

February 1, 2022

Questions for the Record from Republican Members

Hearing of the Subcommittee on Energy and Mineral Resources

of the

U.S. House of Representatives Committee on Natural Resources

**“What More Gulf of Mexico Oil and Gas Leasing Means for
Achieving U.S. Climate Targets.”**

Hearing Date: January 20, 2022

Responses Provided by

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Questions from Rep. Stauber for Mr. Lucian Pugliaresi, President, Energy Policy Research Foundation, Inc.

- 1. Why should the federal government offer more leases, when so many have been issued and development has yet to proceed?*

Answer

The federal outer continental shelf (OCS) leasing program provides specific conditions for winning bidders, including bonus bids, rental fees and time limits for development of leased properties. In order to maximize efficient development and the productive capacity of federal offshore petroleum resources it is important to have a large inventory of properties available for development. A large inventory of leases waiting development is not necessarily an indication the Department of Interior has issued too many leases or that the existing inventory is excessive. Changes in market conditions, technological advances, environmental reviews and mitigation programs, potential for unitization of adjoining properties can alter the profitability, sometimes substantially, of leased properties and the flow of financial capital for development. The pace at which offshore resources are developed does not, and should not, be determined by the date on which original leases were issued.

A similar example is recent criticism over the large number of export permits for liquified natural gas (LNG) issued by the U.S. Department of Energy (DOE). To date a large number of LNG export facilities have been authorized, but many of these have not received a Final Investment Decision (FID). The large number of undeveloped, but authorized export permits has been identified as a primary reason that DOE officials have decided to halt issuing any new permits to so-called non-free-trade destinations, which represents most of the world's natural gas consuming countries. However, such a policy fails to recognize that some pending projects might be superior to already authorized facilities. For example, proposed construction of new liquefaction facilities on Mexico's Pacific Coast, supplied by U.S. produced natural gas, could supply U.S. LNG to important allies and markets in the Pacific Rim. There are no restrictions on the shipment of U.S. natural gas to Mexico, but additional permits are required for natural gas shipped to Mexico that is re-exported as LNG. The best potential for expanding cost-effective supplies of domestic oil, gas and LNG require a large inventory of prospects that can command financial support to proceed.

More importantly, there remains widespread agreement that the U.S., the world's current largest producer of natural gas, has substantial gas reserves and could provide additional supplies to the world market both as an instrument of global energy security and as a cost-effective pathway to limit emissions of carbon dioxide as a substitute for coal.

2. *During the hearing, there was discussion of subsidies from the U.S. Government from oil and gas production, citing an IMF paper. Could you please clarify the assumptions and conclusions of this working paper?*

There was discussion during the hearing that development of oil and gas resources from the Outer Continental Shelf did not accurately account for the large subsidies provided by the government as described in a recent IMF working paper.¹ The Committee was left with the impression that oil and gas development received an annual subsidy in excess of \$600 billion. Two features of the working paper are worth noting. First, the IMF uses the word “subsidies” to include not just direct tax payer support for fuel use, but an estimate of environmental costs for the combustion of the fuel. Nearly half of their “subsidy” calculations are related to coal use and are therefore not relevant to development of oil and gas resources on the OCS. In fact, to the extent that offshore development provides additional volumes of natural gas that can substitute for coal combustion, it would substantially lower the IMF estimates of the effective “subsidy.” In addition, the report makes no adjustment for revenues collected by federal, state, and local jurisdictions from oil and gas development of public and private lands. Note that, according to the U.S. Department of Interior, the federal government alone collected over \$100 billion in oil and gas revenues between 2005-2015. A further limitation of the paper is that it does not effectively address uncertainty in calculations from the environmental costs of oil and gas use, especially given advances in control technologies. Air pollution costs are especially uncertain given the advances in the U.S. on control technologies and cleaner fuels. The paper has not been peer reviewed and should not be relied upon for any important policy conclusions.

3. *Could you provide more context to the claims made by the Administration and the Majority that halting OCS production will reduce carbon emissions?*

Answer

The claims made by the Administration and the Majority that halting OCS production will reduce carbon emissions is driven by computer modeling effort that concludes that halting U.S. domestic production would yield higher world equilibrium oil prices sufficiently to lower world demand by enough volume to reduce worldwide GHG emissions. The model is based on a very simplistic description of the world oil market. For example, OPEC might decide to pursue a price target by merely adjusting output for incremental production from non-OPEC producers and U.S. output would merely shift to foreign producers. If U.S. policies to limit domestic production were to drive up world natural gas prices, Asian electric power producers might switch out of gas to coal or direct crude burn. U.S. policy makers may decide that high petroleum prices risk energy security or are politically unacceptable and request OPEC producers to expand output. None of these are speculative statements, but events that have occurred in the world oil and gas market in just the last 12 months.

¹ David Coady, et al. *Global Fossil Fuel Subsidies Remain Large: An Update Based on Country-Level Estimates*. IMF working paper, May 2019. See <https://www.imf.org/en/Publications/WP/Issues/2019/05/02/Global-Fossil-Fuel-Subsidies-Remain-Large-An-Update-Based-on-Country-Level-Estimates-46509>

Here the central point is that attempting to calculate a global GHG emission estimate from a single oil and gas lease sale provides little useful information against the global uncertainties of future energy use and emissions. Policy development on the role of domestic oil production should include an analysis of the broad range of consequences beyond implications of a simple variable, i.e., GHG emissions. Asking policy makers to consider a single variable is likely to be misleading and ignore other important considerations.

4. *In terms of environmental justice, how are minorities and low-income families affected by rising gasoline prices?*

Data from the U.S. Census Bureau shows that poverty rates for Black and Hispanic households, although declining between 2015-2019, are still about twice as high as among white households. In 2019, the share of Blacks in poverty was 1.8 times greater than their share among the general population. Blacks represented 13.2% of the total population in the United States, but 23.8% of the poverty population. The share of Hispanics in poverty was 1.5 times more than their share in the general population. Hispanics comprised 18.7% of the total population, but 28.1% of the population in poverty.²

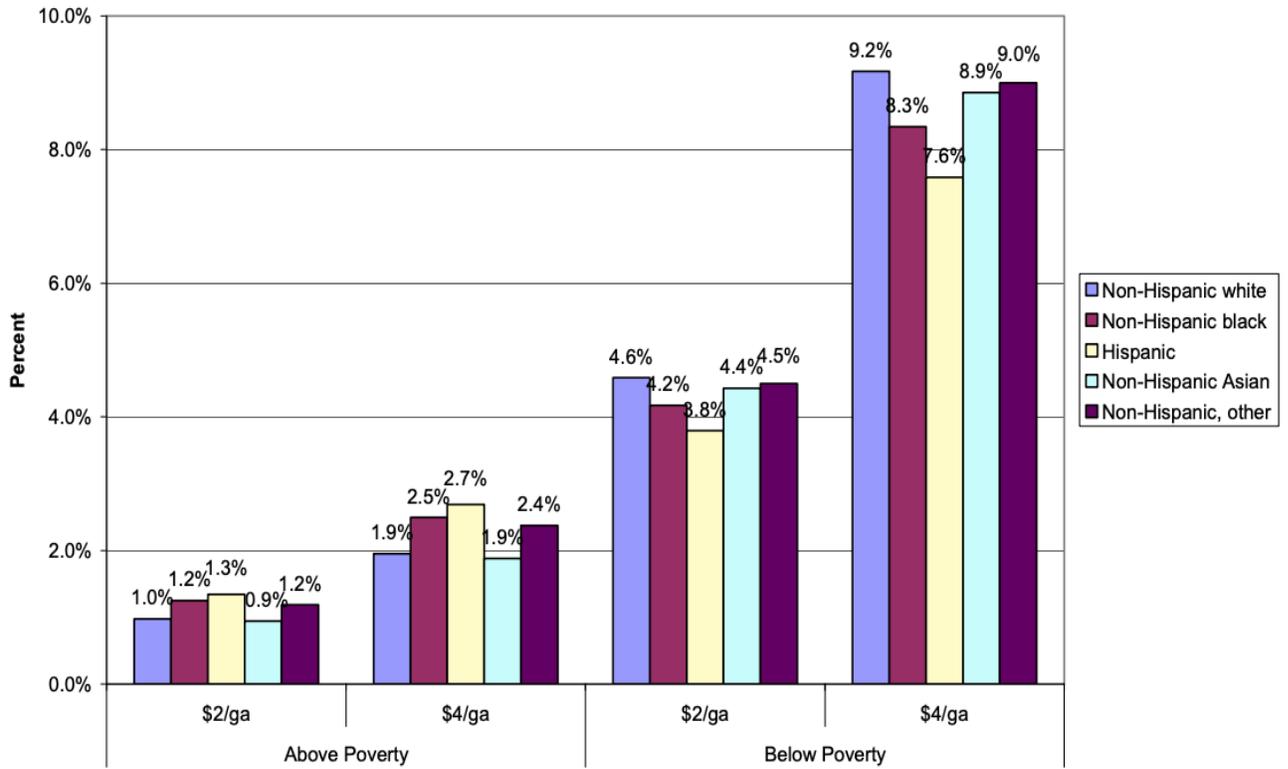
U.S. energy policies which seek to curtail the production of legacy fuels without adequate low-cost substitutes are especially harmful to low-income and minority communities. While the increase in gasoline prices increases costs for all drivers, and especially commuters, workers from households whose income is below the federal poverty level pay a larger proportion of their income for gas. The most comprehensive data on this topic is from the American Community Survey undertaken in 2006 published by the Urban Institute.

Low-income commuters on average have slightly shorter commutes (19.5 minutes) than those with incomes above the poverty level (23 minutes). However, because their incomes are much lower, poor commuters spend a much higher proportion of their wages on gas (8.6 versus 2.1 percent at \$4/gal). As gas prices double, the increase in costs represents a disproportionate increase in the burden for below-poverty commuters—from \$2/gal, the increase takes 4.3 percent of income from below-poverty commuters and 1.0 percent from those above poverty.

As shown in the Figure below when the price of gasoline rises from \$2 to \$4 per gallon households with income below the poverty line experience an increase of wages going to gasoline from approximately 4% to 8%. Any discussion of environmental justice should also include the consequences of environmental policies that raise long-term gasoline prices.

² John Creamer, U.S. Bureau of Census. *Inequalities Persist Despite Decline in Poverty for All Major Race and Hispanic Origin Groups*. See <https://www.census.gov/library/stories/2020/09/poverty-rates-for-blacks-and-hispanics-reached-historic-lows-in-2019.html>

Figure
Estimated Percentage of Wages Spent on Gas for Commuting, by Race



Source: Urban Institute. *The Impact of Rising Gas Prices on Below Poverty Commuters*. See