THE WHITE HOUSE

WASHINGTON

June 18, 2008

POLICY MEMORANDUM

SUBJECT: AMERICAN MADE ENERGY

Crude oil prices have risen from $55 per barrel in January 2007 to more than $130 today. As of June 16, the average national retail price for regular gasoline was $4.08, having risen $1.07 over the past 12 months. These high fuel prices are posing a real challenge for American family budgets, and they are a headwind against economic growth. And they warrant a Federal response.

Fundamental supply and demand forces are driving these rising prices. The nation has taken important steps to increase the fuel efficiency of our cars and trucks and to develop real alternatives to gasoline and diesel fuel. However, our growing economy coupled with significant growth in developing countries has increased demand for traditional fuels. But despite these realities, our nation has continued old and outdated restrictions on increasing our domestic supplies of oil and gasoline. This needs to change.

Imports have risen. In 2007, total consumption of motor fuels and other petroleum products was about 20.7 million barrels per day. The US produces about 8.7 million barrels here in the United States; the rest—12 million barrels — is imported every day. The number of imported barrels has doubled over the last 20 years, now accounting for 58% of total US consumption. Most of this imported oil comes from stable, reliable international suppliers, but enough of the world's oil comes from unstable regions and unfriendly regimes to create a risk of supply shocks and price spikes. Thus our dependence on oil not only reduces our energy security, it leaves our economy vulnerable to outside forces.

To address both problems of high oil prices and rising imports, we need to do several things: We need to increase environmentally sensitive domestic production, enhance our domestic refining capacity, diversify our energy portfolio, continue to invest in new alternatives to hydrocarbons, and become more energy efficient.

From the beginning of his Administration, President Bush has called for legislation to address the root causes of the energy challenges facing this country.

The President's 2001 National Energy Policy set out a comprehensive strategy to reduce our dependence on foreign sources of oil while diversifying and expanding our resources here at home. The strategy involved three key components: increasing efficiency, increasing the use of alternative fuels, and increasing domestic supply of traditional fuels.

Congress has made significant progress with fuel efficiency and alternative fuels, and now it is time for them to remove legislative barriers that limit domestic fuel supply and drive up the prices Americans pay.

Responding to the President's "Twenty in Ten" initiative announced in the January 2007 State of the Union address, Congress passed and the President signed the Energy Independence and Security Act of 2007. This legislation will help reduce America's dependence on oil, improve fuel efficiency, and cut emissions of air pollutants and greenhouse gases.

- EISA mandates that fuel producers use at least 36 billion gallons of biofuel by 2022. The new requirement represents a nearly five-fold increase over previously required levels.

- EISA also requires a national fuel economy standard of 35 miles per gallon by 2020 – which will increase fuel economy by 40 percent and save billions of gallons of fuel. This includes an important "attribute-based" reform the President called for that ensures that increased fuel efficiency does not come at the expense of passenger safety or American jobs.

These measures aimed at reducing demand and increasing energy security are vital, but they are not enough: Congress now needs to respond to the President's call to expand our domestic resources.

There is not a quick fix to the problems of high gasoline prices and rising imports. The factors that produce them did not materialize overnight. It will take years for far-sighted policies that address the supply and demand imbalance to have their full impact. Just as past inaction and obstruction have created today's problems, continued obstruction and inaction today will mean even bigger problems in the future.

Today the President is asking Congress to choose a better way forward, and to join him in taking four steps to expand American oil and gasoline production.

1. OIL AND GAS IN THE OUTER CONTINENTAL SHELF (OCS)

The Resource

Almost 86 billion barrels of oil and 420 trillion cubic feet of natural gas are estimated to exist on the OCS. About 18 billion barrels of oil and 77 trillion cubic feet of natural gas exist in OCS areas now under moratoria –absolute bans on exploration and development. These estimates are likely conservative, due to the age of the data (1970s). Actual resources may be significantly greater but we won't know until exploration is allowed.

Oil and gas from newly opened leasing areas in the OCS could come to market within 10-15 years.

Given the size of the potential resource and the prices of oil and natural gas, development could lead to tens of billions of dollars in Federal and state revenues from royalty payments.

Background

Eighty-five percent of the OCS acreage surrounding the continental U.S. is currently off-limits to development.

Two key overlapping blanket prohibitions on development of these resources are in place: "legislative moratoria" (passed by the Congress) and "Presidential withdrawals" (administrative withdrawals put in place by the President).

Legislative moratoria have typically been passed each year by the Congress as part of the appropriations bills that fund the Department of the Interior. For the past 26 years, leasing of specific portions of the Federal OCS has been prohibited. In addition, leasing is prohibited in certain areas of the OCS (parts of the Eastern and Central Gulf of Mexico) through 2022 due to area-specific provisions in the 2006 OCS law. Presidential withdrawals have "withdrawn" similar areas of the OCS from the Department of Interior leasing program since 1990—preventing the areas from being considered by the Secretary, should the legislative moratoria lapse.

As stated in the July 26, 2006 Statement of Administration Policy, the Administration has been clear that expanding access to Outer Continental Shelf (OCS) resources is an important component of the effort to increase domestic energy production, thereby addressing high energy prices and promoting U.S. national security. The 2006 OCS Act authorized OCS expansion, and recognized the important interests of coastal states.

The President's Policy

The President calls on Congress to pass legislation lifting the legislative bans on leasing on the Outer Continental Shelf, so that the Federal government and the States can work together to make additional resources available and share new leasing revenue, while ensuring the environment is protected. Upon the removal of Congress's legislative bans, the President will lift the Presidential withdrawal in the same areas, eliminating administrative prohibitions to oil and gas development. Thus, to the extent that Congress removes its legislative bans, the Department of the Interior will be allowed to lease these areas, after considering each individually and requiring appropriate environmental protections.

2. OIL SHALE

The Resource:

Oil shale is a fine-grained sedimentary rock that contains significant amounts of kerogen (a solid mixture of organic chemical compounds). Through the use of technologies such as in-situ heating and surface retorting, we can extract oil from this rock.

The U.S. Geological Survey estimates that the total U.S. oil shale resource in place is 2.1 trillion barrels – 1.5 trillion barrels of which is located in the Green River Basin of Colorado, Utah, and Wyoming.

The Strategic Unconventional Fuels Task Force has estimated that 800 billion barrels of oil equivalent could be recoverable from oil shale resources in the Green River Basin depending on technology and economics – enough to replace the amount of oil we currently import for more than 160 years. And 576 of the 800 billion barrels of oil are on Federal resources.

While the cost of extracting oil from shale is still significantly higher than the cost of traditional production, it is less then the current market price of oil. American companies are working to address the technological barriers to making development of this vast resource economic in the future.

Background:

In the 2005 Energy Policy Act Congress recognized the importance of developing this important resource and directed the Secretary of Interior to establish commercial leasing regulations and supporting documents required by the National Environmental Policy Act.

Finalizing oil shale regulations is a critical step in realizing the potential of this vast resource.

However, the current Congress put a halt to accessing this energy resource. The Consolidated Appropriations Act for Fiscal Year 2008 prohibits the Bureau of Land Management in the Department of Interior from spending FY2008 funds to publish final regulations on oil shale.

While the prohibition limits the BLM from publishing final regulations, the BLM intends to publish proposed regulations this summer. These regulations will lay out a proposed framework for potential commercial operations.

Without final regulations, the certainty needed for private companies to invest the hundreds of millions of dollars needed to research and demonstrate oil shale development technology will be severely impacted.

Experts estimate that oil from oil shale could be developed and under production by 2015.

The President's Policy:

The President believes this domestic resource has vast potential and should be developed. He is calling on Congress to remove the impediment to final lease regulations and calling on the Department of Interior to complete this work as expeditiously as possible.

3. ANWR

The Resource:

The Arctic National Wildlife Refuge lies in the top northeast corner of Alaska and covers 19.6 million acres. At the top of ANWR, there is a designated area of 1.5 million acres on the Arctic Coastal Plain called the "1002" Area. The USGS estimates that there are 10.4 billion barrels of technically recoverable oil in the coastal plain (10-02 area) of ANWR.

If the 10-02 area of ANWR were opened to oil and gas development this year, crude oil production could start in 2018 and when it reached peak production could result in an additional 510,000 – 1.45 million barrels per day – an amount that is 10% to 28% of current US oil production. At the estimated mean production level of 780,000 barrels per day and current prices of oil, that would lead to Federal and state royalties totaling $4 billion a year.

Background:

In 1980, former President Jimmy Carter signed into law a bill passed by the Democratic-controlled Congress called the Alaska National Interest Lands Conservation Act (ANILCA), which set aside 1.5 million acres of the Arctic Coastal Plain specifically for potential oil and gas development (the 10-02 Area).

Federal law currently prohibits oil and natural gas development in the 10-02 area until such development is authorized by Congress.

In 1995 President Clinton vetoed legislation that would have allowed for production in the 10-02 area. Had he allowed the bill to become law, the 10-02 area would now be providing approximately 780,000 barrels a day.

The Congressional definitions of "refuge" and "wilderness," of which 92% of the ANWR area is designated, forbids any development of any kind. To give a sense of scope, these areas of ANWR permanently closed to development are equivalent in size (17.5 million acres) to the combined area of West Virginia, Maryland, Vermont, New Hampshire, Massachusetts, New Jersey, Hawaii and Connecticut.

In addition, the Administration's ANWR leasing proposal would limit any future development footprint size to 2000 acres. That's about .01% of the total area of ANWR.

President's Policy

Congress should pass legislation authorizing oil and gas development in the 10-02 area of ANWR.

4. REFINERIES

Background

There are 149 refineries in the U.S. today, refining approximately 15 million barrels of oil per day.

While no new refineries have been built in the last 30-plus years, existing refineries have undergone extensive modifications to adapt to changes in demand, changes in crude oil inputs, changes in fuel outputs (e.g. gasoline vs. diesel), and costs.

Over the last 10 years, total capacity increased 1.85 million barrels per day, the equivalent of adding 1 medium-sized refinery per year. These expansions all took place at existing facilities.

A refinery expansion or modification requires multiple permits, and can be undertaken for several reasons, including:

- To increase production, for example by increasing crude oil capacity or improving the yield of certain products by adding a downstream unit process
- To produce different types of fuel (i.e. to change the product mix to more diesel relative to gasoline)
- To reduce costs, by improving reliability or switching to lower quality crude oils

- To comply with regulations requiring cleaner fuels and changing fuel specifications.

Going forward, it is predicted that refineries will continue to need to undergo modification and expansion to meet evolving demand and evolving types of inputs.

The Energy Information Administration predicts that overall future demand is expected to grow less than 0.5% per year and total capacity expansion is anticipated to flatten out starting in 2010. However, a shift in demand is predicted. Demand for petroleum-based gasoline is expected to decline by about 7% over the next 15 years while demand for diesel is expected to increase about 12% over the same time.

There will also be a continued need for refinery modification to accommodate a changing mix in available crude oil. For example, refineries are and will be making investments to process the increasing quantities of heavy Canadian crude oil from tar sands.

Successful completion of a refinery modification requires successful completion of the permitting processes, for example those required by the Clean Air Act and the Clean Water Act. There is no consolidated national permitting program because there are multiple Federal, state, and local permitting authorities and requirements. This leads to excessive and uncertain timeframes for permit reviews, and the potential for conflicting permitting requirements. Completing the permitting process can take 3 – 5 years.

Permits that are approved may be the target of lawsuits. The protracted appeals process introduces additional timing uncertainty.

Uncertainty and delay adds further strain on supply and can lead to increased costs to consumers.

<u>President's Policy</u>

Congress should pass legislation to expedite judicial review of energy projects, by directing that legal challenges be brought before the U.S. Court of Appeals for the District of Columbia within 60 days of the issuance of a permit decision.

In addition, Congress should pass legislation establishing the Secretary of Energy as a "Federal Coordinator" with authority to establish deadlines and to ensure the timely review of Federal, state, and local permits needed to undertake refinery projects.