



U.S. REPRESENTATIVE · 4TH CONGRESSIONAL DISTRICT · OREGON

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SPECIAL REPORT ON ENERGY SOLUTIONS

Congress of the United States
House of Representatives

August, 2008

Dear Friend,

In the early 1970's, Americans idled in long gas lines because of the OPEC oil embargo; a reflection of our 35 percent dependence on foreign oil at the time. That was our first warning to change our ways and reduce our dependence. In 1991, the price of gasoline skyrocketed because Kuwaiti and Iraqi oil supplies were cut off by the first Gulf War. This again demonstrated our dependence on foreign oil, which, at the time, accounted for 42 percent of our daily consumption. Today, our dependence on foreign oil has risen to 58 percent, and we are suffering from record gas prices. Oil speculators and OPEC are manipulating the market while oil companies have failed to develop known resources from millions of acres they have already leased. Our repeated failures to break our imported oil addiction stressing family budgets and put our entire economy at risk.

Americans need relief at the pump now as gas prices have soared to over \$4 a gallon while oil companies reap obscene profits. See the article below on *Three Ways We Can Quickly Reduce Energy Prices* to learn more. The next step is to transition away from foreign energy supplies and focus on cleaner natural gas and reduce our demand for fuel. In the long run, our nation has to use its American ingenuity and technology to foster advanced technologies to break foreign oil's grip on our nation. On page 3 you will find *Promoting a Reasonable Transition to Long Term Solutions*.

Vice President Cheney formulated the Bush Administration's energy policies behind closed doors. I opposed the adoption of the Bush energy policies and predicted they would lead to more dependence on foreign oil, and they have. Their oil dependent policies have delayed any meaningful progress toward a new energy future making the transition more painful and longer than necessary. Congress needs to take steps to prevent consumers from being price-gouged while we forge a plan for a more energy efficient future.

While I agree we can increase domestic supplies, a lack of supply is not the reason consumers are reeling from for record gas prices today. The fact is world supply of oil is tight, but adequate to meet demand. Has anyone been waiting in long lines to buy gas like we did in the 1970's? The only long lines I have seen in Springfield have been at the one station that offers a significantly lower price. Today's price crisis is not the result of a supply problem, we have a market problem. See the article on page 2, *Domestic Energy Supplies* for more information.

Finally, no energy discussion is complete without a discussion on climate change. See *Climate Change: The 800 lb Gorilla Around the Corner* on page 3. Oregon also has a unique role to play in biofuel production. See the back page for *Ethanol Concerns and Biofuel Promises*.

Sincerely,



Past: Long Gas Lines of the 1970's



Present: Record High Gas Prices



Future: Cars That Run on Renewable Domestic Fuel Sources

Three Ways We Can Quickly Reduce Gas Prices

#1: Stop the Manipulation of Oil Prices

Oil, natural gas, and other commodity markets were deregulated by the Republican led Congress to the benefit of corporations like Enron. While Enron CEO Ken Lay was later convicted of massive corporate fraud and the company went bankrupt, the "Enron loophole" lives on. As a result, \$260 billion of speculative money has flowed into commodity markets in the last five years, unnecessarily driving up the price of nearly everything. It is rumored that one Wall Street brokerage firm controls more oil and gas in the current marketplace through speculative contracts than Exxon-Mobil, the largest U.S. oil company.

According to testimony before Congress in June from three Wall Street analysts, oil prices could be cut up to 50 percent in 30 days by eliminating price manipulation in the oil market (closing the Enron loophole). The House recently took the first step in closing the loophole by passing H.R. 6377, Energy Markets Emergency Act, which will direct the Commodity Futures Trade Commission (CFTC) to use its full authority to curtail speculation and other practices distorting the energy market. The Senate still needs to act on this legislation.

Congress also needs to pass comprehensive legislation to stop price manipulation. That is why I am also an original cosponsor of H.R. 6330, the 2008 Prevent Unfair Manipulation of Prices (PUMP) Act. The PUMP Act is a comprehensive bill that would close several loopholes that allow manipulation. Finally, Democrats in Congress have called on the President to release oil from the Strategic Petroleum Reserve to undercut the speculators and drive the price of oil down. This is the very purpose of the reserve and even a small release could dramatically dampen the leverage of speculation. Predictably, the Administration opposes these actions and has threatened to veto these bills.

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National Petroleum Reserve = 10 Billion Barrels of Oil



NPRA
 22.6 million acres are available
 Only 3 million acres leased
 Only 25 exploratory wells drilled
 Zero production
 Known resources: 10.6 billion barrels of oil

ANWR
 1 well has been drilled
 No reliable estimate of oil
 10 years to produce oil

91 Million Acres Open For Business In Alaska

#2: Use it Or Lose it

Republicans in Congress claim that prices will fall if we sell more leases for drilling offshore and in the Alaska National Wildlife Refuge (ANWR). This argument ignores the fact that **oil companies currently hold over 10,000 leases they are not drilling**; and from these idle leases they can access 80 percent of the available oil and gas reserves. Congress must force the industry into producing more oil and gas in the next few years. To expedite the development of these domestic oil resources, I cosponsored H.R. 6251, the Use it or Lose it Act, a common sense bill to require the oil industry to use the leases they already have or risk losing the right to bid on future leases.

More than 91 million acres in Alaska are already open to drilling. The single proven biggest pool of oil in the United States is not under ANWR, but next door in the National Petroleum Reserve Alaska (NPRA), which has at least 10.6 billion barrels of recoverable oil. In 1996, the Clinton Administration leased three million acres of this 22.6 million acre reserve, and the current Administration has leased millions of additional acres. Despite the rapid increase in oil prices and the claims that we need to open more land for leasing, the industry has managed to drill only 25 exploratory wells in the reserve and has yet to build a link to the nearby Prudhoe Bay pipeline. This reserve is open for business with billions of barrels of oil for the

taking, but it has been largely ignored by the industry.

A responsible oil industry would order additional drilling rigs and develop the leases they already hold. Exxon-Mobil earned more profits last year (\$40 billion) than any other corporation in the history of the world. But instead of investing in additional production, refinery capacity, and alternative fuels, Exxon-Mobil spent more than \$25 billion buying back its own stock to enrich big stock holders, board members, and the C.E.O. who received a \$400 million retirement package.

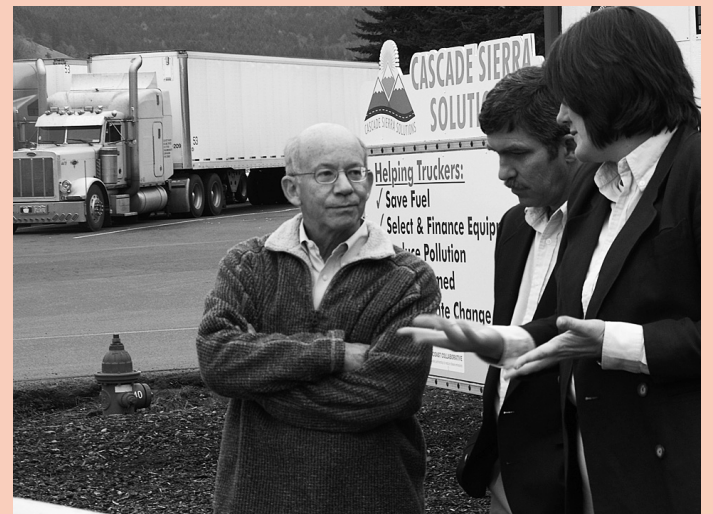
The big oil companies are dragging their feet on drilling the 68 million acres they have access to today, and instead demand access to the environmentally sensitive ANWR. Studies done by the Bureau of Land Management and the General Accounting Office separately concluded there is “a greater than 50 percent chance that no economically recoverable quantities of oil would be found” in ANWR. The Department of Energy estimates that opening ANWR would reduce the price of a barrel of oil by 75 cents in 2026, or two cents at the gas pump 18 years from now. That is not a solution to today’s high energy prices or a major factor in securing our energy future.

#3: End OPEC Price Fixing

The world demand for oil has risen, but the Organization of Petroleum Exporting Countries (OPEC) has conspired to decrease production. In 2007, the Middle East’s six largest oil exporters – Saudi Arabia, United Arab Emirates, Iran, Kuwait, Iraq and Qatar – reduced their exports by 862,000 barrels a day. In fact, OPEC’s oil production peaked in 2005 and has been capped or cut every year since. The amount of crude oil exported by the world’s top oil producers was reduced 2.5 percent last year, despite a 57 percent increase in prices. The strategic withholding of supply has spiked the price of oil to over \$140 a barrel.

Last month, press accounts indicated that President Bush – for the second time this year – pleaded with the Saudis to increase their oil production. Unfortunately, his pleas were unsuccessful. If the Saudis are going to hold our economy hostage, the U.S. needs to use all of its legal options. I have repeatedly called on the President to file a trade complaint against OPEC for violating WTO rules. There is a strong legal basis for the U.S. to pursue this trade complaint because colluding to set production levels violates WTO rules, specifically Article XI.

The U.S. government has filed a number of cases with the WTO on behalf of huge multinational corporations. It is long past time for the Administration to file a complaint to break up the OPEC cartel and provide relief for American consumers and small business.



DeFazio Tours Cascade Sierra Solutions in Coburg, an Outreach Center to Assist Truckers in Obtaining Technology to Increase Fuel Efficiency

Domestic Energy Supplies

The United States uses 25 percent of the world’s oil production, but holds only three percent of the world oil reserves. We cannot drill our way out of this crisis over the long-term, but we can moderate the current price spike with domestic production. I believe the Bush Administration and big oil are perpetuating a great myth; drilling restrictions are blocking supply and driving up the price of oil. However, according to the Department of the Interior, **82 percent of the natural gas deposits and 79 percent of the oil deposits thought to exist in the Outer Continental Shelf (OCS) are located in areas currently leased and fully accessible.**

The Republicans in Congress claim that 85 percent of the OCS is blocked from oil and gas drilling is a misleading statistic that refers to acreage, not actual oil and gas deposits. When it comes to boosting supply, available deposits matter, acres don’t. **The vast majority of viable oil and deposits are already available for development and are sitting idle.**

The oil industry executives who deny that prices are being inflated claim it is merely a supply and demand problem. The industry’s own actions prove that theory wrong. Oil and gas companies hold leases to nearly 68 million acres of federal land and waters that are not currently producing oil and gas. The most frequent excuse for the level of development is an equipment shortage. Why aren’t companies like Exxon-Mobil ordering new equipment instead of spending tens of billions buying back their own stock? They are making record profits on record prices because of the current “shortage.” More production might actually cut profits.

The fact is 79 percent of the oil potentially available on the OCS is already open for leasing, but the oil companies have not made it a priority to drill there. These untapped resources equal more than 14 years of current U.S. oil consumption (7.5 billion barrels per year).

What Should Our Priorities Be?			
	Acres	Oil (bbl)	Natural Gas (cf)
OCS Open for Drilling	95 million	107 billion	658 trillion
OCS Closed to Drilling	572 million	19 billion	85 trillion

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The potential of the areas currently off limits to drilling (the Oregon OCS lands for instance) is estimated to hold a small percentage of our reserves. In addition, experts say much of the estimated 19 billion barrels of oil and 85 trillion cubic feet of natural gas on the closed lands are not economically recoverable even at today's prices. The Energy Information Administration says drilling areas of the OCS that are not currently open for leasing would have no impact on price until 2030, and then it would be "insignificant."

The federal government has done its job by increasing oil and gas development opportunities. The number of drilling permits exploded in recent years, going from 3,802 five years ago to 7,561 in 2007. Between 1999 and 2007, the number of drilling permits issued for development of public lands increased by more than 361 percent. The oil and gas companies were granted greater access to federal lands and thousands of new drilling permits, but gas prices are still rising at a staggering rate. This contradicts the argument that more drilling means lower gasoline prices. There is simply no correlation. It appears that the oil industry is in no hurry to increase drilling, increase supply, and potentially lower prices and profits.

Promoting a Reasonable Transition to Long Term Solutions

The United States cannot resolve our energy problems until we redirect our resources to support new domestically produced fuels and technologies. I support a rational approach to making the U.S. energy independent, efficient and environmentally responsible.

I am convinced we need to consider natural gas as a transitional fuel. I am intrigued by the Pickens Plan. Developed by T. Boone Pickens, a billionaire oilman from Texas, the plan promotes a massive expansion of wind power and the substantial replacement of oil with more environmentally-friendly natural gas. Many types of vehicles can be converted to run on natural gas, and 98 percent of the natural gas we consume is produced in North America. But the vast deposits of natural gas from already developed areas in the Alaskan North Slope cannot be transported to the lower 48 states, which is why I support building a natural gas pipeline to bring this gas to the market.

We all agree we must reduce our dependence on foreign oil. As part of a reasonable transition strategy we must promote alternative transportation options for both urban and rural America.

As the Chairman of the House Subcommittee on Highways and Transit that will write the six year transportation authorization bill next year, I will work to craft a bill that will move our transportation system into the future by promoting alternative transportation and public transit programs to help get people out of their cars, off our roads, improve efficiency, and reduce our dependence on foreign oil.

One innovative example is the return of the electric streetcar to more and more cities around the country. Thanks to a provision in law that I authored, Oregon Ironworks is currently building the first streetcar manufactured in the U.S. in over 70 years. This industry will create family wage jobs for Oregon workers, revitalize the U.S. manufacturing industry, reduce congestion, and reduce our dependence on foreign oil.

I also support enhanced funding for Amtrak to help establish a truly integrated high speed rail system throughout this country. One full passenger train can take 250 to 350 cars off the I-5 corridor. And I believe we should deliver more freight by train because freight trains are three times more efficient than trucks and could reduce truck congestion on I-5.

In the long-term, the United States must use its technological advantage to foster a sea change in how we use energy. We need to advance renewable fuels, fuel cells, and advanced battery technologies. The Democratic led Congress passed H.R. 6049, the Renewable Energy and Job Creation Act, which extends and expands tax incentives for renewable electricity, energy and fuel, as well as for plug-in hybrid cars, and energy efficient homes, buildings, and appliances. I also voted for legislation that creates a renewable portfolio standard requiring that at least 15 percent of retail electricity come from renewable sources by 2020, although I support even higher percentages. And I support legislation that creates loan guarantees for construction of clean, renewable energy infrastructure. In Oregon, we currently benefit from our significant wind energy resources and in the future hope to capitalize on our wave energy and geothermal potential.

Our nation's energy policies have been stuck in the 1950's for too long. We need to commit to a sustainable, clean energy future in the same way President Kennedy committed to landing a man on the moon within a decade. A clean energy future can sound like a science fiction dream, but it is entirely doable. If we break the hold that big energy companies have on federal policies, we can have a clean energy future derived from renewable domestic fuels and new technologies.

Climate Change: The 800 lb Gorilla Around the Corner

Developing new domestic energy supplies such as renewable fuels, reducing demand with advanced energy efficient technologies, and production of fuel cell and advanced battery vehicles will significantly reduce our carbon footprint.

The Democratic majority has made progress in reducing green house gas (GHG) emissions by establishing an energy policy focused on conservation, efficiency, and renewable energy sources. In December 2007, Congress passed H.R. 6, the Renewable Fuels, Consumer Protection, and Energy Efficiency Act. This bill raised auto fuel economy standards for the first time since 1975. The new standard of 35 miles per gallon by 2020 for new cars and trucks will save American families \$700 - \$1000 per year at the pump. That is \$22 billion in net consumer savings in 2020 alone. This provision will also reduce oil consumption by 1.1 million barrels per day in 2020 (one-half of what we currently import from the Persian Gulf), and the reduction in GHGs will be equivalent to getting 28 million cars and trucks off the road.

I also strongly support a federal commitment to GHG reductions in the United States in conjunction with a commitment by all the world's industrialized nations. The most practical way to accomplish this goal is through a regulatory approach. The Supreme Court already clarified that the Clean Air Act gives the Environmental Protection Agency (EPA) the authority to ratchet down GHG pollution levels and clean up our environment. The Clean Air Act has been very successful at reducing other air pollutants, such as sulfur dioxide and nitrogen oxide.

Unfortunately, President and his Wall Street allies only support market-based approaches like the cap-and-trade system to cut GHG emissions and my colleagues in Congress are generally in agreement. This system would set pollution limits (the "cap") and distribute allowable emissions levels to industry that can be bought and sold to meet emission targets (the "trade").



Congressman DeFazio Tours the National Wave Energy Center at OSU

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A cap-and-trade scheme is already place in Europe, but it has been a failure. Last year alone, GHG emissions in Europe rose by 1.1 percent making 2007 the third consecutive year of higher emissions on the continent. And as emissions increase in Europe, investors and speculators make billions buying and trading pollution credits. They do this by buying allowances, hoarding them until prices increase, and then selling them for huge profits at the expense of consumers, businesses, and the environment. Last year alone, the total value of allowances traded in Europe was \$60 billion.

Further, allowing unregulated entities, banks, and hedge funds to buy and trade allowances will distort supply-and-demand and exert artificial pressure on the market. Commodity speculation is already driving up the price of oil. A U.S. carbon market expected to be three times the size of Europe's will attract foreign investors (read China and Saudi Arabia) to the American pollution market. Our economic competitors could make billions by holding American allowances hostage until the price is right. American transportation, manufacturing, and other energy dependent sectors would be devastated, and consumers would bear the ultimate costs. I will continue to work for the most effective, least costly approach to reducing GHG emissions.

Ethanol Concerns and Biofuel Promises

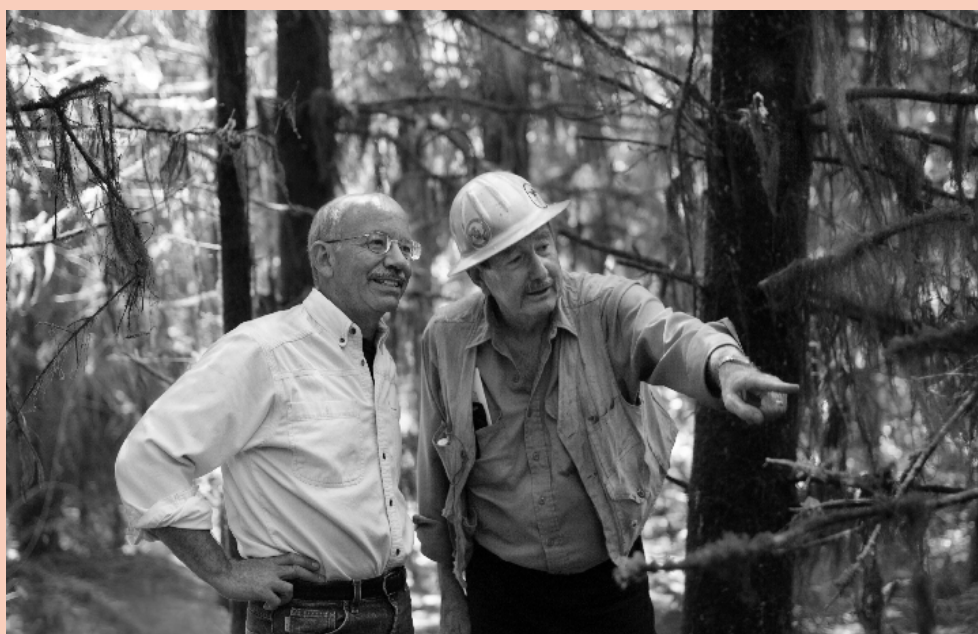
In December 2007, Congress passed H.R. 6, the Renewable Fuels, Consumer Protection, and Energy Efficiency Act. The bill contained a Renewable Fuels Standard (RFS) designed to boost alternative fuels made in America. The RFS requires production of nine billion gallons of renewable fuel in 2008, increasing annually to 36 billion gallons by 2022. The Act also mandated that 21 billion gallons of cellulosic ethanol be produced from wood, grasses, or the non-edible parts of plants by 2022.

I support alternative fuels production, but I am wary of unintended consequences. For example, ethanol created from corn has been linked to increased food prices, and has done nothing to lower fuel prices. According to the U.S. Department of Agriculture, 25 percent of America's corn crop was diverted to produce ethanol in 2007, and 30 to 35 percent will be diverted in 2008. Yet, fuels derived from corn will account for only four percent of the domestic supply this year. Corn based ethanol represents little or no net energy gain in its production and distribution. These serious issues must be resolved before we embrace ethanol as an energy source of the future.

Other renewable energy sources, such as non-food agricultural and woody biomass sources, can play an important role in mitigating global climate change and reducing our dependence on foreign sources of fuel. Cellulosic ethanol could displace one-third of domestic gasoline supplies and cut greenhouse gas emissions from fuels by 80 percent. These alternative cellulosic forms of biomass are not derived from food crops and could represent a much higher net energy gain. In addition, biomass could be an alternative to the controversial field and slash burning.

There is a problem with the definition of "renewable biomass" in federal law that prevents almost all federal land biomass from counting toward the RFS mandate if it is used to manufacture biofuels. Needed forest fuel reduction projects and forest health thinning materials could produce millions of gallons of biofuel and reduce costs to tax payers for this necessary work in our forests. That is why I joined eleven of my colleagues in introducing H.R. 5236, the Renewable Biomass Facilitation Act, which would correct the flawed definition of "renewable biomass."

This legislation will provide a boost to innovative companies working to develop new biomass technology. For example, a company in Enterprise, Oregon, has licensed a unique refining process that converts woody biomass residues into "bio-oil," which can be used as fuel or as an industrial lubricant. A similar bio-oil plant is already in operation in Canada. With half of the U.S. Forest Service's budget currently being spent on fighting fires, and our public forests in declining health, it makes sense to explore using excess forest biomass to produce bio-diesel fuel rather than allowing them to go up in smoke.



Congressman DeFazio Discusses Biofuel Potential with Forestry Expert

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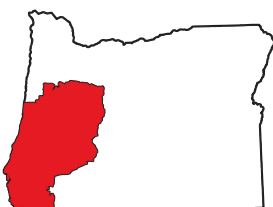
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A handwritten signature in black ink that reads "Peter A. DeFazio".

M.C.
Presorted Standard

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