NATIONAL OCEAN INDUSTRIES ASSOCIATION

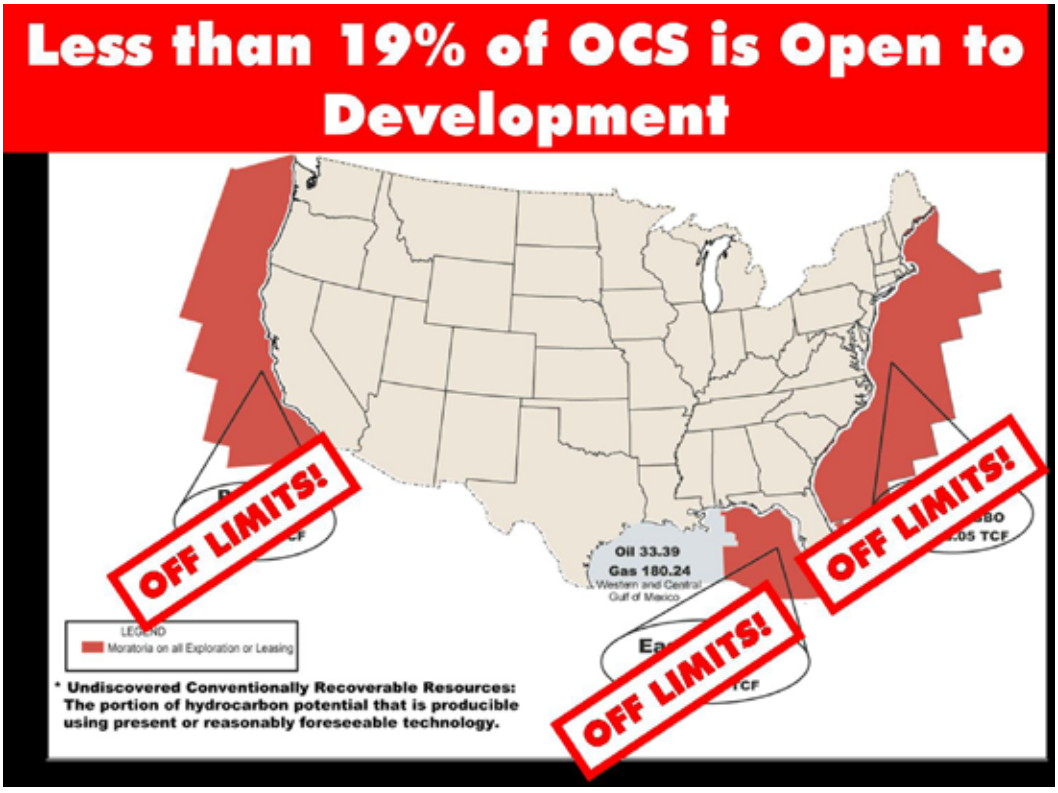
ENERGY CHALLENGES FOR WASHINGTON AND THE NATION

NOIA'S MISSION IS TO SECURE RELIABLE ACCESS TO THE NATION'S VALUABLE OFFSHORE ENERGY RESOURCES IN ORDER THAT THEY MAY BE DEVELOPED, PRODUCED AND SUPPLIED IN AN ENVIRONMENTALLY RESPONSIBLE MANNER.

Today, energy prices are on the rise across the nation. This affects individual citizens, industrial consumers, and the agricultural industry. But why is this so?

It all comes back to supply and demand. As the economy has grown, the demand for energy has grown every year. At the same time, however, policymakers have refused to make any changes to increase available supplies of energy. For example, over 80% of the nation's oil and natural gas resources on the Outer Continental Shelf is completely off-limits to exploration and production, despite a decades-long record of safe offshore production in the Central and Western Gulf of Mexico.

What can be done? Energy consuming states must make themselves heard and push for changes to policies like this that limit energy supply. This is key to long-term strategies to control prices and maintain economic growth and employment at home.



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ENERGY PRICES: A NATIONAL PERSPECTIVE

- In the last 25 years, our energy consumption has grown by 30 percent, while supply only increased at half that rate. In just the past decade, as our economy grew, energy consumption increased by more than 12 percent. But our domestic production increased by less than one-half of 1 percent.

- Between now and 2030 – just less then 25 years from now – we will need 55 percent more electricity than we generate today and consumption of all sources of energy are expected to increase:
  - *Petroleum by 41 percent*
  - *Natural gas by 33 percent*
  - *Coal by 41 percent*
  - *Renewable energy by 39 percent*

- The Energy Information Administration predicted on Jan. 11 that the average U.S. home heating bill tin 2006 will increase by $257, or 35 percent, for natural-gas heat; $275, or 23 percent, for oil heat; and $184, or 17 percent, for propane heat.

- The price of U.S. natural gas has hit peaks recently of about $15/million btu's, the rough equivalent of paying $7 a gallon for gasoline.
  - *This is more than double what they pay in China, and 50 percent higher than prices in the United Kingdom. The U.S. price is 20 times what Saudi Arabians pay.*

- High energy prices, particularly for natural gas, have cost the economy 2.8 million jobs since 2000.

- More than 100,000 lost jobs in the chemical industry, and the closure of 70 chemical facilities in 2004 alone, have resulted from high prices of natural gas.

- During the 2003 and 2004 growing seasons, farmers paid more than $6 billion in added energy-related expenses, a 41% increase over 2004, according to USDA's Economic Research Service.

AN ENERGY PLAN OF ACTION FOR WASHINGTON

WASHINGTON STATE ENERGY CONSUMPTION:

- In 2004, Washington State Residents spent nearly $16 billion for the energy needed to heat and power their homes and businesses, operate their industries, and for transportation.
- Energy expenditures accounted for more than 6.5% of the Gross State Product, according to the 2005 Biennial Energy Report.
- Sizable increases in the prices for energy resources in Washington State could shift an estimated $5.4 billion dollars (1.4%) of Washington's Gross State Product to energy purchases, an amount equivalent to about $900 per resident.
- End-use energy consumption in Washington State was 54% higher in 2001 than in 1970. Most of the increase occurred in the transportation sector, which accounted for 46% of total state energy use in 2001. (The industrial sector accounted for 23% of consumption, residential sector for 18% and commercial for 13%.)
- Fossil fuels (petroleum, coal, and natural gas) account for 76% of primary energy use, with fully one-third supplied by Alaskan oil.
- In 2002, residents of Washington State consumed a total of 16.9 million gallons per day of refined petroleum products for gasoline, distillate, jet fuel, liquid propane gas, and residential fuel.
- Over the last 25 years demand for refined petroleum products has been increasing at about 1.7% (average rate) per year in Washington State.

INCREASING ENERGY PRICES HURT MANUFACTURING INDUSTRIES, IMPERILING WASHINGTON STATE JOBS:

- In November 2005, Washington was home to more than 271,700 manufacturing jobs, paying employees an average of $51,800/year, 33% higher than the state's overall average. Unfortunately, rising energy costs have contributed to the loss of more than 60,000 of these high-wage manufacturing jobs since 2000.
- Chemical manufacturing – which depend on natural gas as a critical input – accounted for more than $604 million in Washington exports in 2005 and support more than 5,000 jobs directly. These jobs are also in jeopardy due to the high price of natural gas.
- Washington's forest products industry is one of the state's top manufacturing industries, employing 59,000 workers with an annual payroll over $2.6 billion. Washington's paper and wood manufacturing workforce represents more than 10.5% of the state's total manufacturing workforce, but these jobs are also in jeopardy due to the high price of natural gas.
- Today, energy is the third largest manufacturing cost for the forest products industry (18% for pulp and paper mills), growing quickly enough to eclipse employee compensation.

INCREASING ENERGY PRICES SQUEEZE SMALL BUSINESSES, SCHOOLS, AND INDIVIDUAL CONSUMERS:

- According to the Governor, Washington State residents spent $25 million a day on oil and gas in 2005.

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- Average retail residential and commercial electricity rates have increased approximately 30% since 1999. Industrial prices increased by about 50%. One of the primary factors contributing to the higher electric rates is the high price for natural gas since natural gas powers much of the new electric generation on the West coast.
- Almost half of Washington residents' energy bills go to home heating, bills that are only getting bigger. The average energy bill for Washington State homes heated with natural gas will increase by about $275 in 2006. Average energy bills for homes heated with oil will go up about $170. Propane-heated home owners will see their bills rise by about $140, while electric heating costs will rise by about $30.
- In a December 2005 policy brief, the Governor stated "schools, businesses, and public facilities are hard-pressed to pay the higher costs for fuel, natural gas, and electricity that are due in part to the disruptions in the Gulf of Mexico and worldwide increase in demand for oil."
- In order to help mitigate the impact of high energy prices, the 2006 budget provides $16.4 million to cover higher-than-expected costs for energy in schools and state facilities. For example, Evergreen State College in Olympia requested an additional $610,000 from the Legislature to cover increased energy costs
- A November 2005 survey by the Washington State chapter of the National Federation of Independent Business showed the run-up in energy prices having a "seriously negative," "somewhat negative," or slightly negative" effect on nearly 74% of small business owners.
- In 2005, an estimated 72,000 households throughout Washington State received more than $38 million in Low Income Home Energy Assistance (LIHEAP) funding to help pay their heating and cooling bills. By December 2005, the number of applicants for energy assistance had increased by 14,400 in Washington.
- Washington State gasoline prices are currently 25% higher than last year, costing Washington households about $2,500 annually for gasoline.

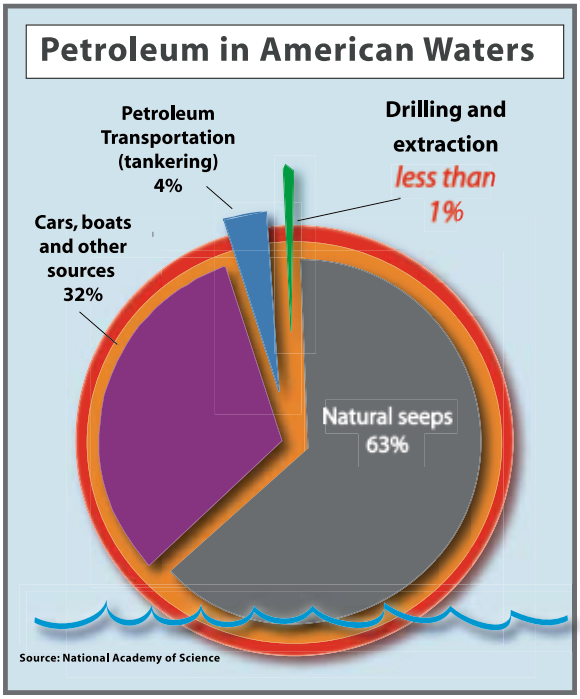
INCREASING ENERGY PRICES SQUEEZE FARMERS AND AGRICULTURAL INDUSTRIES:

- Washington is home to more than 35,000 farms covering more than 15.2 million acres.
- Two of the top three commodities in Washington State in 2004 were milk and wheat. The value of Washington wheat and wheat products as an agricultural export was more than $524 million, but fertilizer costs have gone up by double digits in line with rises in energy prices. As a result, for the first time since the Great Depression, a gallon of diesel fuel is more expensive than a bushel of wheat. In 2006, it will cost 24 to 27% more to grow wheat than in 2005.
- Today there are about 580 dairy farms in Washington with dairy products constituting the 2nd largest agricultural commodity produced in Washington, generating more than $861 million in 2004. Dairy farmers have been negatively impacted by high energy costs with increases in feed stock, electricity and transportation costs.
- In 2006, Washington State farmers face fertilizer prices of $500 or more per ton, more than double the 2002 price.

A PLAN OF ACTION:

What can be done to increase energy supplies?

- Call on Congress and the Administration to cultivate a plentiful, diverse and affordable energy supply for America.
- Pursue renewable technologies such as offshore wind and tidal power and the development of offshore methane hydrates.
- Promote energy conservation and greater efficiency.
- Increase refining capacity and import facilities.
- Provide access to the Outer Continental Shelf (OCS) for exploration and development of the nation's valuable offshore energy resources in an environmentally responsible manner. Over 80 percent of all federally controlled coastal waters are currently off-limits to energy exploration and production, yet the OCS is conservatively estimated to hold over 419 trillion cubic feet of technically recoverable natural gas resources and 86 billion barrels of oil. This is enough:
  - natural gas to heat 100 million homes for 60 years.
  - oil to drive 85 million cars for 35 years.
  - oil to replace current Persian Gulf imports for 59 years.



Offshore drilling is safe: Less than 1% of oil found in the ocean comes from offshore production, significantly less than results from natural geologic seeps and run-off from land-based sources