THE COMMITTEE ON ENERGY AND COMMERCE

INTERNAL MEMORANDUM

March 5, 2012

TO: Members, Subcommittee on Energy and Power

FROM: Committee Staff

RE: Hearing on "The American Energy Initiative"

On Wednesday, March 7, 2012, at 10:30 a.m. in room 2322 of the Rayburn House Office Building, the Subcommittees on Energy and Power will hold the sixteenth day of its hearing on "The American Energy Initiative." This day of the hearing will focus on rising gasoline prices.

I. WITNESSES

Mr. Jack Gerard
President and CEO
American Petroleum Institute

Mr. Robert McNally
President
The Rapidan Group

Mr. Charles Drevna
President
American Fuel & Petrochemical Manufacturers

Mr. Chris Milburn
Owner
CarbM Trucking

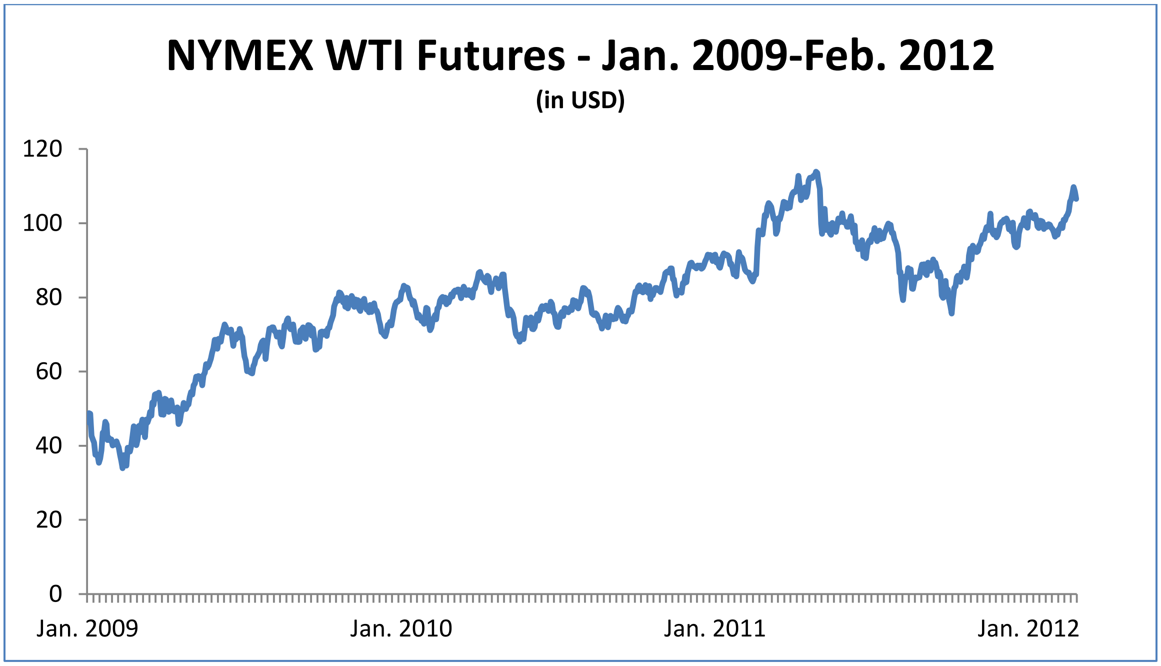
Mr. Daniel J. Weiss
Senior Fellow
Center for American Progress

Mr. Michael Breen
Vice President
Truman National Security Project

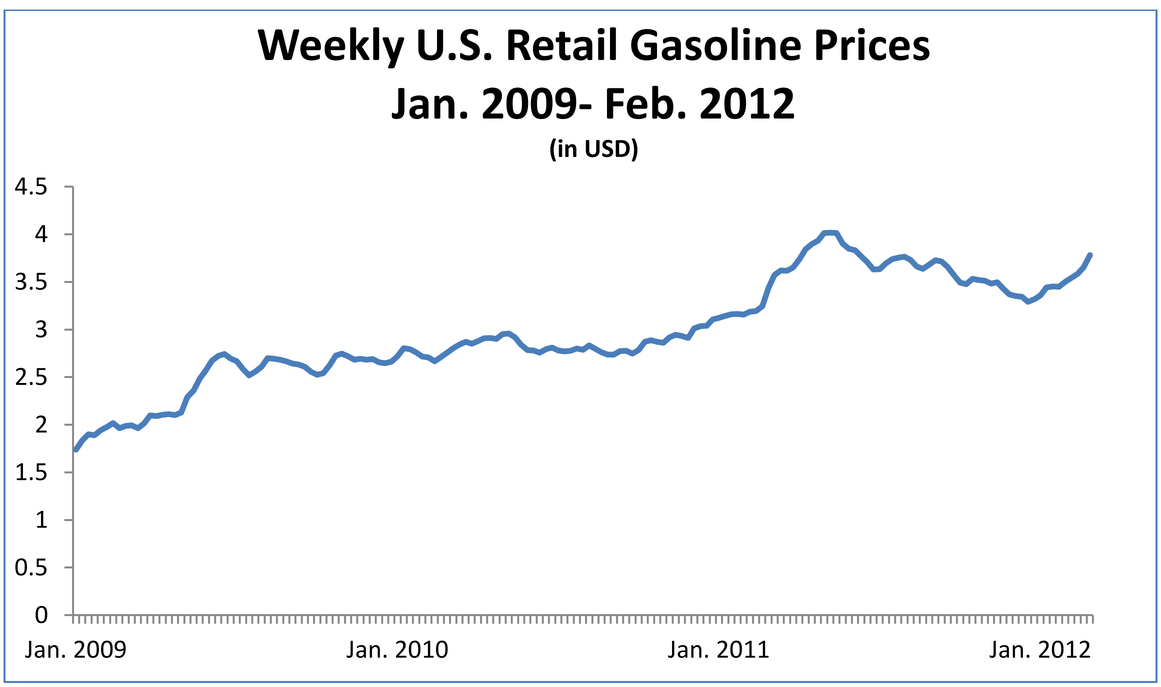
Mr. John Eichberger
Vice President, Government Relations
NACS

II. BACKGROUND

Since October 2011, futures contracts for West Texas Intermediate (WTI) – the benchmark price of crude oil for the United States – have risen from $77.51/barrel to as high as $110.55 in recent days. This surge in price is being attributed to a combination of specific market and geopolitical factors, including but not limited to: (1) political tensions with Iran and the broader Middle East region with anxiety among investors that significant quantities could be threatened or disrupted and (2) demand from the developing world. These factors have created a "tight" oil market that increases the price of gasoline in the U.S. because crude oil is currently the largest component of the price of a gallon of gasoline. The average price of a gallon of gasoline in the U.S. has increased from $3.29 the week of December 29, 2011, to $3.78 the week of February 27, 2012. Over the course of one year, a $0.50 increase in gasoline prices translates to a total cost of $70 billion to U.S. consumers. As the national unemployment rate continues to rest above 8 percent, the rising price of gasoline could prove to be a complicating factor for economic recovery and job creation.



Source: U.S. Energy Information Administration

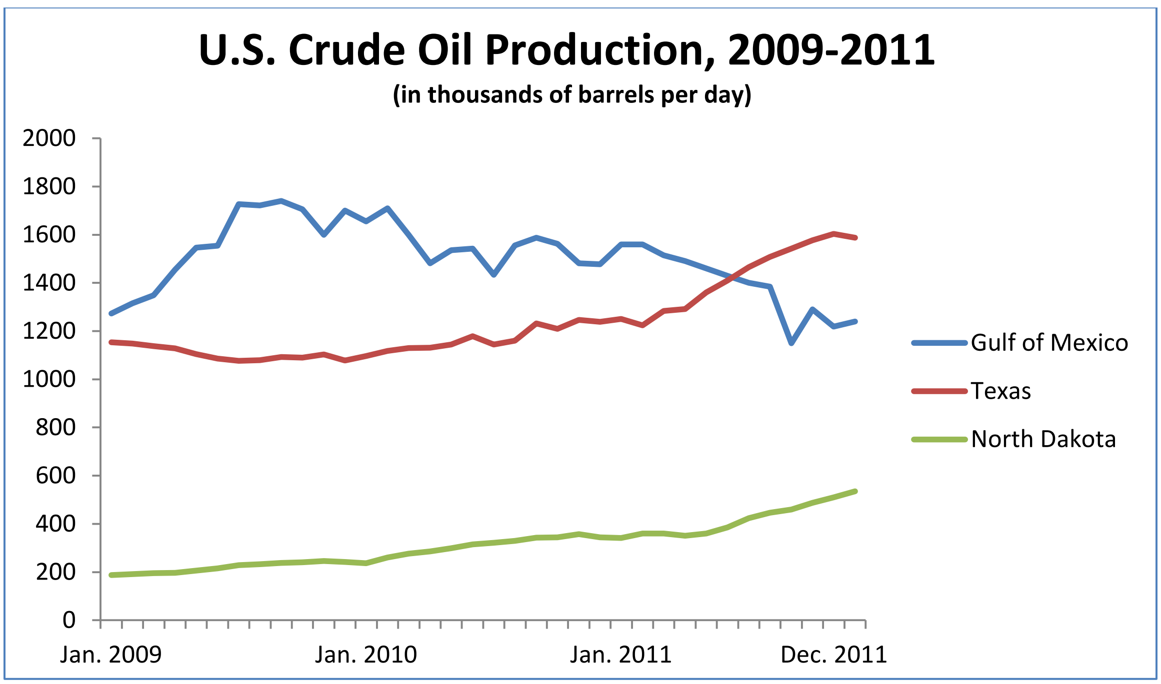


Source: U.S. Energy Information Administration

Some significant trends in the oil and refined product markets have emerged over the past twelve months.

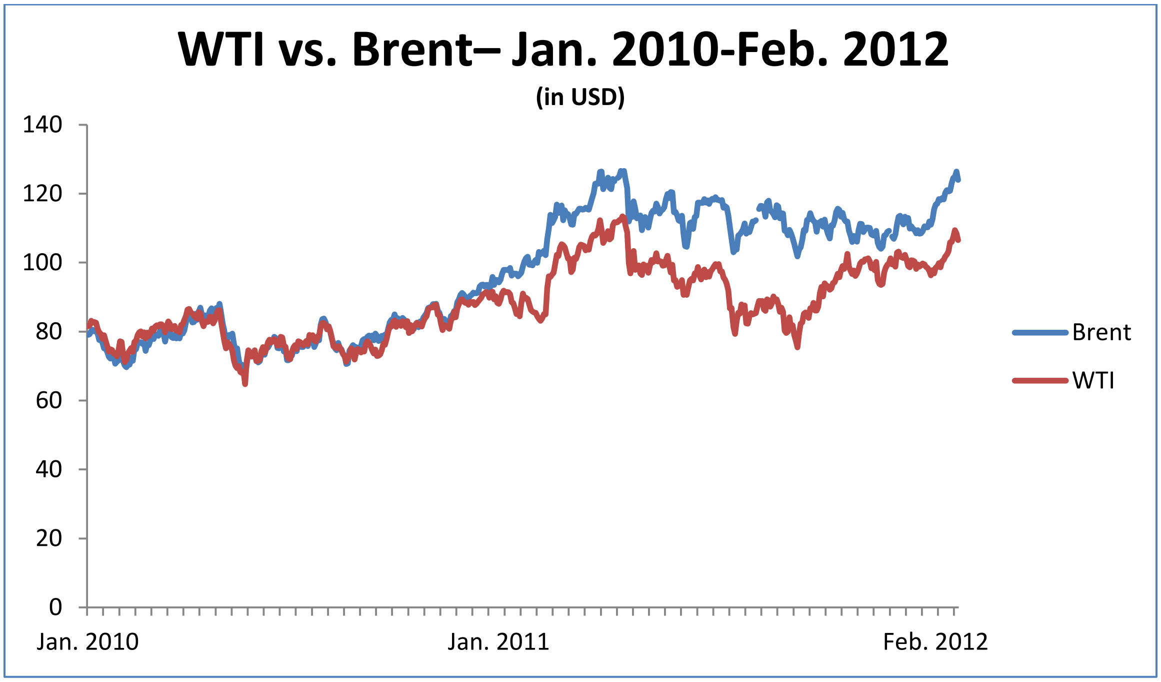
First, technological developments in the natural gas industry – the combination of horizontal drilling and hydraulic fracturing – have found applications in the extraction of oil. As with shale gas, shale oil (or "tight oil") is found in rock formations that cannot be accessed using conventional drilling and production methods. The deployment of this technology has allowed domestic oil producers to explore and produce oil in areas like the Bakken formation in North Dakota and Montana; the Eagle Ford shale in South Texas; and in the near future, the Niobrara, Woodford, Utica, and Anadarko fields in the Midwest and Rocky Mountain regions. Similarly, enhanced oil recovery techniques – where carbon dioxide is injected into old oil reservoirs to increase their pressure – has allowed new development in many fields which were thought to be depleted. The development of these resource basins has substantially increased U.S. oil production over the past year.

From January 2009 to February 2012, U.S. oil and natural gas liquid production increased from 6.86 million barrels per day (MMbbl/d) to 7.96 MMbbl/d, according to Energy Information Administration (EIA) data. Production from private and State-controlled lands account for most of the increased production, as volumes from the Federally-controlled lands and waters have fallen 14 percent from 2010 to 2011. In the Federal areas of the Gulf of Mexico, production declined 17 percent from 2010 to 2011.



Source: U.S. Energy Information Administration

Second, the traditional correlation between WTI and Brent crude oil pricing has decoupled. Brent crude oil – which is more sensitive to Middle East supply disruptions – has traded consistently higher than WTI crude oil since the outbreak of the Arab Spring in late 2010. Increased production from unconventional North American resource basins – namely the Bakken formation in North Dakota and the Athabasca oil sands in Alberta, Canada – has resulted in significant storage in the U.S. midcontinent (where WTI crude oil is priced) and resulted in commensurate price distortions in the market. Such distortions could be corrected by piping this oil to refining centers in the U.S. Gulf Coast.



Source: U.S. Energy Information Administration

Third, there have been several recently announced refinery closures. According to EIA, the refinery closures in the Northeast are expected to result in short-term price surges and higher prices in the long term in that region.

III. ISSUES

The following issues will be examined at the hearing:

- Current market, financial, and geopolitical factors which influence the current price of oil;
- The effect of high gasoline prices on U.S. consumers and businesses;
- Forecasted scenarios and changing trends in global and U.S. oil supply, demand, and price; and,
- Possible Federal policy solutions to mitigate the damaging effects of high gasoline prices.

IV. STAFF CONTACTS

If you have any questions regarding this hearing, please contact Garrett Golding or Ben Lieberman at 5-2927.