May 21, 2008

Energy: Questions and Answers

Q: President Bush and many Republicans in Congress are calling for opening ANWR and increasing domestic oil and gas drilling offshore. Is this a real solution to high gas prices?

A: There is a misconception that simply increasing production by allowing more drilling is going to magically lower gas prices. Since 2000, the number of wells drilled on land has climbed about 66 percent – from 3,000 to nearly 5,000 – while the price of gasoline has more than doubled under the Bush Administration.

Opening the Arctic Refuge would have no significant effect on our dependence on foreign oil or the price of gas at the pump. The Department of Energy has concluded that opening up the Arctic for drilling would reduce the price of a gallon of gasoline by about 1 penny –20 years from now – nothing that will help consumers today. [EIA, 2005]

Oil companies do not need new areas to drill – they need to focus on areas we have already given them. Of the 42 million acres of federal land currently leased by oil and gas companies, only about 12 million acres are actually being drilled to produce oil and natural gas.

The areas with the vast majority of oil and gas are already open to drilling. According to federal government surveys, 82% of the gas in the outer continental shelf and 79% of the oil in the outer continental shelf is available for leasing. This was before Congress opened more space in the Gulf of Mexico for drilling in 2006.

We cannot drill our way out of this problem. The United States has less than 2 percent of the world's oil reserves, but uses 24 percent of the world's oil.

Q: The President claims that Congress has repeatedly blocked efforts to expand refinery capacity. Is there a refinery capacity shortage that is increasing the price at the pump?

A: No. Capacity has been expanding at existing refineries since 2001. Capacity at existing refineries increased during the Bush Administration by 1 million barrels per day from 2001 to early 2008, and estimates an additional 800,000 barrels a day of production will be added to existing refineries in the next three years. [EIA] Further, oil companies have requested permits for only one new refinery over the last 30 years.

Congress passed legislation in 2005 to streamline refinery permitting that refiners have never used. The 2005 Republican Energy Bill (EPAct 05) authorizes the EPA Administrator to enter into a refinery permitting cooperative agreement with the requesting state. According to Energy Secretary Bodman, EPAct "eases the constraints that have strangled new refinery construction." In testimony before Congressional oversight hearings in 2006, EPA testified that no state on behalf of any refiner has ever used these provisions.

Q**: The Federal Trade Commission (FTC) has said that they have already investigated whether instances of price gouging have occurred and haven't found that to be the case. So why is Congress pushing anti-price gouging legislation as a solution to bringing down high gas prices?**

A: In past studies, because the FTC has relied upon anti-trust and anti-monopoly statutes to investigate gas price behavior, they have not been able to find sufficient evidence using these general legal authorities to prove a conspiracy to restrain trade. When Congress gave them a specific definition and required them to study and report on whether price gouging was occurring, the FTC found evidence of such anti-competitive and unfair behavior.

The FTC found that 2 out of the 23 wholesalers and 6 out of the 24 retailers studied had price increases that "were not substantially attributable to increased costs" and that these increases "could not be attributed to national market trends." But in those cases, even where it was obvious that consumers were cheated, the FTC was unable to prosecute absent a Federal price gouging law.

In fact, in August 2007, FTC Commissioner Jon Leibowitz wrote that "…there was profiteering at the expense of consumers." Congress needs to pass – and the President needs to sign into law – price gouging legislation to stop wholesaler and retailers from taking advantage of American consumers.