



February 27, 2015

TO: Members, Subcommittee on Energy and Power

FROM: Committee Majority Staff

RE: Hearing entitled “21st Century Energy Markets: How the Changing Dynamics of World Energy Markets Impact our Economy and Energy Security”

I. INTRODUCTION

On Tuesday, March 3, 2015, at 1:30 p.m. in 2123 Rayburn House Office Building, the Subcommittee on Energy and Power will hold a hearing entitled “21st Century Energy Markets: How the Changing Dynamics of World Energy Markets Impact our Economy and Energy Security.”

II. WITNESSES

- Adam Sieminski, Administrator, U.S. Energy Information Administration;
- John Kingston, President, McGraw Hill Financial Global Institute;
- Amy Jaffe, Executive Director, Energy and Sustainability, University of California, Davis;
- Scott Sheffield, Chairman and Chief Executive Officer, Pioneer Natural Resources;
- Charles Drevna, President, American Fuel & Petrochemical Manufacturers;
- Graeme Burnett, Senior Vice President for Fuel Optimization, Delta Airlines; and,
- Brad Markell, Executive Director, AFL-CIO Industrial Union Council

III. BACKGROUND

Global energy markets have undergone remarkable changes over the last decade, and the U.S. is driving this transformation. Growing energy resource estimates and rising production rates have replaced previous notions of declining domestic supplies. The U.S. was the world’s leading contributor to global oil supply growth during 2014 and the Energy Information Administration (EIA) predicts continued growth in the year ahead.¹ EIA is forecasting that crude

¹ U.S. Energy Information Administration, [Today in Energy](#) (February 9, 2015).

oil production in 2015 will come close to the highest annual average level in U.S. history of 9.6 million barrels per day (bbl/d) in 1970.²

The last several months have been marked by a significant decline in the price of crude oil and a period of increased volatility and forecasting uncertainty. Strong world crude oil supply and weak global demand led oil prices to decline nearly 50 percent since June, falling from a high of \$115/bbl to a current price near \$60/bbl.³ EIA forecasts that Brent crude oil prices will average \$58/bbl in 2015 and \$75/bbl in 2016, with 2015 and 2016 annual average West Texas Intermediate (WTI) prices expected to be \$3/bbl and \$4/bbl, respectively, below Brent.⁴

Crude oil production by the Organization of the Petroleum Exporting Countries (OPEC), especially Saudi Arabia, is an important factor affecting world oil prices. Following its November 2014 meeting, OPEC announced that it would not cut production to offset an oil supply glut,⁵ seemingly motivated by a desire to test the resilience of U.S. production and regain market share. While Saudi Arabia's budget is insulated from the effects of lower oil prices, the decision to maintain current production levels has negatively affected exporting countries that lack Saudi Arabia's financial reserves, raising serious questions regarding their political and economic stability.

The short term outlook of relatively lower prices is having mixed impacts on the U.S. economy. The direct consumer benefit of less expensive gasoline is apparent – the average household is expected to save \$750 in 2015.⁶ On the other hand, low oil prices are having a negative impact in certain regions of the country, as energy companies announce layoffs and scale back their capital expenditure budgets.^{7,8} Low oil prices, and the reduced royalty payments and tax revenue that result, may also have a negative impact on State and local communities who rely on the revenue to fund roads and schools. Without question, the broader economic and geopolitical implications of the rapidly changing market conditions are complex and difficult to predict.

IV. ISSUES

The following issues may be examined at the hearing:

- U.S. energy outlook and the effects of relatively lower oil prices on the U.S. economy, energy security, and foreign diplomacy;
- International competitiveness of U.S. energy supplies; and,
- Federal policies implicated by the changing dynamics of world energy.

² U.S. Energy Information Administration, [Short-Term Energy Outlook](#), (February 10, 2015).

³ U.S. Energy Information Administration, [Petroleum & Other Liquids](#), (Accessed February 24, 2015).

⁴ U.S. Energy Information Administration, [Short-Term Energy Outlook](#), (February 10, 2015).

⁵ Organization of Petroleum Exporting Countries, [OPEC 116th Meeting Concludes](#), (November 27, 2014).

⁶ U.S. Energy Information Administration, [Short-Term Energy Outlook](#), (February 10, 2015).

⁷ The Wall Street Journal [reports](#) that for the first time since 2009, corporate spending on capital expenditures will be down for the year, mainly because of a steep drop in the energy sector. Energy accounts for 33% of S&P 500 capex and should fall by 25% in 2015. (February 2, 2015).

⁸ Baker Hughes [reports](#) 1,310 drilling rigs active in the United States, a decline of 461 rigs from one year ago. (February 20, 2015).

V. STAFF CONTACTS

If you have any questions regarding this hearing, please contact Brandon Mooney or Tom Hassenboehler of the Committee staff at (202) 225-2927.