Department of Energy
Washington, DC 20585

August 8, 2007

The Honorable John D. Dingell
Chairman
Committee on Energy and Commerce
U.S. House of Representatives
Washington, DC 20515

Dear Mr. Chairman:

On May 22, 2007, Guy F. Caruso, Administrator, Energy Information Administration, testified regarding "Gasoline Prices, Oil Company Profits, and the American Consumer."

Enclosed are the answers to two questions that were submitted by Representative Green to complete the hearing record.

If we can be of further assistance, please have your staff contact our Congressional Hearing Coordinator, Lillian Owen, at (202) 586-2031.

Sincerely,

for Eric Nicoll
Acting Assistant Secretary
Congressional and Intergovernmental Affairs

Enclosures

cc: Representative Bart Stupak

QUESTIONS FROM REPRESENTATIVE GREEN

Q1 Mr. Caruso, in your testimony you state that global oil consumption is projected to grow by 1.4 million barrels per day in 2007 and by 1.6 million barrels per day in 2008, much of which is from increased demand from the U.S. and China. Using long-term forecasts, what are the worldwide projected oil consumption demands 10 to 20 years down the road for quickly growing economies like China or India? How will this affect gas prices in the future?

A1 According to the Energy Information Administration's (EIA) *International Energy Outlook 2007* (*IEO2007*), world petroleum and other liquids demand increases from 82.5 million barrels oil equivalent per day in 2004 to 117.6 million barrels per day in 2030, an increment of 35 million barrels per day. Developing countries (including China and India) will account for much of this increase in global demand over the next twenty-five years. Indeed, China and India are expected to be among the world's fastest growing liquids consumers, and these two countries combined account for about one-third (11 million barrels per day) of the world's incremental liquids consumption over the projection period in the *IEO2007* reference case.

The retail prices of petroleum products, including motor gasoline, largely follow changes in world crude oil prices. In EIA's *Annual Energy Outlook 2007* reference case, world oil prices fall to about $50 per barrel (all prices are in real 2005 dollars, unless otherwise noted) in 2014 ($59 per barrel in nominal dollars) from the current high price environment, but then increase slowly to about $59 per barrel in 2030 ($95 per barrel in nominal dollars). The reference case projections for average U.S. motor gasoline prices follow the same trend, falling from $2.32 per gallon in 2005 to $1.95 per gallon in 2014 ($2.33 nominal), and then rising to $2.15 per gallon ($3.47 nominal) in 2030.

Q2 Given these new demands, can gas prices be reduced without increased global oil and natural gas exploration?

A2 Although it is possible that gasoline prices could be reduced without increased global oil exploration, we don't think it is the most likely case. For example, a major technological breakthrough that made large volumes of unconventional fuel supplies available at low cost would cause gasoline prices to decline. Unconventional supplies include gas-to-liquids, coal-to-liquids, very heavy oils, biofuels, and oil shales. Likewise, a technological breakthrough that produced dramatic improvements in vehicle efficiency and caused a decline in gasoline consumption might also result in lowered gasoline prices.

The supply and demand projections in the EIA reference case do not, however, anticipate dramatic technological advancements on the order necessary for such scenarios, so our most likely case requires increased global oil exploration and development activity to temper increases in gasoline prices.