IMMEDIATE RELIEF FROM HIGH OIL PRICES: DEPLOYING THE STRATEGIC PETROLEUM RESERVES

HEARING

BEFORE THE

SELECT COMMITTEE ON ENERGY INDEPENDENCE AND GLOBAL WARMING HOUSE OF REPRESENTATIVES

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IMMEDIATE RELIEF FROM HIGH OIL PRICES: DEPLOYING THE STRATEGIC PETROLEUM RESERVE

WEDNESDAY, JULY 23, 2008

HOUSE OF REPRESENTATIVES,
SELECT COMMITTEE ON ENERGY INDEPENDENCE
AND GLOBAL WARMING,
Washington, DC.

The Committee met, pursuant to call, at 9:22 a.m., in room 210, Cannon House Office Building, Hon. Ed Markey (chairman of the committee) presiding.

Present: Representatives Markey, Blumenauer, Inslee, Solis, Cleaver, Hall, McNerney, Sensenbrenner, Shadegg, and Blackburn.

Staff Present: Morgan Gray.

The CHAIRMAN [presiding]. Good morning, and welcome everyone to the Select Committee on Energy Independence and Global Warming.

Today we have a very important hearing because American families are facing $4 a gallon gasoline, skyrocketing energy bills at home, and an impending home heating crisis this winter. We are in an energy emergency. Gas prices have nearly tripled since President Bush took office and American consumers are being pummeled at the pump as a result of the administration's energy policy.

At current prices, the average consumer is now spending $2,375 every year filling up. That means that the poorest 20 percent of American families are now spending nearly 12 percent of their pretax income just on gas. The average consumer at the median income level is spending nearly 5 percent of their income just at the pump. That doesn't even count insurance, maintenance or the cost of the car. American families are in desperate need of help this summer.

Today, we will begin the first in a series of three hearings that the select committee will conduct over the next 2 weeks to examine the Democratic new direction energy plan that will not only provide consumers with immediate relief from skyrocketing energy prices, but also provide long-term solutions that will reduce our energy dependence and help our economy.

The Bush administration continues to oppose Democratic proposals that will provide consumers with relief right now and put us on a path to a renewable energy future in the long run. Our nation's Strategic Petroleum Reserve currently contains more than

706 million barrels of oil and is filled to over 97 percent of its capacity—the highest level in its history.

More than 2 weeks ago, Speaker Pelosi called on President Bush to take action to immediately lower oil prices by deploying oil from this reserve. Each day that passes without the Bush administration taking action is another day that American families and our economy fall deeper into crisis. We cannot afford to wait any longer.

Deploying oil from the strategic petroleum reserve has driven down prices when it has been used in the past. In 1991, when President Bush's father deployed oil from the reserve, oil prices fell 33.4 percent. In 2000, President Clinton conducted a time exchange of oil from the SPR and prices again immediately dropped by 18.7 percent.

And in 2005, when President Bush himself released oil following Hurricane Katrina, prices fell 9.1 percent. That is an average drop in the price of oil of 19.2 percent. If we experienced a similar impact now, it would mean a $25 reduction in the price of oil. But President Bush and Republican leaders in Congress continue to oppose releasing oil to help consumers.

Instead, President Bush proposes giving away our nation's beaches and wilderness areas to big oil. The Bush administration's own Energy Department has stated that drilling off our coasts and in the Arctic National Wildlife Refuge will not produce any oil for 10 years and will have an insignificant impact on prices 20 years from now.

So all that President Bush, Vice President Cheney, and other Republican leaders in Washington have to offer to consumers who are being shaken down at the pump on a daily basis are the same tired drilling schemes that won't provide any relief whatsoever for 10 or 20 years. That is the agenda of the American Petroleum Institute, not the American people. In contrast, Democrats in Congress want to provide American families with help in the next 10 to 20 days by deploying our nation's oil reserve.

While President Bush is willing to deploy our National Guard reserves to protect oil fields abroad, he continues to refuse to deploy our strategic petroleum reserve to protect American consumers here at home. The strategic petroleum reserve is a powerful weapon that the American people have against big oil, OPEC, and the speculators and manipulators that are driving up prices and it is time for President Bush to use it.

Let me now stop and turn to recognize the gentleman from Arizona, Mr. Shadegg, for an opening statement.

[The prepared statement of Mr. Markey follows:]

THE SELECT COMMITTEE ON
ENERGY INDEPENDENCE AND GLOBAL WARMING

Opening Statement for Chairman Edward J. Markey (D-Mass.)
"Immediate Relief from High Energy Prices: Deploying the Strategic Petroleum Reserve"
July 23, 2008

For American families facing $4 a gallon gasoline, skyrocketing energy bills at home, and an impending home heating crisis this winter, we are in an energy emergency. Gas prices have nearly tripled since President Bush took office and American consumers are being pummeled at the pump as a result of this Administration's energy policy. At current prices, the average consumer is now spending $2,375 every year filling up. That means that the poorest 20 percent of American families are now spending nearly 12 percent of their pre-tax income just on gas. The average consumer at the median income level is spending nearly 5 percent of their income just at the pump. That doesn't count insurance, maintenance or the cost of the car. American families are in desperate need of help this summer.

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The Bush Administration continues to oppose Democratic proposals that will provide consumers with relief right now and put us on path to a renewable energy future in the long run. Our nation's Strategic Petroleum Reserve (SPR) currently contains more than 706 million barrels of oil and is filled to over 97 percent of its capacity -- the highest level in its history. More than two weeks ago, Speaker Pelosi called on President Bush to take action to immediately lower oil prices by deploying oil from this reserve. Each day that passes without the Bush Administration taking this action is another day that American families and our economy fall deeper into crisis. We cannot afford to wait any longer.

Deploying oil from the SPR has driven down prices when it has been used in the past. In 1991, when President Bush's father deployed oil from the reserve, oil prices fell 33.4 percent in two days. In 2000, President Clinton conducted a time exchange of oil from the SPR and prices again immediately dropped by 18.7 percent. And in 2005, when President Bush himself released oil following Hurricane Katrina, prices fell 9.1 percent. That's an average drop in the price of oil of 19.2 percent – if we experienced a similar impact now, it would mean a $25 reduction in the price of oil. But President Bush and the Republican leaders in Congress continue to oppose releasing oil to help consumers.

Instead, President Bush proposes giving away our nation's beaches and wilderness areas to Big Oil. The Bush Administration's own Energy Department has stated that drilling off our coasts and in the Arctic National Wildlife Refuge will not produce any oil for 10 years and will have an insignificant impact on prices 20 years from now.

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While President Bush is willing to deploy our National Guard reserves to protect oil fields abroad, he continues to refuse to deploy our Strategic Petroleum Reserve to protect American consumers here at home. The Strategic Petroleum Reserve is a powerful weapon that the American people have against Big Oil, OPEC, the speculators that are driving up prices and it is time for President Bush to use it.

Mr. SHADEGG. Thank you, Mr. Chairman.

I will insert my opening statement in the record. However, I will make a couple of quick comments.

First of all, I want to welcome our witnesses. I particularly want to welcome Mr. May who I know is working aggressively to help the airline industry. My home town is the base of an important airline in this nation. I know that the airlines have been crushed by the sudden spike in fuel prices.

I really hadn't intended to get partisan in this discussion. However, listening to you, Mr. Chairman, I feel somewhat compelled to do so. Certainly, I believe the SPR is one possible avenue. I voted for not putting any more oil into it earlier this year. I think acknowledging that either not putting more oil in to the strategic petroleum reserve or taking some oil out of the strategic petroleum reserve is an intellectual acknowledgement that increasing supply will have an effect on prices, indeed that there is a link between supply and prices.

You say the president is not willing to release oil from the SPR and therefore that is damaging. I would turn the tables on you and say regrettably your party is unwilling to do anything about supply other than the SPR. I would note that in the testimony of one of our witnesses, when the president earlier last week, I believe on Monday or Tuesday, announced that he was going to open the outer continental shelf, which we have put off-limits, and we put off-limits back when gasoline prices were $1.30 or $1.40 a gallon.

We continue to keep it off-limits from any further production or exploration now that gasoline is $4.12 a gallon. But when the president lifted the executive branch limit restriction on outer continental shelf drilling, there was a drop of $6.48 in the price of a barrel of oil on the very next day, the single largest drop in the price of oil in any one day since 1991.

I don't think this is an issue on which we ought to be partisan. I think this is an issue on which we need to be very concerned about American consumers, particularly about those consumers who are in the worst financial position, the people who drive the oldest cars because they can't afford newer, more efficient cars; the people who live the furthest from work because they can't afford to live near where they work; and quite frankly, we need to be deeply concerned about the American economy.

It does not serve this nation for us as politicians to be throwing partisan shots back and forth at each other while American businesses, for example the American airline business, are suffering when they have to compete with foreign competitors. The weak dollar is an issue in this debate. Some people believe speculation is an issue in this debate. I think anybody with any rationality understands that the tight situation between supply and demand is a part of this problem.

If we don't address every at least every conceivable aspect of this issue and do everything we can, we are not serving the American people well.

For that reason, I do commend you, Mr. Chairman, for holding this hearing and I look forward to the testimony of our witnesses.

[The prepared statement of Mr. Shadegg follows:]

Statement of the Honorable John Shadegg
Hearing on Deployment of the SPR
July 23, 2008

Thank you Mr. Chairman.

Today's testimony suggests and supports a very important and fundamental point that I have long decried – increasing our domestic supply of oil will effect prices and send a market signal to speculators. The purpose of the Strategic Petroleum Reserve is not to affect price but to prevent severe supply disruption that may result from things such as a shutdown of oil shipments through the Strait of Hormuz in the Persian Gulf – a threat made only last month by Iran's Revolutionary Guard.

Furthermore, at a hearing on July 16^{th} before the House Financial Services Committee, Chairman Bernanke said we will need a 1% increase in supply to have a 10% decrease in the price of oil – the amount of supply we will need to change prices at the pump in the long-term for Americans far exceeds the 706.3 million barrels of oil in the Strategic Petroleum Reserve.

In contrast, the potential of oil shale prevalent in Colorado, Utah, and Wyoming and currently under moratorium is estimated to be the equivalent of 1.8 trillion barrels of oil in place. The most recent government geologic study of oil and natural gas prospects in ANWR completed in 1998 by the U.S. Geological Survey found that a potential of 11.8 billion barrels of oil present in the area. The U.S. outer continental shelf contains technically recoverable undiscovered resources equaling 85.88 billion barrels of oil and 419.88 trillion cubic feet of natural gas. Sixty percent of onshore Federal lands that have potential as domestic sources for natural gas and oil are presently closed to leasing, meaning 19.22 billion barrels of oil and 94.71 trillion cubic feet of natural gas are inaccessible.

By advocating for deployment of oil from the SPR, my colleagues across the aisle have conceded the issue most affecting oil prices today is supply. However, they ignore the vast resources available to us today that will help address high prices in the long-term. The American public must ask themselves, why these same politicians not supporting the development of the American resources available in this country to alleviate the high prices we are paying for energy both today and in the future.

The CHAIRMAN. Great. The gentleman's time has expired.

The chair recognizes the gentlelady from California, Ms. Solis.

Ms. SOLIS. Thank you, Mr. Chairman, for having this hearing.

And I thank the witnesses for being here.

I recall that the other day while I was being interviewed by Fox News, the anchor person asked me if there was really a crisis going on and if we should really be dipping into the SPR. I said, when is it not a crisis when our people have to pay $4.60 or more a gallon, and people are losing their businesses, and I am talking about people from a district like mine where we have seen prices as high as $4 for the last 8 months.

We see no relief, and we find that a good proportion of constituents are spending about 12 percent of their income just on transportation, many who are transit-dependent and also many who are driving older cars. This crisis did not come upon us because of Democrats taking over the House a year ago. This came about because of our lack of investment in renewable energies.

Yesterday, I had the opportunity to hear Mr. T. Boone Pickens talk about renewable sources. I was quite surprised to hear what he had to say, very enlightened in fact. These are other issues that we need to be focusing in on. It can't just be about oil dependency. I think the public and even people from districts like mine get it. They know that we have to change our course. We are large consumers of fossil fuels, and we need to change that.

We do care about our planet and the climate changes that are going on. We see a hurricane that is going to hit right now in Mexico and Texas. It is further going to, I think, erode our ability to obtain more fossil fuel there. That is why I think we need to be looking at investing in other alternatives, and that is what the new direction Congress is looking at.

I thank our witnesses and look forward to hearing from you.

Thank you.

The CHAIRMAN. Great. The gentlelady's time has expired.

The chair recognizes the gentleman from Oregon, Mr. Blumenauer.

Mr. BLUMENAUER. Thank you, Mr. Chairman.

I appreciate the opportunity for us to explore with our witnesses the implications of deploying the strategic petroleum reserve now. Given in the course of the last year, they have essentially doubled the price of a barrel of oil on the world market, there has been—what?—a 2 percent increase in world demand. There is something else going on here.

I seriously doubt that the prospect of some oil supply 20 years from now on the outer shelf or someplace else in the United States was responsible for a reduction of $6 a barrel. I think the fact that we have been having serious discussion with Speaker Pelosi and others, including yourself, Mr. Chairman, about the wisdom of the redeployment of a small amount of this oil, to signal where we are going, and the fact that over the course of the next 2 or 3 months there could be a deployment of a small amount of that reserve, but disrupting some of the strategies of people who would manipulate the market, I think is very, very important.

I appreciate your leadership and that of the speaker zeroing in on this. I look forward to exploring further with our witnesses. I think this is part of a multi-faceted approach in the short term to try and squeeze the speculative bubble because there is clearly, whether it is $10 a barrel or it is $70 a barrel—I don't know. The witnesses we have heard before this committee and others have not been in agreement, but it is clear that that is part of the issue, put in place with a comprehensive approach to energy, broadening our sources wherever they are, and not being reliant on a fossil fuel, petroleum-based economy.

I welcome the call from the former vice president about setting our sights high. It is something you and the speaker have been doing. I look forward to exploring these elements with our witnesses in a few moments.

Thank you very much.

The CHAIRMAN. I thank the gentleman.

The chair recognizes the gentlelady from Tennessee, Mrs. Blackburn.

Mrs. BLACKBURN. Well, is this on? Yes, it is on. Okay. The little button is not working.

Thank you, Mr. Chairman, and I thank you for the hearing.

And our witnesses, I thank you very much for being with us today. We are looking forward to visiting with you and hearing what you have to say on the issue on the release of the portion of the strategic petroleum reserve, should that be undertaken. I will tell you, that is an action that I do not support. I don't think that oil should be taken out of the SPR unless there is a genuine emergency where supplies have been cut off.

I think the situation that we face with instability in the Middle East shows us that an SPR release would not be the wisest move that we could make at this point. I think this issue is very different than when Congress passed the bill, with my support, to stop filling the SPR. This brought more oil supply to the market. It did not significantly affect our emergency supply and it provided temporary immediate relief to the American consumer.

But what really is behind this initiative is, I think, the failure of the majority's leadership to have a comprehensive or a rational energy policy. They are not listening to what my constituents, and certainly what most Americans are saying, and what they are demanding of us when it comes to energy policy. They want us—the American people want us to get to work on this and to do something that is going to affect long term. They want us to drill here, drill now. They want to end up paying less.

So I am looking forward to hearing what you have to say today, and appreciate the fact that we are having the hearing to approach the issue.

I yield back.

The CHAIRMAN. Great. The gentlelady's time has expired.

The chair recognizes the gentleman from Washington State, Mr. Inslee.

Mr. INSLEE. I would just like to say I think a small release from the SPR is entirely appropriate. But I want to respond to this sort of continuing canard that somehow Democrats aren't for increasing supply of energy. In fact, we are for an increase in supply of energy as proposed by famous Republican T. Boone Pickens, who addressed our caucus yesterday and said we have got enormous amounts of energy blowing in the wind. The fellow just invested $4 billion in building the world's largest wind turbine farm in Texas.

What Democrats are for is to really expand our sources of energy, but not just in oil. We are seeing the DOE that has told us we can have 20 percent of our electricity from—electricity that can power our cars. And this is the great vision that Democrats have of powering our cars with electricity either through the use of lithium ion batteries or through, as T. Boone Pickens has suggested, displacing it and use natural gas and use natural gas for cars rather than residential.

You can argue about which one is going to win the race—natural gas or lithium ion batteries—but Democrats are providing a vision for more energy. We know there is not enough energy off of our coastline to make an appreciable difference in the price of fuel, because it is less than 1/2 percent of world oil supplies. But we also know that we are blessed with enormous supplies of energy in wind, in our water, in our sunshine, in our engineered geothermal, and these are the sources of energy that finally can break the slavery that we now are suffering under to oil.

The only way to break slavery and the chains of this addiction is to provide new sources of energy that are not oil. We are for increasing supply in the places where we can really make a difference, and we are going to get that job done.

Thanks.

The CHAIRMAN. Great. The gentleman's time has expired.

The chair recognizes the gentleman from California, Mr. McNerney.

Mr. MCNERNEY. Thank you, Mr. Chairman.

Today's hearing is both timely and important. I believe that the strategic petroleum reserve is the exact right tool to go after speculators and to make sure that the market is being controlled in a strategic way. We don't need to use very much of the strategic petroleum reserve. Small amounts, five million barrels once a week or once a month should discourage speculation. But I want to hear it from the experts to understand what you think is possible and how you think that will affect the market, and if you think that that will discourage speculation, and if so, how? And if not, what can we do to make sure it does?

So I welcome your testimony. In my district, we have seen some of the highest prices of gasoline in the nation. People are definitely hurting. In fact, I have to drive over a very large district, so I feel the pain from the high price of gasoline. So we all want to find a solution. I don't think it enhances the problem by pointing fingers at each other, but it does enhance it by discussing rationally what the future will look like, how we can use the strategic petroleum reserve, and what other long-term objectives we need to go after.

So thank you, Mr. Chairman.

The CHAIRMAN. Great. The gentleman's time has expired.

The chair recognizes the gentleman from New York, Mr. Hall.

Mr. HALL. Thank you, Mr. Chairman.

I would echo Mr. Inslee's remarks and say I personally am—I don't own any drilling equipment, but I am not stopping anybody from drilling. In fact, I would be very happy if the oil companies would drill on the 68 million acres they have already leased and permitted in the lower 48 and adjacent offshore plots. But that can't be and won't be the long-term solution because we just don't have, and in fact the world will not have enough oil to last forever.

In New York this morning, gas prices are averaging $4.27, and in some places $4.50. Like the rest of the country, they have been high for weeks. In the last week as the price of crude fell, the price of gasoline at the pump continued to climb, once again showing the disconnect that I think should be looked into by the Consumer Products Trading Commission.

In an area like ours, where commuting is not so much a lifestyle choice as it is a necessity, this is an economic squeeze for families that are already being squeezed by higher consumer costs. We didn't dig our way into this hole overnight, and we need to keep pushing the visionary new solutions that this committee and this Congress have tried to advance.

President Bush has often alluded to the fact that he can't simply wave a magic wand to make gas prices go down. But in fact, he does have a magic wand to give us some slack immediately, the SPR. A release of oil from the SPR is a tested, proven, secure and effective method of calming markets and lowering prices. The last three presidents have successfully used SPR oil to head off serious economic damage and dangerous record spikes.

I would also note that the oil in the SPR has been put there through the royalty in-kind program for exploration of public lands, meaning that the oil in the SPR is the American people's oil and the administration should use it to help them now.

Today, I look forward to hearing from our panelists about what is the best way to do just that, and I yield back.

The CHAIRMAN. Great. The gentleman's time has expired.

All time for opening statements has been completed.

We will now turn to our first witness, Mr. Kyle Simpson, who is currently the policy director for Brownstein, Hyatt, Farber and Schreck. Mr. Simpson has formerly served in a number of positions at the Department of Energy, including associate deputy secretary of energy and senior policy adviser to the secretary. In those roles, Mr. Simpson's responsibilities included policy development and direction for the strategic petroleum reserve.

We thank you for being here today, Mr. Simpson. Whenever you are ready, please begin.

STATEMENTS OF MR. C. KYLE SIMPSON, POLICY DIRECTOR, BROWNSTEIN, HYATT, FARBER, SCHRECK, WASHINGTON, D.C.; MR. JOE ROMM, SENIOR FELLOW, CENTER FOR AMERICAN PROGRESS, WASHINGTON, D.C.; MR. JAMES C. MAY, PRESIDENT AND CEO, AIR TRANSPORT ASSOCIATION, WASHINGTON, D.C.

STATEMENT OF KYLE SIMPSON

Mr. SIMPSON. Thank you, Mr. Chairman. Good morning to the members of the committee and thank you for asking me to appear here today.

The history of market reactions to releases of crude oil from the reserve shows that strategically deploying oil from the SPR is good public policy and can have an immediate beneficial impact on crude oil, gasoline and other petroleum product prices. SPR experience also shows that the downturn of gasoline and other prices is apt to occur with the mere announcement or anticipation of an announcement of a release.

I will focus on some of the details of the results of the actions taken by the reserve, including the release of oil before the first Gulf War, the announcement of the sale in 1996, the 2000 exchange of oil, and the announcement of a release after Hurricane Katrina in 2005.

Each of these releases from the reserve are good examples of the implications that can be the result of a release. They provide insights into the results of actions by the reserve in response to real, anticipated or perceived oil, and in some cases product supply shortages, or to send message to overly heated markets that the U.S. government is prepared to use the reserve to protect consumers.

The sale of oil from the SPR in concert with the first Gulf War was announced on January 16, 1991 in anticipation of the impending conflict. The disruption on which the finding was based had not actually occurred. In the fact of impending military conflict, the administration utilized the SPR's anticipatory authorities for the drawdown. On January 17, the price of oil fell from $32.25 to $21.48 and stabilized.

In the Omnibus Appropriations Act for 1996, the Congress directed DOE to sell $227 million worth of oil to achieve the overall budget target for the year. At that time, retail gasoline prices were climbing. Shortly after the law was enacted, President Clinton implemented the sale of approximately 12 million barrels from the SPR. The decision to sell the oil immediately resulted in a downturn in gasoline prices on April 29 and 30 that continued through the first week of October of that year.

The principal impact of the announced sale was psychological, temporarily halting the bullish pressures in the market, and led to a reversal in both crude and product prices. Selling oil is not the only way the SPR can be used to help alleviate price problems.

In 2000, home heating oil inventories were extremely low, and President Clinton gave then-Secretary Bill Richardson the authority to exchange 30 million barrels from the SPR to the market. As a result, as the chairman pointed out in his opening statement, oil prices dropped 34 percent by the end of the year, going from $30.94 to $20.38 per barrel.

After Hurricane Katrina, prices began to rise very dramatically because of disruptions in production capacity in the gulf. On September 2, 2005, President George W. Bush issued a finding of severe energy supply interruption and directed the secretary to withdraw and sell oil from the reserve. The announcement—after the announcement, and in each of these cases it is the announcement that causes the price to change. The actual movement of oil occurs weeks later. The price dropped from $69.50 to $66.91 the next day and continued a steady decline for several months. The price did not exceed the peak until April of 2006. At that point, the refilling of the reserve was suspended for another year.

It is difficult to know the exact impact of a release, but as these releases indicate, the psychological impact and the fact that more oil is going into the market has caused the price to go down for extended periods of time. It has to be a substantial amount of a release in order to have that effect, but I think some of the proposals that are being considered today by the Congress would be substantial.

I also want to point out that you have a unique opportunity to utilize the SPR to address the current energy crisis in a way that can add to significant funding for new alternative clean energy for the future. If you took the GAO's advice to release oil, light oil from the reserve, which is all it contains right now, in contrast to the some–40 percent heavy oil that our refining industry uses today, and did an exchange over time, and allowed the department to make decisions as to when that oil would be released and when it would be brought back, the price differential that GAO has estimated is about $12 a barrel between light and heavy oil.

If you monetized that differential over the 70 million barrels, you could bring in more than $800 million into the government that is not anticipated under the current budget, and use that for many purposes, but one that I would suggest would be as a down payment on the next generation of clean domestic energy resources.

I see that I am about to run out of—have run out of time—so I would just want to point that out and make those suggestions. I hope the history of the reserve has been helpful, and I thank you for asking me to come today.

[The statement of Mr. Simpson follows:]

Statement

of

C. Kyle Simpson
Policy Director, Brownstein Hyatt Farber Schreck

Before the U.S. House of Representatives

Select Committee on Energy Independence and Global Warming

Wednesday, July 23, 2008

Good morning. Mr. Chairman, Mr. Sensenbrenner, Members of the Committee, thank you for asking me to testify before your committee today. I have been asked to provide testimony regarding the impact that deploying oil from the Strategic Petroleum Reserve (SPR or the Reserve) has had in the past on high oil and gasoline prices, how deploying the SPR could effect high energy prices now, how the SPR should be used to address our current energy crisis, and what policy changes should be considered to allow the Department of Energy (DOE) to more effectively manage and utilize the SPR in the future.

I am appearing before the committee today as a Policy Director from Brownstein Hyatt Farber Schreck, a Denver-based law firm with a robust Washington, D.C. office, and as Executive Director of the Energy Research Coalition. In the past, I have served as Associate Deputy Secretary of Energy and Senior Policy Advisor to the Secretary of Energy. In those positions, policy development and direction for the SPR was one of my responsibilities.

Historical Impact of Releasing Oil from the Reserve on Oil and Gas Prices

History shows that strategically releasing oil from the SPR is good public policy and can have an immediately beneficial impact on crude oil and petroleum product prices. Equally important to the downturn of gasoline prices is the mere announcement or anticipation of a release. The events leading up to the release of oil before the first Gulf War, the announcement of the sale in 1996, the 2000 exchange and the announcement of a release after hurricane Katrina in 2005 are each good examples of this concept. In addition, the various authorities that may be utilized to release oil from the Reserve each offer different opportunities to provide emergency response to real, anticipated or perceived oil, and in some cases product supply shortages or to send messages to overly heated markets that the U.S. government is prepared to use the Reserve to protect consumers.

1991 Sale: One sale of oil from the SPR occurred in January 1991 after President George H. W. Bush found a "severe energy supply interruption" in anticipation of the impending military conflict that would be the first war in Iraq, Desert Storm. The disruption on which the finding was based had not actually occurred and the Bush Administration, in the face of an impending military conflict, utilized the SPR's anticipatory authorities for the drawdown. According to DOE records, on January 16, 1991, President Bush in a nationally televised address announced that the U.S. and allied warplanes had begun attacks against Baghdad and other military targets in Iraq. Simultaneously, the President announced that the U.S. would begin releasing a portion of the Reserve stocks as part of an international effort to minimize world oil market disruptions.

On January 17, the day after the announcement of the sale, the price of oil fell from $32.25 per barrel to $21.48. That is the single largest one day drop of oil prices in history. The original plan was to release 33.75 million barrels from the Reserve. However, the four million barrel test sale in October 1990 that preceded the President's televised announcement in January, coordinated actions by the members of the International Energy Agency and the success and brevity of the war were sufficient to calm the market. As a result, when DOE issued the crude oil sales notice on January 28, 1991, there were bids for only about 17.3 million barrels of oil. In comparison, the drop of $6.48 last Tuesday, July 15, 2008, was the largest single day drop in the price of oil since 1991. As a percentage of the total price of oil, however, the 1991 decline dwarfs the decline last week.

1996 Sale: In the Omnibus Appropriations Act for FY 1996, Public Law 104-134, signed April 26, 1996, the Congress directed DOE to sell $227 million worth of oil to allow the achievement of the overall budget target for that year. At that time, retail gasoline prices were climbing and shortly after the law was enacted President Clinton implemented the sale of approximately 12 million barrels from the SPR. While the foundation of the law was a desire to meet federal budget targets, the major driver in the plan to implement the law was to maximize the value and minimize the amount of the oil that would be sold. Coincidentally, the decision to sell the oil immediately resulted in a downturn in gasoline prices which continued through the first week of October that year.

The sale was announced on April 29, 1996. As former Energy Secretary Hazel O'Leary pointed out in testimony before the Senate Energy and Natural Resources Committee on May 9, 1996, "[t]he announcement by the White House of this directive, along with the actual availability of the extra supply, was immediately accounted for by the markets, which moved down on April 29 and 30."

Further, Secretary O'Leary stated, "[the] principal impact [of the announced sale] was psychological, temporarily halting the bullish pressures in the market and leading to a reversal in both crude and product prices...[which] [s]everal oil traders...attributed...directly to the President's firm and rapid action." As mentioned above, gasoline prices continued to decline through the first week of October that year.

2000 Exchange: Selling oil from the Reserve is not the only way to use the SPR to help alleviate oil supply and price problems. In August 2000, home heating oil inventories were extremely low, and on September 22, 2000, President Clinton gave then Energy Secretary Bill Richardson the authority to loan 30 million barrels from the SPR to the market, with the option of loaning another 30 million barrels. Even before the oil was released, the announcement of this directive had an immediately positive psychological effect on the market: 1) there were sufficient heating oil supplies that winter; 2) the exchange lessened the need for supplies coming in from Europe, thereby lowering the price in the U.S. and in Europe (oil prices dropped 34% by the end of the year, going from $30.94 to $20.38 per barrel); and, 3) netted a return of 35.1 million barrels of oil (that is 5.1 additional million barrels of oil at no taxpayer cost) due to the interest that had to be paid to the Reserve.

2005 Hurricane Katrina Drawdown: After Hurricane Katrina in late August 2005, oil prices began to rise dramatically due to the disruption of production capacity in the Gulf of Mexico. On September 2, 2005, President George W. Bush issued a finding of "severe energy supply interruption" and directed the Secretary of Energy to withdraw and sell oil from the Reserve. The day before the announcement oil closed at a peak of $69.50. The price fell to $66.91 the next day and continued a steady decline for several months. The price did not exceed the peak until April of 2006.

2006 Action: In April 2006, the President recognized the importance of keeping as much oil as possible on the market in order to quell high fuel prices. On April 26, 2006, the White House, apparently motivated by a concern about rising fuel prices due to a shortage of crude, issued a *Fact Sheet: President Bush's Four-Part Plan to Confront High Gasoline Prices*. One element of the plan was to halt deposits of oil to the SPR for a short period of time. Subsequently, deposits into the Reserve were halted for that summer. In explaining the action, the *Fact Sheet* says, "Our Strategic Petroleum Reserve is sufficiently large to guard against any major supply disruption over the next few months. Deferring deposits until the fall will leave a little more oil on the market – and when supplies are tight, every little bit counts." At the time of that announcement, there were approximately 688 million barrels of oil in the Reserve. The fill of the reserve was suspended until April 2007.

Potential Impact of Deploying the SPR on Current High Energy Prices

It is difficult to know the exact price impact of a release of oil from the SPR. However, as indicated above, experience suggests that the release—and even the mere announcement of the release— of substantial volumes of oil from the SPR whether by direct sale or an exchange sends a clear message to the market that the government is prepared to act. This message has had and should continue to have the effect of quelling speculation and calming markets, resulting in immediate crude oil and product price reductions.

Accordingly, if the Administration announces the sale of a significant amount of oil from the SPR, or if the Congress were to pass a law directing a sale or exchange, the oil and petroleum products markets can reasonably be expected to respond as they did immediately after the emergency sale in 1991, the Congressionally directed sale in 1996, the exchange in 2000, the Hurricane Katrina drawdown in 2005, and the 2006 halt. There is no shortage of oil in the SPR; it has a current inventory of 706 million barrels of oil. Therefore, there should not be a fear that there is not enough supply in the SPR. Instead, a release—and even just the announcement of a release—of a significant amount of oil could send a message to speculators that there is more supply on the market, which will then likely drive down prices for some period of time. Prices would still remain at historic highs, but consumers could benefit from some relief and allow for more fuel efficient or alternate fuel vehicles and other consumer products to penetrate the market to provide more permanent relief from our dependence on oil.

How to Use the SPR to Address Current Energy Crisis

Today, we have a unique opportunity to utilize the SPR to address the current energy crisis in a way that can add up to significant funding which can be spent on efforts to provide relief for consumers to high energy prices or for such things as research and development on new technology to create opportunities to deploy clean sources of energy more rapidly. One way to create additional revenue for such purposes is to exchange some of the light grade crude oil in the Reserve for a like or greater amount of heavy oil. The oil that is currently stored in the SPR is only light and medium grades. In recent years, however, U.S. refineries have been upgraded to process more heavy oil, which, according to the Government Accountability Office (GAO), is on average about $12 cheaper than the lighter grades of oil.

Congress should take immediate action to enact proposals such as H.R. 6067, the Invest in Energy Independence Act. Consistent with recommendations made by the GAO in a report released on April 24, 2008, "Improving the Cost-Effectiveness of Filling the Reserve," this bill calls for the exchange of about 70 million barrels of light crude oil from the SPR with a like or greater amount of heavier oil. This exchange is important to our future energy security and supply for two reasons.

First, it would fulfill the GAO and DOE recommendation to make the composition of the SPR oil be more compatible with modern U.S. refineries, thereby increasing the energy security of the country. According to GAO analysis of 2006 Energy Information Administration data, the crude that currently fills the SPR would not be fully compatible with 36 of the 74 U.S. refineries that are considered vulnerable to supply disruptions. In addition, the DOE estimates that if these 36 refineries had to operate solely with crude oil from the SPR, U.S. refining throughput would decrease by 735,000 barrels a day – that is 5% - which would further exacerbate the supply disruption. And, the GAO estimates that the potential disruption could be even worse than that suggested by the Department of Energy.

Second, the average $12 price differential between the more expensive light types of oil and the cheaper heavy types of oil has the potential to return of hundreds of millions in funds that may be used to pay for important research, development demonstration and commercialization of energy technologies to transform our energy infrastructure to the new generation of clean, domestic energy resources. It is important to note that current law does not support the monetization of this differential; a statutory change is required to do so.

Additional Policy Changes To Foster DOE's More Effective Future Utilization of SPR

Several additional changes should be considered to improve the efficiency and effectiveness of the SPR. These changes include:

- *Greater Secretarial Flexibility*: Recognizing that the SPR is designed to be used in situations beyond emergency supply disruptions, the Secretary of Energy should be given greater authority and flexibility. The Secretary could then use this greater flexibility to maximize the potential utility and effectiveness of the SPR to accomplish broader public policy goals such as providing to consumers some relief to unbearably high prices of oil and gas.
- *Study of the Appropriate Mix of Oil Grades for the Reserve*: DOE and GAO have both concluded that the Reserve should contain at least 10 percent heavy oil. However, with the growing global demand for oil it is likely that our refineries will continue to be upgraded to run more heavy oil. Care should be taken to ensure that the Reserve is optimized to provide maximum protection for the Nation's energy supplies.
- *Leverage the Reserve as a Tool in the Effort to Make the U.S. Less Dependent on Oil*: Certain actions, such as exchanging light oil in the Reserve for heavy oil will generate revenue due to the price differential between light and heavy crude. That revenue could be used for energy technology R&D. Pending legislative initiatives to exchange 70 million barrels of light oil for heavy oil could generate more than $800 million.

Thank you again for inviting me to come before the Committee to testify about the great opportunity we have today to use the SPR in a strategic and constructive manner.

The CHAIRMAN. Thank you, Mr. Simpson, very much.

Our next witness is Dr. Joe Romm, who is a senior fellow at the Center for American Progress. He also served in the Department of Energy in a number of capacities, including acting assistant secretary and principal deputy assistant secretary for energy efficiency and renewable energy. He has written extensively on the strategic petroleum reserve.

We welcome you, Dr. Romm.

STATEMENT OF JOE ROMM

Mr. ROMM. Thank you, Mr. Chairman and members of the committee.

I have three main points. First, we tried offshore drilling in 2006 and oil prices doubled. Second, the only plausible remaining strategy for reducing oil prices quickly is opening up the strategic petroleum reserve, while making a major push for oil conservation. Third, I think we are going to sell off the strategic reserve by mid-century anyway, so why not do it now when consumers need the relief and we can use the money to help end our oil addiction.

We must be honest with the public. Oil prices are headed much higher over the next 5 to 10 years unless we jumpstart the transition to low-cost alternative fuels, something even oilman T. Boone Pickens has said. Some insist that more offshore drilling will lower prices, but that is the one strategy we know has failed. We tried opening up most of the Gulf of Mexico to offshore drilling 2 years ago, but oil prices have doubled since then.

Ending the moratorium on coastal drilling, where there is maybe one-fifth the oil already available for drilling in the gulf, offers no realistic hope for reducing oil prices. Indeed, the Bush administration's own energy experts have made the same point. But selling a relatively modest amount of crude oil from the strategic reserve, while promoting oil conservation, could pop the speculative bubble and lower oil prices.

It worked very well when President Bush's father did it during Desert Storm, as you heard from Kyle, and as my chart in the testimony shows—hopefully someone will flip that chart over there. As Kyle said, we only—the president merely announced that he would sell 34 million barrels. As you can see, oil that had started to spike up in price immediately collapsed, and it was about a one-third drop over the course of a day or two.

So imagine what would happen if the current President Bush announced today he was going to sell three times as much oil, 90 million barrels, over the next 6 months at the rate of 500,000 barrels a day. I advocate combining that sale with a strong push for oil conservation. This president, or more realistically the next president, should use his bully pulpit to launch a national oil conservation education campaign, urging consumers and businesses to take a variety of steps to reduce gasoline use. That could easily double the oil provided by the strategic reserve.

Now, if oil prices did drop as a result of these actions, as I expect, then obviously that would vindicate this strategy. But if oil prices did not drop, that would merely demonstrate how useless the strategic reserve was in the first place. You know, I try to make this point in my testimony. The strategic reserve is not strategic.

It was created at a time when people worried that countries could withhold oil from us. But now we have a global market, so that isn't possible.

We have replaced the possibility of oil shortages with the reality of rising prices. So if we don't use the strategic reserve to deal with our current price spike, when would we ever use it? Indeed, I ask people all the time: name me a scenario in which we would use the strategic reserve, any significant fraction of it? After all, in the entire 3-decade history of the strategic reserve, a mere 32 million barrels were sold during crises, and we now have 700 million barrels.

So we are not—and I think we are not going to keep this relatively useless reserve for many more decades. As you know better than anyone, Mr. Chairman, we need to be almost completely off of oil by mid-century to avoid catastrophic global warming. So sometime soon we are going to sell off the SPR's oil because I can't imagine the taxpayers and their representatives are going to seriously sit on $100 billion sitting under the mattress forever. It is just not going to happen.

We are going to sell it off, so why not do it now when we can use the price relief and we could generate tens of billions of dollars this year and in coming years. Some of that could help low-income families deal with high energy bills and some could jumpstart the transition to a clean energy economy and end our oil addiction.

Gasoline prices are headed much, much higher unless we begin an aggressive switch to the only domestic alternative fuel that is both abundant and much cheaper than gasoline, namely electricity. We need to start building billions of dollars accelerating the deployment of plug-in hybrids, energy efficiencies, recycled energy, wind power, solar, photovoltaics, and solar baseload.

In conclusion, some argue that oil prices will drop if we end the federal moratorium on coastal drilling, even though that would only deliver maybe 100,000 barrels of oil a day sometime after 2020. I just don't understand how anyone can believe in more coastal drilling and oppose releasing 500,000 barrels of oil a day starting now. Of course, the first strategy would benefit oil companies, and the second strategy would benefit the American people, so that may explain who supports what.

Thank you.

[The statement of Mr. Romm follows:]

STATEMENT OF

JOSEPH ROMM

SENIOR FELLOW

CENTER FOR AMERICAN PROGRESS ACTION FUND

before the

SELECT COMMITTEE ON
ENERGY INDEPENDENCE & GLOBAL WARMING

of the

HOUSE OF REPRESENTATIVES

July 23, 2008

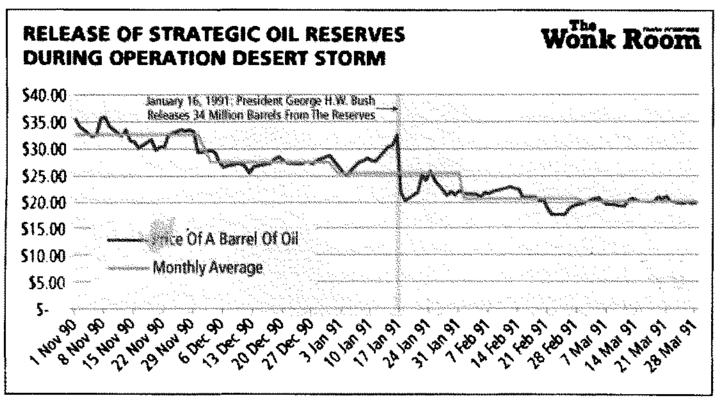
Mr. Chairman, members of the Committee, I am delighted to appear before you today to discuss what I believe is the only plausible way to give Americans immediate relief from high oil prices. I am a Senior Fellow at the Center for American Progress Action Fund here in Washington, DC where I run the blog *ClimateProgress.org*. I have published and lectured widely on oil issues, including the June CAPAF report, "Bursting the Oil Bubble: Sell Oil from the Strategic Petroleum Reserve to Lower Prices"

From 1993 to 1995, I was special assistant for policy and planning to the deputy secretary of energy, who oversaw all of DOE's energy programs, including the SPR. I served as Acting Assistant Secretary at the U.S. Department of Energy's Office of Energy Efficiency and Renewable Energy during 1997 and Principal Deputy Assistant Secretary from 1995 though 1998. In that capacity, I helped manage the largest program in the world for working with businesses to develop and use oil-reducing technologies. I hold a Ph.D. in physics from the Massachusetts Institute of Technology.

Like an endless rising tide, oil prices continue to climb. Beginning on January 2, when oil sold for $100 per barrel for the first time, price records have been shattered on almost a weekly basis. Some analysts predict oil reaching $200 per barrel by 2010.

There are very few immediate actions that government can take to stop the oil price escalator. We tried opening up most of the Gulf of Mexico to offshore drilling two years ago, but that failed miserably and oil prices have doubled since then. Ending the moratorium on coastal drilling, where there is realistically maybe one-fifth of the oil already available for drilling in the Gulf, offers no realistic hope of reducing oil prices, a point the Bush administration's own EIA has repeatedly made.

But selling a relatively modest amount of crude oil from the U.S. Strategic Petroleum Reserve while promoting oil efficiency could pop the speculative oil price bubble and lower prices. Opening the SPR worked very well when President Bush's father did it during Desert Storm:



It is hard for me to see how anyone who thinks oil prices will drop if we end the federal moratorium on coastal drilling – which might deliver 100,000 barrels of oil a day sometime after 2020 – could oppose releasing 500,000 barrels a day of oil starting now. Of course, the first strategy would benefit oil companies and the second strategy would benefit the American people, so that may explain who supports which policy.

Many factors are driving record oil prices. Production in some oil producing nations such as Mexico and Russia is stagnant. Other producers, such as Saudi Arabia, won't (or can't) produce much more oil because they make huge amounts of money now and suspect oil prices will be even higher in the future. President Bush and Vice President Cheney both traveled to Saudi Arabia this year to beg the sheiks to increase their oil production to ease the supply crunch and reduce prices. As with many other of their endeavors, Bush and Cheney failed. Growing demand from China and India is also contributing to high prices, but we still consume twice as much oil as the two countries combined.

Many analysts believe that the weakened dollar helped drive up the price of oil. Petroleum is sold internationally in dollars, and a weak dollar drives investors and speculators toward the purchase of commodities such as oil that will retain their value in the face of a declining dollar. Oil bought on January 2, 2008 at $100 per barrel, for example, sells today for $132—nearly a one-third return rate in six months. Speculators can plunk down only 5 percent to 7 percent of the purchase price for oil futures, enabling them to dramatically increasing the size of their purchase.

The U.S. Strategic Petroleum Reserve (SPR) was created in 1975 in the wake of the 1973 OPEC oil embargo to help the United States buffer against oil price shocks that have "major adverse impact on national safety or the national economy." If current conditions – we are at war in the Persian Gulf, oil prices are soaring, the dollar is collapsing, the economy is weakening – aren't sufficient to justify releasing some oil from the SPR, I can't imagine what catastrophic set of circumstances would be.

The fact is we can easily increase supply temporarily, ease costs, and perhaps disrupt any speculators' expectation that oil prices are a safe bet for high returns. The United States sits on 705 million barrels of oil in the Strategic Petroleum Reserve. Since it is 97 percent full, we could sell a half million barrels of oil per day for a year without increasing our exposure to a catastrophic oil disruption. The SPR would still be at 75 percent capacity.

Increasing the oil supply would alter the current psychology that oil prices will continue to rise due to growing demand and fixed supply. Investors and speculators in oil contracts would see that betting on higher prices is no longer a sure thing and it could scare the quick-buck speculators out of the market.

This SPR oil sale would also generate significant funds for the federal government. The SPR oil was bought at an average price of about $28 per barrel. It could sell for the market price, which could be anything from $100 to $130 per barrel. If the average sale price is $115 per barrel, the SPR oil would generate nearly $58 million per day. These funds could provide a rebate to low-income households, finance clean energy technologies, or expand mass transit systems, which have begun to strain under record ridership.

Since SPR's creation, there have been two emergency sales of crude oil from the SPR. After Hurricane Katrina disrupted oil flow from the Gulf of Mexico in 2005, 11 million barrels of oil were sold. In the wake of the Persian Gulf War 21 million barrels were sold in 1990-91. In 1996-97, 28 million barrels were sold for nonemergency reasons. In other words, 60 million barrels were sold over the years when the SPR contained much less oil than it does today. And the harm to low- and middle-income households of record gasoline and oil prices—which did not exist on any of these other occasions—mandates that this is an appropriate time to sell some amount of SPR oil.

Selling SPR oil should not be the only immediate action to provide relief for American families. A "fuel price oilbate" program could assist low- and middle-income families with high fuel and food prices by allowing them to recoup some of the money spent on the increased cost of gasoline since 2001. Closing outrageous tax loopholes for big oil and recovering lost oil and gas royalties from the Gulf of Mexico could pay for the program.

Since President Bush took office, the oil industry has guided his energy policies. So it's no surprise that he has not urged Americans to increase their efficiency or done anything else to help lower gasoline prices. He should use his bully pulpit, as well as launch a national oil efficiency education campaign. He should urge American consumers and businesses to take a variety of steps to reduce gasoline use, save money, and lower prices, including:

- Drive the speed limit, which could increase highway mileage up to 25 percent.
- Properly inflate tires, change air filters, and tune up cars, which could reduce gasoline use by up to 17 percent.
- Expand telecommuting and flextime.
- Combine discretionary trips and increase ride-sharing.

These simple measures could provide savings comparable to the oil released from the SPR—if President Bush and the rest of his administration worked with governors and mayors to encourage Americans to embrace them. But that might cut into big oil company profits, so it's unlikely that he would adopt such a win-win approach in his last few months in office.

Selling oil from the SPR, the fuel price oilbate program, and an efficiency push, could reduce prices and assist households most affected by high prices. A proposed "gas tax holiday" will not accomplish either goal. It would take money from the highway trust fund that is a crucial job-creating stimulus, and which our decaying transportation infrastructure requires. If not, then it would add $11 billion to our $317 billion deficit for the first eight months of FY 2008.

Oil companies don't have to lower prices to reflect lifting the 18.4 cents per gallon tax. Indeed, as N. Gregory Mankiw, the former chair of President Bush's Council of Economic Advisors, says, "What you learn in Economics 101 is that if producers can't produce much more, when you cut the tax on that good, the tax is kept ... by the suppliers and is not passed on to consumers." So the gas tax holiday" would bring the most joy to the big oil companies that already have record profits.

Conservatives blame high gasoline prices on the protection of unique places from dirty oil drilling. This is a false claim. The House Committee on Natural Resources investigated this charge and found that, "Between 1999 and 2007, the number of drilling permits issued for development of public lands increased by more than 361 percent, yet gasoline prices have also risen dramatically contradicting the argument that more drilling means lower gasoline prices. There is simply no correlation between the two."

Conservatives nonetheless want to use record gasoline prices as an excuse to drill for oil in the Arctic National Wildlife Refuge and off of the Atlantic and Pacific coasts. These would do nothing to reduce high gasoline prices. A new analysis by the Bush administration's own Department of Energy projects that drilling in the Arctic would cut gasoline prices a mere 2 cents, and not until 2025.

Oil companies have developed only one-quarter of the offshore leases they already hold in the western Gulf of Mexico. They must develop these leases before drilling off Malibu or the Chesapeake Bay. The House Committee determined that, "Development of and production from the 68 million acres currently under lease but not in production would cut U.S. imports of oil by one third."

In response to these undeveloped leases, House leaders introduced the Responsible Federal Oil and Gas Lease Act of 2008, H.R. 6251. It would require big oil companies to either develop oil from their leases on federal public lands and waters, or give them up.

Let me drill deeper into this issue using the EIA's analysis "Impacts of Increased Access to Oil and Natural Gas Resources in the Lower 48 Federal Outer Continental Shelf." The oil companies already have access to some 34 billion barrels of offshore oil they haven't even developed yet, but ending the federal moratorium on offshore drilling would probably add only another 8 billion barrels (assuming California still blocks drilling off its coast). Who thinks adding under 100,000 barrels a day in supply sometime after 2020 — some one-thousandth of total supply — would be more than the proverbial drop in the ocean? Here is the key data from EIA:

Table 10. Technically recoverable undiscovered oil and natural gas resources in the lower 48 Outer Continental Shelf as of January 1, 2003

OCS areas	Crude oil (billion barrels)	Natural gas (trillion cubic feet)
Available for leasing and development		
Eastern Gulf of Mexico	2.27	10.14
Central Gulf of Mexico	22.67	113.61
Western Gulf of Mexico	15.98	86.62
Total available	**40.92**	**210.37**
Unavailable for leasing and development		
Washington-Oregon	0.40	2.28
Northern California	2.08	3.58
Central California	2.31	2.41
Southern California	5.58	9.75
Eastern Gulf of Mexico	3.98	22.16
Atlantic	3.82	36.99
Total unavailable	**18.17**	**77.17**
Total Lower 48 OCS	**59.09**	**287.54**

Look closely. As of 2003, oil companies had available for leasing and development 40.92 billion barrels of offshore oil in the Gulf of Mexico. I asked EIA how much of that (estimated) available oil had been discovered in the last five years. They said "about 7 billion barrels have been found." That leaves about 34 billion still to find and develop.

The federal moratorium only blocks another 18 billion barrels of oil from being developed. But, as you can see, most of that is off of California, which has bipartisan opposition to drilling from Republican Governor Schwarzenegger — who seems serious about his commitment to greenhouse gas reduction — and the Democratic legislature, which remembers all too well the devastating 1969 oil spill off the coast of Santa Barbara. Indeed, Karen Bass, the newly appointed speaker of the State Assembly, said, "The idea of increasing offshore drilling off the coast of California I think is absurd, and I can't even imagine we would entertain that." Why would they, given the risk to their beautiful coasts and their commitment to reduce statewide greenhouse gas emissions 80% by midcentury?

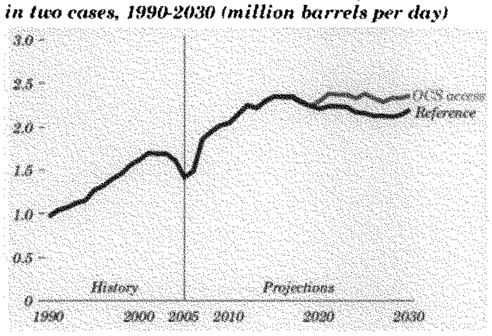
So that only leaves about 8 billion barrels, which is about what the world uses in three months. And that assumes every other state, including Florida, goes aggressively with offshore drilling, which is exceedingly unlikely.

Here are the assumptions EIA makes:

> Assumptions about exploration, development, and production of economical fields (drilling schedules, costs, platform selection, reserves-to-production ratios, etc.) in the OCS access case are based on data for fields in the western Gulf of Mexico that are of similar water depth and size. Exploration and development on the OCS in the Pacific, the Atlantic, and the eastern Gulf are assumed to proceed at rates similar to those seen in the early development of the Gulf region. In addition, it is assumed that local infrastructure issues and other potential non-Federal impediments will be resolved after Federal access restrictions have been lifted.

And here is what EIA projects would happen to offshore oil production if the federal moratorium were eliminated and none of the states block drilling and if exploration and development of resources in those areas begin in 2012:

Figure 20. Lower 48 offshore crude oil production in two cases, 1990-2030 (million barrels per day)



Essentially no extra oil beyond the reference case until 2020. And then from 2020 to 2030, the extra oil production averages about 150,000 barrels of oil a day.

But of course that's not going to happen since, as noted, absent the federal moratorium, California is not going to allow drilling off its cost. So we are almost certainly talking under 100,000 barrels a day sometime after 2020.

The bottom line is that two conservative oilmen, President George W. Bush and Vice President Dick Cheney, took office in 2001 determined to let big oil and energy companies set energy policy. Since then the price of gasoline has nearly tripled.

We need a complete change of policies to avoid far higher gasoline prices in the next decade. These changes should include an aggressive effort to commercialize and deploy super fuel-efficient vehicles and clean alternative fuels, particularly electricity consumed in plug-in hybrids. This strategy would still take many years to slash oil use and costs, reduce greenhouse gases, and enhance energy security. In the meantime, President Bush and Congress should immediately undertake the options proposed here to ease pain at the pump and assist those families most in need.

[Links to references can be found at www.americanprogress.org/issues/2008/06/oil_bubble.html]

ADDENDUM

Seven Reasons to Release Oil from the Strategic Petroleum Reserve

On July 8, Speaker of the House Nancy Pelosi wrote President George Bush to urge him to "draw down a small portion of the oil held in the Strategic Petroleum Reserve in order to expand available supplies and help reduce the record prices."

The White House predictably rejected this common sense suggestion that would lower oil prices—and oil industry profits. White House spokesperson Tony Fratto said that the SPR, "is not there to try to market-time and to try to manipulate prices in the market." Yet he did confusingly acknowledge that, "as long as we keep the sources of oil off the market, we're not going to see increases in supply...if you don't increase supply and you only increase demand, prices are going to rise."

There are many reasons that selling a small amount of oil from the Strategic Petroleum Reserve is our best short-term option for lowering oil prices.

1. Record oil prices have hurt American families: Many families' gas costs have increased by hundreds or even thousands of dollars a year. The price of home heating oil has doubled in the past year. And the Department of Energy predicts that average electricity prices will increase by 5 percent this year, and go up 9 percent in 2009. A recent Center for American Progress analysis found that families are spending an average of 4 percent of their after-tax income on gasoline—the highest proportion in 25 years. Rural and low-income households are hurt even more because they spend an even greater proportion of their post-tax income on gasoline.

2. Reserve oil can get to the market fast: President Bush agreed to sell up to 30 million barrels after Hurricane Katrina. The on-line sale of this oil ended September 9, 2005, and the first oil was delivered to oil companies for refining on September 26. President Bush and many conservative congressional leaders want to drill for oil in the protected Outer Continental Shelf to address price and supply problems. Yet this "solution" would take over a decade to produce any results, and the Department of Energy says that such drilling have no impact through 2030.

3. Reserve oil would significantly increase worldwide supplies: The International Energy Agency believes that "these abnormally high prices are largely explained by fundamentals. Supply growth so far this year has been poor and higher prices are needed to choke off demand to balance the market." The IEA predicts that worldwide oil demand will average 86.8 million barrels per day in 2008, while oil supply was 86.6 million barrels per day in May 2008. "OPEC countries are running close to flat out" to keep up with demand. Adding a half million barrels to the daily market would be a significant addition to the worldwide supply of 86.6 million barrels. To put this increase in perspective, compare it to President Bush and Vice President Dick Cheney's efforts to beg Saudi Arabia to increase production. Eventually, the Saudis agreed to increase production to 9.7 million barrels per day, a total increase of 600,000 barrels per day since March 2008. Selling a half million barrels per day from the SPR would nearly double this production increase, and this additional SPR oil would only be sold in the United States. This will ease competition for the world oil supply, which should reduce prices.

4. **Past reserve releases lowered oil prices**: On January 16, 1991, on the eve of the first Gulf War, President George H.W. Bush announced that he would sell 34 million barrels from the Reserve to "minimize world oil market disruptions." That day oil sold for $32 per barrel. The day after the

announcement, the price dropped to $21 per barrel. Oil remained in the $20 per barrel range during and after the war. The Department of Energy concluded that the "partial drawdown ... help[ed] restore stability to world oil markets during the Persian Gulf War."

5. There is plenty of oil in the reserve to withstand a supply disruption: The SPR has more oil than ever before—706 million barrels, which is 98 percent capacity. Selling 50 million barrels over 100 days would still leave it filled to over 90 percent capacity. This is enough oil to cope with a complete foreign supply disruption for nearly two months, assuming zero reduction in demand in the wake of such a catastrophe. Is such a supply disruption likely? No. There has never been a complete supply disruption. The last major disruption occurred nearly 30 years ago during the Iranian revolution. What's more, the United States gets its 13.4 million barrels of oil imported daily from a diverse array of producers, including Canada (18 percent of imports), Mexico (11 percent), Saudi Arabia (11 percent), Venezuela (10 percent), and Nigeria (8 percent). This means that even if we are suddenly unable to import oil from one country, it will not affect the availability of imports from other nations, thought it could affect price.

6. Selling SPR oil would yield significant funds to help families cope with high energy prices: Selling just 180 million barrels of oil at today's prices would produce over $25 billion. Even if the oil price dropped 30 percent to $100 per barrel, selling this amount of SPR oil would still raise $18 billion. These funds could help families cope with high energy prices via the home weatherization program, the Low Income Heating and Electricity Payment program, or via direct rebates. And these funds could promote deployment of energy-efficiency and renewable energy technologies that would reduce consumption, energy bills, and global warming pollution.

7. Putting SPR oil on the market could help burst the speculative bubble: There is a great debate over the role of speculators in the current price of oil. Some believe they account for one-third or more of all oil trades, and have increased the price of oil by anywhere from $10 to $30 per barrel. Since January 2, oil prices increased from $100 to $145 per barrel. This steady ascent in price makes it tempting for speculators to buy oil futures as a safe bet, particularly given that record prices have not led to more supply. Putting some SPR oil on the market in one sudden spurt could burst the speculative bubble. Investors and speculators in oil contracts could no longer assume that oil supplies will remain stagnant even as prices rise. When institutional investors and oil traders sense that the supply and price of oil might go in different directions, all bets are off.

[This addendum is a modified version of a piece written by CAPAF's Dan Weiss. Links to references can be found at www.americanprogress.org/issues/2008/07/eight_reasons_spr.html.]

The CHAIRMAN. Thank you, Mr. Romm.

Our final witness is Mr. Jim May. Mr. May is the president and CEO of the Air Transport Association, the nation's oldest and largest airline trade association. Mr. May has been with ATA since 2003.

We welcome you, sir. Whenever you are ready, please begin.

STATEMENT OF JAMES MAY

Mr. MAY. Thank you, Mr. Chairman. I would note that one of the first things I did within 2 weeks of joining ATA in 2003 was to ask for a release from the SPR publicly before the Senate Energy Committee. So there is a little bit of precedent to our position.

First, thank you and the other members of Congress and the committee for your leadership in assuring that we do not continue to fill the SPR at these extraordinary prices. I don't have to convince you that high oil prices are smothering our nation's families, taking an especially heavy toll on aviation, but also trucking and agriculture and hospitality industry and other key sectors that help drive the U.S. economy.

This morning, oil was trading at about $126 and change, versus $75 a year ago. That is well over $4 a barrel for American families. I would also note for you that due to limited refining capacity and global demand, jet fuel—Jet A, which we burn—costs as much as $30 a barrel more than gasoline, so we have been paying upwards of $170 a barrel, which is significantly greater than in 2007. In fact, we are going to spend $62 billion as an industry domestically this year on fuel. That is about $20 billion more and accounts for the $10 billion we are projected to lose in this calendar year.

To give you a perspective on a per-consumer basis, we are spending today about seven cents per mile for each of the passengers that we carry. That is a fuel bill of about $420 per person. When you consider that our average round-trip ticket across all classes and all distances is probably in the range of $400 to $500, you begin to get an appreciation for how difficult an equation we are trying to deal with.

And deal with it, we are, but not in happy ways. We have cut 32,000 jobs. Over 100 communities have lost service or will lose service. It is having a devastating effect on the economy. There are a lot of reasons. We have talked about them this morning—the weak dollar, increasing demand in developing economies, insufficient exploration and refining capacity, geopolitical instability and all of those things.

I would suggest to you that there are also a number of solutions, in no particular order: increasing domestic supply, conservation, alternative fuels are critical to the future. Reining in unchecked speculation, a subject that we have become well known for talking about for some period of time, is critical. And I think a third component, the third leg of that stool, if you will, is a release from the strategic reserve.

Now, increasing our domestic supplies will reduce our dependence on foreign oil and help lower prices. I think a release from the SPR is a good first step. We have 706 million barrels. It is over 97 percent full. We suggest, as the speaker has, that a 10 percent release, which is roughly 70 million barrels, would make a very marked increase. You heard the testimony this morning about pricing. When President Bush did it back during Desert Storm, it was about a 38 percent drop.

I would suggest a framework for that release. One, if it is going to be released, don't let people know in advance. Don't let the markets know in advance. Just do it on a timed basis. Two, make sure it is light, sweet crude, not sour, that is being released. Three, restore U.S. commercial inventories. They are down about 58 to 60 million barrels, and that roughly equates to the 70 million/10 percent that we are suggesting.

And finally, two things: dedicate the revenue, as has been suggested this morning, to development of alternative fuels. We are working on biofuels projects for aviation use, for example, and set up a framework for continuing to do this as conditions dictate—triggers, targets, something of that sort that would be worthwhile.

As I said, we think the speaker's proposal on a 10 percent release would be appropriate and positive. I would also note that there is another reserve, it is the New England heating oil reserve, which could be worthy of consideration for a release, and then a refill before the winter comes.

And finally, Mr. Chairman, let me reiterate what I started with. We think this is a three-legged stool. We think that rather than engaging in an exercise in who is to blame for high fuel prices, Congress ought to immediately embark on a program of how we can share credit for solving the high fuel prices. We need more supply. The Republicans introduced a package yesterday that many in the majority party won't like, but I think it is absolutely worth consideration.

Two, I think, as I have said before, the speaker's plan on releasing from the SPW. And three, Mr. Stupak's PUMP Act, which I think does a terrific job of trying to attack rampant speculation in the marketplace. We need all three and any other solutions. We have thousands of people out of work, more coming, more communities are going to lose service, and we need the Congress to address this before the August recess if at all possible.

Thank you.

[The statement of Mr. May follows:]

WRITTEN TESTIMONY OF
JAMES C. MAY
PRESIDENT AND CEO
AIR TRANSPORT ASSOCIATION OF AMERICA, INC.
BEFORE THE
HOUSE SELECT COMMITTEE ON ENERGY INDEPENDENCE AND GLOBAL WARMING

July 23, 2008

Mr. Chairman and members of the Committee, I would like to thank you for the opportunity to appear before you this morning to offer the airlines' full support for a balanced, comprehensive National Energy Policy and all viable short and long-term measures to reduce the price of oil, including a release from the nation's Strategic Petroleum Reserve (SPR).

I would be remiss by not also thanking you for your leadership in addressing skyrocketing oil prices, in particular the bipartisan support in late May to stop filling the SPR.

Today's hearing is critically important as high oil prices are smothering the nation's families and taking a disproportionate toll on aviation, trucking and other key sectors that help drive our economy. Yesterday, crude oil settled at $126.31 a barrel. A year ago, it was $75 below, which at the time seemed unbearably high. Gasoline in many parts of the country exceeds $4 a gallon, with energy, grocery and housing costs for American families up across the board and rising. Consumer confidence is at the lowest level since May 1980 as the economy continues to deteriorate due, in large part, to record-high oil prices.

Due to additional circumstances in refining, environmental specifications and changes in the composition of global demand, jet fuel prices are exceeding those of diesel and gasoline, the latter by a substantial margin on the order of $30 per barrel. Through July 15, jet fuel prices had risen 71 percent increase over the same period in 2007 – a jump no one could have predicted or planned for. This year, U.S. airlines will spend more than $61 billion on fuel than in 2007, a $20 billion jump in one year and more than the combined fuel bill in the first four years of this decade.

Due to the weak dollar, they are paying a significant premium over fuel prices paid by their European competitors – as much as 60 percent more per barrel. More than 40 percent of the average fare is now required just to break even on fuel expenses - up from 15 percent in 2000. It now costs an estimated 7 cents in fuel alone to transport a passenger one mile, versus 2 cents just a few years ago. That means that, on average, a cross-country roundtrip now costs $420 per passenger, versus $120 in 2000.

With a multibillion-dollar loss expected, the airlines are responding to today's staggering fuel prices in every way conceivable More than 31,000 job cuts have been announced thus far this year, with more expected. Some 100-plus communities have lost or are slated to lose all scheduled air service. Large metropolitan areas are not immune to significant reductions in service, with serious implications for the traveling and shipping public.

There are many reasons for skyrocketing oil prices: a weak dollar, increasing demand in developing countries; insufficient U.S. supply/exploration/refining capacity, geopolitical instability and rampant market speculation in the energy futures markets.

In recognition of the many factors that have led to triple-digit oil prices, ATA and its member airlines have long supported both short and long-term solutions with three essential elements:

- increasing domestic supply
- reining in unchecked speculation in the energy futures markets and
- a release from the SPR

A balanced, comprehensive national energy policy is the only kind that will bring the quick, meaningful and lasting relief this nation needs.

Increasing our domestic supplies (both conventional and alternative) will reduce our dependence on foreign oil and lower prices – a win for national security and the economy. A release from the SPR is a strong first step.

Today the SPR is an untapped, readily accessible source of domestic supply unavailable to the commercial marketplace. Its inventory of 706 million barrels – up 165 million barrels from January 2001 – is two and a half times the amount held by the U.S. private sector. That's 294 days – almost 10 months – of emergency oil that could supply the United States in the remarkably unlikely scenario that it were to suffer a complete loss of imports from the Persian Gulf, including the oil we import from <u>all</u> of our allies in that region.

Airlines support a release **now** because history shows us that even a temporary increase in supply will immediately lower oil prices. Within two days of the 1991announcment that there would be a release from the SPR in the aftermath of the Persian Gulf War, prices fell 38 percent.

We offer the following framework for the release:

- Follow an unannounced release schedule
- Release light, sweet crude oil first
- Restore U.S. commercial inventories, at a minimum, to year-ago levels
- Dedicate revenues from the sale of SPR barrels to the development of alternative energy sources
- Congress should set-up a framework or trigger for continued use of the SPR when conditions warrant

The Speaker's proposal for the timed 6-month release of 10 percent of the SPR – releasing light, sweet crude oil and replacing it with heavy, sour crude – is a workable plan that will help bring down prices. We offer our full support and appreciation for this important step.

Mr. Chairman, I would remind the committee that we have a home heating oil reserve from which you could also consider a release.

In closing, these are critical economic times and we feel very strongly that Congress has to act forcefully to address oil prices. The solution should include three essential elements: a release from the SPR; our companion goal of addressing rampant speculation in the energy futures market – Chairman Stupak's PUMP Act offers real relief; and finally, over for longer-term supply, the American Energy Act introduced by the republicans yesterday contains strong supply-side initiatives that we endorse.

Only when we have a comprehensive plan that includes all of these elements will we rein in skyrocketing oil prices.

The CHAIRMAN. Thank you, Mr. May, very much.

And now we will turn to questions from the committee of members.

Mr. May, one of the arguments that is made about the deployment of the strategic petroleum reserve is that we are not in an emergency. What does the airline industry have as a response to that assertion?

Mr. MAY. Mr. Chairman, I think there are least 32,000 families who have had a breadwinner that has lost a job in my industry that would suggest this is absolutely an emergency. I would suggest all of those communities that are losing service, the people who can't move as efficiently and rapidly around the country, would suggest this is an emergency.

I support the continued use of the SPR. I think from a strategic tactical perspective, it is important. But I think there are also times when it ought to be used to address the economic emergency that exists in this country. So I would suggest to you there is ample reason to have a controlled release.

The CHAIRMAN. Mr. Romm, Mr. Simpson, you both worked at the Department of Energy. Does the economic condition that we are now being confronted with qualify under the law as a situation where the president could deploy the strategic petroleum reserve?

Mr. Simpson.

Mr. SIMPSON. Under the law, the definition is really somewhat vague. It can be interpreted in many different ways. There is a strong reluctance to use economic concerns. But the definition of an emergency as a result of inadequate supplies can be fairly broad. The flexibility that the secretary has to do emergency or test drawdowns, test sales, different types of things, is fairly discretionary.

So if Mr. May's definition of an emergency is people losing jobs, I think that could be part of the definition.

The CHAIRMAN. Do you agree with that, Mr. Romm?

Mr. ROMM. Absolutely. I would also add that if you had described current conditions today to us in the Clinton Administration and said, would your release the SPR now, I think everybody absolutely would have. I mean, we debated it under a situation that was far more mild than it is today.

The CHAIRMAN. Mr. Simpson, what are the, if any, operational obstacles to the deployment of the strategic petroleum reserve in the short run?

Mr. SIMPSON. I don't think there are any operational obstacles to releasing it. The implications of an exchange that I talked about would be actually positive in the long term for the reserve because we would begin to make the capacity of oil in the reserve more reflect the 40 percent of the refining industry's use of heavy oil. I think we have—we are in jeopardy here. We have a hurricane coming in down in Texas. If it had turned south and gone into Mexico and disrupted some of the heavy oil production down there, we wouldn't have a way to replace that heavy oil using the strategic petroleum reserve.

The CHAIRMAN. So you are saying, releasing light crude now and replacing it with heavy crude is something which is consistent with industry practices and needs?

Mr. SIMPSON. Very much so.

The CHAIRMAN. Okay. Thank you.

And Mr. Romm, we have already seen a disruption of heavy oil imports from Latin America under Hugo Chavez's regime in 2002. Both GAO and the Department of Energy have concluded that including some amount of heavy oil in the SPR would be wise.

Do you agree with that conclusion, Mr. May, that Mr. Simpson just reached?

Mr. MAY. I am not sure I followed the question, Mr. Chairman. Do I agree with which statement?

The CHAIRMAN. The statement that Mr. Simpson just made, that having more heavy crude would actually be something that could——

Mr. MAY. Yes. I am not an expert on heavy versus light. I can tell you this, that to the extent you are releasing light, you are making it available to all of the refineries in the United States. There are a number of refineries that cannot process heavy sour. So replacing that with heavy sour is a perfectly sound strategy, and releasing light sweet will have the most immediate impact on the refineries all being able to use it, and for the consumer to get gasoline, jet-A diesel fuel, et cetera.

The CHAIRMAN. Now, let me just conclude by asking this question of each of you quickly. If we did pass legislation which said to the president, deploy 10 percent of the strategic petroleum reserve over the next 5 or 6 months, without telling him which day of the week to do it, but if there was something happening in Iran or Nigeria or other parts of the world, he could deploy one million barrels of oil a couple of days before or after that incident, and maybe not deploy anything for a week or so after that.

Would that have, in your opinion, a downward pressure on the price of oil, if the president had that authority and had to deploy 70 million barrels over a 5- or 6-month period? Mr. Simpson?

Mr. SIMPSON. I believe it would. In looking at the history, I think that is the case. If you add the government as a player, and there are people who advocate both sides, but if you put the government in as a player, it makes it more difficult to accurately predict, as the speculators would like to do, what the oil price would be in the future.

The CHAIRMAN. Dr. Romm.

Mr. ROMM. I would agree with that. I mean, obviously it assumes that the president would make use of that authority. But if the president were willing to make use of the authority, I don't think it would have any question that it would have a downward pressure on prices.

The CHAIRMAN. Mr. May.

Mr. MAY. It would have a downward pressure.

The CHAIRMAN. Okay. Thank you. My time has expired.

The chair recognizes the gentleman from Arizona, Mr. Shadegg.

Mr. SHADEGG. Thank you, Mr. Chairman.

Mr. Simpson, I want to begin with you. I have some questions about your knowledge of prior draw-downs. In your testimony, how many draw-downs did you cover in your analysis?

Mr. SIMPSON. Four.

Mr. SHADEGG. Four. And in each of those instances, prices fell?

Mr. SIMPSON. Yes.

Mr. SHADEGG. Can you tell me what the percentage reduction was each time of the overall SPR—5 percent, 30 percent, 50 percent?

Mr. SIMPSON. It was not—I would have to go back and look at the math—but it was in the range let's say they offered 34 million barrels in 1991 and we had about, I think about nearly 600 million barrels in the reserve at that time. So it would have been a 5 percent reduction.

Mr. SHADEGG. Do you recall if any of them were more than the 10 percent which Mr. May has expressed support for?

Mr. SIMPSON. No, they have not been.

Mr. SHADEGG. Okay.

You said that the current law is vague, and if vagueness goes to the issue of whether it is supposed to be used for a military emergency, I take it, versus an economic situation like we face now, is that right?

Mr. SIMPSON. Actually, it is usually viewed as a supply disruption. It has been used—in 1991, it was military; in 2005, it was a hurricane.

Mr. SHADEGG. Mr. Romm testified that he could see no circumstance under which our supply of foreign oil could be cut off, apparently not the closing of the Straits of Hormuz nor a war with Iraq nor a war with whoever in the Middle East, that under no circumstances because we have a world market, that our supply would be either cut off or dramatically reduced. At least that is what I understood him to say. I will ask him in just a moment. Would you agree with that?

Mr. SIMPSON. There are circumstances where the global supply could be diminished. A circumstance where U.S. supply could be cut off, I don't think exists.

Mr. SHADEGG. Right. It could be reduced, but not cut off.

Mr. SIMPSON. Right.

Mr. SHADEGG. Presumably.

Is there a safe, in your mind, or an unsafe level of draw-down that we could do—10 percent would be safe, given what might happen to us that we don't anticipate, versus 90 percent might be unsafe? Or do you think it doesn't matter?

Mr. SIMPSON. I think the way the reserve is put together that if you talk about a 10 percent reduction, and if some of the proposals I have heard, we would never actually be 10 percent short. If you look at the reserve, and let's just pick West Hackberry or Bryan Mount, they are comprised of many different caverns. So you could draw one cavern down, draw another one down, and then begin to replenish it as market conditions played.

Mr. SHADEGG. Fair enough. I need to get to Mr. Romm.

Mr. Romm, did I misstate your position? I thought I heard you say, and as a matter of fact I took notes, that there just is no circumstance under which we would need to draw it greater than now. I presume that means even war or even a cutting off of the Straits of Hormuz.

Mr. ROMM. Well, what I tried to say was I ask people to describe me the scenario. I have never heard a plausible scenario. I mean, if you shut down the Straits of Hormuz, I mean I guess it would depend on the circumstances, but obviously the price of oil would skyrocket immediately, and I am not certain the strategic petroleum reserve would have any impact.

But in 30 years, we have never released more than 30 million barrels, so it is very hard to say sometime in the near future we are going to need 500 million barrels to release. There just is no historical evidence that any circumstance like that would ever happen.

Mr. SHADEGG. Mr. May, as I understand your testimony, it is essentially all of the above—at least a three-legged stool. We need to be doing everything we can.

Mr. MAY. Mr. Chairman, that is correct. We support the continued existence of the SPR, but we think a 10 percent draw-down would be positive economic news. We think that supply-side has to be part of the equation. You and I have talked about that many times in the past. And we think that there has to be a strong, credible, no-nonsense approach to speculation in the marketplace, and think that Mr. Stupak's bill does a terrific job of addressing that.

Mr. SHADEGG. Two quick points, and then I want to have a follow-up question, Mr. May.

You did note that the price of oil dropped $16, roughly, following the president's announcement——

Mr. MAY. Yes, sir. It is all due to ATA's efforts on speculation.

Mr. SHADEGG. Congratulations. I appreciate that. I don't really care. I am with you. I don't care what the cause is. I just want to——

Mr. MAY. I don't either. And I want to give everybody credit. I don't want any for us. I just want to get the prices down.

Mr. SHADEGG. I like the idea.

Let me ask you for one more piece of advice. Let's say that we pass legislation now directing, say, a 10 percent reduction in the SPR. And we also pass the PUMP Act. Mr. Stupak had a witness at his hearing who I believe has advised your industry, who said that if the PUMP Act were to pass, his testimony was the price of oil would drop by 50 percent in 30 days.

Mr. Stupak himself, being somewhat more humble and afraid that that might not be true, on the floor last week said that he believed that if the PUMP Act were to be passed and signed into law—and for the purposes of my question let's assume it is. So we do the SPR and we do the PUMP Act. Mr. Stupak said the price of oil would drop by 30 percent in 30 days.

My question of you is, let's assume we do both of those before the August break to help the American people. And let's assume that—let's give Mr. Stupak and the SPR time to work. Let's say 45 days from now, the price of oil is not down at all. What would you then suggest we do?

Mr. MAY. Mr. Shadegg, at that point, first of all, I very strongly believe that if you do both of those things, it will have a huge impact, downward impact on prices. If God forbid it doesn't, then I think you have got to go the supply side, even though it may have as minimal short-term effect, and there is going to be some short-term effect as well as long term. I am not smart enough to know beyond that what else there is to do.

Mr. SHADEGG. Do you buy the 30 to 50 percent figure?

Mr. MAY. I don't know that I buy 30 to 50 percent, but what I do buy is most of the experts suggesting that the normalized cost of production, which is the fancy term for what should oil sell for today in a real-world market, supply and demand being what it is—China, India, the dollar, et cetera—is probably about $75 to $80 a barrel. If it is trading at $126 this morning, then we have a long way to go to get there.

Mr. SHADEGG. Thank you.

The CHAIRMAN. The gentleman's time has expired.

The chair recognizes the gentlelady from California, Ms. Solis.

Ms. SOLIS. Thank you, Mr. Chairman.

My question is for Dr. Romm. When I go back to my district, people say, why do we not have more supply available and why are we not drilling? What would your response be to the average person on the street about what that means? Clearly we have to articulate that what you said earlier about drilling, that those supplies won't be made available for another 20 years. What are some good things that we could be telling our constituents about the reality of what is really happening out there?

Mr. ROMM. Well, I think people need to understand that it took us 2 or 3 decades to get into this mess. Certainly, many of us have been urging for quite some time that we need a much more aggressive strategy on fuel efficiency and alternative fuels. I am not certain that is a lot of comfort to your constituents.

I certainly would tell them that in 2006, Congress opened up most of the Gulf of Mexico to drilling. And according to the Energy Information Administration, the Bush administration's own EIA, there is about 41 billion barrels there. And we have found about seven billion in the last 2 years.

Now, the coastal drilling—I don't know what else to call it, because I think the public is confused. They think we are not drilling offshore. We are doing a lot of drilling and exploring offshore. According to the EIA, there is about 18 billion barrels, which is a lot less than what is in the gulf. And it should be pointed out that of the 18 billion that the moratorium applies to, 10 billion is off of California. I think if we left it up to the state of California, then probably we wouldn't be doing any drilling.

So we are not talking about much oil, and I think the notion that if we opened up 40 billion barrels in 2006 to be drilled, and since then oil prices have doubled, the possibility that if you ended the moratorium to a lot less oil, anything that would happen to oil prices is absurd. I think it is incumbent upon political leaders like yourself to just give the public straight talk.

I understand that the higher oil prices are, the more people believe, hey, we should drill more. We are drilling flat-out. We have been—and I am sure you have the statistics. The Congress, the White House has been opening up land, on-shore and offshore, for drilling.

Ms. SOLIS. I wanted to change the subject a little bit. We talk about gearing up for renewable energy, new technologies. We had a bill signed into law by the president last year, our energy bill that included green jobs, the Green Jobs Act. Can you give me some insight there about how this plays into getting our dependency off of fossil fuels and what that means.

Maybe Mr. May could also talk a little bit about that, too, because of your industry and how you are driven, and how this transition may impact your area. Very quickly.

Mr. ROMM. Sure. Well, I think it is very clear. This year, we are going to spend $700 billion, American consumers are going to spend $700 billion overseas to purchase oil. And as T. Boone has said, there is no prospect that that number is going to be lower for the next 10 years. That is going to be $7 trillion. Obviously, it would make a great deal of sense to spend money in this country on plug-in hybrids, wind power, solar photovoltaics, energy efficiency, and keep the money in America paying people to do installation, to build better cars, et cetera, than to send trillions of dollars overseas.

Ms. SOLIS. The criticism we get, though, if I could just quickly say, is that we are actually going to decrease the number of jobs here at home. That is an argument that is being used by the other side of the aisle against this now, that if we reinvest, it is going to take away from those jobs that currently exist.

Mr. ROMM. Well, we are importing almost, you know, about two-thirds of our oil. So $700 billion out of, let's say, $1 trillion we are going to spend on oil this year is just going to go to Saudi Arabia. It is just going to go Venezuela. It is going to go to Russia. It is going to create jobs in those countries. I don't see how that $700 billion can do anything for Americans.

If we could spend $2 trillion over the next 10 or 20 years, invest in this country, and then reduce that from $700 billion to $200 billion, we would be bringing back a half-trillion dollars each year, keeping it in this country. I just think it makes obvious sense that that is the way to economic health and well being.

Ms. SOLIS. Mr. May, just quickly. I know my time has run out.

Mr. MAY. I think that two quick points to make. Number one, the aviation space, the aviation sector feels that being environmentally sound is in its own best interest for one very simple reason. We are totally carbon-intensive right now in terms of our fuel, and so the less we burn, the more environmentally friendly we are going to be, and we are desperate to spend less money on fuel in whatever way we can—next-generation air traffic control, you know, winglets. We can go down a long list of things that we are working on.

Ms. SOLIS. I would love to hear more about what that cost would mean, or investment that would be made.

Mr. MAY. We will be happy to provide that to you.

Ms. SOLIS. Thank you.

Thank you, Mr. Chairman.

The CHAIRMAN. The gentlelady's time has expired.

The chair recognizes the gentleman from California, Mr. McNerney.

Mr. MCNERNEY. Thank you, Mr. Chairman.

The CHAIRMAN. I am sorry. Excuse me. I would like to recognize——

Mr. MCNERNEY. Yes, I thought the gentleman from Oregon had——

The CHAIRMAN. I am sorry. Excuse me.

The gentleman from Oregon, Mr. Blumenauer.

Excuse me.

Mr. BLUMENAUER. Thank you.

I wanted to follow up on Ms. Solis's point because it seems to me that saving a quarter-trillion, half-trillion dollars, reinvesting it here, helping the United States move from a position where we waste more energy than any country in the world, to being ready for the next generation of generation.

And I wanted to start, Mr. May, just if we were to have 10, 20, 30, 40 billion dollars over the course of the next 5 years that we can accelerate investments in helping industries like yours reduce your carbon footprint——

Mr. MAY. Sure.

Mr. BLUMENAUER [continuing]. What impact could that potentially make, if there is an extra, say, $10 billion available to subsidize a new generation of aircraft, retiring the elements of the fleet that may not be necessary because of changing configurations of the market. What——

Mr. MAY. Well, congressman, the reality is we are in an economic crisis. We are going to lose $10 billion this year. That is $10 billion we are not going to invest in new Boeing aircraft, for instance or a number of other changes. So you know, trying to figure out what sort of national investment needs to be made I think should be a high priority. And it ranges from more money going into the development of biofuels, biomass—Boeing has a project they debuted at the Farnsborough Air Show just this last week—to environmentally sensitive CTL, to a whole range of different technologies.

Next-generation air traffic control can save us billions and billions of dollars, and hundreds of millions of metric tons of CO^2.

Mr. BLUMENAUER. In the course of a plane, is the takeoff and the landing the most energy-intensive part of the trip?

Mr. MAY. I am going to guess it is, Congressman Blumenauer, but I am not sufficiently expert to answer that without doubt. I can get an answer for you.

Mr. BLUMENAUER. I would appreciate your information, your reference that it is costing seven cents per passenger mile for fuel.

Mr. MAY. For fuel today.

Mr. BLUMENAUER. I am interested in how that varies in terms of trip distance.

Mr. MAY. That figure is an average figure across all, but I will get you the details.

Mr. BLUMENAUER. I understand. Great. Thank you very much.

I am interested in this notion about a sustained draw-down for a while. If we don't need 706 million barrels of oil, and I think I am not quite where you are yet, Dr. Romm, but I do think there is strong evidence that we could get by with hundreds of millions of barrels less, that that were transitioned into the fuel supply system so that there is something that is sustainable over the next 2 or 3 years, and concurrently the revenue that is generated from that would be available to help the transition of technologies, to bump this up, that it would be sort of a double benefit.

I mean, I am still stunned that a 2 percent world increase in demand has over the course of the last year, we have seen prices double. There is something going on in terms of speculation and market manipulation it seems to me without question. But using the SPR and a significant amount of it for reinvestment as a longer-term strategy so that we have a 3- to 5-year bridge, that we can make a difference.

I am wondering if you would care to comment on that notion.

Mr. ROMM. Sure. Well, we could sell 500,000 barrels of oil a day for 4 years and run through the entire SPR, so you can sort of decide for yourself how much of the SPR you think we need. It is hard for me to believe we need even half of the current SPR. Again, if the SPR were half as big as it is now, it would still be 10 times the size of the amount of oil we have ever released during crises.

So you know, running a half-million barrels of oil a day for 2 years obviously would have an impact on prices and would generate a lot of revenue to, you know, jump start the clean energy transition. But you can ask Kyle's opinion.

Mr. SIMPSON. I disagree somewhat with Joe. I do think we need to have a strong robust strategic petroleum reserve. I do, however, think we ought to use it. It seems silly to have an investment of that magnitude in the ground and not be willing to use it for things like helping to pay for the transition, the R&D that we need for the next generation of clean energy technology.

Mr. BLUMENAUER. But just, would you feel comfortable if we were making a strategic allocation of 100 to 200 million barrels over the next 2 to 5 years as we are trying to work this through? Is that something that is within your comfort level, absent some other development?

Mr. SIMPSON. I don't know that I would go that big. I like the idea of this exchange.

Mr. BLUMENAUER. Okay.

Mr. May.

Mr. MAY. I think the exchange works. What we suggested in testimony, congressman, is that you set up a framework for how it would be used. You may set target prices—a fill below a certain level, as Congress has already directed, release above a certain price level. Use it as a safety mechanism to balance out what is going on.

Mr. BLUMENAUER. Thank you very much.

Thank you, Mr. Chairman.

The CHAIRMAN. Great, great. The gentleman's time has expired.

The chair recognizes the gentleman from California, Mr. McNerney.

Mr. MCNERNEY. Thank you, Mr. Chairman.

Mr. Romm, I was actually I won't say startled, but surprised by your prediction that the SPR would be gone by mid-century. My personal feeling I think lies more with Mr. Simpson that we ought to keep that around for the kind of purpose that we need it for today, to keep the market speculation in check. And you have shown with your testimony that, jeez, that has been done a couple of times in the past. It works, and why don't we keep some of this stuff around just for that purpose if nothing else.

But I believe that there is a sufficient supply of oil out there today. I am not talking about 5 years from now or 10 years from now, but there is a sufficient supply of oil out there today, and the SPR can be used to start a medium-term drop in the oil prices.

Do you all agree with that, that the SPR can be used in light of an adequate supply today to initiate a medium-term drop in prices?

Mr. SIMPSON. I believe it can. I think that you can, if you do it right, you can help also address the next problem, which is we need to get off of oil. So if you use the strategic petroleum reserve to help keep the prices in a reasonable band, whatever that may be, and use the money that is generated to help develop the technology to move us on to the next generation, then it is serving the dual purpose.

Mr. ROMM. Could I just say——

Mr. MCNERNEY. Sure.

Mr. ROMM [continuing]. Imagine what happens if we don't use it now. That means we are sending a signal to the market that there is never going to be a price or economic reason we will ever release it. So that is just going to encourage the speculators. Hey, they have got all this oil they are never going to use. It is just crazy, really.

Mr. MCNERNEY. Well, I see the strategic petroleum reserve being used to decrease the price. I think that is going to happen maybe in the next presidency. But what I don't want to see is that since we are importing 60 to 70 percent of oil, that we are still a very high risk for our economy, for our future.

But fortunately, we have the technology coming out today, with plug-in hybrids, with all-electric vehicles that if the Fed does its job in encouraging the American consumers to become efficient, within a decade or so we will see most new vehicles being plug-in hybrids or all-electric, and the whole oil price issue will be a non-issue like it is today. I think that is perfectly within the realm of possibility. Do you agree with that?

Mr. ROMM. I agree with half of that.

Mr. MCNERNEY. Okay.

Mr. ROMM. I just think that what is happening in China and India means that if we did make this aggressive switch to plug-in hybrids, we would shield the American consumer from high oil prices. But I don't know that we would lower oil prices, because demand is just going to grow as you see the urbanization and industrialization of the developing world.

My reason for advocating the transition to clean energy and plug-in hybrids is that fuel is substantially cheaper than gasoline. So if you own a plug-in hybrid, you don't care, really, what the price of gasoline is. I would hope, if we could get China and India to transition over to electric vehicles and clean energy, then we might be able to bring the price of oil down.

Mr. MCNERNEY. Especially if we were manufacturing those items and sending them over there. So I think we are pretty much in agreement. If we get ahead of the efficiency curve, then we are going to be insulated from the high prices that are inevitably going to come.

One other question, the strategic petroleum reserve is there. It is a resource for us. Is there specific legislation that any one of you would recommend in terms of how we would legislate using that in the future?

Mr. SIMPSON. There is a piece of legislation, H.R. 6067, that was introduced by Congressman Lampson and cosponsored by the chairman and others on the committee, that would create, would cause an exchange, and then would reinvest any revenue that was gained as a result of the price differential between light and heavy crude, to be invested in energy R&D across the board, that has been authorized by the Congress, but the money has not been available to fully fund those programs.

Mr. MCNERNEY. Thank you.

I am going to yield back.

The CHAIRMAN. The gentleman's time has expired.

The chair recognizes the gentleman from New York, Mr. Hall.

Mr. HALL. Thank you, Mr. Chairman.

Mr. May, it is good to see you again, sir.

Mr. MAY. It is a pleasure, Congressman.

Mr. HALL. I was interested to see that you, that ATA considers this an emergency. My constituents consider this current situation an emergency. In New York's 19th district, I am hearing from people who can't afford the gas to drive to a job interview. I am hearing from school districts who are wondering how they are going to power their buses and whether they will be able to, or whether they will be required to reduce the number of bus runs by cramming kindergartners on the same bus with high-schoolers to save on diesel fuel. I am hearing from families that are having to choose between a third meal in a day and gasoline.

So as badly as the gulf coast was hit during Katrina, and not to diminish by any means the suffering that they are still going through down there in the recovery, the attempted recovery from Hurricanes Katrina and Rita, nonetheless the impression we have in New York, in the 19th district anyway, and that I hear from others around the country, is that as a whole our economy is suffering more today than it was during and after Hurricane Katrina.

The impact that is being had by the increase in gas prices on the economy across the board, whether it is aircraft, cost of goods that is being increased, difficulty in the tourism industry or the trucking industry, or go on down the list, is more widespread and more pervasive and more of a crisis than it was when we were hit by those two hurricanes in a row.

So I would make the argument that this is a crisis and that there should be a release. I am happy to hear all of you saying that. I guess the question is, how much over what period of time. I totally agree that using the benefit—we actually stand to for the first time maybe ever, to have the taxpayer sell something that it bought earlier and make a profit at it. Most of the oil there I would guess we bought at less than $50 a barrel.

Mr. ROMM. About $30.

Mr. HALL. An average around $30, so if we sell it at $120 or $130, whatever it may be—it may come down a little bit once this starts to be known—it will nonetheless be at least double what we paid for it. It is, as Mr. Simpson has said, an opportunity for us to use this profit, whether it is a swap or an outright sale, to bring renewable fuels and alternative fuels to market and start to get ourselves an alternative, a competitor for oil.

Last night, T. Boone Pickens spoke to our caucus. I understand he also spoke to the Republican caucus as well. And he has a very interesting plan that he is heavily investing in himself, which is to use the wind belt up the central part of the country from Texas to the Dakotas, and somewhat to each side and both coasts as well, to produce enough electricity that we could replace the natural gas that is currently being used for power generation, so that can be diverted to transportation, and that much less liquid fuel used in our cars and trucks will mean more that can be used by the aviation industry, and so on.

I think that I see in my district, I mean, I helped to build with work gloves and a hard hat on down in the trench, helped to put in geothermal systems that will cut air conditioning costs to practically zero and cut heating costs in the winter in our latitude to about 50 percent of what they currently are. I could go on and on. You know the story between the air, the solar, the wind, the geothermal, the tidal power and so on. So the alternatives are there.

The question, which will probably use up my time, is many of my constituents are already locking in purchase agreements for home heating oil for this coming winter and are experiencing some serious sticker shock, looking at $5 heating oil, whereas last year it was $2 and something. So how could a release from the SPR best help to take the edge off of home heating oil prices in addition to gasoline?

I would ask you, starting with Mr. Simpson, if you could each answer that please.

Mr. SIMPSON. Well, I think you go back to the exchange that occurred in 2000. It was precipitated by a concern about heating oil. It was a physical shortage of heating oil that they were concerned about at that time. But if you could release oil, have it refined into heating oil, and it is the price of the oil that is going to drive the cost of the heating oil, so if you put enough into the market that it does stop some of the speculation and allows the price to get back to what many have suggested is a much lower price under the fundamentals, there is time to do that before the winter heating season.

Mr. HALL. Thank you.

Mr. ROMM. Well, I would just say, you know, if we released a half-million barrels of oil a day for let's say 6 months, that should drop the price substantially and that would obviously benefit people who drive cars, who fly planes, and who have to heat their homes with oil. If it didn't reduce the price of oil substantially, that would tell us something very important, which is that we are in a very big long-term supply-demand mismatch and we had better work really hard to do what T. Boone says.

So I think we, you know, I just think that we should find out how much speculation, how much froth there is in the market versus how much the price is actual supply-demand trends, and releasing a fair chunk of oil from the SPR would tell us that very quickly.

Mr. HALL. Mr. May.

Mr. MAY. Mr. Hall, I noted at the outset of my testimony that this is not an issue that simply affects airlines or truckers or agriculture or retail or the hospitality industry, but consumers everywhere. I think anything this Congress does, and I have recommended three legs to that stool, anything you do to bring prices down is going to have a sweeping effect across the whole economy.

I think it will impact the constituents in Poughkeepsie, who are worried about home heating oil for the winter, as it would in Wisconsin or anyplace else where it is particularly cold. It is going to make a difference for transportation. It is going to make a difference for the hotel and lodging industry that is having such a tough time because we are cutting back on the number of flights going to a lot of these different destinations.

So I think the sooner the better, the more widespread, the more sweeping the relief that Congress can provide, the better.

Mr. HALL. Thank you.

I yield back.

Mr. BLUMENAUER [presiding]. Okay.

Mr. Sensenbrenner.

Mr. SENSENBRENNER. Thank you very much, Mr. Chairman.

Technology has failed with microphones on the Republican side, I guess I should say, I am not surprised. [Laughter.]

But that being said, let me say that release of crude oil from the SPR is going to be temporary at best. It will cool the futures market. There is no question about that. But if Dr. Romm's fear is right, that there is something more to this than speculation and a bubble that has been created, it seems to me that everybody's going to have to step back and look at what to do.

We have heard an awful lot of opposition led by the speaker of the House and the other side of the aisle against drilling anywhere. I would hope that if there is a release from the SPR and nothing happens relative to immediate relief that is significant enough to make a dent in the economy for the better, then it is my hope that my friends over on the other side of the aisle will realize that drilling is at least a part of the answer.

I think that we on our side of the aisle, most of us at least—myself included—know that drilling is not the exclusive answer, but we think it should be a part of the answer and they don't. So the only observation that I would make is I think that releasing oil from the SPR is worth a try, but if it doesn't work, then we have to do something more fundamental and we ought to do it in September before this Congress adjourns sine die.

I yield back.

Mr. BLUMENAUER. Thank you.

Mr. Cleaver.

Mr. CLEAVER. Thank you, Mr. Chairman.

Mr. Pickens, T. Boone Pickens, suggests that unless we reduce our dependence on foreign oil that a barrel of oil could rise to $300 a barrel. Is that an exaggeration? Or do any of you see that as the next normal?

Mr. ROMM. Well, let me say, I don't think there is any question that if we don't get off of our current path on oil, oil prices are headed much higher. The CIBC actually projects $200 a barrel of oil in 2 years. So no, I don't think—whether it is, you know, $200, $250, $300, it is hard to say.

Mr. CLEAVER. Yes, over 10 years is what he said. I should have——

Mr. ROMM. Right. And over 10 years, I think that is reasonable. I think it is absolutely reasonable because after all, it looks like current prices of oil aren't destroying demand or generating huge amounts of extra supply. And demand is just going to keep going up because of China and India and other countries.

So you know, at some point, the price has to rise until demand is destroyed or there is a lot of more supply. One of those two things has to happen or else prices just keep rising.

Mr. MAY. Congressman, I am going to take a somewhat different view. I think that my colleague is correct here in one respect. On the other hand, I think there has been great joy and sport taken in predicting $150, $200-plus oil by a whole lot of folks in the trading community who are delighted to see the expectation of increasing prices become a very profitable sideline.

And I am not at all happy with that byproduct of this speculation that is assisting in the process of driving prices up. I do think there is a speculative bubble, and I happen to believe that the marginal cost of production for oil is somewhere in the $65, $75, $85 range, and that it is realistic to expect $100 oil just as easily as it is $200 oil. And that is a somewhat different view.

Mr. SIMPSON. Mr. Cleaver, one thing, it is kind of hard to argue with Boone Pickens with as much money as he has made and the predictions that he has made. I think the price could go up and the price could go down. But the one thing that we, we may not have a lot of control over that, but we have got tools that we can use to keep us from having to be in this situation.

There are many technological advances that are either out there to be deployed or just over the horizon that if we can get some pressure released by trying—and I thought Joe's point was great. If we release oil from the reserve and it works to drive prices down, great. It we release oil from the reserve and it doesn't work, that is a wakeup call. We have got to get out of this situation, and we have the tools to do that.

Mr. CLEAVER. What would be a reasonable test period to see whether or not the release of oil from the reserve is impactful on the economy? I mean, is it for one quarter? Should we wait a year? I mean, if it doesn't drop the prices at the pump, I mean, do you think people are scared because of Freddie Mac and Fannie Mae, I mean, that would generate I think a crisis in this country.

I have changed. I used to think we had a transportation-based economy. I think we now have a confidence-based economy. You know, if the confidence of the public drops, we are in trouble. So what period of time—I happen to support it, but I am also at the same time frightened by the prospects of it not dropping the prices of oil.

Mr. ROMM. Could I just say that one of the reasons why no one ever uses the SPR is that it is always argued in the highest levels of the government that that will show that the government is scared, and it is a crisis, and that is why they are releasing the SPR, so they never release the SPR for that reason. And so as I say, I personally think the SPR is relatively useless.

I would say 3 to 6 months. If the president announced that he is going to sell half-million barrels a day for 3 to 6 months, and he started doing it and nothing happened, then people should panic because that means T. Boone is probably right, and we are headed to $300 unless we really make a concerted effort to end our addiction to oil. And that I think would be worth knowing also.

Mr. SIMPSON. And I would say, I think 3 to 6 months, history shows that if the announcement is made, you see the reaction and then you begin to—it takes time to get into the gasoline markets because it takes time to refine the product that you have already got. But I would also make an observation that I wouldn't say I am going to release 500,000 barrels a day every day for the next 3 to 6 months.

I would say we are going to release a set amount of oil, and make it 70 million barrels or 90 million barrels, and then let that uncertainty as to when that oil is going to come out will further tamp down the markets. But if you—and they might sell it all at once, but they might trickle it out and let it go at different times.

Mr. CLEAVER. I apologize for being late. I was over at the House in another meeting, so you may have already dealt with this. But do you have any dates and times—I probably should know this—when we deployed the reserves previously? You may have already talked about it.

Mr. SIMPSON. Sure. And in 1991, right before Desert Storm, and I will expand a little bit on what I said earlier. The president announced on January 16 that we were going to attack Iraq, and that we were going to release 34 million barrels from the strategic petroleum reserve. The next day, the price of oil dropped by one-third, $10.

I want to point out that that was not the only thing that caused that to happen. In October of the previous year after the invasion of Kuwait had occurred, there was a test sale. The secretary of energy said, you know, we haven't used the strategic petroleum reserve in a while, not sure the companies really are aware of how to interact with us on this, so we are going to do a four million barrel test sale, which was a pretty good forecast that the government was going to use it. That actually helped to dampen prices a bit in the fall.

And then there was a coordinated effort with the International Energy Agency, our allies going into the war, that they released some oil. It was a coordinated effort. The president made his announcement and the price just dropped, and they actually didn't sell the 34 million barrels. They only sold 17 million, but the markets stabilized.

And then there was 1996, when the Congress directed the Department of Energy to sell 227 million barrels of oil to help balance the budget. It was enacted into law, signed by the president I think on April 26. Prices of gasoline were rising dramatically, particularly in California where there had been a refinery fire and some other things, a whole multitude of things coming in place.

And President Clinton made an interesting decision. It is smart to sell oil from the reserve. If you have to raise $227 million, why not sell the oil as fast as you can while the prices are high and get value for the taxpayer back? It was a very good move. Coincidentally, the price of gasoline dropped the next day and continued to fall through October of that year.

The heating oil exchange in 2000 is another example where there was a shortage. The price dropped I think around 30 percent at that time. And then after Hurricane Katrina, even though the problem after Hurricane Katrina was more of a refining capacity problem, or at least equally a refining capacity problem because the refineries got flooded out, as it was a loss of production, the fact that they released oil from the—announced the release of oil from the reserve caused the price to drop fairly dramatically.

Mr. CLEAVER. One more question.

I apologize, but when we have people with your expertise here, I want to try to squeeze every drop from you. And this is—I am asking you to be swamis almost I guess, but if the U.S. released from the strategic petroleum reserve 200 barrels or 300 barrels, whatever, a large number, and then Japan also announced that they were going to release a couple of hundred thousand barrels, and our friends around the world, if we have any left, do you think that that would have even a greater impact and success in dropping the price at the pump would be a lot more significant if more than the U.S. announced a drop, that they were going to release the strategic petroleum reserve in large amount?

Mr. SIMPSON. Well, it has worked in the past, so I would think the more oil you could put into the market, the better the result would be.

Mr. ROMM. Again, I think the other impact would be is it would send a signal to the market that those reserves weren't in fact just dollars, you know, money stuffed under a mattress that was never going to be used, but in fact we would actually use it for this very purpose. As long as the market thinks we are never going to use it, then the speculative bubble is just going to grow.

Mr. CLEAVER. Thank you, Mr. Chairman.

Mr. BLUMENAUER. Mr. Hall.

Mr. HALL. Mr. Chairman, thank you.

I just wanted to ask one more question. And before I do, I want to with all due respect refute the statement by the ranking member that Democrats are against drilling. In fact, last week I believe we voted for the Drill Act that attempted to make oil companies drill on the 68 million acres in the lower 48 and some of the 20 million acres that are available in Alaska that they are sitting on and not drilling on.

Coincidentally that same day, the administration announced the sale of 2.6 million acres, a lease sale of 2.6 million acres in the NPRA in Alaska, which obviously they could have done last week, last year, or 5 years ago, whenever. We were not stopping them and we are absolutely for drilling on the land that is already leased, and there is plenty of that.

But the question I have here goes to refining capacity. It is my understanding that there was one application in the last 30 years in this country for a refinery. It was granted and that refinery was never built. Is that accurate, to your knowledge?

Mr. SIMPSON. There haven't been any refineries built in the last 30 years. I think that is right.

Mr. HALL. But it is not because the applications are being denied.

Mr. SIMPSON. It is not necessarily. It is a very complicated, obviously, process to do a green-build of a refinery. It is also not true that we have less refining capacity. We have actually a lot more refining capacity than we did 30 years ago. There has been expansions at existing facilities.

Mr. HALL. Just quickly, because I am over time already, but I just wanted to say, my understanding is that our refineries today are running at just below 90 percent. Does that sound——

Mr. SIMPSON. That sounds about right.

Mr. HALL. About right. So to be clear, given the market-calming impact and supply-increasing impact of a release from the SPR, there should not be any credence to arguments that a lack of refining capacity would mitigate the effect of an SPR release.

Mr. SIMPSON. That is true, because you are releasing oil into a global—even though that oil would stay in the United States, it means that there is some oil that would not then have to come in here that could go to other places and it would have a global effect.

Mr. HALL. Thank you. Okay. I just wanted to clarify that refining capacity doesn't stand in the way of a release in the SPR having the desired effect.

I want to thank you all for your testimony.

I yield back.

Mr. CLEAVER [presiding]. Thank you, Mr. Hall.

The acting chairman just departed here. There is a bill on the floor, which makes me the acting chair and the ranking member. I am all-powerful now. [Laughter.]

I have been waiting for this for years.

But if we can, you know, maybe close out this session by looking—let's look at the other side of all of the things we have been talking about. There are those who would suggest that because oil is finite that we are foolish to release the strategic petroleum reserve and think that we will drop the oil prices and that everything is going to be fine, everybody is going to be happy, divorces will be reduced, life is good again.

And the truth of the matter is, we are dealing with a finite substance and that the next generation will deal with this problem unless we deal with it. There are some things happening. Consumption has dropped. Americans are grudgingly moving from the 12-cylinder calls. Amtrak ridership is up. In my community, the area transportation authorities, buses, are increasing their ridership. The big bus companies in the country are riding—in fact, some of the Amtrak lines are sold out of seats because of people making long-term plans for Thanksgiving and Christmas. I mean, they are selling out on Amtrak all the way into December.

Deaths—automobile deaths are down because people are not driving. I mean, you look at a number of indicators and you think, well, you know, maybe Americans need to face the reality that prices at the pump, you know, are not going to go down and our society would be better off if they didn't because we can now start doing what we should have done.

Is that too tough a philosophy? You are not going to expect any candidate to say that, but in reality, just in here where nobody is listening——

Mr. SIMPSON. Do you want to take that on?

Mr. ROMM. Well, let me—obviously, we have squandered the last 2 or 3 decades. And all the analyses show is that, you know, cars last 20 years and behavior patterns become very ingrained. So yes, if you want to get off of our current path, you have to work really hard for 10, 15 years, like T. Boone Pickens or Vice President Gore have said.

Otherwise, the oil prices are headed up. I think the American public has figured that out, which is why they are buying different cars and changing their behavior. I don't view that as an argument not to sell off the SPR. I mean, if—and I would just repeat what I said in my testimony—one of two things will happen. Either oil prices will drop or they won't. If they drop, that is a good thing. The SPR has worked. If they don't, then we have learned that we are in a very big problem that in fact we are at peak oil, or near it, which I think is actually the case. In which case, it will be incumbent on Congress to take the very strong action that people have been urging to finally end our addiction to oil.

So yes, I think the American consumers need to get used to $4 oil and it will then be $5, $6, $7, unless their representatives take pretty strong actions to reverse the course.

Mr. SIMPSON. I would just add to that, a release from the reserve is not going to be a permanent solution. It has not been in history and it won't be again. But we are in an era now where prices are higher. It is remarkable to me the number of new energy technologies that are coming out and the pace at which they are coming, and to see T. Boone Pickens come out and propose what he proposes is fairly remarkable.

But I think we have been a high-price situation for a long enough time now that we are beginning to see a transition in the way American consumers think. They are buying smaller cars. They are parking the Tahoes. They are taking mass transit. They are improving the efficiency of their homes, which is a very useful thing. But there is no reason to put them at the mercy of those who would drive the price up higher than the market fundamentals would be. The price is not going to fall back down to a point where I think we are going to see just, oh gee, that was a bad 6 months.

Mr. MAY. Congressman, at the risk of prolonging this, I think the equation is real simple. The longer you debate this, the longer you talk about it, the more people that are going to lose their jobs, the more communities that are going to lose service. It is time to have the Congress do something, and as quickly as possible because it is a crisis.

Mr. CLEAVER. Thank you. Thank you.

We appreciate you coming. Since I am the power here, we are going to increase your honorarium for appearing before this committee. We appreciate—I think all members will have time to submit remarks to the chairman for the record.

We appreciate very much your time, and I appreciate your talent. You are very informative, and I appreciate it very much. Hopefully we will act quickly. That is one of the positives we have gotten from this hearing today. Thank you very much.

The meeting is adjourned.

[Whereupon, at 10:59 a.m., the committee was adjourned.]