



**Testimony of
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June 14, 2022

Before the Pennsylvania House Majority Policy Committee

Good morning, Chairman Causer and members of the House Majority Policy Committee. I appreciate the opportunity to testify before the committee today on increasing energy costs.

API PA is a division of the American Petroleum Institute, the only national trade association representing America's natural gas and oil industry, with nearly 600 member companies that operate throughout the United States. Our members are involved in all aspects of the natural gas and oil industry, including exploration, development, production, transportation, storage, refining, and marketing and participate in [API Energy Excellence®](#), which is accelerating environmental and safety progress by fostering new technologies and transparent reporting. API was formed in 1919 as a standards-setting organization and has developed more than 800 standards to enhance operational and environmental safety, efficiency and sustainability. Many of these standards are incorporated into state and federal regulations.

Today, we are here to talk about the rising inflation that is impacting American families and businesses across the country.

Our modern way of life depends on energy. It's the foundation of our everyday lives – from transportation and electricity to clothing, computers, and cell phones. Materials made from natural gas and oil are indispensable to modern medicine - pharmaceuticals, plastics and personal protective equipment (PPE). As energy costs increase, so do the costs of many goods and services.

Why are energy costs on the rise?

By economic fundamentals, we generally see downward pressure on prices when that something is in abundance – and inventories can serve as an indicator of relative abundance. The reverse is generally true when supply is tight; there is an upward pressure on prices.

Natural gas prices have surged amid tight market conditions due to strong global demand, labor and supply chain challenges, as well as policy uncertainty and regulatory and judicial hurdles that have delayed or canceled needed infrastructure projects. As a result of these and other drivers, prices at Henry Hub, the U.S. benchmark for natural gas, have surged to a 14-year high. In Pennsylvania, natural gas prices have spiked to their highest level in the past 10 years, according to a recent Independent Fiscal Office (IFO) report.

The price of natural gas can affect utility bills. In the U.S., as well as Pennsylvania, about half of all households now use natural gas as their primary home-heating fuel. With natural gas accounting for more than half the state's net electricity generation, high natural gas prices can also result in higher electricity bills.

Given the persistent global commodity market pressures, prices could remain high. Even prior to Russia's invasion of Ukraine, European and global natural gas markets were tight, and the crisis has only exacerbated these problems.

On the domestic front, the natural gas market is likely to remain extremely tight in the absence of production growth. The lack of pipeline egress in key-producing regions has been a limiting factor and has contributed to a weak recovery in drilling activity. A robust infrastructure system, however, can help lower the costs of supplying both natural gas and oil for consumers by reducing congestion, maximizing efficiency and improving safety.

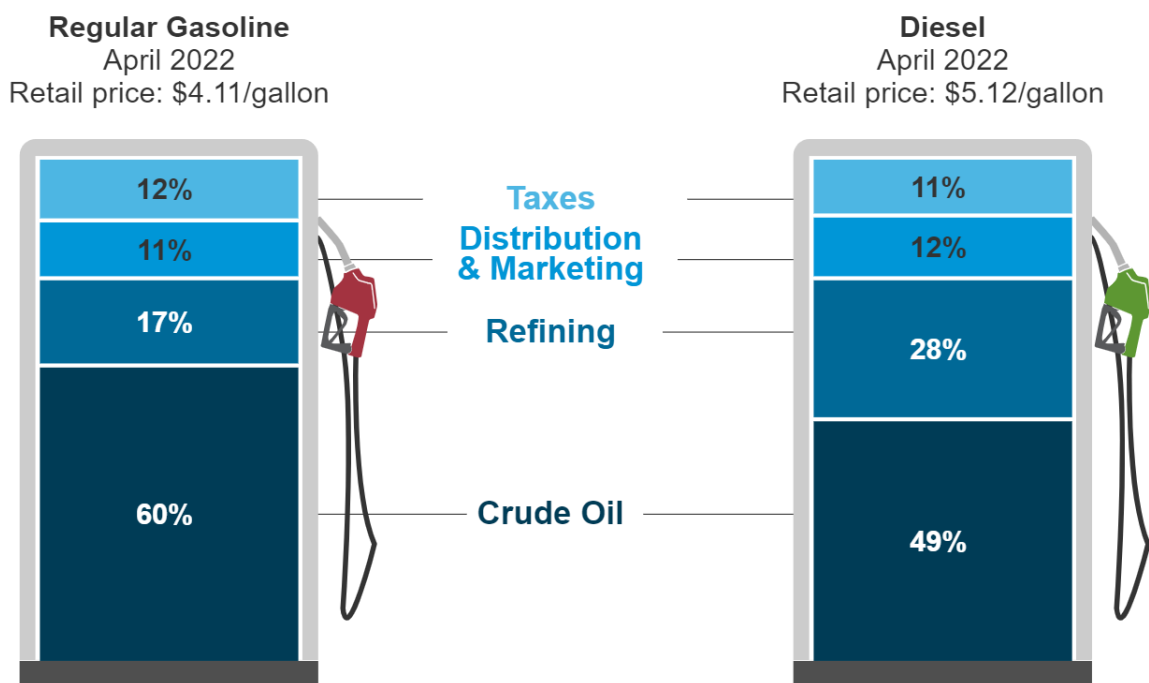
Then there is the cost of motor fuel.

As of June 10, the average price for a gallon of gasoline in Pennsylvania is \$5.06, according to AAA. Nationally, the average price is \$4.99. Other states have surpassed the \$5 a gallon mark.

Prices at the pump are influenced by market factors, geopolitical instability as well as government policies. It is also important to note that prices are set by global markets - not firms or oil companies.

The price of crude oil accounts for about 60% of the price we pay at the pump for gasoline. Therefore, high crude oil prices are the main driver of elevated motor fuel prices. The other main factors impacting gasoline prices are refining costs (17%), distribution and marketing costs (11%), and federal and state taxes (12%).

What we pay for in a gallon of:



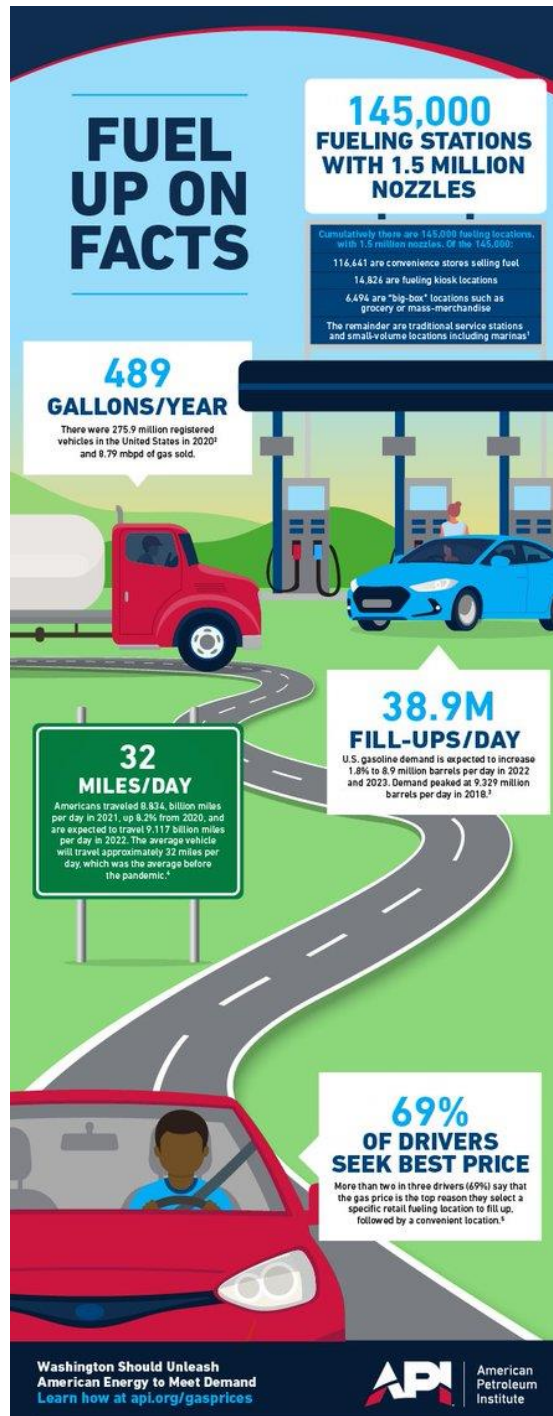
 Source: U.S. Energy Information Administration, *Gasoline and Diesel Fuel Update*

Oil prices are currently at a seven-year high amid a persistent global supply crunch, workforce constraints, changing logistics for product movement, geopolitical instability in Eastern Europe with the Russian/Ukraine crisis, the economic rebound following the initial stages of the pandemic, and policy uncertainty from Washington.

As we face record-setting gas prices, it is also helpful to consider just how massive America's vast and growing demand is for the energy to make all our road trips and family vacations possible. With data from the U.S. Energy Information Administration (EIA), consider the following metrics which demonstrate America's need for greater U.S. supply (*See Fuel Up on Facts*):

- **39 million fill-ups/day:** U.S. gasoline demand peaked in 2018 at an annual average consumption of 9.329 million barrels per day (mmb/d). After declining during the pandemic, we are now expecting to see demand rebound to around 9 mmb/d – or 374 million gallons per day over the next year and a half. Based on 9.5 gallons per refueling stop, that works out to 39 million fill-ups in the U.S. per day.
- **489 gallons/year per registered vehicle:** On average, there are 276 million registered vehicles in the United States and in 2021, nearly 9 million barrels per day of gasoline was sold.

- 32 miles/day:** Americans traveled nearly 9 billion miles per day in 2021, up 8.2% from 2020, and are expected to travel over 9 billion miles per day in 2022. With 276 million registered vehicles in the United States, the average vehicle will travel approximately 32 miles per day.



Higher fuel prices also impact the price of nearly every other good or service across the economy as the raw materials and cost to move products and supplies increases. So, the pain at the pump is also felt at the grocery store, local school budgets, and road construction projects.

Moreover, Russia's invasion of Ukraine – on the heels of the pandemic – has led to an historic reshuffling of international energy trade flows as countries around the world rethink their reliance on Russian energy and seek alternative sources. This reordering of global markets has contributed to crude oil prices climbing to their highest level in more than seven years and created a global squeeze on refined products, including diesel and gasoline. The largest market shift for distillates/diesel fuel has been shifts in international trade in the wake of Russia's war in Ukraine having impacted European supplies.

Within the U.S., imbalances exist between locations of production and consumption, and this puts increased focus on existing infrastructure and trade flows, as refined product prices increase relative to crude oil.

Imbalances are particularly acute in the East Coast (PADD 1), where demand for refined products (gasoline and diesel) exceed refining capacity. These conditions place increased reliance on procuring fuels from other regions (Gulf Coast and Midwest PADDs) and foreign markets. Additionally, the loss of the Philadelphia Energy Solutions refinery in 2019 increased this reliance. The nature of the East Coast's reliance on other sources for distillates coupled with a swift decline in Russian distillate imports preceding the ban, a decrease of distillate movements into the region, reduced refining capacity, and historically low distillate fuel oil stocks has had an outsized impact on already high prices.

It is also important to consider that U.S. refiners are running at or near capacity to meet demand, and production is near the top of the five-year range. In May, the bulk of U.S. refining operations functioned at their highest level of capacity for this time of year in at least 30 years.

This data underscores the pressing need for greater domestic supply and pipeline infrastructure that helps strengthen energy security and reliability. While our industry is leading the development of innovative technologies to usher in a lower-carbon future, we must continue to meet the energy needs of today. Simply put, Americans need all the energy we can get. This does not mean banning exports, which would negatively impact strategic allies in Europe. Rather, the best and smartest way to get that energy is for decisionmakers here in Harrisburg, and Washington, to support policies that increase U.S. natural gas and oil production.

How can this be accomplished?

Meaningful, realistic measures are needed to help provide relief – and policy choices matter.

American producers are working to meet rising energy demand as supply continues to lag, yet policy and legal uncertainty is complicating market challenges. To restore certainty in the marketplace and encourage investment:

- The Biden administration needs to quickly develop and implement a new five-year program for offshore leasing, as well as fully restore leasing on federal lands and waters (*See U.S. Energy Leasing Limbo*).
- Additionally, both the administration and Congress need to support the infrastructure, including pipelines required to move energy from where it's produced to where it's needed, including liquefied natural gas (LNG) shipments to support our European allies.

U.S. ENERGY LEASING LIMBO

Today, nearly 100,000 U.S. wells are producing natural gas and oil on federal lands. There are 9,000 permits still in a process to start production, which is a fraction of the overall well count. Many factors impact whether to seek a federal permit to drill, including that not every lease produces oil and natural gas, navigating the complex permitting process, and balancing supply chain and workforce issues.

The graphic below details that federal leasing and development is a long-term process and holding competitive lease sales now helps enable more American energy for our future.



Although it will take time for energy production and projects to ramp up, smart energy policies now will go a long way to strengthening energy security for the U.S. and our allies abroad.

The fact is, natural gas and oil account for nearly 70 percent of energy consumption in the U.S., and will remain a leading source of energy for years to come.

As the second-largest producer of natural gas in the nation, Pennsylvania has the potential to not only help alleviate natural gas shortages and aid our allies but to export environmental progress as well. According to the EIA, while natural gas production growth in the Appalachia region over the past decade has been aided by improved productivity from wells drilled, pipeline buildouts and increased takeaway capacity, regional transportation capacity limits have been reached. This lack of needed pipelines will limit production growth and hinder Pennsylvania's ability to help ease the tight natural gas market that has led to higher prices.

Unfortunately, poor policy decisions at the federal level and numerous legal challenges have led to pipeline constraints in Pennsylvania and neighboring states, affecting access to abundant, reliable natural gas in New England and beyond.

Given the vast supply of shale gas in Pennsylvania, policymakers should support policies that encourage new investment and the build-out of energy infrastructure, including in southeast Pennsylvania, which has the potential to become a hub for LNG exports and help meet the growing demand for natural gas. But first we need predictable regulations and efficient permitting here in the state, and policymakers in Washington that are committed to real energy leadership.

At this time of high inflation and energy costs, we need policies that support meaningful increases in American oil and natural gas production – not misguided, partisan proposals and punitive taxes. As the International Energy Agency projects, even with the Paris Accord being fully implemented, natural gas and oil will continue to supply half of our energy in 2050.

We need to have honest conversations about our energy needs and real solutions that could help American families and businesses when they need help the most while supporting our allies overseas and reducing carbon dioxide emissions now and in the future.

Thank you for the opportunity to address the committee. I am happy to take any questions members may have.