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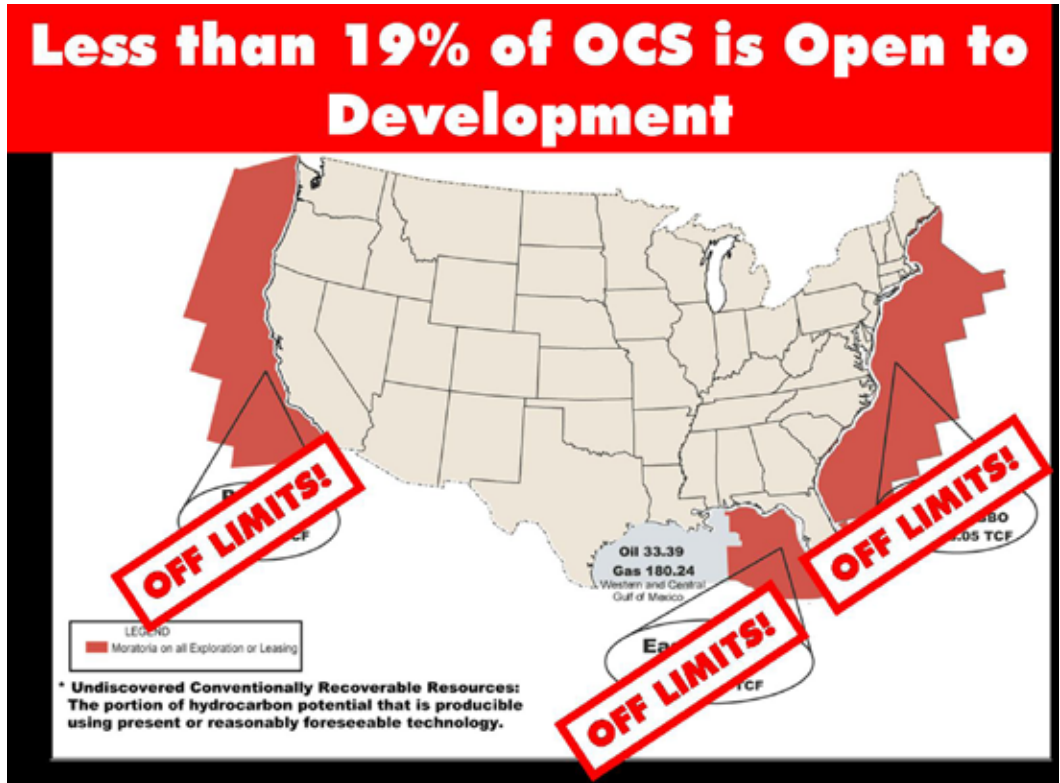
ENERGY CHALLENGES FOR SOUTH CAROLINA AND THE NATION

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.



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 than 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:
 - o *Petroleum by 41 percent*
 - o *Natural gas by 33 percent*
 - o *Coal by 41 percent*
 - o *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.
 - o *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.

SOUTH CAROLINA



- According to the South Carolina Energy Office, South Carolinians spent almost \$10 billion in energy expenditures, or the equivalent to \$2,430 per person. With an on average per capita personal income of \$24,840, this presents a substantial economic impact on the South Carolina populace.
- In 2001, the South Carolina industrial sector accounted for 39.3 percent of energy consumption, followed by the transportation sector with 24.7 percent, the residential sector with 20.8 percent and the commercial sector with 15.2 percent.
- In November 2005, South Carolina was home to more than 262,000 manufacturing jobs, paying employees an average of \$40,750/year. **30%** higher than the average wage and salary for the state.
- Unfortunately, rising energy costs have contributed to the loss of more than 74,200 manufacturing jobs since 2000.
- Today, more than 21,300 jobs are directly created by the chemical industry in South Carolina, but these jobs are in jeopardy due to the high price of natural gas.
- Chemicals, plastics and rubber manufacturing – which depend on natural gas as a critical input – accounted for more than \$3.2 billion in South Carolina exports in 2005.



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

- In a November 2005 survey by the South Carolina chapter of the National Federation of Independent Business, 67 percent of South Carolina's small businesses said the recent run-up in energy prices had a negative impact on their business. To offset the rising energy costs, 26 percent said they reduced energy use, 18 percent reported that they are absorbing those costs with lower earnings, and 20 percent said they raised selling prices.
- In Fiscal year 2004, South Carolina public facilities spent more than \$196 million on energy.
- Almost one-third of South Carolina residents' energy bills go to heat their homes.
- Over the past 20 years, electric generation in South Carolina increased by 106 percent. Fifty-eight percent of South Carolina households use electricity as their primary fuel source, with residents paying nearly \$270 more than the U.S. average for their annual residential electric bill.
- In South Carolina, 26 percent of households use natural gas as a fuel source for heating. This past winter, natural gas customers in Orangeburg saw their heating bills rise by about 50 percent over previous winters.





- The average energy bill for South Carolina homes heated with natural gas will increase by about \$235 in 2006. Average energy bills for homes heated with oil will go up about \$145. Propane-heated owners will see their bills rise by about \$150, while electric heating costs will rise by about \$60.
- In 2005, about 29,000 households throughout South Carolina had received more than \$24 million in Low Income Home Energy Assistance (LIHEAP) funding to help pay their heating bills.
- In South Carolina, the transportation sector – public and private vehicles, railways, aircraft, ships, and barges – accounts for more than 24 percent of all energy used in the state. In 2003, there were more than 3.2 million registered vehicles in South Carolina that consumed more than 2.4 billion gallons of gasoline.
- South Carolina gasoline prices are currently 35% higher than last year, costing South Carolina households \$3,200 annually.

INCREASING ENERGY PRICES SQUEEZE FARMERS, AGRICULTURAL BUSINESSES, AND FOREST AND PAPER COMPANIES:

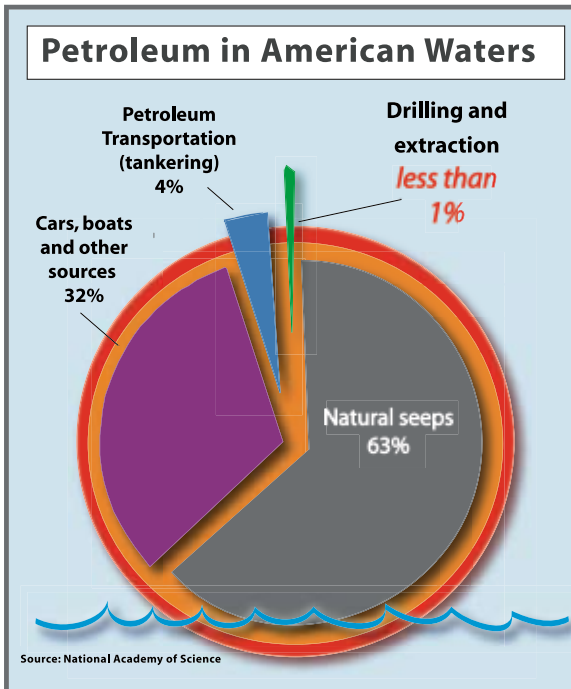
- South Carolina is home to more than 24,400 farms, covering more than 4.8 million acres of land.
- In 2005, farmers experienced a 28% hike in fuel costs
- Many of South Carolina's major economic sectors are intensive energy users. Agricultural production uses energy directly in grain production, drying, marketing, and also indirectly through many of the purchased inputs such as fertilizer and agricultural chemicals. Many of the manufacturing industries, including agricultural processing, are also intensive energy users.
- Sharply increased fertilizer prices are a major concern for South Carolina grain producers. Today, 40% of U.S. crop production depends on using commercial fertilizers. Without nitrogen fertilizers, U.S. corn yields would drop an estimated 40%.
- This spring, South Carolina farmers face fertilizer prices of \$500 or more per ton, more than double the 2002 price.
- Today, energy is the third largest manufacturing cost for the forest products industry, at 18 percent for pulp and paper mills, with the cost of energy about to eclipse employee compensation.
- South Carolina forest products industry employs 36 thousand workers, representing more than 7 percent of the state's total manufacturing workforce, but these jobs are in jeopardy due to the high price of natural gas. Nationally, more than 232 mills have closed and 182,000 jobs have been lost (12 percent employment) since 2000 when energy prices started to rise.



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