My name is Shannon Grove and I want to thank Chairman Issa and Congressman McCarthy for holding this hearing in Kern County, the heart of oil country.

I was elected to the California State Assembly last November. Before that, I ran my own business, Continental Labor and Staffing since 1993, focused primarily on providing employees to the oil, agriculture and construction industries. I learned about the oil industry from the ground up to recruit employees for the wide variety of jobs - many highly skilled - that the oil industry needed. Over time, I came to realize the impact that local, state, and federal laws and regulations had on the industry that doubled and tripled costs and caused endless delays in project permitting, and then the kit foxes and other species show up on a job site and more delays.

From those experiences, and from the past few months working in the state legislature trying to help Kern County with jobs in the energy industry, I am very concerned about how we continue to affordably provide the energy this country needs and grow the jobs associated with this industry while facing a state and federal government virtually at war with domestic oil production.

This great nation was founded on a simple idea. That no one, neither King nor President, should be able to mandate another individual's business. This notion of government was novel at the time America adopted it, and since 1776 it has provided the citizens of America with astonishing growth and prosperity. Individuals transformed America from horse-drawn buggies to satellites and cell phones through intelligence, hard work and energy. Fossil fuels provided the energy.

Today, American policy makers craft legislation that changes the way we interact with energy. They are providing subsidies to some forms of energy, excess taxation and regulation to others. But fossil fuels were not chosen as the primary source of energy in early America on account of a government mandate or subsidy. Fossil fuels are not the primary source of energy around the world by some strange coincidence or fluke. Quite the contrary – intelligent, industrious men and women selected fossil fuels as their energy of choice because of its uniquely irreplaceable properties and its relative abundance. As with all economic decisions, individuals in the past chose fossil fuels as their preferred source of energy because it was the cheapest and best of all available choices. Today – outside of regulatory mandates – the same logic holds.

If oil and gas are the cheapest and best of all available energy choices, why then does it cost a fortune to fill up my car? What are the facts surrounding other alternative energies? How do State and Local regulations fit into the broader picture of energy prices, security, and independence? These are all complicated and important questions; they are made more complicated by the American media and policy makers who do not use the relevant facts.

The first question and perhaps most important is this: who sets the price of energy? No one person is charged with setting energy prices, but we can infer who is responsible for energy prices by considering who owns most of the energy-related assets. It is a commonly held belief that Chevron, Exxon, and Shell are the masters of the energy universe – this is strictly a myth. Consider that Exxon Mobil, the largest American oil company and the largest publically traded company on the NYSE, controls less than one percent of the world's oil reserves. All American oil companies combined control less than 10%. Whoever can be said to set the price of oil, it is not the American oil companies.

Most of the world's reserves are controlled by governments or government owned entities. I do not mean to belittle the American oil companies by any means – the industry as whole is a great boon to our national and local economy, not to mention our energy security. The oil and gas industry employs 9.2 million people in the United States and accounts for 7.5% of the entire U.S. economy. Here in Kern County there are over 20,000 jobs directly from the petroleum industry and another 52,000 indirect jobs, making 72,000 jobs attributable to oil. Many of these are good high-paying jobs with an average income of almost $100,000 a year. And in the complexities of the economy the income from these jobs spills over to afford the services of everything from healthcare professionals to mechanics.

It has been estimated that on average the oil and gas industry creates over 4 jobs for every individual they employ. So while American oil and gas companies do not set the price of oil or gasoline, they are providing a great employment opportunity for millions of individuals in Kern County and across the United States.

But we hear every few quarters that some new oil company has made record profits. If we ignore for the moment that American oil companies are so small on the global scale to be insignificant in determining the price of oil and gasoline, we might wonder: do these record profits come at the expense of higher prices? Again, this is a complex issue. But let us examine some facts.

First and foremost, oil and gas profits are indeed impressive when considered as a raw figure. But profit is a tricky term, particularly as it relates to prices. The profit margin is what a seller adds to the price of the good, above his costs of production. In the case of Apple, for instance, the average products were sold at about 25% above the costs of materials, production, marketing, sales, etc., required to bring their products to market in 2011. Exxon's profit margins, by comparison, were 8.7% - hardly a windfall. When taken together, the average margin in the oil industry during 2010 - a year with relatively high oil prices - was 11.5%, making oil and gases the 45th most profitable industry for the year.

If it is not a windfall profit on account of American oil companies that causes high oil prices, what is the root cause? Part of the issue is that getting oil and gas out of the ground is becoming an increasingly costly exercise. These costs are increasing on two fronts – first the 'easy oil' has been found and produced. Deepwater exploration and complex methods like horizontal drilling carry higher risks and greater costs. This upward force on prices can only be overcome by the creation of new techniques and technologies to discover and exploit new reserves and improve oil production from known fields.

Another part of increasing costs is the high level of taxation and regulation applied to American oil and gas companies. As an example – do you know who the major benefactor of Exxon's oil and gas production activities was between 2003 and 2007? Was it big-oil fat cats? Was it Wall Street? No. It was Washington. Exxon paid more in taxes during this period than it made in profit. These taxes ultimately cause Exxon to invest less capital, grow more slowly, produce fewer barrels of oil and provide fewer jobs. Other American oil and gas companies do not fare much better – the industry has an average tax expense of 41.4%, and if California politicians have their way and add a 12.5% oil severance tax, it'll be up to 53.9 %. To give this number some perspective, in 2010 Apple paid out only 28% of its profit to the government while it generated more profits than Chevron.

There are those who insist that if oil companies had lower tax rates they would not invest this capital but rather keep it to themselves. An understanding of finance shows that profit cannot be destroyed – any earnings that were not reinvested would have to be used for either stock repurchases or dividends. Since the major holder of all major oil companies are pensions and mutual funds – the same funds that are undoubtedly held in any 401k or IRA account – many of us would be the direct beneficiary of any windfall profit hording on account of American oil companies.

So we have determined that American oil companies do not set the price of oil, and they are not gouging us for windfall profits. But the question of high oil and gas prices remains unanswered. What can we do to help ease the burden of such high prices?

Simple economics shows us that when we decrease the supply of something, all else being held equal, prices will rise. Keep this fact in mind as I review a few other interesting facts concerning US policy towards oil and gas production. On a Federal level we have a ban on all drilling in the Gulf Coast, the source of 40% of the United States oil and gas production. The loss of that once very stable supply has been compensated for by the Middle East and other unfriendly sources. Risks associated with these new supplies increase uncertainty and thereby increase prices. More broadly our federal and state regulators have enacted sweeping reforms to increase the burden on the production of oil and gas, in an attempt to accommodate the "green" energy sources they consider more appropriate for your consumption.

It is decidedly un-American to choose for a person what things they should and should not purchase with their own money. But this is precisely what's happening with American energy policy today. Each person has their own opinions in regards to which energy types they prefer, and – as it always has been in America's past - it should be left for us to choose between the available alternatives. Would you choose to pay 2.5 times more for your electric bill in order that the energy be generated by wind rather than coal? Some people may accept these higher costs, but no one should be forced to pay more for something they do not desire. Energy policy today does just that: it chooses, on behalf of the consumer, more expensive alternative energies over traditional fossil fuels. In large part it is this policy that is forcing gasoline prices higher through time – as companies are hamstrung with taxes and regulations fewer assets are exploited, jobs are lost, less oil and gas is produced for the market, and prices move accordingly.

As we move into the next chapter of the American story there is no doubt that this nation and especially this county will display our usual genius and dedication. But what will fuel our progress? I cannot propose an energy solution. I can only suggest that we follow the template that has always served America well; give each individual an unobstructed choice and rely on his or her intelligence, ambition and hard work.

Thank you.