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Drilling Our Way to Lower Gasoline Prices?

Despite boom-levels of oil and gas drilling across the western United States that has triggered a backlash from impacted communities that is likely to hurt Republicans in the coming general election, the Bush Administration is pushing for even higher levels of drilling. The Department of Interior last week released a report that argued that 62 percent of the oil and 41 percent of the natural gas under federal lands in the United States was “inaccessible” because of environmental restrictions on leasing and energy development.

In releasing this “study,” the Bush Administration argued that removing those environmental restrictions would lower the cost of energy and ease the financial drain that four dollar per gallon gasoline is placing on household budgets and the national economy. These assertions are a bit disorienting given that the Bush Administration has already tried this rapid development strategy across the Western states for eight years only to see energy prices simultaneously skyrocket.

Production in the Western states has not been constrained by lack of access to energy under federal lands. Of the federal lands leased for oil and gas production, only about a quarter have been developed. Energy companies develop the most profitable reserves first, leaving more costly energy in the ground as they direct the limited number of drilling rigs available to where the payoff to them will be greatest.

Of course, finding and developing low cost sources of supply does not mean that cheap energy will flow to households and businesses. Oil prices are set in international markets and new increments of supply are sold at those high international prices, not at the energy companies’ costs of production. The difference is pocketed by the energy

companies as higher profits. Consumers do not get the benefit of lower cost supplies unless those incremental supplies are so huge that they drive international market prices down. That is unlikely from the modest incremental supplies coming from the Western states.

The “inaccessible” reserves estimated by the Bush Administration amount to about a two and a half year supply of oil and a four year supply of natural gas at current American consumption levels. Clearly abandoning all environmental and economic constraints and madly sucking the last of this energy from the ground is not going to get us very far in terms of long-run supply or energy independence.

Part of the purpose of this new Bush Administration assessment of how environmental restrictions are curtailing domestic energy supplies has nothing to do with most oil and gas drilling in the United States, which is already booming about as much as it can. The truth is that buried in this “new” analysis is the fact that almost two-thirds of the “inaccessible” oil and gas are located in Alaska. In that sense, this is just another salvo from Bush aimed at opening up the Arctic National Wildlife Refuge and other protected Alaskan lands to industrial energy development.

A panicked rush to develop all of our remaining oil and gas as quickly as possible, no matter what the environmental cost, in hopes of returning to a world of cheap energy and rapidly growing energy consumption is bound to fail and leave us poorer and with fewer remaining alternatives.

Our economy and lifestyles developed around incredibly cheap energy. We responded to those low energy prices by using energy as if it were almost free, which, given our rising incomes, it nearly was. As a result, our homes, transportation system, industries, and other businesses waste enormous amounts of energy. Even as we fought two wars in the Gulf region and watched anti-American sentiment in that oil rich

but unstable area boil over into terrorist attacks on our own nation, we abandoned smaller cars for gas guzzling truck-like vehicles and other energy intensive appliances and toys. One of the primary reasons for that energy gluttony was that energy prices remained relatively low as we subsidized our access to foreign oil fields through a ballooning military budget and the lives of our young soldiers.

The largest and cheapest energy supply available to us now is simply to reduce that waste and squeeze more value out of each unit of energy we use. Higher energy prices do not necessarily mean a lower standard of living. The rest of the industrialized world has, for decades, faced gasoline prices far above those that are now leading to panic in this country. Yet those other nations have standards of living similar to ours and compete successfully with us.

The truth is that we **need** higher energy prices. That is what, in a market economy, leads us to change our patterns of consumption and develop new technologies that allow us to meet our needs and desires with lower levels of energy use. Public policies that seek to keep energy prices low will simply lead us to waste energy for a longer period of time, leaving us with fewer options and a shorter period of time in which to adjust to the fact that energy is no longer a low cost resource. We need higher prices now to stimulate the changes that will allow us to make the transition to a less energy intensive lifestyle and economy as smooth as possible.

Our focus should not be on the fantasy of returning to low energy prices but on how to make sure the revenues generated by the higher energy prices are recycled within our economy in ways that reduce the impacts of those higher energy prices on household budgets. That is the real public policy challenge we need to be discussing and debating, not some insulting political trick or dishonest promise.