



Congressman Joe Pitts

Sixteenth Congressional District of Pennsylvania

Memorandum on Gas and Energy Prices

TO: Citizens of the 16th Congressional District of Pennsylvania
FROM: Congressman Joe Pitts
DATE: April 27, 2012
RE: Gas and Energy Prices

The price of everything you buy, from the food on your table to the shirt on your back, is affected by how much energy costs. Our modern world, and the conveniences we've become accustomed to, is dependent on fuel and electricity.

When the price of gasoline or electricity rises, prices go up across the board. While the pain might be felt most at the pump, monthly bills and prices at the register go up at the same time. In the last year, the price of gas has climbed 9.7 percent. During the same period, food prices rose 4.4 percent and apparel prices went up 4.7 percent.

Meanwhile, wages are stagnant. An already weak economic recovery could be further slowed. This isn't the news that struggling workers and the unemployed need.

I don't believe that government can manage the economy from Washington. However, our laws and regulations have a tremendous impact on energy markets. Energy, oil, and gas companies for many good reasons are heavily regulated. There is perhaps no sector of our economy that government has more control over than the energy economy.

This means that what we do in Congress can have a real effect on the price you pay at the pump. There is no reason why we should be idle when we can help American consumers, workers, and those looking for jobs.

Why are Energy Prices Increasing?

The simple answer is supply and demand, but gasoline and electricity are very different products sold in different ways.

Gasoline. The price of gasoline is directly affected by the world price of crude oil. It is a publicly traded commodity. When there is confidence that the supply of oil will be stable, prices are stable. When there is worry that conflict, natural disaster, or changes in the law could reduce supply, prices climb.

When prices do fluctuate, there is usually concern that speculators are driving up prices. This can happen, which is why the Federal Trade Commission monitors the markets to make sure that prices aren't being manipulated for profit.

In the last decade, both the FTC and other government agencies have looked into the markets to see what is driving prices. In 2005, 2008, and just last year, they came to the conclusion that market forces were the main driver of what Americans pay at the pump.¹

The President now wants to spend an additional \$52 million to look for wrongdoing in the oil markets. The FTC, the Commodity Futures Trading Commission, and the Department of Energy already closely monitor energy markets. We should continue to monitor these markets and punish offenders, but the truth is that investors seem to be reacting rationally to supply and demand. More deficit spending and vague accusations lobbed at unidentified investors won't bring down gas prices.

In fact, the mutual funds you may have in your retirement account are as guilty as anyone, if they have bought oil futures. If they have, it is because they believed, quite reasonably, that the price of oil is going to increase and they will make a profit.

Electricity. While gasoline prices make headlines, electricity rates have been quietly skyrocketing. Analysis by *USA Today* based on government reports showed that households paid a record \$1,419 on average for electricity in 2010.²

While this is the last year that comprehensive statistics are available, 2011 will probably be just as bad. By the end of the year, the national average price climbed to 11.8 cents per residential kilowatt. In Pennsylvania, it was slightly higher at 12.7 cents.

Electric rates vary a lot more based on regional differences. In New York City, where all the lines are buried and power sources are located far outside the city, the price is 26 cents per kilowatt-hour. In the Pacific Northwest, where dams generate most electricity, it's as low as 2 cents.

Right now, coal generates about half of all electricity in the U.S. In recent years, some coal plants have been retired because of their age, but many were shut down because of tighter government regulations. Pending Environmental Protection Agency regulations could shut down even more plants in the coming years. We don't know how this might affect consumer rates, but it could drive up the price of wholesale power at the retail level.

Natural gas provides a more positive example of the power of supply and demand. The recent surge in domestically produced natural gas has cut prices for the fuel in half. That price reduction alone promises to create 1.6 million new jobs in just three years.³ Pennsylvania is also on the leading edge in developing new natural gas power plants that will serve not only our own state but also neighboring states like New Jersey, Delaware, and Maryland.

¹ <http://www.ftc.gov/os/2011/09/110901gasolinepricereport.pdf>; <http://www.cftc.gov/ucm/groups/public/@newsroom/documents/file/itfinterimreportoncrudeoil0708.pdf>; <http://www.ftc.gov/os/2011/12/111230energyreport.pdf>

² <http://www.usatoday.com/money/industries/energy/story/2011-12-13/electric-bills/51840042/1>

³ <http://www.npr.org/2012/04/18/150903306/as-gasoline-goes-up-natural-gas-cheaper-than-ever>

We shouldn't just be satisfied with stabilizing energy prices at high levels. Lower energy prices would make our nation a much more enviable location for manufacturing and other heavy industries. Less expensive energy could mean millions more jobs.

Should We Actually Let Energy Prices Rise?

Not everyone thinks that energy prices should be held stable. Prior to taking office, President Obama and his appointed Energy Secretary made statements calling for prices to rise.

On the campaign, President Obama called for new cap and trade regulations to reduce U.S. carbon emissions. During one stop in San Francisco he said, "Under my plan of a cap and trade system, electricity rates would necessarily skyrocket." He went on saying: "Whatever the plants were, whatever the industry was, they will have to retrofit their operations. That will cost money. They will pass that money on to consumers."

In December of 2008, as he was being considered for the post of Energy Secretary, Steven Chu told the *Wall Street Journal*: "Somehow, we have to figure out how to boost the price of gasoline to the levels in Europe." (European gas prices are more than double U.S. prices.)

Both have since walked back from these statements, but the administration continues to publicly back policies that would effectively raise energy prices. Even as the recession was hitting the bottom and unemployment rates were climbing, Congressional Democrats were working on the President's cap and trade proposal. The plan passed the House by only seven votes. Only the reluctance of some moderate Democratic Senators and steadfast opposition from Republicans prevented this plan from being signed into law in 2010.

A great many Americans are concerned about fossil fuels, including coal, and carbon dioxide emissions. The science and politics of global warming are still debated⁴, but even the Waxman-Markey bill passed by the House would have done almost nothing to reduce atmospheric temperatures.⁵ Regardless, the middle of a deep recession was the worst conceivable time to throw our energy economy into turmoil. I very much believe that we need to wean ourselves off of dirty and imported fossil fuels. The best way to do that is build an economy powerful enough to move to next-generation technologies.

What We Can Do: An All of the Above Strategy

There isn't a simple, easy solution to bring down gas and energy prices. Instead, we have to take advantage of the full range of solutions. Most of these solutions don't require a dime of taxpayer money. They only call for government to get out of the way and let American ingenuity work.

⁴ <http://online.wsj.com/article/SB10001424052970204301404577171531838421366.html>

⁵ <http://www.masterresource.org/2009/05/part-i-a-climate-analysis-of-the-waxman-markey-climate-bill%E2%80%94the-impacts-of-us-actions-alone/>

Increase Domestic Supply of Gas and Oil. Since supply and demand dictate the price we pay at the pump, the first solution has to be taking advantage of the resources we have right here in the U.S.

We must also recognize that all fossil fuels have some environmental impact when they are extracted from the ground and when they are burned. At present, however, our economy cannot survive without them. The increase in poverty and unemployment that would result from cutting our economy off from fossil fuels would be too high to bear.

Instead, we need to use them as responsibly as possible and remember that the cost of importing fuels from abroad is also an environmental issue. Responsible domestic production of fossil fuels is vitally necessary.

- **Marcellus Shale.** The Commonwealth of Pennsylvania has the responsibility of closely regulating the natural gas industry to make sure that hydraulic fracturing is done responsibly, safely, and cleanly. There has been a fair amount of controversy surrounding "fracking." I believe fracking can be done responsibly. It is up to state regulators and industry alike to make sure that it is, in fact, done responsibly. Ironically, vocal opposition to the technology from activists may be do more to ensure industry responsibility than government regulations could have. Shale gas is already helping to reduce energy prices in Pennsylvania and is making natural gas vehicles more competitive with petroleum-driven vehicles.
- **Public Lands.** Nationwide, oil and gas production has been stable or growing in recent years solely because production on private property. In fact, production on federal land has decreased dramatically in recent years.⁶ Increasing production on federally managed land would not only yield more energy, it would also generate sorely needed revenue for the federal government.
- **Offshore.** In 2008, a bipartisan agreement was reached to lift a decades-long ban on new offshore drilling. Immediately, upon taking office, President Obama reinstated the ban for almost all areas off the U.S. coast. If the government does its job inspecting facilities, we can safely develop offshore resources. We need a sensible policy, not a nearly blanket ban on development of national resources.
- **Keystone XL.** We get much of our imported oil from the Middle East, Venezuela, and Nigeria—places where the supply could be imperiled by politics or violence. By contrast, we share the world's longest undefended border with our neighbor to the north. Right now, Canada has a glut of oil and lacks enough refinery capacity to turn it into gasoline and other products. We can either watch them build a pipeline to the Pacific and ship this oil to China, or approve a new cross border pipeline that would send oil to Texas and American refineries.

Increase Efficiency. Our nation can save lots of energy by adapting new technologies that are coming onto the market right now. Newer LED light bulbs could last 20 years or more and lack the environmental drawbacks of compact fluorescent bulbs. Home appliances are dramatically more efficient than in the past.

⁶ <http://www.eia.gov/analysis/requests/federallands/pdf/eia-federallandsales.pdf>

We don't need vast spending programs to encourage people to act in their own economic interest, but government can lead through example. My own office was presented with a "Green the Capitol" award when Nancy Pelosi was Speaker for our efforts to reduce waste and increase efficiency.

Green energy. Renewable energy sources like wind and solar can't completely replace our current energy sources, but they can play an important role in reducing demand for fossil fuels. The price of solar and wind has come down some with increased demand. However, spending billions of dollars picking winners and losers will only lead to more failed companies like Solyndra and more debt.

A good example of a successful clean energy project in our own area is the Holtwood Dam on the Susquehanna. Just a few years ago, the generators were upgraded to double the capacity of the plant. Without even building new dams, we can dramatically increase generation. We need government to get out of the way and make the process for improving dams, building solar farms, and constructing wind farms simpler and less costly.

Nuclear Energy. We certainly can't ignore what happened in Japan last year. However, Patrick Moore, one of the founders of Greenpeace, noted at the time that, "Even including this accident, nuclear power has been one of the safest technologies we have invented."⁷ Bill Gates has continued to invest his own money in smaller, safer nuclear reactors.

These fourth generation nuclear plants use less fuel, create less waste, and would not meltdown in the event of a complete power loss. We have domestic uranium supplies and unused fuel sitting in storage waiting to fuel a nuclear energy revival. We can follow other nations such as France and Japan and reprocess fuel to cut down on waste and get more energy.

Clean Coal. Our nation depends on coal electric generation for nearly 45 percent of our energy. We have ample resources in the U.S. and right here in Pennsylvania. The EPA is pushing regulations that would put a virtual halt to any new coal plants. Instead of simply giving up on coal, we should be making it cleaner.

More advanced scrubbing technologies and carbon sequestration can make coal cleaner. We need to encourage energy companies to make responsible upgrades where they can. Shutting down existing plants only makes electric bills go up even faster.

What the House has Done This Year

The House of Representatives has passed nine bills this Congress to move forward on the "all of the above" energy strategy. Many of these bills passed with bipartisan support. Some of the highlights include:

- **H.R. 910, the Energy Tax Prevention Act.** This bill passed with the support of every Republican and 19 Democrats. It would prevent the administration from

⁷ <http://www.npr.org/2011/03/28/134863507/are-nuclear-plants-safe-environmentalists-are-split>

using regulations to impose a cap and trade energy program. As reiterated above, cap and trade would cause energy and gas prices to skyrocket.

- **H.R. 2021, the Jobs and Energy Permitting Act.** This legislation would lift the president's ban on new offshore drilling by allowing new production to go forward in areas containing the most oil and natural gas resources.
- **H.R. 1938, the North American-Made Energy Security Act.** This bill passed with 47 Democrats and required President Obama to make a decision about the Keystone XL pipeline. The President chose to reject the application, setting approval back by 18 months or more.
- **H.R. 3408, the Protecting Next Generation Energy Security Act.** This bill would set clear rules and remove regulatory barriers preventing the production of U.S. oil shale and offshore. The bill passed with the support of 21 Democrats.
- **H.R. 2842, the Hydropower Development and Rural Jobs Act.** Another bipartisan bill supported by 28 Democrats and every Republican. This legislation would help expand production of hydropower by cutting red tape. This could clear the way for improvements like those seen at the Holtwood Dam.

The Senate is yet to take up any of these bills. These bills don't increase deficit spending or open up treasured natural resources to energy development. They do clear the way for more production of oil and gas and promote increased electrical generation.

Sensible Steps in the Right Direction

There is no magic bullet for bringing down the price of gasoline. Simple price controls would only lead back to 70s era gas lines. We can try to blame "market speculators," but there is no proof that these unidentified investors are the true cause of high gas prices. Finally, with deficits already sky-high, we simply can't afford spending programs that interfere with the market and leave the taxpayer holding the bag.

What we can do is get government out of the way and let American ingenuity take over. We've seen what can be accomplished with the Marcellus Shale in Pennsylvania. Just a few years ago, natural gas prices were over \$12 per million BTUs. Today, the average price is \$2.18 per million BTUs.

Domestic development isn't just about bringing down prices. It's also about creating American jobs and reducing our dependence on foreign powers. When we buy foreign oil, we support foreign jobs. Right now, we sorely need to bring these jobs back home.

Our energy supply is also a matter of national security. We are far too dependent on unstable areas of the world for the fuel that runs our economy and keeps our nation safe. We can be independent, but this will require the "all of the above" strategy. We can't get there by making it harder to use American resources.

Oil and energy prices might not drop that dramatically, but increased supply can stabilize and reduce price over time. If we don't start today, we will never see the benefits tomorrow.