The Heritage Foundation

CONGRESSIONAL TESTIMONY

Fueling the Climate Crisis: Examining Big Oil's Climate Pledges

Testimony before the

Committee on Oversight and Reform

U.S. House of Representatives

February 8, 2022

Katie Tubb
Senior Policy Analyst, Energy and Environment
The Heritage Foundation

My name is Katie Tubb. I am a senior policy analyst at The Heritage Foundation. The views I express in this testimony are my own and should not be construed as representing any official position of The Heritage Foundation. Thank you for the opportunity to speak before you today.

While the title of today's hearing refers to the voluntary commitments made by a handful of private companies to reduce their greenhouse gas emissions, I would like to use this occasion to "zoom out" and offer broader context to the discussion. A realistic view of global warming must acknowledge that the greenhouse-gas-emissions commitments of these companies will have no impact on global temperatures by the end of the century, whether they achieve them or not. Further, regardless of one's opinions on global warming science or policy, the ongoing energy-price crisis has sharply brought to the fore why these conversations about energy policy and climate policy matter—energy is essential to nearly every good that people produce and to nearly every service that people engage in. It is the "master resource" that enables Americans' economic opportunity and ability to live healthier, safer, and more productive lives.

Rather than interrogating companies engaged in the yet-legal activities of producing and selling oil to American and global customers, Congress should seek to understand the ongoing energy-price crisis, finding the vulnerabilities that the crisis has exposed at home and abroad, and examining policy tools with which to relieve producers' and consumers' burdens for the better functioning of energy markets.

Energy-Price Crisis

Conventional fuels—coal, oil, and natural gas—met 79 percent of Americans' total energy needs in

2020.[1] The remaining energy came from nuclear power (9 percent) and renewables, including biomass, wind power, hydropower, and solar power (12 percent). Petroleum met 90 percent of Americans' transportation fuel needs—energy used by automobiles, trucks, buses, trains, aircraft, and ships.[2]

According to the U.S. Energy Information Administration (EIA), Americans' average total energy costs fell by 5 percent from 2018 to 2019, and per capita energy costs decreased in every state except California.[3] Today, energy prices are a significant driver of the high inflation that Americans are facing, and energy prices increased by 59 percent over the course of 2021 according to the S&P Goldman Sachs Commodity Index.[4]

Crude oil prices steadily increased by 130 percent since bottoming out in April 2020 to reach more than $86 per barrel in January 2022.[5] Gasoline and diesel prices are the highest they have been since September 2014. Weekly nationwide prices for regular gasoline have not fallen below $3.00 per gallon since May 2021, with some regions suffering even higher prices because of state and local government policies.[6] Even coal prices have slightly increased since 2019 after years of policy-driven decline, and the EIA projects coal prices to increase again slightly this year as high prices of other fuels increase demand for coal.[7] While there are significant state and regional differences due to policies and access to energy resources, average residential prices for electricity continue to climb and broke $0.14 per kilowatt-hour in September 2021.[8]

Increased energy costs are passed down to customers in a variety of ways—from household energy bills to the costs of doing business and producing manufactured goods, even food.[9] While it is too early to determine the impacts of fuel prices this winter season, the EIA projected that Americans

---

[1] U.S. Energy Information Administration, "U.S. Energy Facts Explained—Consumption and Production," May 14, 2021, https://www.eia.gov/energyexplained/us-energy-facts/, and U.S. Energy Information Administration (EIA), "Monthly Energy Review," Table 1.3, January 2022, https://www.eia.gov/totalenergy/data/monthly/pdf/sec1_7.pdf.
[2] U.S. Energy Information Administration, "U.S. energy consumption by source and sector, 2020," https://www.eia.gov/totalenergy/data/monthly/pdf/flow/total_energy_2020.pdf.
[3] U.S. Energy Information Administration, "In 2019, U.S. Inflation-Adjusted Energy Expenditures Fell 5%," September 9, 2021, https://www.eia.gov/todayinenergy/detail.php?id=49476.
[4] U.S. Energy Information Administration, "Energy Prices Rose More than Other Commodities in 2021," *Today in Energy*, January 3, 2022, https://www.eia.gov/todayinenergy/detail.php?id=50718.
[5] U.S. Energy Information Administration, "Monthly Europe Brent Spot Price FOB Data Set," https://www.eia.gov/dnav/pet/hist/LeafHandler.ashx?n=PET&s=RBRTE&f=M. The West Texas Intermediate **(**WTI) average monthly price followed a similar trend, increasing from $16.55 per barrel in April 2020 to $83.22 per barrel in January 2022. U.S. Energy Information Administration, "Monthly Cushing, OK WTI Spot Price FOB," https://www.eia.gov/dnav/pet/hist/LeafHandler.ashx?n=PET&s=RWTC&f=M.
[6] U.S. Energy Information Administration, "Weekly U.S. Regular All Formulations Retail Gasoline Prices Data," https://www.eia.gov/dnav/pet/hist/LeafHandler.ashx?n=PET&s=EMM_EPMR_PTE_NUS_DPG&f=W.
[7] U.S. Energy Information Administration, "Short-Term Energy Outlook," November 2021, https://www.eia.gov/outlooks/steo/archives/Nov21.pdf, and U.S. Energy Information Administration, "Coal Markets," December 13, 2021, https://www.eia.gov/coal/markets/.
[8] U.S. Energy Information Administration, *Electric Power Monthly*, "Table 5.3 Average Price of Electricity to Ultimate Customers: Total by End-Use Sector, 2011–November 2021 (Cents per Kilowatthour)," https://www.eia.gov/electricity/monthly/epm_table_grapher.php?t=epmt_5_03. For wholesale prices, see U.S. Energy Information Administration, "Wholesale Electricity Prices Trended Higher in 2021 Due to Increasing Natural Gas Prices," *Today in Energy*, January 7, 2022, https://www.eia.gov/todayinenergy/detail.php?id=50798.
[9] Daren Bakst and Peter St. Onge, eds., "Inflation: Policymakers Should Stop Driving It and Start Fighting It," Heritage Foundation *Special Report* No. 252, January 20, 2022, https://www.heritage.org/sites/default/files/2022-02/SR252.pdf.

would see their energy bills increase by 6 percent to 54 percent depending on their primary source of heat, regional differences, and the mercy of winter weather.[10] Estimates from Penn Wharton's Budget Model and the Joint Economic Committee expect that the average American household will have paid $1,200 more on energy in 2021 than in 2020. Estimates show that every income bracket will have spent a larger share of its budgets on household energy bills in 2021, with Americans in the lowest income quintile spending 11 percent of their budgets on energy in 2021, compared to eight percent in 2020.[11] According to the Office of Energy Efficiency and Renewable Energy, "The energy burden for low-income households is on average three times that of non-low-income households and low-income households typically receive a lower quality of energy services."[12]

There are also broader economic consequences of high energy costs: Thousands of products are made with oil and natural gas, as feedstocks and energy are essential to countless economic interactions. The Heritage Foundation is currently completing its own modeling to understand some of these broader economic relationships by modeling President Joe Biden's unilateral commitment under the Paris Agreement to reduce greenhouse gas emissions by between 50 percent and 52 percent (from 2005 levels) by 2030. The costs are in the trillions of dollars and millions of jobs. Americans' representatives in government must be honest with them about the benefits and costs of such a policy objective.

The immediate energy-price crisis deserves Congress's attention. However, high energy prices have also elevated deeper concerns about energy markets and systems that were harder to see when natural gas and oil prices were low, but which experts have been flagging more frequently in recent years. Commissioner Mark Christie of the Federal Energy Regulatory Commission (FERC) discussed some of these challenges in the electricity sector last fall before the Senate Energy and Natural Resources Committee:

> My concern about any kind of national mandate with deadlines and timetables is that the deadlines and timetables for how you change the generation mix doesn't fit the reality of the facts…it's absolutely essential to keep reliability uncompromised. And NERC [North American Electric Reliability Corporation]has warned that if you inject intermittent resources—which of course, wind and solar are two examples—if you force intermittent resources at a higher percentage than the system can balance and you don't have reliable, dispatchable resources…gas, coal, nuclear—you have a reliability problem. And NERC has warned about that repeatedly. So, my concern about a deadline for when you have to have a certain percentage of a certain generation mix is it doesn't fit the actual technology. Today we don't have the technology to have a 100 percent emission free grid. We don't have that technology. So, a deadline of 2030 or 2035 essentially is a gamble that the technology is

---

[10] U.S. Energy Information Administration, "Winter Fuels Outlook," October 2021, https://www.eia.gov/outlooks/steo/special/winter/2021_Winter_Fuels.pdf.
[11] Hugo Dante and Kole Nichols, "To Combat Rising Energy Prices, Unleash American Production," Joint Economic Committee, February 2, 2022, https://www.jec.senate.gov/public/index.cfm/republicans/2022/2/to-combat-rising-energy-prices-unleash-american-production, and Zheli He and Xiaoyue Sun, "Impact of Inflation by Household Income," Penn Wharton Budget Model, University of Pennsylvania, December 15, 2021, https://budgetmodel.wharton.upenn.edu/issues/2021/12/15/consumption-under-inflation-costs.
[12] U.S. Department of Energy, *FY2022 Congressional Budget Request,* Vol. 3, Part 1, June 2021, https://www.energy.gov/sites/default/files/2021-06/doe-fy2022-budget-volume-3.1-v5.pdf.

> going to develop… If you mandate deadlines that can't be met based on technology, you're going to get reliability problems.[13]

Evidence of these concerns is seen in Europe and Great Britain, which committed to policies years ago to limit production of natural gas, coal, and oil; to heavily subsidize wind and solar energy technologies; and to tax or eliminate use of natural gas, coal, oil, and (in some cases) nuclear energy. Many European countries have faced more dramatic energy-price increases in the last year, and exposed themselves to greater risk both in energy markets and political independence. Isabel Schnabel, a member of the European Central Bank's executive board, discussed some of these challenges at an American Finance Association meeting in January:

> At present, renewable energy has not yet proven sufficiently scalable to meet rapidly rising demand… The combination of insufficient production capacity of renewable energies in the short run, subdued investments in fossil fuels and rising carbon prices means that we risk facing a possibly protracted transition period during which the energy bill will be rising. Gas prices are a case in point. Last year's adverse weather conditions, which constrained the production of renewable energy, have led to significant demand and supply imbalances in the gas market as global growth accelerated, pushing gas prices to new record highs… The green transition may reinforce these imbalances in the future.[14]

Unfortunately, too many people who notice these kinds of problems have been brushed aside and dismissed as "climate deniers," rather than as realists offering warnings with important implications for the lives and livelihoods of Americans.

Some Reasons for the High Prices

The COVID-19 pandemic and policy responses to it triggered dramatic changes in both supply and demand worldwide. Demand for energy plunged, forcing producers to drastically cut back output almost overnight. In the United States, total energy consumption fell by 7 percent in 2020 compared to 2019, the largest annual decrease since at least 1949.[15] The uneven economic recovery has introduced "important uncertainty" across energy markets.[16] For example, demand for jet fuel remained depressed as fewer people flew.[17] On the other hand, gasoline demand recovered more quickly, and diesel demand has even exceeded 2019 levels.[18] In general, demand for energy outpaced

---

[13] Committee on Energy and Natural Resources, "Hearing to Review Administration of Laws Within FERC's Jurisdiction," U.S. Senate, September 28, 2021, video, (starting at minute 58 and 30 seconds), https://www.energy.senate.gov/hearings/2021/9/full-committee-hearing-to-review-administration-of-laws-within-ferc-jurisdiction.

[14] Isabel Schnabel, "Looking Through Higher Energy Prices? Monetary Policy and the Green Transition," remarks before the American Finance Association 2022 Virtual Annual Meeting, January 8, 2022, https://www.ecb.europa.eu/press/key/date/2022/html/ecb.sp220108~0425a24eb7.en.html.

[15] U.S. Energy Information Administration, "Annual Energy Review," Table 1.3, "Primary Energy Consumption by Source," January 2022, https://www.eia.gov/totalenergy/data/annual/.

[16] U.S. Energy Information Administration, "EIA Expects Crude Oil Prices to Rise Through April Because of Lower OPEC Production," March 17, 2021, https://www.eia.gov/todayinenergy/detail.php?id=47176.

[17] U.S. Energy Information Administration, "U.S. Energy Consumption Fell by a Record 7% in 2020," April 5, 2021, https://www.eia.gov/todayinenergy/detail.php?id=47397.

[18] U.S. Energy Information Administration, "U.S. Distillate Demand Returned to 2019 Levels Earlier Than Gasoline and Jet Fuel Demand," June 29, 2021, https://www.eia.gov/todayinenergy/detail.php?id=48556.

production in 2021 and producers responded by drawing down storage inventories, a stopgap measure at best.[19]

Undoubtedly, a recovery of demand coming out of the pandemic has contributed to price increases for natural gas, coal, and oil as globally traded commodities. However, high oil and gas prices are persisting despite the omicron variant, and to pin the entire current energy crisis on economic recovery from the pandemic would be mistaken. The way out of high demand and accompanying high prices is increased supply. However, this is precisely what the Biden Administration's energy and climate policies are preventing by hampering production, markets, delivery, and future consumption of the oil, natural gas, and coal that supply most of Americans' energy for power, heat, and transportation.

The Biden Administration has proposed or finalized regulations that restrict nearly every aspect of conventional energy: financing and private-sector investment, exploration and production, pipeline construction and operation, and consumer use.[20] Further, the Administration has—in defiance of the law—effectively banned leasing for coal, oil, and natural gas exploration and production on federal lands and the Outer Continental Shelf. The Department of the Interior also recently proposed sweeping policy changes to federal land management that would severely minimize, if not effectively ban, production of coal, oil, and natural gas on these lands and in these waters. Less obvious to the average American are the scores of regulations and regulatory processes that will increase the costs of energy-consuming products they use every day: cars, kitchen cooking ranges and ovens, washing machines and dryers, water heaters, lightbulbs, ceiling fans, dehumidifiers, dishwashers, microwaves, and furnaces.[21]

Asked why oil production in the U.S. had not yet caught up to demand, the acting EIA Administrator explained to the Senate Energy and Natural Resources Committee that American producers were "trying to reposition for the long term."[22] The Biden Administration has made it very clear that it intends to put coal, oil, and perhaps even the natural gas industries in America out of business. If that is the future this Administration is working toward, it is no wonder that American energy companies are hesitant to invest hundreds of thousands to billions of dollars in exploration, equipment, and employees.

There are also many existing energy policies that distort the efficient flow of energy from producers to customers that are exacerbating the energy-price crisis today and inhibiting Americans' ability to respond. These include the renewable fuel standard, the Jones Act (which inhibits access to both

---

[19] U.S. Energy Information Administration, "Short-Term Energy Outlook," November 2021, https://www.eia.gov/outlooks/steo/archives/Nov21.pdf. See also Stephen Nalley, testimony before the Committee on Energy and Natural Resources, U.S. Senate, November 16, 2021, https://www.energy.senate.gov/services/files/9E0CF3E9-FD05-4010-BDF5-30E2D04D3ECC.

[20] For an example of Administration actions regarding the oil industry, see Katie Tubb, "Biden's Many Anti-Energy Policies Are Hurting Producers, Consumers Alike," The Daily Signal, December 17, 2021, https://www.dailysignal.com/2021/12/17/bidens-many-anti-energy-policies-are-hurting-producers-consumers-alike.

[21] Daren Bakst, ed., "37 Biden Administration Regulations in the Pipeline that Americans Should Know About," Heritage Foundation *Special Report* No. 250, December 8, 2021, https://www.heritage.org/sites/default/files/2021-12/SR250.pdf.

[22] Committee on Energy and Natural Resources, "Hearing on Domestic and International Energy Costs," U.S. Senate, November 16, 2021, https://www.c-span.org/video/?516119-1/senate-hearing-domestic-international-energy-costs.

conventional and renewable energy resources), abuse of the federal tax code, and state electricity mandates and policies.[23]

Looking to the Future

The EIA's International Energy Outlook projects no scenario in which global demand for oil and natural gas do not increase through at least 2050.[24] The International Energy Outlook expects coal use to decline, but to persist as an important source of energy globally. Global energy use is expected to increase by 50 percent by 2050. According to the International Energy Agency, two-thirds of greenhouse gas emissions come from developing nations,[25] some of which still do not have access to electricity or enjoy anything near the standards of living that affordable, reliable energy has enabled in the United States. These countries cannot afford costly energy policies, and as countries like India and others have shown, they do not intend to follow the United States in the costly policy model proposed by the Biden administration.

In the zeal for net-zero greenhouse gas emissions, and irresponsible slogans calling for a certain amount of energy from particular sources by a certain date, the political cart has been put before the horse. Particularly in the electricity sector, this country faces deep questions about price formation, reliability, and grid stability, forced by ad hoc energy policies at the state and federal levels that have distorted markets to be the worst of both worlds—neither centrally planned nor a market, but an unwieldy, haphazard mess of both. Policymakers should recommit to energy policy informed by principles of reliability, affordability, open competition, and consumer protection—then step back and allow the engineers and entrepreneurs to lead the way. Regardless, policymakers need to be transparent and upfront with Americans about the costs and benefits of energy policies.

No one knows what the future holds (for example, very few expected the energy boom created by affordable, efficient hydraulic fracking technology), however, the EIA's projections and similar projections by the International Energy Agency provide a useful framework for policymakers when thinking about the future.

An environmentally resilient future is one in which the country's finances are in good order, Americans are not crushed under the burden of federal debt and regulation, and innovators have freedom from cronyism to develop their ideas and export them to the world. The choice between a healthy environment and economic growth is a false one: Both are achievable, and necessary.

---

[23] Bakst and St. Onge, "Inflation: Policymakers Should Stop Driving It and Start Fighting It," pp. 23 and 24.
[24] U.S. Energy Information Administration, "International Energy Outlook 2021," October 2021, https://www.eia.gov/outlooks/ieo/pdf/IEO2021_Narrative.pdf.
[25] International Energy Administration, "Global Energy Review 2021: CO2 Emissions," April 2021, https://www.iea.org/reports/global-energy-review-2021/co2-emissions.

****

The Heritage Foundation is a public policy, research, and educational organization recognized as exempt under section 501(c)(3) of the Internal Revenue Code. It is privately supported and receives no funds from any government at any level, nor does it perform any government or other contract work.

The Heritage Foundation is the most broadly supported think tank in the United States. During 2020, it had hundreds of thousands of individual, foundation, and corporate supporters representing every state in the U.S. Its 2020 operating income came from the following sources:

Individuals 66%
Foundations 18%
Corporations 2%
Program revenue and other income 14%

The top five corporate givers provided The Heritage Foundation with 1% of its 2020 income. The Heritage Foundation's books are audited annually by the national accounting firm of RSM US, LLP.