Statement before the House Committee on Oversight and Government Reform

"Rhetoric vs. Reality: Does President Obama Really Support an "All-of-the-Above Energy Strategy?"

President Obama's Some-of-the-Above Energy Policy

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The views expressed in this testimony are those of the author alone and do not necessarily represent those of the American Enterprise Institute.

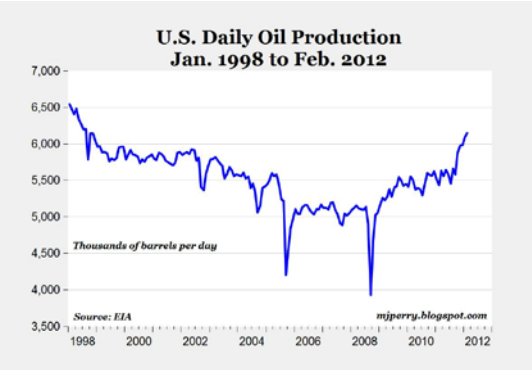
Thank you, Chairman Issa, Ranking Member Cummings, and other members of the committee for the opportunity to appear before you this morning at your hearing to review President Obama's "All-of-the-Above Energy Policy." My name is Mark J. Perry, and I am a tenured, full professor of economics at the Flint campus of the University of Michigan and also a scholar at the American Enterprise Institute. As an economist and now full-time blogger, I follow many economics topic very closely and provide daily commentary on my blog Carpe Diem. One of the topics I have been writing about frequently over the last several years is the U.S. energy revolution, including tracking domestic energy statistics on production and prices, fracking technology and horizontal drilling, the shale revolution, energy-related job creation, etc., and it's because of my interest and frequent writing on energy issues that I have been invited to provide testimony to your committee today on the topic of whether President Obama really supports an "all-of-the-above" energy strategy. To summarize my conclusion, I would say it would be more accurate to describe the President's strategy as "some of the above" rather than "all-of-the-above," with favoritism being directed toward alternative energy over traditional energy sources.

1. Introduction: The Factual Record on Domestic Oil Production

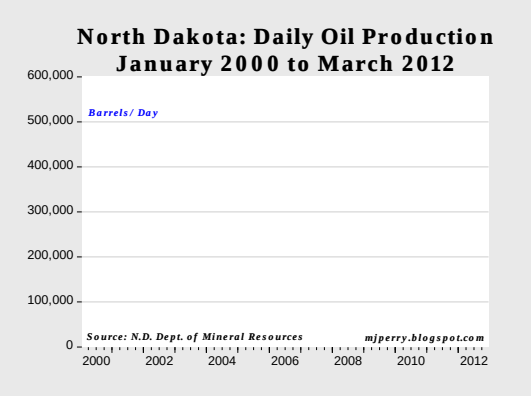
In his January State of the Union address, and in several subsequent speeches, President Obama said that the country needs an "all-out, all-of-the-above strategy that develops every available source of American energy—a strategy that's cleaner, cheaper, and full of new jobs." Further, the president boasted that "under my administration, America is producing more oil today than at any time in the last eight years."

I'd like to start by helping to clarify the factual record on domestic oil production.

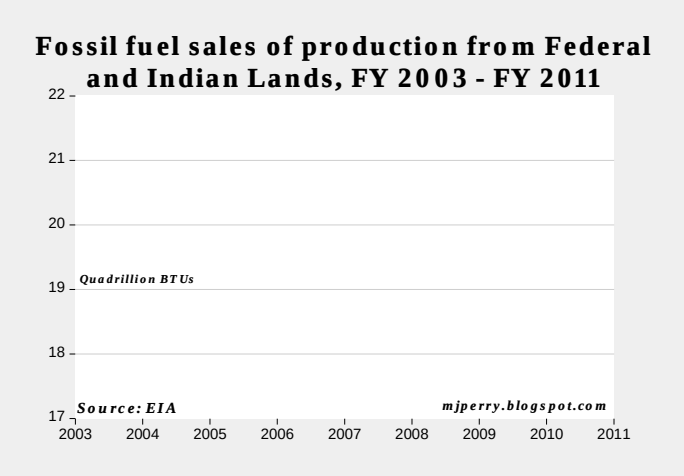
First, the president failed to mention that the increases in oil drilling on federal lands in 2009 and 2010 reflected leases and permits that were approved before his administration took office, and that oil production on federal lands fell by 14% in 2011.



Further, it's true that total domestic oil production was higher in 2011 than in any year since 2002, but that's because oil production has increased most significantly on state and private lands, not federal lands. And those increases in U.S. crude oil production have continued this year, and in February reached their highest monthly level (more than six million barrels per day) since 1998 (see chart above), but those increases have taken place in locations like the Bakken region of North Dakota (see chart below) and the Eagle Ford Share formation in Texas, and mostly on private lands. Those ongoing increases in domestic oil production are largely because of technology advances in 3D seismic imaging, hydraulic fracturing and horizontal drilling, and not because of any intentional energy policy.



If we focus on the production of all fossil fuels (coal, oil and natural gas) on federal and Indian lands, fossil fuel production fell to a nine-year low in 2011 according to the Department of Energy (see chart below). In fiscal year 2011, crude oil production on federal lands actually fell by 14%, the largest annual decrease in at least a decade, natural gas production on federal lands fell by more than 9%, and coal production fell by 1%. So in the most recent year available, the "all of the above strategy" has actually resulted in declines in fossil fuel production on federal lands. In other words, the increases in oil production in recent years referenced by the President were largely from drilling on state and private lands, and happened in spite of Obama's restrictive energy policies, not because of them.



2. Preferences for Alternative Energies in FY 2013 Budget

Shortly after he called for an "all-of-the-above" energy policy, the President then dismissed oil in a speech as an "energy of the past," and instead urged Americans to embrace alternative energies as "energy sources of the future." Those statements suggest that there is a clear preference in the White House for "some of the above" energy sources over others.

The president's proposed budget for fiscal year 2013 reflects those preferences for some energy sources - the politically-favored "green" energy sector gets preferential treatment over

fossil fuel energy, in the form of numerous tax subsidies, tax credits, public expenditures, procurement preferences and grants for alternative energy. Below are the administration's top nine budget provisions for green energy in the proposed fiscal year 2013 budget:

1. Extending the production tax credit for wind energy through calendar year 2013.

2. Extending the Treasury Cash Grant Program (Section 1603 of the American Recovery and Reinvestment Act) to assist small renewable energy companies through 2012, extending tax credits (for renewable companies able to use the credits) for one year, and converting the program into a refundable tax credit through 2016.

3. Increasing research and development funding to $350 million for advanced energy technologies (up from $40 million disbursed by the U.S. Department of Energy over the last two years).

4. Expenditures for clean domestic manufacturing, with $290 million for improving industrial processes and materials, and $5 billion for the "48C" clean energy tax credit available to manufacturers of "cleantech" products.

5. Expenditures for solar and wind energy, providing $310 million for the SunShot Initiative, a program designed to make solar energy cost competitive with fossil fuel energy without government subsidies by 2020, and $95 million for wind energy, including expansion in offshore wind technologies.

6. Expenditures for energy efficiency, including an 80 percent increase in funding to promote energy efficiency in commercial buildings and industries.

7. A 10 percent increase in funding for the U.S. Environmental Protection Agency's FY2013 budget for implementation and enforcement of federal environmental safeguards, and $222 million for the U.S. Department the Interior's newly formed Bureau of Safety and Environmental Protection.

8. Expanding Department of Defense clean energy initiatives, including doubling (to $1 billion more than the FY2012 budget) expenditures for efficiency retrofitting of buildings and meeting efficiency standards for new facilities.

9. Maintaining funding (at the FY2012 budget level) for international climate financing, with at least $833 million to support sustainable landscapes, clean energy, and adaptation to climate change in developing countries.

3. Targeting Fossil Fuels in the FY 2013 Budget with Higher Taxes

In stark contrast, the administration's fiscal year 2013 budget targets oil and natural gas companies with eight proposals for higher taxes, including plans to repeal: a) the expensing of intangible drilling costs, b) “last-in, first- out” (LIFO) accounting in favor of the higher-taxed “first-in, first-out” accounting methodology, c) the deduction for tertiary injectants (fluids, gases, and chemicals) that are used in unconventional drilling, and d) the percentage depletion allowance to recover costs for capital investments. Additional tax increases on the oil and natural gas industry would come from proposed modifications of the dual capacity rule (a U.S. tax policy that prevents the double taxation of foreign earnings), increasing the amortization period for exploration costs, and reinstating Superfund taxes.

Taken together, it is estimated by the American Petroleum Institute that all eight targeted proposals of the administration’s FY2013 budget would burden the oil and gas industry with almost $86 billion in higher taxes over the next ten years.

4. Drilling Restrictions

In addition to the tax proposals favoring alternative energies over fossil fuel energy sources, the administration’s preferences for alternative energy sources are also reflected in drilling restrictions or limited permitting for oil and natural gas that continue in places like:

● off the Mid-Atlantic coast

● much of the eastern Gulf of Mexico

● in the broader Gulf of Mexico (where drilling in 2012 is expected to drop 30% below pre-moratorium forecasts)

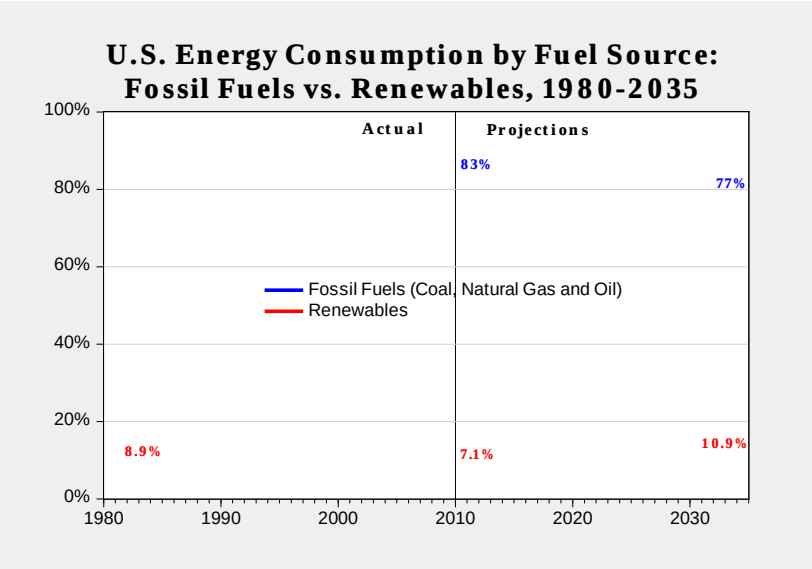
● in the Arctic National Wildlife Refuge

● on federal lands in the Rockies (where leases are down 70 percent since 2009).

Other actions taken by the administration, including rejecting the Keystone XL pipeline, cancelling millions of acres in offshore lease sales, and closing the majority of the Outer Continental Shelf to new energy production for the next five years — demonstrate an administration that does not support an "all-of-the-above energy strategy" that includes increasing domestic production of fossil fuels that will remain critical to America's energy and economic future for many decades.

5. Meeting Future Energy Demands

Based on the Obama administration's ongoing focus on developing alternative energy sources energy sources as the future of an America no longer dependent on traditional hydrocarbon energy, the average American would believe that the nation's need for substantial production levels of oil, natural gas, and coal will soon be a distant memory. The reality, however, is much different.



In its most recent forecast in January 2012, the U.S. Department of Energy estimated that the importance of fossil fuels (oil, gas and coal) for meeting the energy demands of the U.S.

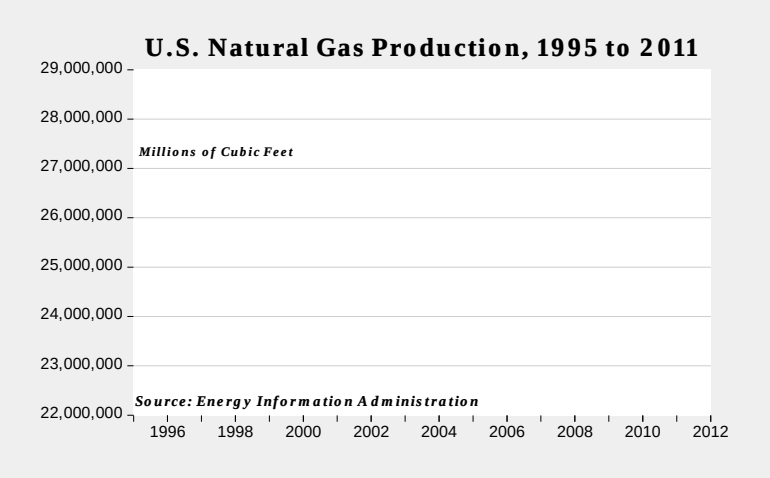
economy will decline only modestly over the next several decades, from 83% of total U.S. energy consumption in 2010, to 77% in 2035 (see chart above). In contrast, despite all of the attention, preferences from the Obama administration, loan guarantees, and taxpayer subsidies for renewable energy, their contribution to U.S. energy consumption of 7.3% in 2012 was barely higher than the 7.1% share back in both 1996 and 1997, and even less than the 8.9% share in 1983. Current estimates from the Department of Energy suggest that even by 2035, the renewable share of U.S. energy consumption will be slightly less than 11%.

And the most recent Department of Energy estimates may not even yet include new oil and natural gas reserves that have just recently increased significantly in importance in places like Eagle Ford Shale in South Texas, the Green River Formation in Wyoming, Utah and Colorado, and the Mississippian Lime formation in south Kansas. And it also may not yet account for new technological advances under development by oil companies known as "super-fracking," which will move drilling technology from fracking to super-fracking. This new wave of innovation has the potential to significantly raise the efficiency of domestic drilling, and will extend the current wave of fracking technology, leading to potentially huge increases in domestic oil and gas production in the near future.

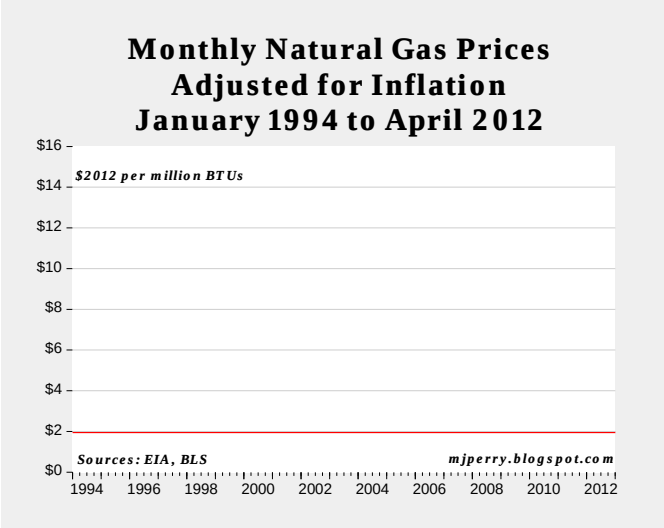
The key point here is that even the government's own forecasts predict that renewable energy will continue to play a relatively minor role as an energy source over the next several decades out to the year 2035. And traditional energy sources like oil, gas and coal will continue to provide the overwhelming share (more than three-quarters) of the fuel required to meet U.S. energy demand through for the next three decades at least.

5. Natural Gas

Turning from oil to natural gas, we see a similar story of proven success and future promise. Domestic natural gas production has soared by more than 21% since 2005 (see chart below), but has fallen on federal lands by 24% over that period, and by almost 17% since Obama took office. Like oil, the increases in natural gas production have taken place on state and private lands and have happened because of the significant technological advances in drilling (3D seismic imaging, hydraulic fracturing and horizontal drilling), and not because of any energy policies of the Obama administration.



Further, the significant increases in domestic natural gas production in the last six years, have brought inflation-adjusted natural gas prices to their lowest levels in several decades (see chart below). Although there are some differences between crude oil and natural gas markets, the dramatic price declines in response to increased drilling for natural suggest that we should be skeptical of President Obama's claim that "We can't just drill our way to lower gas prices." In the case of natural gas, it was clearly the case that we did exactly that – drill our way to lower gas prices.



It's important to emphasize several key economic factors relating to shale gas production in the U.S. over the last five years.

1. **Huge cost savings.** There has been a powerful $250 billion economic stimulus to the economy from lower prices over the last three years for natural gas customers (residential, commercial, industrial and electric utilities), according to the American Gas Association.

2. **Significant job creation** from increased natural gas production has provided another energy-related economic stimulus to the U.S. economy.

3. **Lower natural gas prices** are sparking an American manufacturing renaissance that promises to create up to one million new U.S. jobs by 2025 in energy-intensive manufacturing sectors like chemicals, fertilizers, ethylene, iron and steel.

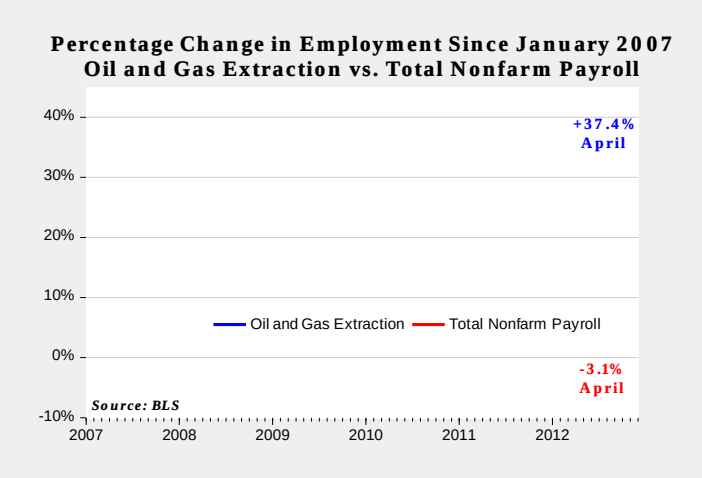
4**. Clean natural gas** has contributed to significant reduction in CO2 emissions in the U.S.

6. Concluding Remarks

At a critical time for America's energy future, Obama's proposed energy platform that so heavily favors high-cost, subsidy-dependent alternative energies is likely to damage the economy, drive energy prices higher, and move us further away from energy independence and

economic security. Behind Obama's claim that he supports a "sustained, all-of-the-above strategy that develops every available source of American energy," lays a war against traditional fossil-based energy sources like oil, which he has publicly dismissed to be a "fuel of the past."

When it comes to evaluating different energy sources, it should be recognized that fossils fuels have delivered a significant “energy stimulus” to the U.S. economy over the last four years at a critical time for America. Even today, while we struggle through another jobless, sub-par recovery, America’s energy sector has been one of the strongest sectors, delivering thousands of shovel-ready, energy-related jobs in places like North Dakota, Texas and Pennsylvania (see chart).



While the U.S. economy is still more than four million payroll jobs below the pre-recession 2007 levels, oil and gas extraction employment has increased by more than 37% during the same period. North Dakota has been labeled as the “Economic Miracle State” for its economic success over the last four years, and boasts jobless rates below 1% in cities and counties located in the heart of the Bakken oil region. That oil prosperity is now spreading to places like Eagle Ford Shale in Texas and south Kansas bringing thousands of new jobs, rising incomes and growing wealth. Likewise, the shale gas revolution has brought energy-related prosperity to the Marcellus region of Pennsylvania and West Virginia, and in the process brought

such an abundance to natural gas to the market that prices have fallen to historic lows, saving Americans billions of dollars in energy costs. Now the low energy costs are also sparking an industrial revolution in energy-intensive industries like chemical, fertilizers, iron and steel, in addition to lowering carbon emissions in the process.

Importantly, this powerful energy-related stimulus has happened as a result of technological advances and entrepreneurship, not as part of any intentional energy policy in Washington, and has not even required any direct taxpayer subsidies in the process. Therefore, when it comes to creating “shovel-ready” jobs at no direct cost to the taxpayer, hydrocarbon energy like oil and gas have a proven track record of delivering significant benefits to the U.S. economy in the form of jobs, stable energy prices, and the shale revolution is moving us closer to energy independence every year now. When President Obama called for an energy strategy in his State of the Union address that’s “cleaner, cheaper and full of new jobs,” he could easily have been describing the shale revolution that has clearly already delivered on all three points.

In conclusion, the reality is that fossil fuel energy sources will continue to play a dominant role in providing stable supplies of affordable energy to America for decades to come, despite Obama's embrace of alternative energies as the “energies of the future,” and his claim that oil is the "fuel of the past." Hydrocarbon energy is America’s future, and it’s the energy treasures beneath our feet that will continue to power the U.S. economy for many generations. By favoring new, costly, subsidy-dependent alternative energy sources over traditional sources, and by not fully supporting the proven, job-creating, low-cost fossil fuels, it would be more accurate to describe President Obama’s costly energy strategy as “some of the above” instead of “all-of-the-above.” Obama might wish for an energy future of alternative energy, but the scientific and economic realities suggest that the "fuels of the future" will mostly be the same as the "fuels of the past" — dependable and low-cost oil, natural gas, coal and nuclear.

Dr. Mark J. Perry is a full professor of economics and finance in the School of Management at the Flint campus of The University of Michigan, where he has taught undergraduate and graduate courses in economics and finance since 1996. Starting in the fall of 2009, Perry has also held a joint appointment as a scholar at The American Enterprise Institute for Public Policy Research in Washington, D.C., where he has been a regular contributor to the Enterprise Blog and American.com. Perry holds two graduate degrees in economics (M.A. and Ph.D.) from George Mason University and in addition, and has an MBA degree in finance from The University of Minnesota.

Dr. Perry's primary academic research is in the area of applied macroeconomics and financial economics and he has published several dozen scholarly articles in economics and finance journals. In addition to scholarly research, Perry enjoys writing guest editorials to a general audience on current economic issues. Perry's opinion pieces have appeared in more than twenty newspapers in the state of Michigan and most major newspapers around the country, including the Wall Street Journal, the Washington Post, USA Today and Investor's Business Daily,

Professor Perry has been best known in recent years as the creator and editor of one the nation's most popular economics blog, *Carpe Diem*. Professor Perry has written on a daily basis since the fall of 2006 to share his thoughts, opinions and expertise on economic issues, with a strong emphasis on displaying economic data in a visually appealing way using graphs, charts and tables. *Carpe Diem* has captured a growing international readership, and almost 8,000,000 people have visited *Carpe Diem* to read the more than 9,000 entries posted during the last six years.

Committee on Oversight and Government Reform
Witness Disclosure Requirement – "Truth in Testimony"
Required by House Rule XI, Clause 2(g)(5)

Name:

1. Please list any federal grants or contracts (including subgrants or subcontracts) you have received since October 1, 2009. Include the source and amount of each grant or contract.

NONE

2. Please list any entity you are testifying on behalf of and briefly describe your relationship with these entities.

NONE

3. Please list any federal grants or contracts (including subgrants or subcontracts) received since October 1, 2009, by the entity(ies) you listed above. Include the source and amount of each grant or contract.

NONE

I certify that the above information is true and correct.
Signature: *Mark J. Perry*

Date: May 29, 2012