

America's Oil and Natural Gas Industry

Fuel Prices and Energy Policy: An API Fact Sheet

Today's energy debate is of concern not just to energy producers, but to all Americans. It has particular impact on those who work hard to support their families and who rely so heavily on energy to get to their jobs, to power their businesses, and to provide warmth for their families.

Many Americans lack a full understanding of the oil and natural gas industry. Consumers and policymakers alike need fact-based information. API has assembled this fact sheet to encourage a constructive public policy debate on meeting the growing energy needs of consumers and industry.

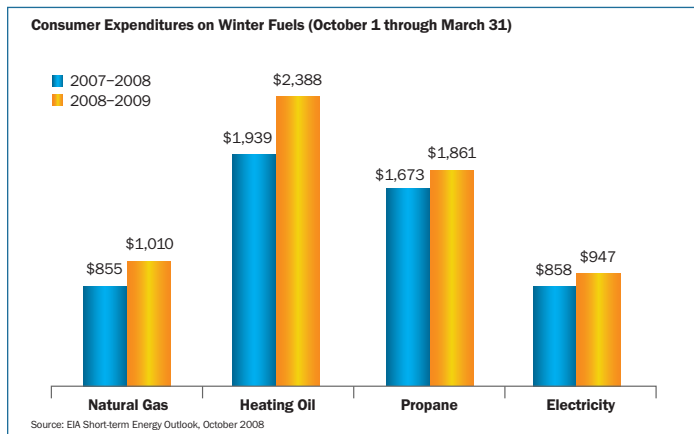


Key Factors Affecting Markets

There are many factors affecting the price of fuel.

Economists like to say that it all boils down to supply and demand, but there are many factors affecting the tried-and-true laws of economics including:

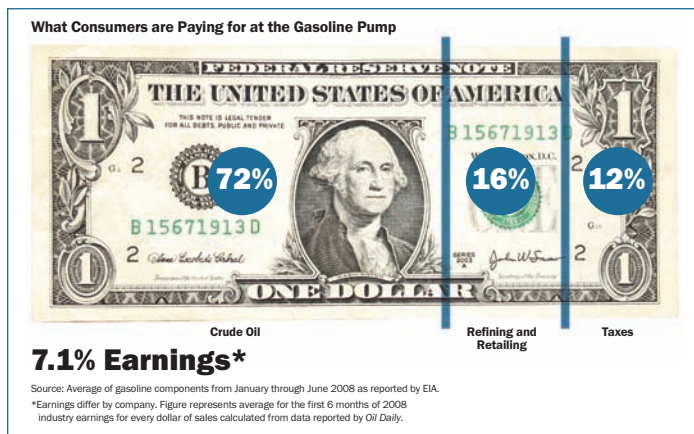
- Strong global demand especially in developing economies of China, India and the Middle East Gulf.
- Tight supplies that have been aggravated by political instability, resource mismanagement and weather. The Iraq insurgency, civil unrest in Nigeria, political instability in Venezuela and hurricanes in the Gulf of Mexico are among examples.
- Decline in the value of the U.S. dollar against other countries has also put American consumers at a disadvantage.



Winter Fuel Outlook

Consumer expenditures on winter fuels are expected to be sharply higher this winter than last, especially for homes using heating oil.

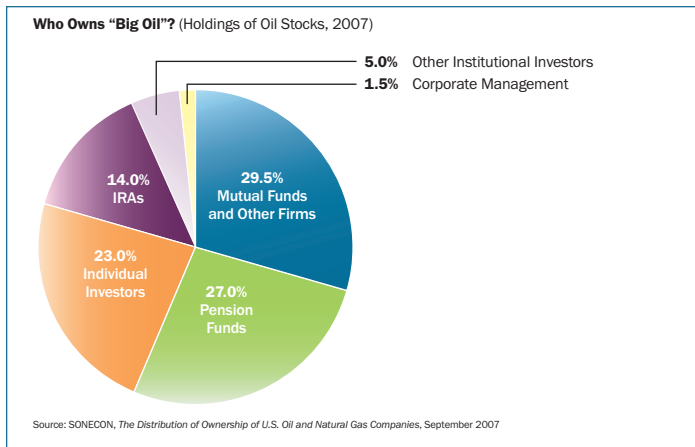
According to the U.S. Energy Information Administration (EIA), the average bill for consumers is expected to increase 15 percent, or by nearly \$200 to \$1,137. But for those households heating with heating oil, the increase could reach over 23 percent, or about \$449 to an average expenditure of \$2,388. EIA's forecasts for homes heated with other fuels include average increases of 11 percent for propane, 18 percent for natural gas, and 10 percent for electricity.



What Consumers are Paying for at the Gasoline Pump

The price of crude oil is set on global markets, not by oil companies, and it accounts for the largest share of every dollar of gasoline price.

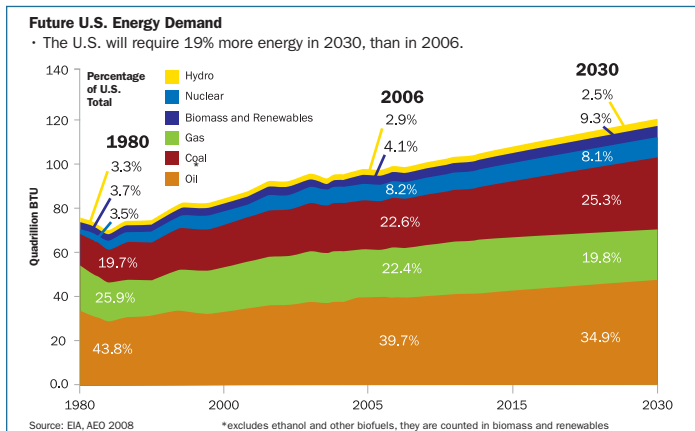
The biggest single component of retail gasoline prices is the cost of the raw material used to produce gasoline – crude oil. For example, in the first half of 2008, crude oil alone made up 72 percent of pump prices. Refining the crude oil into gasoline and retailing added another 16 percent to the retail price of gasoline. Taxes accounted for 12 percent of the price of gasoline.



Who Owns "Big Oil"?

If you're wondering who owns "Big Oil" chances are good the answer is, you do.

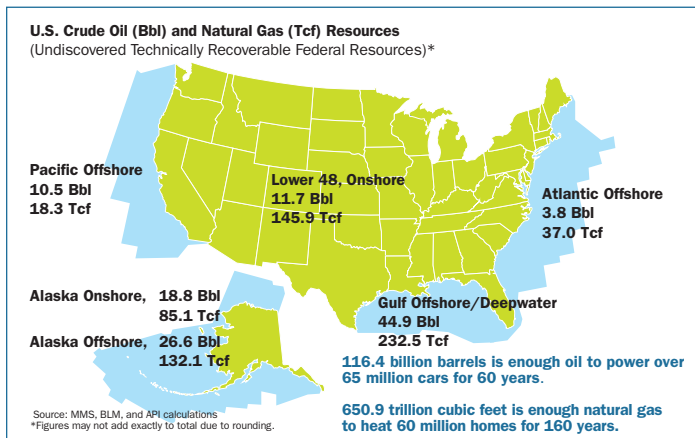
Contrary to popular belief, and what some politicians might say, America's oil companies aren't owned by just a small group of insiders. Only 1.5 percent of industry shares are owned by corporate management. The rest is owned by tens of millions of Americans, many of them middle class. If you have an IRA or personal retirement account, there's a good chance it invests in energy stocks.



Future U.S. Energy Demand

Although the share of non-fossil fuels is growing rapidly, fossil fuels – oil, natural gas and coal – will continue to play the leading roles through 2030.

Recent forecasts by the U.S. Energy Information Administration (EIA) estimate that sustaining a 2.4 percent rate of annual growth in our economy between 2006 and 2030 will require an expansion of over two million barrels per day in our oil supplies and an increase of one trillion cubic feet of natural gas a year. That increase is the equivalent of 18 percent of our current net crude oil imports and 28 percent of our current net natural gas imports.



U.S. Crude Oil and Natural Gas Resources

Increasing access to domestic sources of oil and natural gas would enhance our energy security and reduce our balance of payments.

The amount of oil and natural gas contained in the Outer Continental Shelf alone is enough to produce an extra two million barrels per day of oil for 24 years and an extra one trillion cubic feet of natural gas for 76 years.

There could be much more oil and natural gas than previously known in areas where industry has been unable to fully explore, and new technologies allow us to access resources previously thought unreachable.

Policy Choices Needed to Ensure Future Energy Security

- ❖ Reduce barriers to increasing domestic supplies.
- ❖ Encourage energy efficiency.
- ❖ Encourage investment in long-term energy initiatives and advanced technologies.
- ❖ Rely on market forces to allocate products.
- ❖ Refrain from new taxes that make it more expensive to develop our domestic supplies.
- ❖ Support the need to participate actively in global energy markets rather than isolate the U.S.

For more information on how to prepare for the winter season, visit www.api.org/aboutoilgas or www.energytomorrow.org.