

INTERIM JOINT COMMITTEE ON NATURAL RESOURCES AND ENERGY

Minutes of the 3rd Meeting of the 2022 Interim

August 18, 2022

Call to Order and Roll Call

The 3rd meeting of the Interim Joint Committee on Natural Resources and Energy was held on Thursday, August 18, 2022, at 1:00 PM, in Room 154 of the Capitol Annex. Senator Brandon Smith, Chair, called the meeting to order, and the secretary called the roll.

Present were:

Members: Senator Brandon Smith, Co-Chair; Representative Jim Gooch Jr., Co-Chair; Senators Denise Harper Angel, John Schickel, Adrienne Southworth, Johnnie Turner, Robin L. Webb, and Phillip Wheeler; Representatives John Blanton, Randy Bridges, Tom Burch, Myron Dossett, Ryan Dotson, Jim DuPlessis, Patrick Flannery, Chris Fugate, DJ Johnson, Norma Kirk-McCormick, Suzanne Miles, Melinda Gibbons Prunty, Bill Wesley, and Richard White.

Guests: David McGowan, SE Regional Director, American Petroleum Institute; Dean Foreman, Chief Economist, American Petroleum Institute; Rusty Cress, Dinsmore and Shohl, LLP; Brian Clark, Executive Director, Kentucky Petroleum Marketers Association; Scott Kiser, Executive VP and Chair, Kentucky Petroleum Marketers Association; Tom Kloza, Global Head of Energy Analysis, Oil Price Information Service; and Leah Taylor, President/CEO, Cumberland Lake Shell, Inc.

LRC Staff: Stefan Kasacavage, Kayla Carroway, Tanya Monsanto, and Rachel Hartley.

The minutes from the meeting of July 7, 2022, were approved by voice vote.

Pursuant to KRS 13A.320, the following administration regulation was approved by voice vote as amended: 301 KAR 004:001 Selection of Fish and Wildlife Resources Commission nominees.

Senator Smith briefly addressed the impact of the flooding in eastern Kentucky and commended the first responders.

Discussion of the Factors that Determine Gasoline Prices

David McGowan stated the American Petroleum Institute (API) is the oldest and largest national trade association and has 600 member companies.

Dr. Dean Foreman stated crude oil is a commodity that is traded globally. The increase in crude oil acquisition costs contributed to the 85 percent rise in gasoline prices in the first half of 2022. In Kentucky, gasoline prices averaged 29 cents per gallon below the national average in 2021 and the first half of 2022.

Domestic crude oil production has remained one million barrels a day below the highest levels in late 2019 and early 2020. Crude oil production is currently at 12 million barrels a day. The Energy Information Administration has stated the United States needs to produce 1.4 million barrels more a day to balance global markets. The Strategic Petroleum Reserve has been making up the difference.

As of August 2022, commercial crude oil inventories were at their lowest level since 2014. The combination of demand outpacing supply and low inventories will continue to result in increased gasoline prices.

In response to Senator Wheeler, Dr. Foreman stated API has an open dialogue with the Biden administration, but legislative actions are difficult to predict. The Inflation Reduction Act recently passed by the United States Congress should have invested more in infrastructure, permitting reform, and pipelines to decrease gasoline prices.

In response to Representative DuPlessis, Dr. Foreman stated local conditions that impact how retailers set their prices for gasoline can vary greatly. Retailers maintain competitive gasoline prices to attract consumers into their stores to buy products.

Leah Taylor stated retailers have no control over credit card fees. Because credit card fees are a percentage of the gasoline cost, fees will increase if gasoline prices increase. Retailers must be able to cover their overhead while also staying competitive. When gasoline prices increase, retailers will make less profit.

Tom Kloza stated the Oil Price Information Service is an independent agency that provides pricing and analysis that is used for commercial contracts and trade. Oil demand has recovered from depressed levels, but production has not kept up. In the past two decades there has been a decline of investment in oil and gas futures.

Senator Smith and Representative Gooch expressed frustration with current federal energy policy.

Scott Kiser briefly discussed how the wholesale margins of gasoline were impacted by fluctuations in the retail market.

In response to Senator Smith, Brian Clark stated in the last decade approximately 200 fuel retailers have closed in Kentucky.

There being no further business, the meeting was adjourned.