

*Putting Knowledge Into Action*

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## **We Got an Energy Bill, But Now it's Time for an Energy Strategy**

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As the full impact of Hurricane Katrina and the catastrophe that has just occurred on the Gulf Coast unfolds during the next few weeks and months, Americans will be asking all sorts of questions and rightly so. In amongst the huge personal and national tragedies that have occurred for those in the immediate area, all Americans will feel the consequences in the form of higher energy costs. We think that now is the time for us to question this country's lack of a comprehensive energy **strategy**. Yes, the energy bill was just signed but in effect, it includes a mixed bag of subsidy and incentives and it really does not address several of the fundamental issues facing the United States and indeed the world over the next several years. We have no energy **strategy**!

### **Energy Impacts**

Over the next few weeks, gasoline prices will rise to levels that many Americans find unacceptable. Heating oil prices, too, will continue to rise as we move into fall, impacting the pocket books of many more Americans. Natural gas prices have already risen to the highest levels ever and will impact consumers this winter. And this is just the surface of an energy price ripple that will impact all aspects of our economy. The reality is that this country has woefully underinvested in energy for over two decades and the current crisis is simply a shadow of what might happen in the near future.

Over the last several months, excess world oil supply capacity has been growing slowly from an estimated minimum of 500,000 bbls/d earlier this year. The situation of supply/demand tightness meant that an event like this was an accident waiting to happen and all of the signs were there for everyone to see as oil prices rose in response to every disruptive event—imaginary or otherwise. Meanwhile, some politicians and the media, who both need a healthy dose of energy education, wanted to blame these price rises on the mysterious and secretive "speculators." This "head in the sand" mentality avoids the need to come clean with the public. That is that we have no energy **strategy**, and we appear to have no plans to develop one besides the existing Strategic Petroleum Reserve which was developed in the mid 1970s.

## Debate Needed

What is now needed is a serious debate about the future of entire energy industry and energy usage in this country. We need as citizens to understand that this is undoubtedly the major issue for the beginning of this century. Cheap energy is a thing of the past and as we have argued all this last year—there will be no mean price reversion this time. This terrible event on the Gulf Coast is a simply a foretaste of what is to come and, as such, we had better act now.

The strange thing is that there really isn't any shortage of energy. We don't subscribe to the Matt Simons' view of the world that says we have reached peak oil. There is plenty of oil and plenty of other energy resources. What we lack is infrastructure, investment, planning and education. For example, not many people understand that today's oil prices in part reflect both a transportation and a refining issue. Environmental rules have meant that many single hulled tankers are being scrapped and new multi hulled vessels have to be built to replace them. The world's shipyards are full, the price of steel is up and there is competition between tanker building and LNG vessel building. All of this is reflected in freight rates which are up near record levels. Further, our refineries are running at 98 percent and are maxed out! A new facility has not been built since 1976 in the United States to refine crude oil.

Now is the time to begin to develop a coherent energy plan that includes renewables, new technology deployment (real technologies with a realistic chance of being deployed in the near future particularly gasification of coal—not hydrogen cars), its time to revisit the nuclear debate, too—particularly as a global warming remediation strategy. Further, we need to consider allowing exploration for oil and gas in new areas. Yes, we understand the environmental issues but oil companies can be good citizens, too, and they have been. In the United Kingdom, for example, BP successfully developed the Wytch Farm oilfield across environmentally protected and historical interest areas with no impact whatsoever. Now is the time to mandate new standards for fuel usage for automobiles and to be aggressive about it not issue regulations that actually penalize smaller trucks for fuel efficiency. Now is the time to revisit efficiency programs for buildings and homes at the federal level. Many states have done so, or are in the process of doing so.

To get started on this debate, the first step is education in our view. There is a need to educate the American public about the complexity and fragility of energy. We need to educate them as to why most of the rest of the world is already paying \$4-5+ per gallon for gas and driving smaller engine automobiles that can do 35-45 miles per gallon (and still get from zero to 60 in 6 seconds!). We need to work to change the "Not in my back yard" (NIMBY) attitude that has developed, too, because you simply cannot have it both ways. If consumers want TVs, computers and stereos, then they also need to learn to tolerate the wind farm on the hill or the nuclear reactor nearby. If they want to drive an SUV that does 8 mpg, then they also need to tolerate the new refinery down the road and the higher prices you will pay. You can't have one without the other. The era of the cheap energy lunch is now over!

The United States is a voracious consumer of energy. It consumes 20 million bbls/day of crude oil—more than double the consumption of China—now the second largest consumer. It has long been protected from the reality of the true costs of energy with cheap gasoline and other fuels and little gasoline taxation and as a result, it has grown lazy about both the need for efficiency and the need to invest in infrastructure to support its energy needs. Now we have to face up to the realities of a world in which energy needs to be conserved and used wisely.

### **Environmental Concerns**

This doesn't mean that we have to sacrifice environmental stewardship either. In fact, this is actually an opportunity to become greener and more environmentally conscious but, once again, decisions have to be made. Environmental regulations add cost and complexity to the overall energy equation. Clean energy and a clean environment add to the price you pay for energy—it's as simple as that. But being "green" means making stark choices about our energy usage habit. A coherent energy *strategy* should and could include a recognition that the energy and the environment are inter-related and will become increasingly so in the future. The issue is to differentiate between sound environmental policies and simple NIMBYism!

A closer balance between energy and environment is lacking from today's energy policy. There is an ongoing opportunity to create energy and environmental jobs for Americans as "going green is good for business" and the talent and capital are readily available for deployment. Enlightened companies such as GE, BP, Dupont, AEP and others see that opportunity now. It's time for the second wave of environmental stewardship to take hold in Corporate America particularly in U.S. multinational companies that need to comply with more stringent environmental standards globally.

Environmentalism doesn't start and end with industry regulations and rules either. It demands that we provide a basis on which individual citizens and corporations can make decisions regarding energy usage, fuel mix and recognize that wells have to be drilled and refineries have to be built somewhere. Incentives are required for all to participate, not in the form of more "pork" but in the form of motivation to introduce more forms of renewable energy, more efficient automobiles and buildings and by setting standards by which industry activities such as drilling may be conducted.

### **Summary**

We are heading for an energy crunch and now is the time to start addressing this issue. It is in our national interest to do so—indeed, it is a matter of national security. There is no shortage of latent energy availability. We just have to invest in the infrastructure to harness that energy and deliver it where it is needed. To do so demands that we have a coherent energy policy and *strategy* moving forward. In order to have an energy policy, we need a debate. And before we can have the debate, we need to educate.

Right now, some politicians are trying to distract us from the coming problem by blaming price rises on speculation by hedge funds and the media are simply gullible enough to follow suit. Our analysis for the past year is that hedge funds only exacerbate oil and

natural gas price volatility. They don't create higher prices which are demand driven. We use more energy today than ever before. Now, we have to pay for it.

Over the next few weeks and months, we will experience a mini-energy crisis. Will this help to get everyone more sharply focused on the energy issue before it's too late? Let the debate begin.

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