

Energy and Oil Market Outlook for 2011

Witnesses

The Honorable Richard Newell

Administrator, Energy Information Administration

Ambassador Richard H. Jones

Deputy Executive Director, International Energy Agency

Roger Diwan

Partner and Head of Financial Advisory, PFC Energy

Mr. Jim Burkhard

Managing Director, Cambridge Energy Research Associates

Committee Members Present

Jeff Bingaman, Chair (D-NM)

Lisa Murkowski, Ranking Member (R-AK)

Ron Wyden (D-OR)

Al Franken (D-MN)

Mike Lee (R-UT)

Daniel Coats (R-IN)

Jeanne Shaheen (D-NH)

Joe Manchin (D-WV)

John Hoeven (R-ND)

Mark Udall (D-CO)

Christopher Coons (D-DE)

Rob Portman (R-OH)

The Senate Committee on Energy and Natural Resources held a hearing on the Energy and Oil Market Outlook on February 3, 2011.

Chairman Jeff Bingaman (D-NM) opened by saying that he hopes that increased vehicle efficiency, usage of biofuels and domestic oil and gas production will lessen U.S. dependence on foreign oil, creating national and economic security benefits. Ranking Member Lisa Murkowski (R-AK) stressed the importance of developing America's fossil fuel sources, such as largely untouched offshore resources in Alaska and shale plays in the Rocky Mountains. "Over the years our lands have been locked up," she asserted, and called for the U.S. government to allow more development. Though she claims never to have denied the need for greater energy efficiency and investments in cleaner energy alternatives, Murkowski said she is "interested in what we can achieve today, not just tomorrow."

Richard Newell testified for the Energy Information Administration (EIA), who released a report on global energy forecasts through 2035 based on current laws and policies. Worldwide energy consumption is expected to increase by 49 percent by 2035, with rapidly developing countries like China and India accounting for most of the increase, according to the report. Fossil fuels will continue to supply the bulk of the world's energy, with a reliance on oil from countries in the Organization of the Petroleum Exporting Countries (OPEC). U.S. oil consumption will increase, but at a slower growth rate than previously predicted. The decreased rate is attributed to recent fuel efficiency standards and mandates, Newell remarked. Dependence on imported liquid fuels is projected to decline, as it has been since 2005. This is due to the increased domestic production of liquid natural gas and

biofuels and the amount of technically recoverable shale gas resources in the U.S., said Newell.

Richard Jones, a former diplomat, discussed the views of the International Energy Agency (IEA) on the global energy outlook based on its *World Energy Outlook*, released in November 2010. Since September 2010, international oil prices have increased by more than 25 percent, he said. However, signs that there is a sufficient supply of oil could help stabilize prices in 2011. Natural gas production and development of ‘unconventional’ sources of gas in the U.S. has led to a sharp drop in the need to import gas and has sparked interest in the resource around the world, according to the IEA. Energy supply needs to become more diverse and varied to improve energy security, economic development and environmental protection in the U.S., Jones declared. The IEA notes three things that could change the energy outlook: a strong push for energy efficiency; ‘decarbonization’ of electricity generation; and advances in vehicle technology.

Financial advisor Roger Diwan discussed the economics behind the energy outlook. He said that today there is no tension in the oil market and that there will be “unbalanced demand” in the future as China, India and other Asian countries need more and more energy. High oil prices are showing an effect on energy supply, he said, and could potentially rise enough to encourage investment in new areas. For example, natural gas and biofuels have gained in supply as competition to crude oil.

Jim Burkhard of Cambridge Energy Research Associates spoke of the overall increasing global energy demands, largely related to China’s and India’s stunning increases in GDP per capita. The cost of developing an oil field doubled from 2005 to 2008, and he too mentioned that rising oil prices may foster innovation and energy efficiency.

Natural gas production and its potential in the U.S. has had a significant effect on projections of oil prices, demand and import levels, according to the witnesses. American levels of imported liquid fuels peaked in 2005 and are expected to continue to decrease as liquid fuel production of natural gas and biofuels increases, said Newell. Bingaman asked what effect the success of natural gas development will have on renewable energy proliferation. Because natural gas is a relatively cheaper and less polluting fuel, the market will continue to favor it over renewables, Newell responded.

New committee member John Hoeven (R-ND) noted recent technology advances in the drilling industry that have made development of unconventional natural gas sources possible. In a way then, technology helps lower gas prices, he said. “How can Congress foster such technology development, and what kind of regulatory environment are companies looking for?” he asked. First of all, the market drives technology investment, Newell answered. It was high oil prices that led companies to explore the option of natural gas as an economic alternative to crude oil, explained Diwan. In the entrepreneurial sector, the combination of experimentation and research, resources and people led to the technologic breakthrough in gas production to “break the code” in that field, he elaborated. Creating clear, consistent policies that are technology neutral and take into account the development stage of technologies is the best way for Congress to approach encouraging innovation, Jones suggested.

Senator Al Franken (D-MN) asked what factors can help the renewables energy sector to grow, and how Mr. Jones proposes accomplishing the three goals the IEA set forth. Renewable energy growth could evolve differently from projections if the cost of renewables decreases or certain tax credits and incentives on wind and solar development do not expire. Carbon capture and storage (CCS) has the potential to help ‘decarbonize’ electricity generation by using it at coal-fired power plants, said Jones. The IEA advocates a broad spectrum of energy sources, and encourages countries to choose solutions that make the most sense for their situations, whether it is nuclear energy, renewables or CCS.

Hoeven (R-ND) requested suggestions from the witnesses on what actions Congress could take to improve the energy outlook in general and stimulate energy production in the U.S. across all fields—biofuels, natural gas, wind, nuclear, solar or coal. Enacting standards for fuel efficiency is the cheapest and largely most effective way to reduce energy demand in the U.S., according to Diwan. Ensuring a diverse energy supply is key to a secure energy future, Burkhard answered, and he suggested a multidimensional policy approach that considers supply and demand factors. The regulatory framework for energy policy should look at long term energy predictions and allow diversification, Diwan agreed.

A few witnesses mentioned that the recent disruptions in the Middle East, especially in Egypt, do not look like they will have an effect on the overall supply, demand and price of oil, and the recent spike is only temporary. Still, civil unrest is common in several countries that supply oil to the U.S., said Murkowski. Senator Joe Manchin (D-WV) echoed her call that less dependence

on foreign oil can increase national security, and he further advocated West Virginia's coal production as essential to domestic energy supply.

Testimony from the witnesses, opening statements and an archived webcast of the hearing can be at the Senate Committee on Energy and Natural Resources webpage.
