NATIONAL OCEAN INDUSTRIES ASSOCIATION

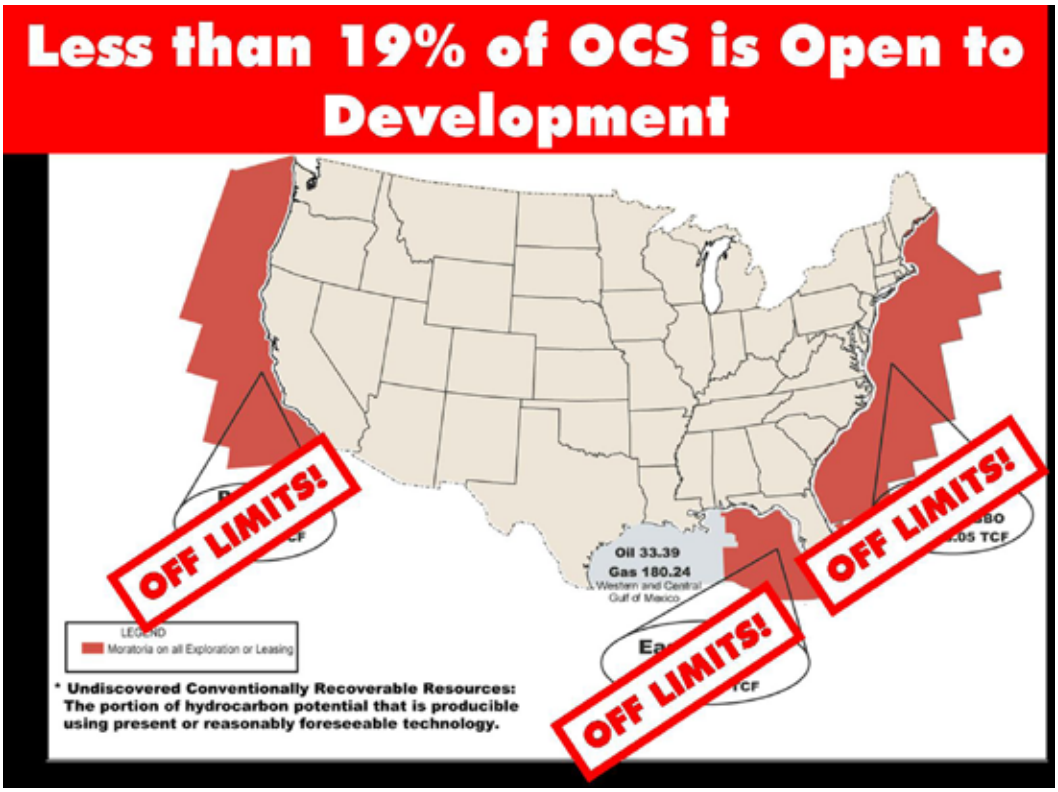
ENERGY CHALLENGES FOR IOWA AND THE NATION

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 –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 in 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 IOWA

INCREASING ENERGY PRICES SQUEEZE SMALL BUSINESSES AND NDIVIDUAL CONSUMERS:

- Energy prices, including motor fuel and household fuels and utilities, rose 2.3% from February and 18.1% from last year.
- Iowa gasoline prices are currently 30% higher than last year, costing each household an additional $2,800 annually.
- 63% of Iowa's small businesses cited rising energy prices as a negative impact on their business, according to a November 2005 study by the Iowa chapter of the National Federation of Independent Business.
  - To offset the rising energy costs, 25% of small businesses said they reduced energy use, 20% reported that they are absorbing those costs with lower earnings, and 19% said they raised selling prices.
  - In Mason City, Cottage Drycleaners, a family business for 30 years closed their doors in April 2006 due to rising energy costs. Today, there are only about 50 drycleaners left in Iowa.

IOWA ASSOCIATION OF SCHOOL BOARDS EXPECTS ENERGY COSTS TO DECIMATE THEIR BUDGETS FOR WINTER 2005-2006:

- School heating costs could create a a $40 million shortfall.
- Higher fuel costs for school buses could worsen the shortfall by another $8 million. Because the shortfall will come out of the fixed general fund for public education, every dollar spent on energy costs will come at the expense of classroom and instructional quality.
- Charles City expects to spend $140,000 more on fuel in 2006, enough to pay the salaries of four teachers.

MORE THAN HALF OF IOWA RESIDENTS' ENERGY BILLS ALREADY GO TO HEAT THEIR HOMES AND, THE ENERGY INFORMATION ADMINISTRATION PREDICTED IN JANUARY 2006 THAT MIDWEST HOME HEATING COSTS WERE EXPECTED TO INCREASE BY 74%.

- The average energy bill for Iowa homes heated with natural gas will increase by about $400 in 2006. Average energy bills for homes heated with oil will go up about $265. Propane-heated homes will see their bills rise by about $165, while electric heating costs will rise by about $80.
- In 2005, about 85,600 Iowan families were granted more than $34 million in Low Income Home Energy Assistance (LIHEAP) funding to help pay their heating bills, an increase of nearly 4,000 households over 2004.

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INCREASING ENERGY PRICES HURT MANUFACTURING INDUSTRIES, IMPERILING IOWA JOBS:

- Iowa's increased energy costs for gasoline, natural gas, and electricity are expected to reach $11.1 billion in 2006, double the $5.5 billion of 1998.
  - The study - by the Iowa Legislative Services Agency - adds that these dollars flow mostly to out-of-state entities, removing them from the state's economy and lowering Iowa tax revenues.
- Iowans hold more than 229,100 manufacturing jobs, paying an average of $42,150/year, 33% higher than the average wage and salary for the state. Rising energy costs, however, have contributed to the loss of more than 22,300 manufacturing jobs since 2000 from this lucrative sector.
- Chemical manufacturing – which depends on natural gas as a critical input – accounted for more than $666 million in exports and more than 7,000 jobs in Iowa in 2005, though the high price of natural gas jeopardizes the industry's continued viability.

INCREASING ENERGY PRICES SQUEEZE FARMERS AND AGRICULTURAL INDUSTRIES:

- Iowa is home to more than 89,700 farms, covering more than 31.7 million acres of land that use energy in grain production and through the purchase of inputs such as fertilizer and agricultural chemicals.
- In 2005, farmers experienced a 28% hike in fuel costs.
- A 2005 Iowa State University report on farm costs indicates 21 and 50% increases for gas and diesel fuel, respectively, from 2004 to 2005.
  - At a minimum, this could raise variable costs for corn and soybean production by 10% and 6%, respectively, with total costs rising by 5-6% and 2%, respectively.
  - In the worst case, such price increases mean variable costs of production for corn and soybeans would rise 18% and 10%, respectively, and fixed costs would rise 10% and 4%, respectively.

- On average, Iowa farmers spend more than $700 million dollars a year on fertilizer. In 2006, Iowa farmers face fertilizer prices of $500 or more per ton, more than double the 2002 price. (Without nitrogen fertilizers, U.S. corn yields would drop an estimated 40%.)
- According to the University of Missouri, corn growers will spend an additional $13 to $21 an acre on fuel and fertilizer cost in 2006. Last year, energy costs for growing corn were up $22 to $35 an acre.

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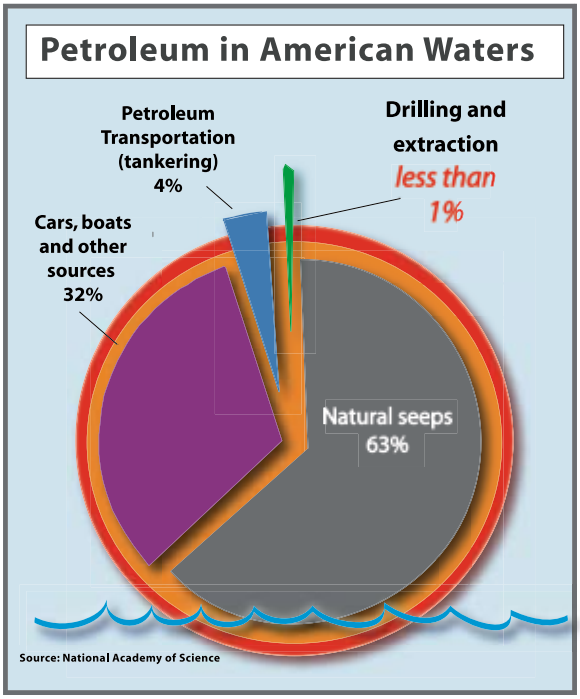
A PLAN OF ACTION:

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