's 2008 Issue," July 27, 2008.

What Democrats Have Proposed:

Despite stating that they support increasing domestic energy production, Senate Democrats have introduced an energy bill that contains no new production. Instead, the majority has brought a "speculation only" bill to the floor with the promise that regulating energy trading would help lower gas prices.[13] Unfortunately, the Democrats' legislation fails to include any provisions to increase domestic energy supplies or which would reduce demand with conservation. In addition, this approach fundamentally fails to treat the real cause of high energy prices. As Warren Buffett has stated: "But it's not speculation, it is supply and demand…. We don't have excess capacity in the world anymore, and that's what you're seeing in oil prices."[14]

What Democrats Have Enacted So Far:

The American people should also keep in mind that not only has this Congress failed to enact policies to encourage domestic energy production, which would result in a corresponding reduction in America's dependence on foreign oil, this Congress has also taken several steps to actively discourage America's ability to produce more energy here at home, namely:

- Enacting a ban on offshore drilling in last year's omnibus appropriations bill;
- Enacting a ban on the publication of final regulations to allow for the production of energy from oil shale in last year's omnibus bill; and
- Enacting a prohibition against federal agencies utilizing fuel derived from synthetic sources, such that the Air Force would be unable to purchase and use fuel derived from coal-to-liquids technology.[15]

Conclusion

At a time when the American economy is suffering and American families are feeling the pinch, Congress is paralyzed by inaction. Senate Republicans have a plan that would ensure the U.S. can "Find More Supply, Use Less Energy." This comprehensive plan, which addresses both supply and demand, has the support of the American people and the support of a majority of Congress. In the past, Congress would have been permitted to vote on amendments that would increase U.S. energy production. Today, unfortunately, congressional efforts to pass this plan so the President can sign it into law have stalled.

---

[13] S. 3268, Stop Excessive Energy Speculation Act of 2008.

[14] Warren Buffett, Chairman & CEO of Berkshire Hathaway, interview with Becky Quick, CNBC's Power Lunch,
June 25, 2008.

[15] Public Law 110-161, Consolidated Appropriations Act of 2008 (H.R. 1234) (see sections 104, 105 and 433) and Public Law 110-140, Energy Independence and Security Act of 2007 (H.R. 6).

Kay Bailey Hutchison, Chairman
Bill Hughes, Staff Director

347 Russell Senate Office Building
Washington, DC 20510
202-224-2946
http://rpc.senate.gov

SENATE REPUBLICAN POLICY COMMITTEE

July 22, 2008

Senate Republicans: Supplying What the American People Are Demanding – Lower Gas Prices

Executive Summary

- American consumers, family-owned businesses, and the U.S. economy as a whole are suffering as a result of high gas prices.

- High energy prices are a result of increasing global demand in the face of tightening supply, factors driven primarily by China and India's increased demand for petroleum.

- Economic and business leaders like Federal Reserve Chairman Ben Bernanke and Warren Buffett, Chairman and CEO of Berkshire Hathaway, agree that the rise in gas prices is not the result of speculation but rather is a function of supply and demand.

- Senate Republicans have proposed The Gas Price Reduction Act, a comprehensive plan to "Find More, Use Less," which includes provisions to:
  - Increase U.S. based supplies of energy by expanding production from the outer continental shelf and through the use of oil shale.
  - Reduce U.S. demand for foreign oil through conservation efforts such as a shift to plug-in hybrid vehicles that can run on electricity instead of petroleum.
  - Ensure that energy futures markets are operating fairly and efficiently by increasing transparency and by providing for better market oversight.

- By contrast, Senate Democrats do not have a comprehensive plan. Their proposed legislation focuses on "Speculation Only" while doing nothing to increase supply or decrease demand. As a result, the Democrats' plan will not provide America's families with any relief from high gas prices.

- There is only one plan in the United States Senate that will increase supply and lower demand in a way that will provide relief to consumers. That plan is The Gas Price Reduction Act offered by Senate Republicans.

Introduction

The American people are suffering as a result of high energy prices. Today's high energy prices are being caused by the fact that global demand is outpacing available supply. In an attempt to address high prices, two different plans have been proposed in the Senate.

Senate Republicans have proposed The Gas Price Reduction Act, a balanced and comprehensive approach that would address both supply and demand. This bill would help lower gas prices in the short term, ensure that America has enough supply to meet our long term needs, and encourage conservation by reducing demand for oil.[16] At a time when energy experts are saying the cause of high prices is a result of supply and demand, Senate Democrats have put forward a bill that fails to produce one additional drop of oil and also fails to encourage conservation.[17] The Democrats' bill instead focuses only on oil speculation and is, therefore, not comprehensive. Their bill ignores the laws of supply and demand and fails to provide a way forward for American energy security.

The solution to high energy prices requires that America begin finding more supply while using less. An increase in supply can and should come from both traditional and alternative sources. Finding a way to increase supply is not just a matter of energy security; it is also a matter of economic and national security. As a result, the Republican energy bill is the right plan at the right time to solve America's energy crisis.

Rise in Oil Prices Fueled by Growth in Global Demand

America, like other countries, relies on energy to grow the economy and to create jobs. In order to meet our needs, America must buy energy in the global marketplace. The price we pay for energy is affected by both global supply and global demand. In recent years, global supplies have tightened while global demand has risen dramatically. As a result, prices have also increased dramatically.

Global Demand Continues to Grow: Driven by Economic Growth in India and China

According to the Energy Information Administration (EIA), global demand for oil has grown substantially over the past 15 years, fueled primarily by economic growth in India and China. From 1994 to 2007, global demand has grown from about 68.87 million barrels per day (bbl/day) to 85.54 million bbl/day. EIA projects that global demand will continue to increase to 87.76 million bbl/day by 2009.[18]

---

[16] S. 3202, the *Gas Price Reduction Act of 2008*.
[17] S. 3268, the *Stop Excessive Energy Speculation Act of 2008*.
[18] http://tonto.eia.doe.gov/cfapps/STEO_Query/steotables.cfm?periodType=Annual&startYear=2005&startMonth=1&endYear=2009&endMonth=12&tableNumber=6. See also, International Energy Agency (IEA), *Monthly Oil Market Stocks Assessment*, June 10, 2008.

China and India's increased demand for energy has grown substantially in recent years and will continue to grow well into the future. In 2008, China's demand for oil is projected to grow by 5.5 percent.[19] Looking into the future, China's demand is projected to continue to grow dramatically. From 2006 to 2030, China's consumption is projected to double to 15.69 million bbl/day and its imports are projected to grow 4 to 5 times higher to 10.9 million bbl/day.[20] Likewise, in 2030, India's consumption is projected to be 4.37 million bbl/ per day, which is nearly double its 2006 consumption of 2.49 million bbl/day.[21]

Economic experts have concluded that limited supply, in the face of this rise in global demand, is the cause of high gas prices. At the same time, these experts have expressed doubt that addressing speculation alone will have a substantial effect on the price of oil. For example, Warren Buffett has said: "But it's not speculation, it is supply and demand…. We don't have excess capacity in the world anymore, and that's what you're seeing in oil prices."[22]

In addition, last week Federal Reserve Chairman Ben Bernanke testified:

> [I]f financial speculation were pushing oil prices above the levels consistent with the fundamentals of supply and demand, we would expect inventories of crude oil and petroleum products to increase as supply rose and demand fell. But in fact, available data… show[s] notable declines over the past year. This is not to say that useful steps could not be taken to improve the transparency… only that such steps are unlikely to substantially affect the prices of oil or other commodities in the longer term.[23]

As a result, American consumers can expect to see sharp increases in gas prices unless worldwide oil supplies are able to continue to keep pace with increasing demand.

Supplies Have Tightened

Uncertainties in global supplies have eroded the expectation that supply can meet global demand. Supply fears have been fueled by EIA's revelation that, so far in 2008, non-OPEC production has fallen short of expectations by nearly 630,000 bbl/day:

> Faster declines in older fields and delays in expansion projects have limited supply growth. At the beginning of this year, non-OPEC supply growth was projected to rise by 860,000 bbl/d in 2008 and by over 1.5 million bbl/d in 2009.

---

[19] IEA, *Oil Market Report*, p. 15. Congressional Research Service (CRS), "China's Economic Conditions," CRS Report for Congress RL33534, updated June 27, 2008 and Energy Information Administration (EIA), *Annual Energy Outlook 2008*, June 2008.
[20] EIA, *Annual Energy Outlook 2008*, p. 148. See also, CRS Report for Congress RL33534.
[21] Id.
[22] Warren Buffett, Chairman & CEO of Berkshire Hathaway, interview with Becky Quick, CNBC's Power Lunch, June 25, 2008.
[23] Ben Bernanke, Chairman of the Federal Reserve Board of Governors, in testimony before the Senate Committee on Banking, Housing, and Urban Affairs, July 15, 2008.

> Production is now expected to rise by only 230,000 bbl/d in 2008 and by 830,000 bbl/d in 2009.[24]

Meanwhile, OPEC production in the second quarter expanded by only 100,000 barrels per day, from 32.2 million bbl/day in the first quarter to 32.3 million bbl/day in the second quarter.[25]

Surplus oil production capacity, a critical measure of how much supply could expand to meet additional demand or make up for sudden supply interruptions, is about half of the 10-year average surplus production capacity. EIA data shows that between 1997 and 2007, OPEC's average surplus capacity was 2.93 million bbl/day. EIA estimates that OPEC's 2008 surplus oil production capacity will reach only 1.55 million bbl/day.

Near-term excess production estimates are even lower. EIA estimates that surplus capacity in the third quarter of 2008 will average only 1.2 million bbl/day, well below the projected 2008 average and about 40 percent of the 10-year surplus production average.[26] This surplus production margin represents just over 3 percent of OPEC production in the third quarter, and about 1.4 percent of 2008 projected OPEC and non-OPEC total production.[27] According to EIA, "(a)ny industry operating at close to 99 percent of capacity will remain vulnerable to surprises that either boost consumption or disrupt production. Such surprises would place additional upward pressure on prices and contribute to oil price volatility."[28]

A Comprehensive Republican Plan: Find More, Use Less

Experts agree that addressing the current energy crisis requires a comprehensive approach that: provides additional supply to a tight market; addresses demand by encouraging conservation through new technology like plug-in hybrids; and increases transparency in the energy markets to ensure those markets are functioning properly.

Find More Supply to Meet U.S. Energy Needs

The Republican bill will ensure America is producing sources of American-made energy by using more of our own energy resources. This responsible and environmentally sound approach will open up deep sea exploration and permit the development of oil shale as an energy source. The Gas Price Reduction Act will lift the congressional moratorium on deep sea exploration by allowing states to explore for oil and natural gas 50 miles or more off the U.S. coast. The Pacific and Atlantic regions of the Outer Continental Shelf (OCS), which would be eligible for leasing activities under the Republican plan, hold an estimated 14 billion barrels of oil and 55 trillion cubic feet of natural gas. Exploration and production activities are currently prohibited in these areas. If the U.S. were to increase domestic production by just 1 million

---

[24] EIA, *Short Term Energy Outlook*, July 8, 2008.
[25] Id.
[26] EIA, *Short-Term Energy Outlook, 2008*.
[27] EIA *Short-Term Energy Outlook, 2008*, OPEC and non-OPEC petroleum production tables.
[28] EIA, *Short-Term Energy Outlook*, *2008*.

barrels of oil per day, domestic production would increase by 20 percent and our dependence on foreign oil would be cut by 9 percent.[29]

The Republican bill also encourages more domestic production by lifting the federal moratorium on oil shale development. Oil shale contains a petroleum-like liquid called kerogen, which can be heated in a process called "retorting," to cause the rock to release the kerogen so it can be used like conventional petroleum.[30] America's oil shale resources could provide at least 800 billion barrels of oil equivalent; total oil shale resources could exceed 2 trillion barrels of oil equivalent. The Department of Interior was scheduled to release final regulations for commercial oil shale leasing by the end of 2008; unfortunately, last year the Democrats placed a federal moratorium on the completion of the final regulations for oil shale development on federal lands in an end-of-year omnibus appropriations bill.[31]

Reducing Demand with the Use of Hybrid Cars and Plug-In Hybrid Vehicles

The Republicans' comprehensive energy plan also seeks to reduce America's demand for oil by encouraging the increased use of hybrid and plug-in hybrid vehicles. By increasing reliance on plug-in vehicles, America could transform its transportation sector from vehicles that depend on foreign oil to vehicles that instead depend on domestic electricity. The benefit to U.S. consumers is that this shift would protect consumers from the impacts of rising gas prices caused by increased global demand and would also lessen America's dependence on foreign oil.

The U.S. transportation sector currently uses about 68 percent, or 14 million bbl/day, of the 20.9 million bbl/day of oil supplied to the United States each year.[32] Motor gasoline accounts for most of this consumption with nearly 9 million bbl/day. The Gas Price Reduction Act helps the transportation sector move away from gasoline dependence toward a more secure future. It includes incentives to foster the domestic manufacturing supply base for hybrid vehicle batteries, the technology where innovation and improvement is most needed. Manufacturing hybrid batteries here in America will help lower their price, helping to make them affordable for all consumers.

It is important that America begin to take the steps that will allow our economy to transition to new sources of energy to drive our transportation sector. Until these technologies become more widely available, America will continue to remain dependent on oil and American consumers and businesses will face the potential of further rising gas prices caused by continuing increases in global demand.

Ensuring a Well-Functioning Futures Market

---

[29] Senate Energy and Natural Resources Committee document, "Oil and Gas Leasing on the Outer Continental Shelf, Background and Impact."

[30] Senate Energy and Natural Resources Committee document, "Oil Shale, 'The Rock That Burns' Background and Impact."

[31] Public Law 110-161, Consolidated Appropriations Act of 2008 (H.R. 1234). Section 433 of the Act provided that no funds in the Act could be "used to prepare or publish final regulations regarding a commercial leasing program for oil shale resources on public lands pursuant to Section 369(d) of the Energy Policy Act of 2005 (Public Law 109-58) or to conduct an oil shale lease sale" pursuant to such section.

[32] CRS, "Energy: Selected Facts and Numbers," CRS Report for Congress RL31849, May 1, 2008.

The Gas Price Reduction Act also increases transparency and ensures the proper functioning of energy futures markets. This bill increases the number of "cops on the beat" by increasing Commodity Futures Trading Commission (CFTC) resources. It includes adding 100 full-time employees tasked with increasing public transparency in the futures markets to address the role speculators can play in the oil market. The Republican bill also increases market transparency by requiring traders to provide critical data on key futures markets and maps a way forward on effective regulation.

The bill sets requirements for allowing foreign boards of trade the ability to access market participants located in the U.S. who want to enter trades directly into a foreign board of trade's market system. Specifically, the bill requires the foreign board of trade to: (1) make public comparable daily information as is required for the contract against which it settles on the fully registered exchange; (2) adopt position limits or position accountability levels for speculators as are required for the contract against which it settles on the fully registered exchange; and (3) provide information regarding speculative and non-speculative trading in the contract to the CFTC to allow publication of its Commitments of Traders report for the contract against which it settles.

The bill requires the CFTC to establish routine reporting requirements for index traders and swap dealers in energy transactions. The CFTC is also required to make public the positions and the value of index funds and other passive, long-only positions in the energy futures markets, broken out by type of investment and made available every month. The Republican plan also requires the CFTC to make public the positions and the value of index funds and other passive, long-only positions in the energy (and agricultural) futures markets, broken out by type of investment.

Finally, the Republican bill requires the President's Working Group on Financial Markets (PWG) to conduct a study to analyze similarities and differences between regulations applied by various global regulators relative to energy commodity trading. Within 120 days of enactment, the PWG must submit a report to appropriate committees in Congress describing these differences and providing recommendations to improve openness, transparency, and other elements necessary for a properly functioning market.

The Democrats' "Speculation Only" Plan Misses the Mark

America needs a comprehensive energy policy that will increase the supply of energy produced here at home while also decreasing American demand. In short, America needs a bold and comprehensive energy plan that will find more supply and use less. The American people deserve legislation that will provide relief at the pump in the short term while providing energy security and energy independence over the long term.

The Democrats' "Speculation Only" bill has been criticized because it fails to meet any of these criteria. The Democrats' bill focuses solely on regulating speculation but does nothing to reduce demand by encouraging conservation. In addition, the Democrats' bill fails to produce any new sources of energy. The way to curb speculation that oil prices will continue to rise, is

to pass legislation to encourage an increases in supply. This would produce the fastest drop in the price of oil to the extent speculation has fueled the rise.

Rising gas prices have been caused by rising global demand without a corresponding increase in global supply. The Democrats' bill fails to address both supply and demand. At a time when the world needs more supply to lower prices, the Democrats' bill fails to provide even one additional ounce of supply. As a result, the Democrats' bill misses the mark when it comes to moving America towards lower energy prices and energy independence.

Conclusion

American consumers and businesses are suffering as a result of high gas prices. For too long, America has been dependent on foreign oil. The pain many Americans are experiencing at the pump is a result of rising global demand in the face of constant supply. A responsible solution to this energy crisis, and a solution to America's dependency on foreign oil, is a comprehensive approach that seeks to both increase the supply of energy produced here at home while decreasing U.S. demand on foreign oil. By transforming the U.S. transportation sector so that it runs on domestic sources of energy, America can free itself from dependency on foreign oil and ensure stable prices for American consumers. The Republicans' Gas Price Reduction Act is the only bill that achieves all of these goals.

RPC Staff Contacts: Patrick Lehman & Chris Jaarda, 224-2946

PREPARED BY THE SENATE ENERGY COMMITTEE – REPUBLICAN STAFF

An Opportunity for an Immediate and Lasting Impact on Oil Prices

Senate Democrats have attributed record oil prices to a number of factors, ranging from price gouging to their new theory of "idle leases." But they have yet to realize that the leading factor driving oil prices, an imbalance between supply and demand, will best be resolved by increasing the production of American energy reserves.

Supply, or the perception of supply, has an impact on short-term changes in the price of oil:

- June 13, 2008: Reports of a Saudi Arabian decision to boost production by 200,000 barrels per day.
  Oil prices drop by $1.88 per barrel.
- June 18, 2008: Nigerian militants attack a production facility owned by Royal Dutch Shell.
  Oil prices rise by $2.67 per barrel.

Over time, the amount by which potential supply exceeds physical demand – known as spare production capacity – has a significant impact on long-term trends in the price of oil:

- In the 1980s, with spare production capacity reaching 15 percent, the price of oil ranged from $15 to $20 per barrel. In the past several years, as spare production capacity fell to as little as 2 or 3 percent, oil prices have soared to record highs, and currently stand at more than $130 per barrel.
- The correlation is clear: when spare production capacity is high, resulting in a comfortable margin between supply and demand, oil prices tend to be low. When spare production capacity is low, oil prices tend to be high.

Democrats have already acknowledged that an increase in the supply of oil will reduce prices:

- Democrats have repeatedly called on the President to encourage Saudi Arabia to raise its production by 1 million barrels per day. They have introduced legislation that would allow lawsuits to be filed against OPEC, and some hope to use arms shipments as leverage for greater production.
- Instead of forcing the President to ask a foreign nation to increase its production, those in Congress should pass legislation that enables greater production to take place in America.

Congress must pass more than symbolic measures to increase supply:

- In May 2008, Congress took a very small step by suspending fills to the Strategic Petroleum Reserve. This bipartisan measure returns 70,000 barrels of oil to the world market each day, but will have very minimal, if any, impact on oil prices.
- A much larger increase in supply will be necessary to have an appreciable effect. Unfortunately, on the same day that 97 Senators voted to suspend SPR fills, 56 voted against a plan that would allow billions of barrels of American oil to be brought to market.

If Congress agreed to dramatically increase the supply of oil, a market shift would follow:

- As noted above, the price of oil dropped by $1.88 per barrel when the market first learned that Saudi Arabia planned to increase production by 200,000 barrels per day. Many experts believe prices could fall further as that increase comes on-line and supply rises.

- If the U.S. announced that it intends to produce up to 24 billion barrels of its own oil, we should expect a significant, positive impact on oil prices.
- Speculation is largely based upon what investors expect to happen on the world oil market in terms of supply and demand. A decision by the Congress to increase supply will have a dramatic impact on these expectations and the speculators who make investments based upon them.

The anti-supply decisions of the past have led to the record energy prices of today:

- Republicans anticipated this energy crisis, and tried to avert it. In 1995, Congress passed legislation to open a small part of the Arctic Coastal Plain to exploration and production activities. President Clinton vetoed that bill, and today, America's daily oil production is 1 million barrels below what it could be.
- Democrats argue that it will take too long for production from ANWR and the OCS to come online. These claims echo the mistaken thinking of the past, and are not realistic about the need for oil going forward. Production would already be occurring in many of those areas if Democrats had not blocked previous legislative efforts to open them.

PREPARED BY THE SENATE ENERGY COMMITTEE – REPUBLICAN STAFF

Plenty of Room and Plenty of Reasons to Increase Domestic Supply

The Majority regularly distorts the extent of America's oil and gas potential. They have indicated their belief that an increase in domestic supply could not be sustained, and, further, that such an increase would make little to no difference in prices at the pump. But greater production is not only possible – it is necessary to achieve the bipartisan goals of lower energy costs and expedited development of clean energy technologies.

Democrats claim that the United States has just two to three percent of the world's proven oil reserves. This is an incomplete representation of the amount of oil that can be produced domestically:

- America's proven oil reserves total 21.8 billion barrels, but an additional 116 billion barrels are classified as "undiscovered" or "undeveloped" beneath federal lands.
    - The Outer Continental Shelf (OCS) contains 8.55 billion barrels of proven reserves. Undiscovered resources, which are considered to be technically recoverable, total 85.88 billion barrels.
- Senate Democrats are also choosing to ignore America's tremendous unconventional oil resources. An estimated 800 billion barrels of oil shale – equivalent to 60 percent of the world's proven oil reserves – exist in the western United States.

Together, America's existing reserves and potential resources represent a reliable and affordable supply of energy that will last long into the future:

- The 116 billion barrels of "undiscovered" or "undeveloped" oil beneath federal lands is equivalent to nearly 24 years worth of imports at current levels.
    - If the 94 billion barrels of oil contained in the OCS are produced at a rate of 1 million barrels per day, those deposits would last for an estimated 260 years.
    - Many claim that the oil beneath the Arctic Coastal Plain would only supply our nation for six months. This would require production to average 57 million barrels per day, which is neither possible nor practical. A much more reasonable rate of production – an average of 1 million barrels per day – could be sustained through 2037.
    - America's oil shale deposits could fully replace conventional oil supplies for more than 100 years at current rates of consumption.

In 2008, nearly 60 percent of America's oil will come from abroad. The consequences of this arrangement are increasingly dire:

- Record oil prices, combined with our heavy dependence on foreign suppliers, have led to an unprecedented transfer of wealth that is literally making our nation poorer. We will send more than $400 billion overseas for oil this year alone, and more than $10 trillion abroad through 2030 at current prices.
- This dependence has a number of negative impacts that ripple throughout our economy:
    - In April 2008, oil imports accounted for nearly half of our nation's $61 billion trade deficit.
    - The National Defense Council Foundation has estimated that our dependence on imported oil reduces domestic employment by more than 2.2 million jobs.

America will cross the bridge to a post-fossil fuel era, but our ability to do so quickly is contingent upon a strong economy and a secure supply of conventional energy:

- A steady supply of oil and other fossil fuels will be necessary to ensure continued economic growth as clean energy technologies are developed and deployed. EIA projects

that global consumption of petroleum-based liquid fuels will increase by more than 40 percent between 2004 and 2030.

- Congress has passed three major energy bills in the past three years, but their most important provisions – including higher fuel economy for vehicles, increased use of advanced biofuels, and a nuclear renaissance in America – will take years or even decades to fully realize.
- According to EIA, solar energy was subsidized at a rate of $24.34 per kilowatt hour in 2007, with wind power at $23.37 per kilowatt hour. These technologies are critically important, but they are also hugely expensive and impossible to commercialize overnight. In the near term, we will use oil, and the question becomes whether we will continue to import greater amounts or produce more of our own.

Senate Energy and Natural Resources Committee, Republican Staff

"Diligent Development" of Oil and Gas Leases

Background and Impacts

Contact: Matt Letourneau, 202-224-6977

Recent polls show that nearly 70 percent of Americans support increased production of domestic oil and gas reserves. Some Democrats in Congress claim to be part of this growing majority, but their latest energy proposals reveal a **fundamental lack of understanding** of how energy resources are brought to market in the first place.

Congressional Democrats have introduced legislation (S.3133; H.R.6256; H.R.6251) to charge American companies a tax for "sitting on" their oil and gas leases. They claim that penalizing companies that produce energy will increase supplies and decrease prices.

It should be noted that the "use it or lose it" argument originated with an environmental group that has filed four major lawsuits in the past four years to stop development on existing leases. They make this argument as an attempt to create cover for their opposition to the opening of new areas to development.

The facts tell a different story on leasing. First, the number of acres leased is far less than the number of acres off-limits to production. Second, leaseholders already have every incentive to produce oil and gas. Finally, the production process takes time—it is expensive, complex, often unpredictable, and requires careful consideration every step of the way.

How many oil and gas leases are there? How much land is leased compared to the amount off limits?

- The amount of land that has been leased for oil and gas production pales in comparison to the amount of federal land that has been placed off-limits to production. According to the Bureau of Land Management and Minerals Management Service, respectively, energy-related activities are prohibited on **777 million acres of land.**
- In Fiscal Year 2007, companies held approximately 67,700 oil and gas leases covering **93.7 million acres of land** on and offshore. Of these, approximately 30,000 leases covering 25.7 million acres were considered to be producing leases under the Democrats' definition.

How does current law encourage leaseholders to produce oil and gas?

- Aside from high oil and gas prices, there are several incentives that encourage companies to produce from the lands they lease. Companies have **a limited timeframe to begin production; must comply with a variety of laws and regulations; and must adhere to the terms of their leases.**
- Failure to produce or failure to comply can result in the termination of a lease, and considerable lost costs for a company:
    - Companies pay an initial fee for each of their leases, and an additional fee for each year of the lease period. These upfront costs, which are a significant

source of federal revenue, **ensure that companies begin exploration and development activities as soon as possible in order to maximize the value of their leases**.

- The Secretary of the Interior already has statutory authority to cancel a lease whenever a company "fails to comply" with existing law, regulations, or the terms of a lease.
- Lease terms range from 5 to 10 years. If production has not commenced by the end of that period, the leased land is returned to the government – but companies' outlays are not reimbursed.

The terminology used by Democrats represents a fundamental misunderstanding of leasing:

- **The term "non-producing" is misleading, because it leaves out all the exploration that must occur before production.** Acreage that is leased but is not producing according to the Democrats' definition often becomes producing acreage over the course of the lease. Because we don't know the full extent and exact location of our resources, there is no way to fully understand where production can occur until drilling.

- Exploration that occurs before production includes:
  - Pre-drilling surveys and computer imaging, completion of environmental studies, and consideration of applications for permits; adding 1-2 years to the process. Drilling a single test well to determine if commercial production is possible. Depending on geology, depth, and seasonal environmental restrictions, this can take up to a year.
  - Assessing the results from the initial well. If a decision is made to proceed with further wells, time is required to plan the field development, gather equipment and secure additional environmental work and applications for permits to drill; adding 2-5 years to the process.
- In addition to determining the potential and cost-effectiveness of a lease, companies face a number of additional hurdles throughout the pre-production process:
  - **Lawsuits**: Environmental groups, local landowners, state governments, and other entities have challenged development activities that are planned in their areas. These lawsuits can delay production by months or years, and sometimes halt development altogether.
  - **Regulatory Compliance**: Even after a development decision has been made, production cannot begin immediately. Additional environmental requirements must be met, and additional permits must be obtained.
  - **Labor, Equipment, and Infrastructure Shortages**: A company that decides to produce oil and gas in a leased area may face supply chain shortages that further delay production. In 2005, for example, oil and gas companies announced that a

shortage of drilling rigs would impede their ability to produce oil and gas for years to come.

If companies are penalized for "non-producing" leases, what are the likely consequences?

- **Democrats' latest proposal would function as a tax on energy producers,** and disrupt companies' ability and willingness to develop domestic oil and gas reserves. By decreasing domestic production, this would increase our nation's reliance on foreign energy and significantly weaken our energy security:
    - Increasing the cost of holding a lease would discourage companies from bidding on leases and holding on to them for the duration of the leasing period. **In turn, this would reduce oil and gas exploration, and domestic production would decline.**
    - To satisfy demand and make up for lost production, America would be forced to import greater amounts of foreign oil and gas. This would cost our nation hundreds of billions of dollars per year, and companies would shift good-paying jobs and investment dollars overseas as they pursue more attractive projects.
- **Instead of dreaming up deceptive excuses for opposing more production, Democrats should work together with Republicans to increase the exploration and development of America's most promising resources.**

PREPARED BY THE SENATE ENERGY COMMITTEE – REPUBLICAN STAFF

Setting the Record Straight: "68 Million Acres" is Incorrect and Misleading

Background Information

In June 2008, House Natural Resources Committee Chairman Nick Rahall (D-WV) released a report claiming that 68 million acres of land leased for oil and gas activities are "sitting idle." Since then, this number has been used repeatedly by Senate Democrats to explain their opposition to opening new lands for development.

The simple fact is that both this number, and the arguments Democrats apply it to, are wrong. Prior to producing, dozens of requirements for permits and plans must be met; seismic testing must be completed; and litigation must be resolved. As a result of these factors, development production from an onshore lease requires an average of 11 years, and up to $3 billion in pre-production expenditures. Deepwater leases in the Gulf of Mexico require an average of 9.5 years to reach development production, and can cost up to $5.7 billion dollars.

How was the "68 million acres" number calculated?

- There is no good answer to this question. According to C. Stephen Allred, Assistant Secretary for Lands and Minerals Management at the Department of the Interior, "The [House Natural Resources] report does not reference specific locations for much of the data and therefore we cannot ascertain where each of the numbers was derived. It appears the report took raw data, some of which can be found on the Department websites, and then used various formulas to reach certain conclusions. The report does not disclose the assumptions or formulas used."

- Secretary Allred continues, "The views contained in the report are based on a misunderstanding of the very lengthy regulatory process. The existence of a lease does not guarantee the discovery of, or any particular quantity of oil and gas. To truly determine this, lessees must develop data and eventually explore their leases which requires numerous permits involving compliance with various environmental laws and regulations. This process often takes months or years. In addition, lessees undertake a vast array of business steps prior to making a decision to move a lease into production, and must obtain another set of Federal and State permits to do so."

Is the "68 million acres" figure a fair reflection of the energy exploration and production process?

- Simply put, no. The facts tell a much different story on leasing. Some 44 percent of the leases that have been issued are already producing oil and gas, and energy companies are in the process of exploring their remaining leases to determine the energy potential of those lands.

- The exploration process takes time – it is expensive, complex, often unpredictable, and requires careful consideration every step of the way. And even after a company chooses to proceed with exploration and development activities, they still face a variety of legal and procedural hurdles that must be overcome before energy production can begin.

- In any given year, the leases that a given company holds will be at different points in the development process. In 2007, for example, Anadarko reports that it held 611 leases, and that nearly 80 percent of those leases were in the "exploration phase":
    - 493 leases were in the exploration phase;
    - 66 leases were held by production;
    - 52 leases will either be drilled or expire in 2008; and
    - 20 leases were returned to the federal government.

How long does it take companies to complete the plans, permits, and other activities required for onshore production? How much does it cost to complete these steps?

- It takes an average of 11 years for the average onshore lease to begin development production. The costs associated with each lease range from $519 million to $3 billion.

How long does it take companies to complete the plans, permits, and other activities required for offshore production? How much does it cost to complete these steps?

- It takes an average of 9.5 years for the average deepwater Gulf of Mexico lease to begin development production. The costs associated with each lease range from $1.3 billion to $5.7 billion.

Why does it take so long, and cost so much, to begin producing energy from leases? What are the steps in the onshore and offshore leasing processes?

- Offshore development of oil and gas leases is a complex process. In addition to the millions in initial capital that need to be invested, and no guarantee of actual production, the developers must go through a litany of federal and state government requirements.

- A federal lease holder has to complete nearly 40 plans and permitting processes throughout the life of a lease. The initial Application for Permit to Drill process alone can take up to three years to complete.

Typical Plans and Permits Required to Bring a Lease to Production:

- Oil and Gas Lease
- Geological and Geophysical Exploration Permit
- Exploration Plan
- Coast Guard Compliance Review for Mobile Drilling Units (offshore leases)
- Oil Spill Response Plan (offshore leases)
- Oil Spill Financial Responsibility (offshore leases)
- Hydrogen Sulfide Plan (some locations)
- Coastal Zone Management Consistency Determination (offshore exploration activity)
- Army Corps of Engineers Permit (navigation and national security)
- EPA National Pollutant Discharge Elimination System Permit
- EPA Air Emissions Permit (some locations)
- Marine Mammals/Endangered Species Permits from NOAA or FWS (some offshore locations)
- Application for Permit to Drill (exploratory wells)
- Application for Permit to Modify (any changes in drilling program)
- Application for Permit to Modify (to plug and abandon exploration wells)
- Deepwater Operations Plan (for some offshore locations)
- Conservation Information Document (for some locations)
- Coast Guard Structural Review (for offshore floating production systems)
- Certified Verification Agent Review (for some locations)
- Development Plan or Development Operations Coordination Document (depending on location)
- Pipeline Right-of-Way
- Coastal Zone Management Consistency Determination (offshore development activity)
- Application for Permit to Drill (development wells)
- Application for Permit to Modify (any changes in development drilling program)
- Application for Permit to Modify (to plug and abandon development wells)
- Platform Removal Application
- Pipeline Decommissioning Application
- National Environmental Policy Act (NEPA) Review (may be required several times)
- Land Use Plan Conformance
- Surveys (Cultural & Wildlife)
- Tribal Consultation (in areas historically used by Indian tribes, or if they have "expressed interest" in proposed projects)
- Endangered Species Act Consultation (if endangered species are present)
- Right-of-Way Grant

Other Federal, State, or Local Permits and Plans

- Air Emission Permit
- National Pollutant Discharge Elimination System Permit
- Section 404 Permit
- Storm Water Prevention Plan
- Underground Injection Control Permit
- Spill Prevention Countermeasure Control Plan

Are there any other impediments that limit companies' ability to explore for and produce energy?

- Yes. There is a wide range of additional challenges that companies must face before oil and gas can be produced and brought to market. Many of the permits and plans listed on the previous page can be challenged in court, which adds to the cost of a lease and lengthens the timeframe to production.

- In floor statements on the floor of the Senate, Senator Lisa Murkowski and Senator John Barrasso outlined the difficulties associated with energy production in Alaska and Wyoming, respectively. Here are just a few of the challenges that companies face in each of these states:

The State of Alaska

- **Limited Exploration Season**: The 2007-2008 exploration season on Alaska's North Slope ran from December through May, but according to the Alaska Department of Environmental Conservation, even this short season was impacted by additional limitations:
  - Companies could not commence activities in the eastern and lower foothills until January 24, and had to be out of those areas by May 16.
  - Access was restricted until the ground temperature was at least 5 degrees below centigrade, to a depth of 30 centimeters, and until 9 inches of snow has fallen to preserve surface vegetation.

  Together, these factors limit the exploration season to no more than two or three months per year, or between 20 and 30 months for a typical 10-year lease.

- **High Costs to Drill Wells**: In the Naval Petroleum Reserve-Alaska (NPR-A), it costs between $50 million and $100 million to drill an exploratory well. Many of these wells do not strike oil, and will not lead to any production.

The State of Wyoming

- **Limited Exploration Season**: The exploration season is limited to just 10 weeks in some parts of the state. It begins on August 16 and ends in October.

- **Delays in Permit Processing**: As of June 2008, more than 2,500 applications to drill were awaiting federal approval in Wyoming's Powder River Basin. Companies have already paid to lease these lands, but are not allowed to drill for oil or gas until the APD process has been completed.

- **Other Delays**: More than 850 drilling permits have been delayed as a result of "policy development, environmental delays, and even litigation."

Democrats Make False Energy Production Claims

Democratic Plan #1—<u>Use It Or Lose It</u>— Democrats would raise fees on energy companies not drilling on current leases and bar them from getting new leases.

Myth #1: Democrats contend that 68 million acres of federal lands currently leased for oil and gas exploration and development are not actively being used and are consequently "non-producing" leases.

FACT: Under current law[33], federal energy lease holders already must produce oil or natural gas within five to ten years after drilling on the federal land begins.

FACT: The 68 million acre figure comes from a Democrat House Natural Resources Report that does **<u>NOT</u>** reference specific locations for much of the data, nor does it include the specific formulas used to analyze raw data they used to arrive at the 68 million acre figure.

FACT: C. Stephen Allred, Assistant Secretary for Lands and Minerals Management at the Interior Department, stated "**the views contained in the report are based on a misunderstanding of the very lengthy regulatory process. The existence of a lease does not guarantee the discovery of, or any particular quantity of oil and gas.** To truly determine this, lessees must develop data and eventually explore their leases, which requires numerous permits involving compliance with various environmental laws and regulations. This process often takes months or years. "

FACT: Energy companies are in the process of exploring "non-producing" leases to determine the energy potential of those lands by moving through a development process that includes a combination of 39 plans and permits that on average take 11 years to complete onshore, and 9.5 years to complete offshore.

FACT: The development costs associated with these onshore leases range from $500 million to $3 billion and $1 billion to $5 billion offshore. As such there is a huge economic incentive for these companies to explore their leases.

FACT: The term "non-producing" is misleading, because it leaves out all the exploration that must occur before production. Acreage that is leased but is not producing according to the Democrats' definition often becomes producing acreage over the course of the lease. Because we don't know the full extent and exact location of our resources, there is no way to fully understand where production can occur until drilling.

Democratic Plan #2—<u>Strategic Petroleum Reserve (SPR)</u>—Democrats would release 70 million barrels of oil from the SPR.

Myth #2: Democrats contend this release will immediately reduce gas prices.

FACT: The United States consumes more than 20 million barrels of oil a day. Therefore, the Democratic plan would address America's gas crises for a whopping three and half days.
FACT: Opening up the SPR would have no impact on domestic production, which is ironic because the argument in favor of the release is premised on the idea that supply matters.

[33] 30 U.S.C. 226(e) and 43 U.S.C. 1337(b)

FACT: Releasing roughly ten-percent of the SPR would jeopardize national security by increasing our vulnerability to an oil supply disruption. Geopolitical instabilities among and within producing countries, terrorist threats, and natural disasters present a significant risk to the international oil market. These risks, coupled with the current tight market supply, exacerbate our vulnerability to a supply shock that would jeopardize our country's economy and security. These same risks are also the reason we need to be able to remove the restrictions on our domestic resources in an effort to become energy independent.

PREPARED BY THE SENATE ENERGY COMMITTEE – REPUBLICAN STAFF

Oil and Gas Leasing on the Outer Continental Shelf
Background and Impacts

How much oil is produced on the Outer Continental Shelf?

- Oil and gas leasing activities take place on approximately 43 million acres on the OCS, which amounts to just 2.4 percent of the federally-managed portion of these submerged lands. A total of 8,000 leases combine to produce about 15 percent of America's natural gas supply and about 27 percent of America's oil supply.
- According to the Minerals Management Service, "the OCS is projected to contribute nearly 40 percent of U.S. domestic oil production" by 2011.

How much oil does the Outer Continental Shelf contain?

- A February 2006 report released by the Department of the Interior estimated OCS reserves to be 8.5 billion barrels of oil, and 29 trillion cubic feet of natural gas. Undiscovered resources may total 86 billion barrels of oil and 420 trillion cubic feet of natural gas. Altogether, this resource potential represents 60 percent of America's undiscovered oil, and 40 percent of our undiscovered natural gas.
- The Pacific and Atlantic regions of the OCS, which would be eligible for leasing activities under the Gas Price Reduction Act of 2008, hold an estimated 14 billion barrels of oil and 55 trillion cubic feet of natural gas. Exploration and production activities are currently prohibited in these areas.

How would OCS development impact domestic production?

- U.S. oil production has steadily declined since 1970, when it was nearly 10 million barrels per day, to 5.1 million barrels per day in 2007.
- The U.S. consumed an average of 20.7 million barrels of oil per day in 2007, and the EIA projects that total U.S. liquid fuels consumption will increase to 22.8 million barrels per day by 2030.
- If 1 million barrels of oil are produced per day, undiscovered OCS resources could produce a stable, reliable, and affordable supply of domestic oil for decades.
- Producing an additional 1 million barrels per day from the Atlantic and Pacific OCS would increase domestic oil production by nearly 20 percent for nearly 40 years.

How would OCS development impact oil imports?

- In 1973, the U.S. imported 6.0 million barrels of oil per day, or 34.8 percent of its total supply. By 2007, these numbers had risen dramatically: the U.S. imported 12.0 million barrels of oil per day, or 58.2 percent of its total supply.
- The EIA projects that net domestic oil imports will be 11.1 million barrels per day in 2030. Producing an additional 1 million barrels per day from the OCS could reduce this dependence by 9 percent.

How would OCS development impact the American economy?

- The domestic oil and gas industry directly and indirectly employs nearly 8 million Americans. Oil and gas development in the Pacific and Atlantic regions of the OCS would help sustain those jobs, and create thousands more, while contributing billions of dollars to our economy.

- According to the MMS, federal revenues from offshore activities exceeded $7 billion in Fiscal Year 2007. These revenues were distributed to the U.S. Treasury; state governments; the Land and Water Conservation Fund; and the National Historic Preservation Fund.
- OCS lease sales also generate substantial revenues. Three major sales for OCS oil and gas leases have taken place in the past six months, and together raised more than $9 billion in federal revenues.

Senate Energy and Natural Resources Committee, Pete Domenici, Ranking Member

Oil and Gas Leasing in the Arctic National Wildlife Refuge

Background and Impacts

How much oil does ANWR contain?

- In 1998, the U.S. Geological Survey estimated that there are between 5.7 billion and 16.0 billion barrels of technically-recoverable oil in ANWR, with a mean estimate of 10.4 billion barrels. This calculation assumed a market price of $30 per barrel of oil.
- At a rate of 1 million barrels per day, ANWR's reserves could produce oil for our nation for more than 28 years. If production began tomorrow, the oil reserves beneath the Coastal Plain would last through 2036.

How would ANWR impact domestic production?

- U.S. oil production has steadily declined since 1970, when it was nearly 10 million barrels per day, to 5.1 million barrels per day in 2007.
- The U.S. consumed an average of 20.7 million barrels of oil per day in 2007, and the EIA projects that total U.S. liquid fuels consumption will increase to 22.8 million barrels per day by 2030.
- Production in ANWR is projected to average 1 million barrels per day, which would increase domestic oil production by nearly 20 percent for nearly 30 years.

How would ANWR impact oil imports?

- In 1973, the U.S. imported 6.0 million barrels of oil per day, or 34.8 percent of its total supply. By 2007, these numbers had grown significantly: the U.S. imported 12.0 million barrels of oil per day, or 58.2 percent of its total supply.
- The EIA projects that domestic oil imports will be 11.1 million barrels per day in 2030. ANWR production of 1 million barrels of oil per day would reduce this dependence by 9 percent.

How would ANWR impact the American economy?

- Oil and gas development in ANWR would create hundreds of thousands of jobs in America, and contribute billions of dollars to our economy. These benefits would directly affect all 50 states – not just Alaska.
- According to the EIA, the U.S. spent more than $327 billion to import oil in 2007. In 2008, many experts anticipate that this number will surpass $400 billion. ANWR production would help stem this unprecedented transfer of wealth by keeping hundreds of billions of dollars within our economy.
- In February 2008, America's trade deficit was $62.3 billion. Petroleum imports accounted for $32.5 billion, or 52 percent of that total. By reducing oil imports by approximately 30 million barrels per month, ANWR production would reduce that deficit and help stabilize our balance of trade.
- In 1990, when the average price of oil was $24.53 per barrel, the Wharton Economics Forecasting Associates estimated that resource development in ANWR would create 735,000 jobs in America. The National Defense Council Foundation has placed this number at more than 1 million new jobs.
- In 2002, an EIA study estimated ANWR could contribute up to $350 billion to the U.S. economy. In December 2007, the Congressional Research Service estimated that federal revenues from ANWR development could total $152.9 billion if the price of oil stays at $100 per barrel.

PREPARED BY THE SENATE ENERGY COMMITTEE – REPUBLICAN STAFF

Oil Shale -- Background and Impacts

What is oil shale?

- According to the Argonne National Laboratory, "the term oil shale generally refers to any sedimentary rock that contains solid bituminous materials called kerogen that are released as a petroleum-like liquid when the rock is heated."
- The kerogen content of oil shale varies widely, from less than ten gallons per ton to more than 100 gallons per ton. To be considered recoverable, it must yield at least 15 gallons per ton of rock.
- Oil shale is converted to liquid fuel through a process known as retorting, which involves heating a rock formation to a high temperature and then separating the oil that is produced. This may be accomplished through in-situ processes, which occur underground, or at the surface after extraction.
- With oil prices now above $130 per barrel, concerns about the economic feasibility of oil shale have faded. Mining and surface retorting of oil shale is projected to be cost-effective at oil prices above $54, with in-situ retorting viable at prices higher than $35 per barrel.

How extensive are the United States' deposits of oil shale?

- While the U.S. is known as the "Saudi Arabia of coal," our deposits of oil shale may be much greater. According to the Department of Energy, "America's total oil shale resources could exceed 6 trillion barrels of oil equivalent." Total resources could exceed 2 trillion barrels of oil equivalent in the Green River Formation in Colorado, Utah, Wyoming, and elsewhere.
- Of this amount, at least 800 billion barrels of oil equivalent are technically recoverable. At current rates of consumption, those resources are equivalent to a 106-year supply of conventional oil.

Why is oil shale important to America's energy supply mix?

- Global oil consumption is rising rapidly, but U.S. production has fallen to its lowest level since 1947. If America does not reduce its heavy dependence on foreign oil, our nation will become even more vulnerable to geopolitical instability, supply shortages, and energy market volatility in the years ahead.
- Alternative fuels, particularly those made from oil shale, can provide an affordable and reliable replacement for petroleum long into the future. Because oil shale can be used to create diesel fuel, jet fuel, and naphtha (gasoline), it could become a significant source of energy for our transportation sector.

How have congressional Democrats sought to delay the development of this vital resource?

- The Energy Policy Act of 2005 directed the Department of the Interior to issue final regulations for commercial oil shale leasing by the end of 2008, in order to provide industry with a 'road map' for development and financial assurance to potential investors.
- Last year, Democrats on the House Interior Appropriations Subcommittee inserted language into the omnibus spending bill that effectively places a one-year moratorium on the completion of final regulations.
- In May 2008, during the Senate Appropriations Committee's markup of the Fiscal Year 2008 Supplemental Appropriations bill, Senator Wayne Allard offered an amendment to lift the moratorium. The amendment was defeated on a strict party line vote, with 14 Republican members in support but 15 Democrats opposed.
- Continued obstructionism will prevent the timely release of final regulations and, ultimately, progress on oil shale production. Companies seeking to invest billions of dollars in oil shale development are asking to know the "rules of the road" as soon as possible.

SENATE ENERGY COMMITTEE – REPUBLICAN STAFF
Plug-In Hybrid Electric Vehicles
Background and Impacts

What are plug-in hybrid electric vehicles?

There are four main categories of advanced vehicle technologies: fuel cell vehicles, electric vehicles, hybrid electric vehicles, and plug-in hybrid electric vehicles.

- According to the Department of Energy, plug-in hybrid electric vehicles, or PHEVs, "combine the benefits of electric and hybrid electric vehicles. Like electric vehicles, they plug into the electric grid and can be powered by the stored electricity alone. Like hybrid electric vehicles, they have engines that enable greater driving range and battery recharging."
- The current generation of PHEVs can run on electric power for a limited range, after which the vehicles' combustion engines can be engaged to travel additional distances. As improved batteries become available, the all-electric range of these vehicles will be extended to 40 or more miles.

What are the benefits of PHEVs?

PHEVs will offer a wide range of benefits to individuals and our nation as a whole. They will reduce our dependence on foreign oil, our greenhouse gas emissions, and the costs associated with driving. Their commercialization will significantly advance our energy security and economic strength.

- **Reduced Dependence on Foreign Oil**
  - Nearly 70 percent of the oil consumed in America is used in the transportation sector. Petroleum currently accounts for 96 percent of the fuels used to power our vehicles.
  - By utilizing electricity, and smaller amounts of petroleum-based fuels, PHEVs will have much higher fuel economy compared to traditional vehicles. This will reduce our dependence on foreign oil and, at the same time, our overall consumption of oil.

- **Reduced Greenhouse Gas Emissions**
  - America's transportation sector produces approximately 28 percent of our nation's annual greenhouse gas emissions. Each passenger vehicle on the road emits an average of 5.2 metric tons of carbon dioxide per year.
  - According to the Department of Energy, "the environmental benefits of PHEVs depend in part on the source of electricity from which the PHEVs are charged. If the electricity comes from efficient power plants, the benefits can be substantial. One U.S. study projected an average 42% carbon emissions reduction from mileage driven on electricity instead of gasoline."
- **Reduced Operating Expenses**
  - Gasoline now costs more than $4.00 per gallon, but in January 2008, residential electricity rates averaged just 10.2 cents per kilowatt hour.

Because PHEVs use a combination of electricity and traditional fuels, they will not only use less fuel, but also less expensive fuel.
    - Consumers will be able to recharge their PHEVs by simply plugging them into an electrical outlet. This power can be drawn from a variety of domestic resources, including coal and nuclear energy.

How can the government help advance PHEV technologies?

- Several American automobile manufacturers – including Chevrolet, Ford, and General Motors – have announced plans to produce PHEVs in the near future.
- Despite these efforts, the U.S. has fallen behind other nations when it comes to the development of the most critical component of PHEVs – the advanced battery. By 2010, South Korea plans to produce lithium ion batteries for hybrid vehicles, and expects them to attain a 50 percent market share by 2012.
- The federal government can help reverse this trend, increase domestic production of advanced batteries, and support U.S. companies that are developing PHEVs. Incentives can be provided to make battery production more efficient and more affordable. Similar efforts can be made to increase the recycling of batteries used in PHEVs.

Find More, Use Less

Energy Recess Packet

SENATE REPUBLICAN CONFERENCE
Lamar Alexander, Chairman
John Cornyn, Vice Chairman