



**Statement by Mr. Jared Blong  
Chief Executive Officer/President  
Octane Energy, LLC**  
**House Small Business Subcommittee on Agriculture, Energy and Trade**  
**June 26, 2014**

Chairman Tipton, Ranking Member Murphy and members of the Subcommittee, my name is Jared Blong. I serve as the Chief Executive Officer and President of Octane Energy, a Midland, Texas-based small business that provides oil field services support to oil and gas exploration companies. It's an honor to address you today on the critical subject of crude oil exports.

Octane Energy is truly a small business. The company was founded in 2013 in response to the energy renaissance our country is experiencing. Projected sales this fiscal year are \$3.5 million. Octane has 12 staff, of which, 50% are veterans of the American forces and we hope to double in size over the next 12 months. Octane currently provides project management on 8 oil and gas rigs for 7 operators.

Today, I have the privilege of speaking to you not as a representative of a special interest group or research firm, but instead from the perspective of a small business owner from the heartland of the American energy industry. And while we will cite a number of independent studies that have recently been conducted and that are available to the public on this topic – I can offer you something that I believe is even more valuable -- perspective and experience from a small business owner who could very well succeed or fail based on the policies you adopt.

Today, America is undergoing a resurgence in oil and natural gas production. Consider the following:

- **The US has now surpassed Saudi Arabia and Russia as the world's largest producer of oil and natural gas**, according to the US Energy Information Administration.<sup>i</sup> In just one year, US oil output jumped by 1 million barrels per day—the largest rate of increase in US history.<sup>ii</sup>
- **US oil production has increased to more than 10 percent of the world's total<sup>iii</sup>**, driving renewed investment in the refining sector. As a result, the US is now a net exporter of refined petroleum products for the first time in over 60 years.<sup>iv</sup>
- **By every measure, the US is less reliant on foreign sources of energy than ever before**: total US net imports of energy declined 19% from 2012 to 2013, hitting the lowest level in more than 20 years, according to the US Energy Information Administration.<sup>v</sup>

While some may think that this growth can be attributed exclusively to the “majors” – that is, the larger, independent or integrated oil and gas companies -- let me suggest that the vast majority of the nearly 10 million Americans who work in the energy sector are small business entrepreneurs like me, dedicated to conservation, innovation, efficiency and stewardship -- and our contributions are and will continue to be, instrumental to America’s energy future. According to the Financial Times, “The Shale Revolution...has been the energy industry’s equivalent of the dotcom revolution, with Texas and Oklahoma standing in for Silicon Valley, and Exxon as IBM.” The companies at the leading edge of this revolution range in size from companies like Octane to companies like Concho Resources or Pioneer Natural Resources, two of the Permian Basin’s largest independent producers. In fact, in the Permian Basin, only one of the top 8 most active producers, which only represent 42% of the basin’s market from a rig activity perspective, is considered a major.

Our company, Octane Energy, is an oil field service provider and we are on the front lines of the energy resurgence. As technology continues to advance and new supplies of crude oil are discovered or rediscovered, as in the case of the Permian Basin where we are headquartered, I see firsthand how this renaissance in oil and natural gas has positively impacted jobs, how it has created greater sustainability in a historically cyclical business, and how it is helping to achieve energy security for our country.

But I also see unnecessary hurdles that could limit the opportunities for US businesses. For instance, the 1970s-era policy banning oil exports—a remnant of a price controls system that ended in 1981—is creating growing market distortions and needs to be revisited in light of rising US oil production and the expanded domestic resource potential. This policy prevents our small business and others from growing as we otherwise could, prevents us from creating jobs as we otherwise could, and most importantly prevents our country from being energy secure as it otherwise could. Let me explain how:

First, I should state that my business, like so many other small businesses involved with the energy industry, is directly impacted by the rig count – that is, by the number of rigs that are actively drilling for oil and gas in the United States. When more rigs are drilling here in the United States (i.e. when the rig count goes up) so too does the number of people that I can employ, as a general rule. In addition to simply adding numbers to our team of people, the quality of jobs is also notable. For Octane's consulting practice, we can conceivably add up to 4 Well Site Leaders per rig at a typical remuneration of \$220,000 per year per team member. We are also in the process of establishing a drilling company. Based on our rig design and management philosophy, we will require up to 25 employees per rig, with an average annual pay of \$76,000 per employee. Many of these folks we seek to employ are American veterans who possess small unit leadership skills and an intrinsic appreciation for teamwork, process, sweat, and rigid operating procedures that are crucial to exceeding mission objectives in the energy industry. Lifting the ban on oil exports would ensure the sustainability of these well-paying jobs in our company and other companies in the industry. The same goes for catering companies that feed rig hands, for steel manufacturers that make drill pipe, for technology companies that make wireline downhole sensors, and for countless other businesses that take part in energy exploration and production.

Creating a sustainable increased rig count is directly tied to lifting the export ban and will facilitate Octane Energy's direct investment in the manufacturing of an American rig fleet which will create secondary and tertiary sustained job growth. Increased rig construction will contribute to growth from the financial/investment sector, all the way through the pipeline of the energy sector and into transportation and manufacturing, with lasting systemic effect for our economy. And ultimately, as we create jobs and grow businesses, we create additional tax revenue, as cited in the IHS study.

Construction of an Octane Rig will create jobs in New York for the production of shale shakers, Ohio for the manufacture of mud pumps, and various locations in Texas for drill pipe, automation and iron, just to name a few.

Current US policy is artificially suppressing that very rig count and thereby suppressing US jobs, manufacturing investment, tax revenue as well as oil and gas production – by a lot as it turns out. In fact, a recent study by IHS CERA found that if the ban is not lifted, US oil output will be 3 million barrels per day (B/D) lower<sup>vi</sup>. The reason is that, if the ban remains in place, domestic oil will sell at an increasing discount, reducing the amount of investment in new production by nearly \$750 billion according to IHS. Reduced investment means fewer rigs, fewer rigs means fewer rig hands, fewer oilfield service companies such as Octane, and fewer people employed at well-paying jobs. How many fewer jobs? A recent study from ICF International found that the US could forego creating up to 300,000 jobs by the year 2020, if it leaves its outdated export ban in place.<sup>vii</sup> IHS estimates that if the US lifts the crude export ban, the increased economic activity resulting from the rise in rig count, and subsequently crude production, would support an average of 394,000 additional US jobs over the 2016-2030 period, with highs of 811,000 additional jobs supported in 2017 and a peak of 964,000 additional jobs in 2018.

Now, not only do these studies find that jobs in the energy sector would be impacted, but these studies (as well as others not funded by the oil industry) each predict that lifting the crude export ban is likely to lower gasoline prices for US consumers. IHS states: “By boosting global supplies, the elimination of the ban will result in lower global oil prices. Since US gasoline is priced off global gasoline prices, not domestic crude prices, the reduction will flow back into lower prices at the pump—reducing the gasoline price 8 cents a gallon. The savings for motorists is \$265 billion over the 2016-2030 period.”

The widely-respected environmental think tank Resources For the Future (RFF) agreed in a separate, non-industry funded study which found that the price of gasoline will likely fall by three to seven cents per gallon if the crude export ban were lifted.<sup>viii</sup> So the question must be asked why the domestic export of crude oil, which trades in a free market on a global basis, should continue to fall under restrictions in the United States. Especially when experts from across the spectrum agree that both American consumers and American small businesses will benefit from the lifting of the export ban.

I believe, as many do, that America has entered a new era of energy stewardship. In years past, we were limited in the production of oil and natural gas simply because we didn't have the know-how to produce more. But through technological breakthroughs in precision drilling and completions techniques, we can develop resources previously thought unreachable, unattainable and uneconomic. And we can do so while maintaining the highest degree of environmental stewardship, safety and community compassion. Bottom line: the United States energy industry is consistently producing more oil and natural gas per well than ever before.

The fact is, America now counts its oil and natural gas supply in centuries. This renaissance in U.S. energy production is in contrast to the popular belief of just 10 years ago that our nation was running out of oil and natural gas. In fact, that outlook then drove the U.S. refining industry to invest tens of billions of dollars to retool refineries to process heavy, high-sulfur bitumen and oil sands from South America, Canada and Saudi Arabia, because the prominent thought was that we would run out of the type of oil native to the United States. We now find ourselves in a much different position, due to the shale revolution, and have more light, sweet American crude than we can refine with the current infrastructure of our refineries.

Today, not only have new drilling and completions techniques increased America's supply of crude oil, but also it has enabled us to produce a higher quality crude oil than we are importing. Primarily the oil produced through new horizontal drilling is light, tight, low-sulfur crude, making it the best quality in the world. Because of the high quality of the crude in American geological formations, we could be bringing a premium price on the global market. But, because of the crude export ban, the global market is not available to us for trade. This particular crude slate is helping to reinvigorate the manufacturing and petrochemical industry in America. We need to make sure we do not disadvantage this high quality crude with refining capacity, wherever it may be located in the world.

Many people believe that today, the U.S. does not export petroleum products. Nothing could be further from the truth. Major oil companies are exporting refined petroleum products like gasoline and diesel with no limitations because they own their own refineries. Why shouldn't all U.S. oil producers be allowed to do the same, regardless of where the refinery is located?

Over the years, some have argued granting U.S. crude oil producers free access to world markets would drive up the cost of gasoline and other petroleum products for American consumers. The opposite is actually true. By imposing trade restrictions on a single segment of the energy industry, namely domestically produced crude (WTI), our government is arbitrarily discounting American raw material to for U.S. refineries – many of which are foreign-owned – because of a simple mismatch of supply and demand. American energy producers are sending more crude to the refinery than can be accommodated, thereby driving down the price of domestically produced crude (WTI), which should lower gasoline prices at the pump—except our gasoline and refined product prices are set globally and not on a domestic basis. Refineries are buying American crude at a discounted rate, relative to the global market, but then selling refined petroleum products at a higher, globally traded rate. The increased net gains of the refineries are not trickling back to energy producers and service companies, or even to the American consumer.

America's energy renaissance is in jeopardy. In my opinion, these outdated crude export restrictions have prevented domestic oil exploration and production from achieving its full potential – slowing job growth, restricting supply, and negatively affecting global refined product balances, which sends the wrong message to our trading partners around the world. The shale revolution has led to an excess supply of light crude oil in the United States. However, US refineries are better suited to process heavy crude oil, while refineries in other countries are better suited to process light crude oil. The ban on US crude oil exports creates an inefficient distribution of crude oil among refineries in the Western Hemisphere and elsewhere in the world. I'm not the only one who believes this. The study I cited above by Resources for the Future states: "*Lifting the ban on US crude oil exports would allow for a more efficient distribution of crude oil among refineries in the Western Hemisphere and elsewhere in the*

*world. A better allocation of refinery activity will result in more gasoline production, which will lower gasoline prices.”<sup>ix</sup>*

The true benefit to the American consumer will be competition for the refining of gasoline. Indeed, crude oil is no different than any other commodity, product, or service demanded by consumers. Lower prices are only brought about by increased supply, greater competition amongst sellers, weaker demand, or improved efficiency in the manufacturing and distribution process. When governments attempt to legislate lower prices through regulations, no matter how well-meaning the laws may be when introduced, market distortions and unintended consequences inevitably result; supply and competition among producers is rendered short of potential, and the consumer ends up paying higher prices at the gas pump and in their monthly energy bills.

America is at a crossroads. Do we cap oil production or allow exports? Lifting export restrictions will strengthen our domestic oil industry, a critical component of our economy whose impact reaches far beyond the American consumer. At a time when unemployment sits at nearly 7% and first quarter 2014 GDP is in negative territory, the energy sector has added jobs for millions of Americans – both directly and indirectly through energy service and equipment companies. In fact, the unemployment rate in the Permian Basin is currently 2.3% and has been below 4% for the last half decade. It has also served as a job multiplier for our nation’s growing chemical and manufacturing industries. Another recent IHS report<sup>x</sup> issued in September 2013 on unconventional oil and gas – or oil and gas produced by horizontal drilling – found that:

- Employment attributed to unconventional oil and gas and petrochemical activity currently supports more than 2.1 million jobs. IHS projects it to grow to 3.3 million jobs by 2020 and 3.9 million jobs by 2025.
- In 2012, the unconventional oil and gas and petrochemical industries contributed nearly \$284 billion to GDP. IHS projects this to grow to \$468 billion in 2020 and \$533 billion by 2025.
- Unconventional energy increased U.S. household disposable income by \$1,200 in 2012. IHS projects the contribution to increase to \$2,000 per household in 2015 and \$3,500 per household in 2025.
- Unconventional energy activity and employment contributed more than \$74 billion in *government revenues in 2012 and is projected to increase to \$138 billion per year in* 2025.

By supporting the export of domestically produced crude, U.S. lawmakers can add to these totals in the form of increased jobs, GDP and tax revenues not to mention helping to put veterans to work as they return from battle and transition to civilian life.

Beyond its economic benefits, supporting domestic oil production is vital for our national security. Indeed, the growth in domestic oil production over the past several years has contributed to a significant drop in U.S. reliance on imported oil. But national security and oil exports are not mutually exclusive; in fact, they go hand-in-hand. Authorizing oil exports would promote investment in additional energy resource and infrastructure development at home, enabling our nation to better control its own destiny. Lifting the export ban on crude actually helps protect US consumers from the roller-coaster of price shocks and geopolitically driven supply disruptions. Exporting US crude strengthens our allies and

diminishes the “Oil Weapon” that is brandished by oil-rich oligarchies around the globe. Additionally, exporting US crude allows the United States to finally reverse 40 years of wealth transfer to OPEC by selling our domestically produced premium product on the global market.

We find ourselves at an impasse. Technological advances have increased production, such that we can now produce more oil, faster than ever before through the same well. In the drilling industry, we are rapidly reaching a time when there will be an economic cap on the rig count. By that, I mean that it will be economically unfeasible to employ more rigs in the very near future because we will easily surpass our nation’s ability to refine the increased oil per well. For my company’s part, a limit on rig count will severely limit the number of people we can employ and will thereby affect the broader scope of employment in the U.S. energy sector. A lift of the ban on oil exports would allow a natural economic response and an increased rig count in the US because we produce light, sweet crude which could easily find a refinery on the global market.

As we currently stand, the infrastructure of domestic refineries are tooled to take heavier crude from elsewhere in the world and turn it into high-quality fuels for domestic and international use. The cost of adapting the infrastructure of these domestic refineries is so prohibitive that we cannot foresee an economic response to refining increased quantities of light, sweet crude. As small business people in the heartland of America’s energy industry, we rely on you as lawmakers to pursue lifting the ban on the export of crude oil from the United States, in an effort to avert this potential mismatch between the supplies of oil produced and the capacity of the refining sector.

I ask you to consider the course for our energy future. I think that there is a simple method. We know what we have. We know how far we have come. We must now decide how to get from here to the future. The world has changed since the OPEC oil embargo and enactment of federal regulations in the 1970s. Today, I ask you to take a stand for a fundamental principle -- that the role of government is to enable its people and to remove unnecessary roadblocks that stand in the way of our national security and prosperity.

No person can travel across our country without being deeply stirred by the innovation and ingenuity of the American people – qualities that are the hallmark of America’s energy resurgence. As we enter this new chapter -- it is clear that the future is bright. I do not say that all problems are solved. Far from it. But I do believe that we must stand together as faithful and wise stewards of our abundant natural resources and imagine greatly if we are to fulfil our common inheritance. The United States is our common bond and our emphasis must be not on rivalry or conflict but on cooperation, trust and a shared vision of the future.

Thank you for considering my views.

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<sup>i</sup> U.S. Energy Information Administration, Today in Energy: US Expected to be largest producer of petroleum and natural gas hydrocarbons in 2013, June 20, 2014. *"The U.S. Energy Information Administration estimates that the*

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*United States will be the world's top producer of petroleum and natural gas hydrocarbons in 2013, surpassing Russia and Saudi Arabia. For the United States and Russia, total petroleum and natural gas hydrocarbon production, in energy content terms, is almost evenly split between petroleum and natural gas. Saudi Arabia's production, on the other hand, heavily favors petroleum."*

<sup>ii</sup> U.S. Energy Information Administration, Today in Energy: U.S. crude oil production growth contributes to global oil price stability in 2013, <http://www.eia.gov/todayinenergy/detail.cfm?id=14531>, January 9, 2014.

<sup>iii</sup> U.S. Energy Information Administration, Today in Energy: Tight oil-driven production growth reduces need for U.S. oil imports, <http://www.eia.gov/todayinenergy/detail.cfm?id=15731&src=Analysis-b1>, April 7, 2014.

<sup>iv</sup> U.S. Energy Information Administration, Today in Energy: Tight oil production pushes U.S. crude supply to over 10% of world total, <http://www.eia.gov/todayinenergy/detail.cfm?id=15571>, March 26, 2014.

<sup>v</sup> Elizabeth Rosenberg, "Energy Rush: Shale Production and U.S. National Security" Report of the Unconventional Energy and U.S. National Security Task Force, co-chaired by Ambassador Paula J. Dobriansky, Governor Bill Richardson and Senator John Warner (Center for New American Security; Washington, D.C.; February 2014) [http://www.cnas.org/sites/default/files/publications-pdf/CNAS\\_EnergyBoom\\_Rosenberg\\_0.pdf](http://www.cnas.org/sites/default/files/publications-pdf/CNAS_EnergyBoom_Rosenberg_0.pdf), p. 6.

<sup>vi</sup> U.S. Energy Information Administration, Today in Energy: Net energy imports in 2013 lowest in more than 20 years, <http://www.eia.gov/todayinenergy/detail.cfm?id=15671>, April 2, 2014.

<sup>vii</sup> IHS, "US Crude Oil Export Decision: Assessing the impact of the export ban and free trade on the US economy" (IHS, May 2014), KF-1, <http://press.ihs.com/press-release/energy-power/lifting-export-restrictions-us-crude-oil-would-lower-gasoline-prices-an-0>. *"Lifting the export ban and allowing free trade will, in our base case, increase US production—from 8.2 million B/D currently to 11.2 million B/D—and add investment of nearly \$750 billion. The "unconventional" revolution in oil and gas has also been one of the major contributors to the US economic recovery, estimated by IHS to have added nearly 1% to our GDP in each of the past two years."*

<sup>viii</sup> ICF International, "The Impacts of U.S. Crude Oil Exports on Domestic Crude Production, GDP, Employment, Trade, and Consumer Costs" (ICF International, May 31, 2014) <http://www.api.org/news-and-media/news/newsitems/2014/mar-2014/~media/Files/Policy/LNG-Exports/LNG-primer/API-Crude-Exports-Study-by-ICF-3-31-2014.pdf>

<sup>ix</sup> Brown *et al.*, Resources For the Future, "Issue Brief: Crude Behavior: How Lifting the Export Ban Reduces Gasoline Prices in the United States" <http://www.rff.org/RFF/Documents/RFF-IB-14-03-REV.pdf>

<sup>x</sup> *Ibid.*

<sup>x</sup> IHS, "America's New Energy Future: The Unconventional Oil and Gas Revolution and the Economy – Volume 3: A Manufacturing Renaissance." (IHS, September 2013) <http://press.ihs.com/press-release/economics/us-unconventional-oil-and-gas-revolution-increase-disposable-income-more-270#sthash.KHcPqcmB.dpuf>.