Gopstein, Avi (S4)

From: Hopkins, Asa (S4)
Sent: Friday, April 08, 2011 9:45 AM
To: Gopstein, Avi (S4)
Subject: Fw: Follow-up
Attachments: Praying at the Pump.pdf

From: Ron Minsk <RMinsk@secureenergy.org>
To: Hopkins, Asa (S4); Holland, Mike (S4)
Sent: Fri Apr 08 09:36:28 2011
Subject: Follow-up

I very much enjoyed our conversation yesterday and will certainly have thoughts to share regarding the issues we discussed. I wanted to forward to you two things that came up in our conversation. First, I have attached a copy of the NYT op-ed I mentioned. And, below is a link to a blog that I wrote on gas taxes and the variance in local gasoline prices.

http://energypolicyinfo.com/2010/04/thoughts-about-gas-taxes-2/

Warm Regards,

Ron

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The New York Times
nytimes.com

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OP-ED CONTRIBUTOR

Praying at the Pump

By RONALD E. MINSK

Washington

ONCE again, the price of oil is making Americans nervous. After falling by more than one-third since peaking above $75 per barrel last summer, the price has rebounded to $58 with the re-emergence of cold weather and news of a production cut by OPEC. As Congress and President Bush face off over energy policy, we should reaffirm a few basic principles. A very important one is that our most critical goal in enhancing our energy security is to maintain a stable price for oil.

When we talk about energy "dependence" or "security," we really mean oil. We do not import coal or wind or the sun or geothermal steam, and we import only a tiny percentage of the natural gas we consume from anywhere other than Canada. Thus there is virtually no geopolitical risk in using any of these sources.

This is why energy policy statements frequently begin with the goal of "eliminating the import of Middle East oil." Such aims presume that our insecurity derives from oil imports, and reflect our distaste of being beholden to autocratic regimes in the Middle East and elsewhere that we perceive as sharing neither our interests nor our values. This presumption, however, is wrong.

Simply put, our oil addiction undermines our well-being because the volatility of oil prices threatens our economy. Because we spend so much on oil and there are no short-term substitutes, price spikes wreck household, business and government budgets alike. Our sense of insecurity is magnified because volatility is both unpredictable and generally beyond our control.

If we could predict future oil prices, we could plan for them. But few people can adjust their lifestyles to reduce their oil consumption significantly in response to price spikes. Likewise, businesses may be reluctant to invest in efficiency or alternative fuels because the higher oil prices that make such investments cost-effective could collapse virtually overnight.

It is important to remember that our insecurity is related to price volatility and not to the source of the oil. If OPEC members suspended exports but the price of oil mysteriously did not rise, we would not care about the interruption. It is only because a supply interruption always affects price that we care about oil’s uninterrupted flow.

Yes, the oil market does care where oil comes from, because the political and economic stability of the supplier informs the market about its reliability as a producer. And because there is a world market for oil, supply interruptions anywhere affect the price of oil everywhere. Even if we imported oil only from the most stable countries (or eliminated imports altogether), so long as unstable countries and regions supply the world market, we would be exposed to the risks of a volatile market. It is precisely the economic risk posed by price fluctuations that forces us to spend diplomatic and military capital in oil-producing regions.

This means that the percentage of oil we import is relatively unimportant. Even the use of alternative liquid fuel instead of oil-derived gasoline will not allow us to escape this volatility, because as direct substitutes for each other, gasoline and alternative fuels will be similarly priced, just as gasoline sold by different oil companies or at different gas stations is similarly priced today.

Accordingly, while the domestic production of oil or alternative liquid fuels may be critically important for other reasons — it can create jobs, stimulate development of new technology, reduce the trade deficit, protect our environment and lower the baseline price of oil — it won’t do much to end oil price fluctuations.

It’s true that we can help mitigate the effects of oil price volatility by increasing fuel economy standards on cars and trucks. In fact, the more efficient use we make of oil today as opposed to 25 years ago has certainly reduced some of the effects of recent price fluctuations. But tighter fuel standards cannot eliminate the effects of volatility, because new business and governmental budgets already assume increased efficiency; nor would they protect us from price spikes brought on by, say, a new military conflict in the Middle East.

The only way to truly address price instability is to find ways to, in a crisis, quickly and substantially increase fuel production, or to develop some means by which consumers could quickly switch from liquid transportation fuels to other fuels. Not only would it be remarkably difficult to develop these new abilities to such an extent that they could offset the effects of the largest foreseeable supply interruption, but achieving them might have an unexpectedly negative effect: undermining incentives to increase oil production and decrease demand.

In the short term, technology like plug-in hybrid cars could help with volatility, because it allows consumers to choose day to day whether to power their cars with oil or with the sources their utilities use. In the long term, however, if we cannot find a way to increase production and inoculate ourselves from oil-supply interruptions, we are either going to have to develop cars that need no oil, or learn to live with the risks of the global market.

When Americans fill up the tank, they do not care where their gasoline comes from — they just want a stable price. And the fact that we import so much oil does not, in itself, cause its price to fluctuate so wildly or promote inflation. There are many paths to take as we seek to improve our energy security, but all should be based on one principle: real security can come only through finding a way to keep prices stable.

Ronald E. Minsk, a lawyer who represents electric utilities, was a special assistant for economic policy to President Bill Clinton.