

## DR. F COLUMNS

CEERT's Research Director, Dr. Rich Ferguson, writes a weekly column entitled "Energy Matters" for [California Energy Circuit](#), a widely read trade publication. Recent columns by DrF are available from [ceert.org](#) by permission of the publisher. "The good folks who publish California Energy Circuit now have another new ezine that's worth a look. It's called E=MC <sup>2</sup> ; *Energy Meets Climate Challenge* . [Check it out here.](#)"

HERE IS THIS WEEK'S COLUMN...

Dr. Ferguson: Energy Matters

June 13 , 2008

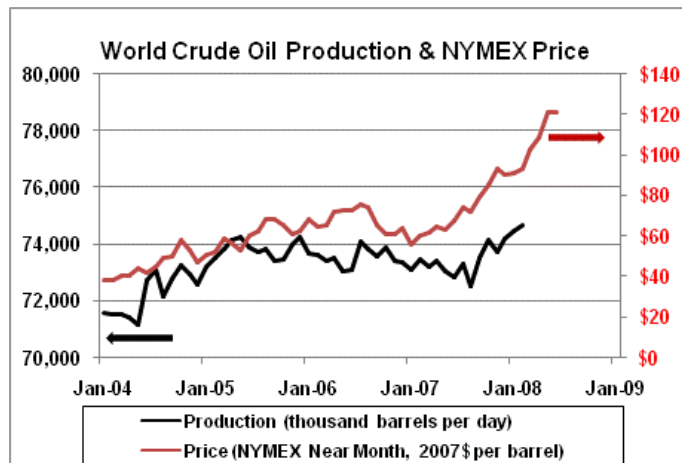
### Speaking of Gasoline Prices

My wife's Internet chats are usually about dogs, but this week the subject was petroleum. Four dollar gasoline has gotten folks' attention. All across America people are talking about the rising cost of fuel and what to do about it. This long overdue discussion could be more productive if there were agreement on the fundamental problem. The price of gasoline is a symptom. It's not the basic problem.

While politicians argue about what pill to offer voters to ease this painful symptom—reducing taxes on fuel or cutting subsidies for oil companies—there is precious little discussion in the media or in Washington on the underlying problem.

Rather than admit that there is anything fundamentally amiss, we are still in denial.

The problem is that supplies of crude oil are not responding to rising prices, as economists say they should. In fact, they are not responding much at all, as my familiar chart shows.



Despite prices consistently above \$60 per barrel, crude oil production today is only marginally higher than it was three years ago despite a doubling in price. The price of crude oil, and consequently the prices of gasoline, diesel, jet fuel, and every other product derived from crude oil are responding to the fact that global supplies of crude oil have stopped increasing.

No one can claim they were not warned that this could happen. For years, some analysts have been predicting that crude oil supplies would stop increasing early in this century and begin to decline. These "peak oil" theorists were scorned as crackpot alarmists until recently.

It's time to admit that the peak oil theory is the best explanation of what has been going on in the oil markets for the last three years.

Despite the enormous amounts of money flowing into the oil industry and the utilization of every drilling rig known to man, new supplies have not overcome the production declines in Mexico, in the North Sea, and most recently in Russia, the world's second largest exporter.

That's a serious problem.

What should we do about it?

The US oil companies continue to blame restrictions on drilling in the last places oil might be found in the US—the Arctic National Wildlife Refuge and the coast of California, for example. No serious analyst believes this oil could make a significant contribution to global supplies, and certainly not any time soon. If

OPEC cannot (or will not) satisfy global demand, trashing Alaska National Wildlife Refuge isn't going to be much help.

Others say the solution is to reduce the demand for oil through conservation. High fuel prices are the most powerful incentive for conservation, and that's what folks are complaining about. Politicians are being pressured to *lower* prices, not raise them.

It's time to face the likelihood that the price of oil will remain high. New supplies may never succeed in overcoming the depletion of existing fields.

What do we do then?

Turning the food supply into liquid fuels has turned out not to be a great solution, since people still need to eat and the cost of food is going through the roof, too.

The Air Force wants to produce jet fuel from coal to ensure supplies, and I expect the coal-to-liquids gang to mount a major offensive any day. If the world decides to give up on global warming, this strategy might eventually slow the loss of liquid fuels.

The only long term solution I can see is to electrify the transportation system as quickly as possible to reduce the need for liquid fuels. High speed rail could replace airplanes and long-haul trucking. Transit could replace local automobile traffic as urban areas become more compact again.

These are enormous changes which will not occur overnight, of course. They do not address the symptom of high fuel prices. But they do address the fundamental problem that the world is running out of cheap oil.

In the short term, I expect we're going to have to learn to live with high fuel prices. My greatest fear is that the politicians will start more wars rather than give this bad news to constituents.

Let's hope the discussion of gasoline prices that has now begun leads to responses more productive than warfare.

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