



**WRITTEN STATEMENT OF
AMERICAN FUEL & PETROCHEMICAL MANUFACTURERS**

**AS SUBMITTED TO THE
Committee on Oversight and Government Reform**

on

**“Rhetoric vs. Reality: Does President Obama Really Support an ‘All-of-the-Above’
Energy Strategy?”**

May 31, 2012

Introduction

Chairman Issa, Ranking Member Cummings and Members of the Committee, thank you for giving me the opportunity to testify at today's hearing on the myths and realities in the debate over America's energy future. I'm Charlie Drevna and I serve as president of AFPM, the American Fuel & Petrochemical Manufacturers.

AFPM is a 110-year old trade association that was known as the National Petrochemical & Refiners Association until early this year. Our association represents high-tech American manufacturers that use oil and natural gas liquids as raw materials to make virtually the entire U.S. supply of gasoline, diesel, jet fuel, other fuels and home heating oil, as well as the petrochemicals used as building blocks for thousands of vital products in daily life. Most of our members do not have any crude oil and natural gas production operations. But while we do not specifically represent the units of companies that explore and develop oil and natural gas reserves, several of these companies are members of AFPM and we share their goal of a steady, secure supply of oil and natural gas as a vital component of our nation's economy.

AFPM members make modern life possible and keep America moving and growing as we meet the needs of our nation and local communities, strengthen economic and national security, and support 2 million American jobs. The entire oil and natural gas sector – including the producers of oil and natural gas – supports more than 9 million American jobs and pays more than \$31 billion a year in taxes to the U.S. government, plus additional funds to state and local governments. According to a recent report from

the World Economic Forum/IHS CERA, the oil and gas extraction industry added 150,000 jobs in 2011—9 percent of all jobs created in the U.S. last year.

Still, America’s oil and natural gas sector has the ability to do much more. It can lead a new revolution in energy production – strengthening the U.S. economy and creating jobs. My testimony will focus on two areas: developing American resources and the regulatory environment refiners face.

Develop America’s Domestic Energy

The Energy Information Administration (EIA) projects that the U.S. will need 16 percent more energy by 2035. Yet, despite the common refrain from the political class is that we are in the midst of an “energy crisis” and we are too dependent on “foreign oil”. Yet, the EIA “Annual Energy Outlook” shows that the U.S. has the capacity to become nearly 100 percent energy secure through domestic production and Canadian imports by 2025. Indeed, to the extent that there is an “energy crisis,” it is self-imposed. **The Administration should allow the oil and natural gas industry to fully develop onshore and offshore resources on federal lands, streamline and expedite the leasing and permitting processes, and immediately approve the Keystone XL pipeline.**

How we accomplish these important national goals is an important debate that should be grounded in fact. Unfortunately, while the administration claims to support an “all of the above” approach to U.S. energy, its actions do not always match its rhetoric, and its approach would be more aptly characterized as “all of the above, but none of the

below.” In particular, some common claims of opponents of fossil fuels need to be corrected.

First, some continue to claim that the U.S. only has 2 percent of the world’s oil reserves to justify subsidies for inefficient, expensive, and ultimately failed “green” businesses. But “reserves” do not include undiscovered resource potential, which current statistics shows could be **10 times greater** than current proven reserves. In fact, the Congressional Research Service notes that the U.S. has the largest resource base of fossil fuels in the world – in the U.S. Continental Shelf, ANWR, and federal lands onshore – much of which is off limits due to actions of politicians that bemoan “energy scarcity” while ensuring that we can not extract readily available supplies. Things are rapidly changing however, in spite of government recalcitrance. Just look at what is happening in the “shale revolution” that many consider a game changer for U.S. energy security.

In 2005 the U.S. produced 48 billion cubic feet (BCF) per day of natural gas and production had declined for five consecutive years. Today, the U.S. is producing nearly 65 BCF per day of natural gas, an increase of 35 percent (and all-time high), and is the largest producer of natural gas in the world. To put a finer point on it, just four years ago, proved reserves of natural gas were estimated to be 10 to 15 years. Today, proved reserves are estimated to be 40 to 100 years, a staggering change to the reserve base in a very short period of time. Over those four years, U.S. natural gas liquids production has increased by 33 percent and is set to increase significantly more over the coming decade as NGL-rich shale plays from the Western Marcellus in Pennsylvania and West Virginia, to the Eagle Ford in West Texas, to the Utica in East Ohio, to the Niobrara in Colorado

and Wyoming, to the Baaken in North Dakota ramp up production of these vital industrial, agricultural, and petrochemical feedstocks.

Technology and innovation have unleashed new resources and helped revitalize not only domestic natural gas production, but also industries that use natural gas as electricity or as a feedstock, such as petrochemical manufacturing. The petrochemical industry was previously plagued by record high natural gas prices, which soured investment and drove production overseas. The “shale revolution” has revitalized the industry and today the industry is investing in new and expanded petrochemical plants and infrastructure from Pennsylvania to Oklahoma to Texas and Louisiana. In fact, the American Chemistry Council estimates that 30 major capital investment projects, totaling \$30 billion, are now being planned in the U.S. due to the low cost of feedstocks.

This renaissance happened because of the continuous innovation and ingenuity of the private sector on private lands. There were no plans or policies or “blue ribbon” panels involved. There were no subsidies and no government favored winners and losers. Rather, the drastic turnaround came in areas and sectors where the government could not stand in the way of market incentives to find and produce more supply.

A similar trend is now developing for oil production, which is reaching record highs. Unfortunately, the Administration claims credit for ongoing record oil production that is growing on private lands, in spite of the administration’s policies. The administration claims that it is opening more than 75 percent of the potential offshore oil

and gas resources, but the fact is that the “75 percent” number only includes areas already explored. **In fact, 85 percent of offshore resources remain off-limits and new production is occurring on private and state lands, not federal property.** The reality is that production is flat on federal lands, of which only 3 percent are available for lease, and down on federally- controlled offshore areas. A January 2012 report using Bureau of Land Management data shows that leasing and permitting on Western federal lands dropped 44 percent and 39 percent, respectively, between 2007 and 2008 - 2009 and 2010. Furthermore, EIA estimates that oil production in the Gulf was down 22 percent in 2011 and projects a further decline in 2012. A report for the American Petroleum Institute in December 2011 found that deepwater permits for the Gulf of Mexico are being issued at less than half the rate compared with pre-moratorium levels, and shallow water permits are being issued at rates 40 percent lower.

No conversation about North American energy security is complete without mentioning the Keystone XL pipeline. Last month, the President gave a speech in Cushing, OK where he seemingly took credit for approving a part of the Keystone pipeline from Cushing to the Gulf— a section of the pipeline that did not need his approval to be built. At the same time, the Administration continues to delay approval of this important project that will bring 800,000 barrels more oil per day from our neighbor and ally, Canada, not to mention 20,000 construction and manufacturing jobs and another 118,000 spin-off jobs for American workers. Allowing Keystone XL to be built will reduce oil imports to the U.S. from OPEC by 12%. If we fully developed our own national resources, including shale oil, we could displace OPEC imports completely. The

pipeline has received three separate environmental reviews and TransCanada has agreed to 57 special conditions above and beyond typical standards.

The U.S. is an energy giant that has the potential to become energy secure by 2025 without spending any taxpayer dollars. The U.S. is already the largest natural gas producer in the world and the third largest crude oil producer. By implementing policies that allow the U.S. oil and gas industry to explore and develop its domestic resources, the U.S. has the capacity to surpass Russia and China as the world's largest producer of crude oil. In addition to strengthening our energy security and national security, this future will also enhance U.S. economic security. A study conducted by consultants Wood Mackenzie and released by API in January found that increasing access by American companies to our nation's oil and natural gas would create 530,000 jobs and generate \$150 billion more in government revenue by 2025, at the same time boosting domestic production by 4 million barrels of oil equivalent a day.

Reduce Regulatory Uncertainty

The recent resignation of EPA Region 6 Administrator Al Armendariz shined a bright light on an issue we already knew— the EPA and the Administration are hostile to fossil fuels. Mr. Armendariz's comments on sharing the "philosophy of enforcement" with the soldiers of the Roman Empire, and that he would "crucify" industry to make it easier to manage are indicative of the larger problem. Government's role should not be to manage the industry; it should work to provide an environment that facilitates growth (and the jobs that come with it) while balancing the costs and benefits of proposed

regulations. **AFPM urges Congress and the administration to consider the cumulative impact of new regulations prior to imposing them, to examine both the efficacy and cost of existing regulations, and to eliminate costly or ineffective regulations hampering American energy producers.**

The administration has failed to recognize the cumulative costs and burden associated with its litany of regulations -- from new and redundant regulations governing tailpipe standards to implementation of the renewable fuel standards to greenhouse gas standards (GHG).

Tier 3/New Source Performance Standards. The Obama administration is claiming it needs to mandate lower sulfur fuels in order to achieve its greenhouse gas tailpipe and CAFE standards. These new requirements are referred to as Tier 3 gasoline standards. However, since EPA's Tier 2 fuel rules were implemented in 2004, domestic fuel manufacturers have already reduced sulfur levels in gasoline by 90 percent, from an average of 300 parts per million in 2004 to an average of 30 parts per million today. EPA's own data indicates air quality will continue improving under the existing Tier 2 standards, but EPA has indicated it will advance Tier 3 regulations regardless. In addition, the Agency has failed to publicly produce analysis that shows what if any benefits would result from Tier 3 fuel standards. Independent analysis indicates Tier 3 sulfur reductions could result in a 6 to 25 cents per gallon increase in the cost of manufacturing gasoline. In addition, the higher end of such costs could lead to four to seven refinery closures, depending on the scope of the regulations.

Recent EPA testimony indicating the agency is looking to scale back its Tier 3 proposal and focus solely on sulfur reductions is encouraging and could serve to lessen these costs. Based on the agency's testimony, costs and impacts are likely to fall more on the lower end of the previously mentioned ranges. However, the tailored rule would still impose a high-cost, minimal-benefit regulatory requirement on America's already heavily regulated fuel supply. It could still lead to significant domestic fuel supply reductions, higher petroleum product imports, potentially increased consumer costs, closed U.S. refineries, lost jobs, and reduced energy security.

Finally, these regulations are in direct conflict with other EPA priorities. In particular, a process called hydrotreating is the principal technology used to reduce sulfur in petroleum products, including motor fuels such as gasoline and diesel. This and other such technologies require energy consumption that results in increased GHG emissions and will also increase emissions of other criteria pollutants. As a result, a regulation requiring a reduction of sulfur in petroleum fuel increases emissions that refiners are being told they must reduce under other Clean Air Act (CAA) regulations.

Renewable Fuel Standard and CAFE standards. The 2007 Energy Independence and Security Act requires refiners to blend at least 36 billion gallons of renewable fuel into the fuel supply. Unfortunately, the RFS was an ill-conceived law that is being implemented poorly. It was also passed into law at a time when some erroneously believed we were an energy poor nation, held hostage by OPEC. As

previously discussed, technological advances in domestic oil production and better information about the extent of our nation's resource potential show we are an energy rich nation. Given this reality, we should repeal, or at the very least revisit, the ill-crafted RFS.

Current infrastructure, all marine, outdoor power equipment, off-road engines, and the vast majority of automobiles are unable to use more than 10 percent ethanol per gallon of fuel. One major flaw with the RFS is that it is volumetric (rather than percentage based) and was drafted at a time when U.S. fuel consumption was much higher than it is today. It is also not subject to modification based on the technical feasibility of using more ethanol.

Currently, refiners blend nearly 14 billion gallons of ethanol into the fuel supply each year, which means that more than 90 percent of gasoline sold in the U.S. already contains 10 percent ethanol. The inability to blend more ethanol into the fuel supply that vehicles, engines and infrastructure can handle is referred to as the "blendwall," and as previously noted, we have essentially reached this critical point. Implementation of new CAFÉ standards will exacerbate the problem of increasing gasoline's ethanol content, since it will lead to a situation where higher percentages of ethanol will have to be blended into less gasoline. In fact, a recent report released by the National Association of Convenience Stores (NACS) found that full implementation of the RFS and CAFE would require a nearly 40 percent blend over the next decade.

The relative merits of the RFS aside, EPA's implementation of the law has also created a litany of new problems. Some include:

- **EPA's "partial waiver" approving a 50 percent increase in the amount of ethanol permitted in gasoline for cars and light duty trucks MY 2001 or newer.** Despite widespread opposition from engine and auto manufacturers, environmental organizations, consumer advocates, refiners, food, and agricultural interests, EPA broadly interpreted the requirements of the Clean Air Act and relied on incomplete and inadequate testing when approving E15 (15 percent ethanol, 85 percent gasoline) for certain model vehicles. As a result, obligated parties face a de-facto mandate to meet the RFS using a fuel blend that EPA's data shows will likely lead to widespread misfueling and engine damage. In fact, a recent report from the Coordinating Research Council shows that 2 of 8 automobiles approved by EPA for E15 use failed on the higher blend.
- **Cellulosic Mandates.** Congress granted EPA the authority to waive RFS obligations if it believes supply will not be available. Yet EPA continues to require obligated parties to blend cellulosic ethanol, a phantom fuel that EPA's own data shows does not exist. This year, refiners paid nearly \$7 million to EPA to comply with the mandate despite the fact that the industry had no ability to buy cellulosic ethanol. In fact, just last week EPA denied a joint petition from AFPM/API/WSPA to retroactively waive the previous years' volumes despite the

fact that no fuel was available for purchase. This is nothing more than a backdoor energy tax.

- **Renewable Identification Numbers (RINs).** A RIN is the 38 digit number that identifies a gallon of biofuel for RFS compliance. Each year, an obligated party must produce the requisite number of RINs to show it was in compliance with the RFS. However, EPA has uncovered 140 million fraudulent RINs generated by three biodiesel companies, which comprises 5-12 percent of all biodiesel RINs. These companies were registered with EPA and traded the RINS through the EPA Moderated Transaction System (EMTS). Despite registering the companies and allowing the credits into its system, EPA has enforced a “buyer beware” policy and has fined obligated parties that unknowingly purchased fraudulent RINs. Obligated parties are also required to replace all of these RINs for compliance.

EPA’s defense of these policies usually boils down to some version of “the industry can afford it.” Ability to pay should never be a justification for taxing an industry. More importantly, the consumers ultimately bear the burden of unnecessary regulatory costs.

EPA GHG Regulations. Although the Clean Air Act (CAA) was never intended to regulate global emissions of greenhouse gases, EPA is moving forward in regulating such emissions through the statute. Such action is in line with the Administration’s attempt to advance its back door cap-and-trade agenda. In fact, when asked about the future of cap-and-trade after Congress failed to pass legislation on the topic in 2010, the

President explicitly stated, “There is more than one way to skin a cat.” The agency is proceeding with its GHG regulations even though Administrator Jackson has said several times that they will do nothing to address global concentrations of GHG emissions.

India, China and other growing economies are not imposing the same carbon restrictions on themselves that EPA is imposing on the American economy. Therefore, under EPA’s regulations, we will make U.S. refiners less competitive, send other countries our jobs and more of our manufacturing base – and those countries will export more manufactured products to America.

General Burden of Continuously Tightening CAA and other Regulations.

The \$128 billion that U.S. refiners have spent since 1990 to comply with federal environmental regulations adds significantly to their costs of manufacturing fuel. Refiners supported, and continue to support, many of these regulations that were clearly beneficial to the environment. However, as environmental standards are tightened, often with very little impact on emissions, the cost to meet those standards increases exponentially, threatening the global competitiveness of American fuel manufacturers.

In discussing the many factors behind its refinery closures, Sunoco noted that environmental regulatory costs consumed approximately 15 percent of its operating budget. Similarly, over the last 10 years ConocoPhillips invested 100 percent or more of its profit into its Trainer refinery in the Philadelphia area to meet regulatory requirements before idling the refinery last year. The refinery also lost money in each of the previous

three years. Finally, a Hovensa refinery that shut down in the U.S. Virgin Islands was located in a region that was in attainment with the Clean Air Act. EPA was nevertheless requiring the company to spend an additional \$700 million replacing turbines. After losing \$1.3 billion in last three years, the refinery could not afford the additional regulatory compliance costs and decided to instead close its doors.

Conclusion

“The battle between government regulation and the private market is nowhere more apparent than in energy, where the market has a decisive comparative advantage.

Governmental intrusion into energy production and use provides a glaring example of how regulation costs us all dearly.”

- Excerpt from a Nov. 16, 1980 memo to President-elect Ronald Reagan from his Coordinating Committee on Economic Policy: "Economic Strategy for the Reagan Administration."

The U.S. has the ability to secure its long- term energy security through a combination of ingenuity and the right policy choices. One way of doing this would be to increase the supply of crude oil produced in the United States and purchased from our close friend and neighbor Canada and brought here via the Keystone XL pipeline. This would show that the U.S. is serious about our energy security and would send a message to the rest of the world.

Contrary to the claims of the critics of fossil fuels, America is not energy-poor. We are energy-rich. There is a treasure trove of oil and natural gas under our feet and off

our shores – enough to make America the biggest energy producer in the world. Our challenge is not to find this buried treasure or to extract it, but rather to get federal approval to develop these reserves in a safe and environmentally responsible manner on more federal lands and in more federally controlled waters. Developing our own oil and natural gas resources would also produce badly needed jobs for American workers and revenue for all levels of government.

We understand that different federal and state regulatory agencies face the need to balance effective regulation with the demands of meeting sometimes conflicting decisions from the courts, positions of special interest groups and even newly enacted laws. However, the size, scope, and cumulative burden of current and impending regulatory activity is creating both significant regulatory uncertainty and a slew of conflicting regulations that will impose significant burdens on domestic fuel manufacturers and eventually consumers.

For 40 years or more, opponents of fossil fuels have been telling us that opening up more of America for oil and natural gas exploration and drilling isn't worth doing because any single project would take years before it could reach production and get its oil or natural gas to market. Yes, it's impossible to find and start producing oil and delivering it to refineries at lightning speed. But all the projects we were told decades ago would take too long to build could have been up and running and serving Americans for decades by now if they had only been built.

Imagine if the generations that came before us and built America into the great nation it is today had rejected beneficial projects that changed the face of our nation because the projects couldn't be completed in a timely manner. Technological advances like the telegraph, telephone, radio, television, computers and the Internet all required years of reach and development. None could have been developed if they would have been required to go from the idea stage to the operating stage in a short time period.

Producing more oil and natural gas in the United States, getting more from Canada and reducing harmful regulation can't take place overnight. But these actions are the path towards creating a secure and stable energy supply for American consumers and will result in strong job growth in America.

Members of the American Fuel & Petrochemical Manufacturers are eager to work with Congress and the administration to pursue this course while protecting our environment to build a better life for Americans today and future generations.

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

Name: Charles T. Drevna

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.

N/A

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

- a. American Fuel & Petrochemical Manufacturers (AFPM).
- b. President, AFPM.

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.

N/A

I certify that the above information is true and correct.

Signature:

Charles T. Drevna

Date:

5/29/12

Charles T. Drevna

President, American Fuel & Petrochemical Manufacturers

American Fuel & Petrochemical Manufacturers President Charles T. Drevna has been president of the trade association, formerly known as the National Petrochemical & Refiners Association, since 2007. He joined the association in 2002 as executive vice president and director of policy and planning.

Drevna leads a staff that advocates for petroleum refiners and petrochemical manufacturers before Congress and the Executive Branch on a broad range of public policy issues. Since he became president, the size of the association's Washington office staff has increased with an expansion of the Government Relations and Communications Departments and the creation of the Outreach Department.

Drevna worked with the Executive Committee, Board of Directors and staff to implement a rebranding effort that emphasizes the ways association members serve American consumers and increase America's economic and national security. This rebranding resulted in adoption of the name American Fuel & Petrochemical Manufacturers in January 2012 to better describe the association and its work.

Drevna has extensive experience in legislative, regulatory, public policy and marketplace issues involving energy and the environment. His previous positions include:

Director of state and federal government relations for Tosco, Inc.; director of government and regulatory affairs for the Oxygenated Fuels Association; vice president at the Washington consulting firm of Jefferson Waterman International; several positions at Sunoco, including vice president for public affairs for Sun Coal Company; director of environmental affairs for the National Coal Association; and supervisor of environmental quality control for the Consolidation Coal Company.

Drevna received his BA in chemistry from Washington and Jefferson College and performed graduate work at Carnegie-Mellon University. He grew up in Pittsburgh and worked as a laborer in a steel mill there during summers while attending college.