

Columbia-Willamette Clean Cities Conference  
Portland, Oregon, June 5, 2008  
Remarks of Mike Grainey, Director  
Oregon Department of Energy

Good morning. On behalf of Governor Ted Kulongoski I want to welcome all of you today. The title of our conference is “Transportation Sector Challenges: A Time of Change.” It could not be more timely. Nor could your efforts be more vital.

Gasoline is over \$4 a gallon; and diesel is nearly \$5. 70% of the cost of gasoline is directly tied to the price of oil, which has skyrocketed to previously unimaginable levels. Oil is now over \$130 a barrel.

We issued our biennial energy plan a few weeks ago, describing our current energy status. It’s already out of date. It says that Oregonians spend nearly \$10 billion a year on energy. That is no longer true; the amount is now more than \$12 billion annually. Eight and one half billion dollars of that is for oil. Most of that money leaves the state and much leaves the country.

This is having a serious impact on our economy. The price of oil is the largest cause of inflation. It is also the largest cause of our balance of payments deficit; and the largest cause in devaluing the dollar against the Euro and other foreign currencies.

The price of oil also affects natural gas, a vital energy source cleaner than coal or oil. We use gas for our homes, factories, and power plants, and for fleets, transit districts and for other vehicles. The high price of oil is causing countries in Asia which have no natural gas to import natural gas to displace oil. This has made the price for liquefied natural gas, (LNG) unaffordable to American LNG terminals.

Most US LNG terminals, which cost hundreds of millions of dollars each, are operating at less than a third of their capacity. Nearly twenty more LNG terminals which received federal approval, worth billions of dollars more, may never be built, because they cannot outbid the Asian gas markets.

Much of the recent price increase in oil has been blamed on speculators driving up the price; that may be a factor. But the long term outlook for lower oil prices is not good. An increase in world oil production is doubtful, while world demand will likely increase. You will hear later today about world peak oil. It means that while demand will rise, the rate of production of oil will not keep pace.

Consider the United States. Until 1950 the US produced more than half the world’s oil and could meet all our own needs. By 1965 we were not producing enough oil to meet our needs, and by 1970 domestic oil production peaked. The gap between our needs and the amount we import has been growing ever since.

At the time of the first oil embargo in 1973 we imported about 30% of our oil. That embargo had a serious impact on our economy. Gasoline prices literally doubled overnight, causing serious inflation and a recession which took years to recover from. By the time of the second oil embargo in 1979 our imports were nearly up to 50%.

Then federal action, such as vehicle efficiency standards, energy efficient building codes and other measures, reduced our oil imports in the mid-1980s to less than 30%. We were making real progress.

However, our efforts faltered. Our use of imported oil steadily increased in the last two decades. Today we import over 10 million barrels of oil a day, more than 60% of our oil. That's twice the level we were at during the first oil embargo. Some of the countries from which we must buy oil are politically unstable or openly hostile.

One reason our imports increased is that vehicle efficiency standards were unchanged for more than 25 years. Last year Congress finally increased vehicle standards. These standards will save a million barrels of oil a day, as much as could be produced from the Arctic Wildlife Refuge. But we could save much more.

Cost-effective vehicle standards could save three or four times more than those passed last year. The new Renewable Fuel Standard for biofuel will result in displacing over two million barrels of oil a day. If combined with tougher vehicle mileage standards these measures would cut our imports by nearly half. This would have a huge impact on the price of oil. But without these standards and other energy-savings measures, our demand for oil will continue to rise.

Adding to the pressure on oil is the increasing demand by India, China, Russia and other countries, which are rapidly developing their economies. Short of a major world wide recession, it is likely that the price of oil will continue to rise in the long term.

Let's consider global warming. There is increasing support in Congress for a cap and trade system and other measures to reduce greenhouse gasses. The Senate began work this week on a major global warming bill, with huge implications for our energy future.

In Oregon our Global Warming Commission is considering state legislation to meet the State greenhouse gas targets set in 2007 by House Bill 3543. That law requires that Oregon reduce its greenhouse gas emissions by 10% below 1990 levels by the year 2010 and 75% below 1990 by the year 2050.

Most of Oregon's greenhouse gasses come from vehicles and power plants. To reduce greenhouse gasses means alternative fuels, renewable energy, and energy efficiency in vehicles, buildings and factories. These measures will also benefit our economy by making us less vulnerable to oil price shocks.

In short, the actions that reduce greenhouse gasses are the same ones that will reduce our exposure to rising oil prices. The price of oil and reducing greenhouse gasses are two sides of the same coin.

So the actions you have taken and are sharing at this conference are extremely important; they are important for your own companies and organizations, for our regional economy and, ultimately, for our nation itself. We simply cannot keep going at our present pace of ever increasing imports to fuel our vehicles or to meet our other energy needs. We have to change and we have to change now.

Increased mass transit, increased carpooling and more efficient cars with better mileage standards are critical to weaning us off our growing dependence on imported oil. Biodiesel and ethanol, especially cellulosic ethanol from wood waste and agricultural residue, must be increased. Natural gas, hydrogen, flexible fuel and hybrid vehicles, especially plug-in hybrids, must be made, not just for a few models, but for every vehicle model.

None of these alternatives is the answer itself. We will continue to need oil for the foreseeable future. But all of these measures can play a part in reducing our unsustainable use of oil.

In the first oil embargo gasoline prices doubled overnight. They haven't doubled overnight this time, but they have doubled quickly. They will continue to rise if we proceed with business as usual.

We cannot afford to let that happen. We must act to diversify our transportation fuels, reduce our pollution and reduce our consumption of imported oil without sacrificing our standard of living. The efforts you make and that you share at this conference can help us all get on a path to a more sustainable future, a future where we won't have to send a billion and a half dollars out of our country every day for oil.

It is time we kept our energy dollars at home, strengthened our economy, increased our energy security and cleaned up our environment. By reducing our imported oil, we can do all of these things at the same time. Your work can help us succeed in this important effort.

Thank you very much.