Testimony Before the Senate Committee on Banking, Housing, and Urban Affairs
Subcommittee on Economic Policy
in a hearing entitled
Child Care and Other Policy Tools to Combat Bottlenecks and Inflation
Kathleen Sgamma
President, Western Energy Alliance
April 26, 2022

Since day one, President Biden has pursued a climate change agenda meant to constrain American oil and natural gas production and consumption. Starting with the cancelation of the KeystoneXL pipeline followed a week later by the leasing ban, the president was intent on restricting American oil and natural gas. On federal lands and waters where the federal government has the most control, he has pledged eliminating it altogether.

But a funny thing happened. Climate change policies meant to make energy prices "necessarily skyrocket" achieved their intentions. Energy prices started to rise last year, and the administration started to really feel the heat last summer. The first reaction was to ask Russia and OPEC to increase their production in June. The policies meant to overregulate American oil and natural gas production continued.

When Russia and OPEC failed to heed that request, we in the American oil and natural gas industry made the case that we would be happy to increase production, but for policies specifically designed to prevent us from doing so. Still the policies continued.

Fast forward to February of this year when Russian tanks rolled across the border of Ukraine and prices jumped even higher. The reality of Europe's and the United States' reliance on the stable sources of reliable, 24/7 energy that oil and natural gas provide became crystal clear. The fallacy of an agenda meant to constrain American energy was exposed. Rather than backing down on policies purposefully meant to hinder American oil and natural gas, the White House pivoted to blaming my industry for high energy prices.

The president could help ease inflation by backing off these policies and even encouraging American production. However, we have seen few meaningful signs, other than rhetorical, that a reversal is in the cards. Just last week, lease sales were announced for the first time in the fifteen months, but it was the most begrudging announcement possible. The Interior Department was at pains to emphasize that the sales are only happening because of a court order last June. Ten months later, the department has whittled the acreage down by 80% and increased the cost by 50%. Limiting access and increasing the royalty rate by such a substantial percentage will have the intended effect: when you tax something more, you get less of it. The administration continues to show it is not serious about increasing production, reducing energy prices, and controlling inflation.

Energy prices are fundamental to all facets of the economy. Very few goods and services, if any, are made and provided to consumers without the use of oil and natural gas. Anything manufactured requires oil and natural gas for materials and component feedstock, industrial energy, electricity, and transportation. Online ordering, processing, and delivery of any good or service and the entire supply chain relies on a vast information technology network based on the computer chip, itself made from petroleum. Nearly every business that claims to use 100% renewable electricity, besides those in places like the Pacific Northwest or Western New York were there is sufficient hydropower, is engaged in greenwashing and at best pays renewable energy credits as dispensation for using reliable energy from oil, natural gas, coal, and nuclear to keep operations running.

Because oil and natural gas are so fundamental to the economy, when prices for them are high it creates inflationary pressures throughout the economy. One of the most basic ways the president could curb inflation is to encourage American oil and natural gas production. Even if you ignore a year of steadily rising oil prices and blame Putin for today's high prices, what better way to bring them down than by increasing American production and displacing lost Russian imports?

Currently, American oil production is down about 800,000 barrels of oil per day (bopd) to 11.5 million from the high point of 12.3 million in 2019.[1] My industry is doing its part to bring down gasoline prices by increasing production. The Energy Information Administration (EIA) forecasts American producers will increase production by nearly 12.5 million bopd by the end of 2022. We could reach that goal and even help replace the 670,000 bopd we previously imported from Russia if the administration could reverse course, such as:

- Move forward with leasing and permitting on federal lands. There are currently 4,579 permits to drill awaiting approval. While there are also 9,000 outstanding approved permits to drill, there are many factors that cause companies to wait to drill those wells, if at all. The biggest factor is the uncertainty in the permitting process which compels the acquisition of permits often years before they are needed. A stable system that isn't beset by litigation and bureaucratic delays would reduce the need to build up large inventories.

- Approve timely Rights of Way (ROW) for natural gas gathering lines. A drilling permit is not the only government approval required before a well can be drilled. ROWs can take years to acquire before companies can put in natural gas gathering systems. With the pressure not to flare from regulators and investors, most companies cannot drill before gathering lines are in place. Timely approvals of ROWs would enable companies to develop sooner.

- Call off efforts to deny capital and lending to the oil and natural gas industry. Activist investors, encouraged by an administration intent on expanding its financial regulatory powers, have worked to de-bank and de-capitalize the industry. Many companies, particularly the small independents who drill the majority of wells, are having difficulty acquiring the credit and capital necessary to develop. By rescinding the Security and Exchange Commission's overrreaching climate change disclosure rule and calling off other bureaucratic efforts to deny financing to the industry the president could send a strong signal to the market that investments in oil and natural gas are safe and new production would move forward.

- Approve pipelines such as the KeystoneXL and natural gas pipelines that supply Liquefied Natural Gas (LNG) terminals. The administration has worked with anti-oil-and-gas activists to slow pipeline infrastructure. Without pipelines to move the oil and natural gas produced, wells cannot be developed. Ensure the rescinded Federal Energy Regulatory Commission (FERC) natural gas pipeline certification policy is not resurrected through rulemaking.

[1] *Short-Term Energy Outlook,* EIA, Table 4a, April 2022. 2019 data from EIA historical production statistics.

- Back off the regulatory overreach agenda which is intended to increase costs and reduce production. For example, the Department of the Interior is planning regulation to increase leasing costs and royalty rates and EPA is undergoing methane regulation that would shut down potentially hundreds of thousands of the low-producing wells that provide 8% of American production.[2] The uncertainty of all the new red tape puts a damper on new investment and development today, especially on federal lands where the burden is highest.

- Desist with the Social Cost of Carbon (SCC). There is no legal mandate for it and It is specifically meant to increase the cost of reliable energy. A SCC can be used to make regulation that is otherwise upside down in a cost/benefit analysis and make it seem like it is beneficial, even if it increases the cost of the energy that meets 80% of Americans' energy needs.

- Congress should do its part too by not advancing legislation to tax methane emissions. The methane fees that have been proposed would amount to a tax on natural gas, as measuring the small leakages targeted by the fee is technically infeasible and hence, the tax would necessarily be levied on production volumes or basin leak-rate averages. Further, the fee would be unprecedented, as emissions are already controlled by EPA regulation designed to identify leaks, fix them, and remove the emissions from the atmosphere, not attempt to measure and create a revenue stream out of them.

Western Energy Alliance encourages the administration and Congress to work together with my industry to reverse many of these policies. Together we can increase American production and help control inflation.

[2] *Percentage Depletion: Economic Impact of Its Elimination*, Energy and Industrial Advisory Partners on behalf of the National Stripper Well Association, 2021.