NATIONAL PETROLEUM COUNCIL

114TH MEETING OF THE NATIONAL PETROLEUM COUNCIL

Weston Hotel
2100 Massachusetts Avenue, Northwest
Washington, D.C.

Wednesday, December 1, 2004
9:30 a.m.

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A G E N D A

P R O C E E D I N G S

9:30 a.m.

Call to Order and Introductory Remarks

Bobby S. Shackouls, NPC Chair

CHAIRMAN SHACKOULS: Will the 114th meeting of the National Petroleum Council please come to order.

Welcome to all of you, members of the Council, honored guests, and members of the press and public. We have what I hope will be an interesting and worthwhile session for you this morning. In addition to remarks from the secretary, we will receive the report of the Committee on Refining and Inventory Issues. This report is in response to the concerns that the secretary raised at our June meeting of this Council.

If there is no objection, I will dispense with the calling of the roll. The check-in outside will serve as our official attendance record. Any member or observer for a member who has not checked in, please do so before you leave so we'll have an accurate record of today's attendance.

Now I would like to introduce to you, and for the record, the participants at the head table.

On my far left is Jim Mulva, inventory co-chair of the NPC study -- or, Committee on Refining and

Inventory Issues.

Next to Jim is Mark Maddox, acting assistant secretary for Fossil Energy.

On my far right is Marshall Nichols, executive director of the Council.

Next is the council's vice chair, Lee Raymond, who also served as refining co-chair of the NPC Committee on Refining and Inventory Issues.

On my immediate right is Spencer Abraham, Secretary of Energy.

Our first order of business this morning is to hear from the secretary of Energy. Spencer Abraham became the nation's tenth secretary of energy on January 20th, 2001. He leads a cabinet department with a $23 billion budget and over 100,000 federal and contractor employees.

Under Secretary Abraham's leadership, the Department of Energy has pursued an ambitious agenda that strengthens America's energy and national security by achieving significant success toward reducing America's dependence on foreign sources of energy, improving the environment, and further securing the, homeland through efforts to reduce nuclear proliferation.

Mr. Secretary, we're honored to have you with

us this morning, and we look forward to your comments.

Would you please join me in welcoming Secretary Abraham?

Remarks by the Honorable E. Spencer Abraham
Secretary of Energy

THE HONORABLE MR. ABRAHAM: Bobby, thank you, and thank everybody here today.

I'd like to begin, though, with a special thanks to Lee Raymond and Jim Mulva for the work that they and their teams have done on petroleum refining and inventory study. These are important assignments, and I'm very grateful that you were both willing to take them on and to bring together an excellent team of individuals to work with us.

These are issues which will continue, I think, to be major topics of discussion and debate for us at both the Department of Energy but in a broader sense in the American energy sector. So these insights which the studies that have been conducted will provide us are going to be very valuable and timely for us to receive. So, many thanks to everybody involved.

Today, I speak to you in a sort of interesting role. As you know, I will be soon moving on to a new assignment, and the last four years have been a very interesting time for me. It's been an

important period, certainly one of the most important ones for the energy sector, I think, in recent memory. We've faced a number of very serious challenges.

So I kind of thought it might be an appropriate time to review some of the developments in the energy sector that have occurred during these past four years with you today.

As you will recall, when we took office and the president was sworn in in January of 2001, the country was already facing some extraordinarily tough situations, with more to come. The most visible immediate problem was the rolling electricity blackouts that had been taking place in California.

But what the public viewed as America's most pressing energy challenge back in 2001, those blackouts, was really just the tip of the iceberg, because the problem, of course, ran a lot deeper than the lights flickering out in California. The problems across the energy sector were much broader and much deeper than most people realized.

President Bush and Vice President Cheney, however, I think, truly understood the depth of the energy challenges we faced, and that is one of the very first priorities which was outlined by the administration, was the creation as well as the

implementation of a comprehensive National Energy Policy in 2001.

And of course, soon after taking office, the president created our Energy Task Force, made up of members of the cabinet and chaired by the vice president, to try to pinpoint America's energy problems and to develop a strategy to address them.

As you know, in May of 2001, we issued the National Energy Policy that emanated from the task force work and which provided a road map to address these pressing problems and to promote abundant, affordable, and environmentally sound energy to meet the future demands of our nation.

That Energy Plan, as you will recall, consisted of 105 specific recommendations to overcome the challenges and accomplish the goals set forth in the plan. Some focused on production, some on conservation and energy efficiency, others on ways to minimize the environmental effects of energy production and use. Still others were aimed at ensuring safe, secure, and affordable energy supplies for the future.

Ninety-five of those 105 recommendations I'm happy to say have been either partially or fully implemented through executive branch action between May of 2001 and today. I believe they're working well to

reduce the energy challenges and risks which we faced three years ago.

Of course, some of the recommendations have not been implemented because they require congressional approval, and they are a part of the comprehensive Energy Bill which we have asked Congress to pass.

For nearly four years of course, that has not taken place. We've been unable to get that legislation completed, but I truly believe that is about to change. With larger Republican majorities in both the House and Senate as a result of the elections, I feel very confident in predicting the Congress will, and soon, pass the energy bill that this nation urgently needs.

I think we can also look forward to getting the votes necessary for the development of environmentally safe exploration in a small portion of the Arctic National Wildlife Refuge.

As you know, if President Clinton had not vetoed ANWR exploration in 1995, we could today have access to an estimated 1 million barrels per day of additional domestic oil, and we would not be confronting some of the issues which have been raised by the current tight market supply situation. That's why I believe that Congress will act, and soon, to authorize this common-sense solution to a very serious

problem.

In addition to the creation of the Energy Plan, we've had several other important accomplishments over the past several years. Let me begin with the work which has been done by the NPC on a number of key issues.

In 2001, I was grateful to receive the study from Dave Lesar's committee on specific actions industry and government could take to identify and reduce infrastructure vulnerabilities in the oil and natural gas initiative. Clearly, this subject has important ramifications not just for the energy industry. The work that we have done implementing these important recommendations has had tangible benefits for the nation's economic and national security on a very broad range.

Last year, Bobby's study group that highlighted the importance of natural gas as a critical source of energy in industrial feedstock was released. That survey, which updated the previous natural gas survey, was extraordinarily important, I think, in putting in perspective some of the challenges which we now confront in the natural gas sector.

The report examined energy market dynamics, and it gave us extraordinarily valuable advice on steps

we must take to ensure adequate and reliable supplies of natural gas.

Among other recommendations, the report highlighted the importance of completing the Alaska gas pipeline. Our Department, of course, shares that goal, which is why we've been very pleased by the fact that Congress recently approved and the president signed major legislation which is beginning to move this project forward.

In addition to the study, the NPC also hosted the June 2003 Natural Gas Summit. As you know, in the spring of last year, it became clear to all of us that natural gas storage was more than 30 percent below the 2002 level, and it had of course begun to raise concerns about natural gas supply for the winter of 2003-2004.

At my request, this organization stepped up to the plate, convened the summit, and brought the relevant stakeholders together for what I think was one of its most important activities in recent years. That summit helped us to launch our Department's Energy Savers Program, as well as other actions to restore the natural gas supply in time for last winter.

Now, of course, we will receive the new petroleum refining and inventory study. Ensuring

adequate petroleum refining capacity and inventories to meet the needs of consumers is a very vital issue, as I already said, and I am confident that this study will offer a number of valuable insights in terms of the factors influencing the expansion of refining capacity in the United States.

Without prejudging the report that we will be working on here today and just to comment a little more generally, I just would say that I personally see these issues that relate to refining capacity as ones that absolutely must be addressed. We clearly face a growing challenge in terms of meeting the demands of the marketplace here, the demands of a growing economy, and this is overdue. We look forward, therefore, to receiving the study and to acting on recommendations from it in the days ahead.

So I just, again, thank everybody here not just for the work on this recent set of studies but for all the hard work which has gone into these various projects and which has helped us to strengthen our domestic oil and gas supply.

In addition to the work which we've done as part of the NPC, the Department of Energy has also been working to meet our nation's fossil fuel needs in other ways as well over the last four years. Most notably,

we've been engaged in very aggressive international efforts to accelerate the development of a global market for LNG. We've signed several agreements to enhance LNG receiving and trade opportunities. We've moved to expand the necessary infrastructure. We've taken, I think, some important steps to begin to address LNG transport and storage safety issues.

We've also, in addition to the work on LNG, been active in a variety of ways in an international context to strengthen America's petroleum trade and investment opportunities in many diverse regions of the world, from Russia to the Caspian region to Africa to other parts of the western hemisphere, to Australia, to Indonesia, and virtually every part of the globe.

Our Department has also been very active in the last four years in other elements of energy policy beyond oil and gas. I think we can claim a number of other noteworthy achievements over the last four years. I think we've decisively moved the nuclear energy sector forward with the development of the Yucca Mountain Nuclear Waste Repository.

The decision which we made in 2002, a decision many people said would never be made, a decision which people thought would always be delayed with some excuse, was an important one. After 20 years

of debate, Congress and the president ratified the decision which was made, based on the Department's careful scientific work, and we were very pleased to see our recommendation signed into law.

Obviously, there remain critical challenges to opening the site. I can predict here today that between now and the date at which Yucca Mountain is finally open to receive waste, there will be ongoing and multiple legal and other challenges posed, but we will work through them because this is a task we simply must get done.

More than 161 million people in this country live within 75 miles of nuclear waste that's being stored at 131 sites in 39 states, storage facilities, by the way, which were intended to only be temporary when they were constructed. Yucca Mountain is important not only for dealing with the existing nuclear waste, but it's obviously also essential to allowing us to move forward with the advanced nuclear technologies that will help to ensure our energy security well into the 21st century.

When this administration took office, we noted that the debate over nuclear power had not really changed since Three Mile Island in the 1970s. Listening to this debate is a little bit like trying to

appreciate the latest computer animated movie on an old black-and-white television. It's kind of pointless.

The truth is, compared to the reactors built in the 1960s and '70s, the latest nuclear power technologies are just as advanced as a widescreen, surround sound, plasma television is compared to an old black-and-white set. Today, nuclear power is quantifiably safer, more reliable, and more efficient than it was a quarter century ago, and we're working to make it even more so tomorrow.

Just last month, we announced two awards under the program we call Nuclear Power 2010 to begin the first phase of the Nuclear Plant Licensing Demonstration Project. These projects will demonstrate the combined construction and operating license regulatory process, and they will enable power generation companies to make firm business decisions on ordering and building new nuclear power plants.

Meanwhile, we're also pursuing Generation 4 nuclear technologies that take us to the next level in terms of efficiency, reliability, and safety.

So it has, I think, been a very important four-year period in the area of nuclear energy policy at the Department as well. I think we have begun to lay the ground work for the future on the nuclear

energy sector side during that time.

But even as we have pursued advanced nuclear power generation to diversify our energy supply, the Department has also been investing heavily in new science and technology research and development to make traditional fuel sources cleaner, more efficient, and less expensive.

Today, we're engaged in the most ambitious effort in history to remove the pollution and to capture and store the carbon dioxide from coal-fired powerplants. That will allow America to continue using its abundant and economical coal reserves without concern about adverse environmental effects.

As part of this effort, we launched the Future Gen Project, which is a $1 billion prototype for a coal-fired zero-emission electricity and hydrogen generation plant. In addition, we've made significant headway in developing vital carbon sequestration technologies, including launching a large-scale international partnership to pioneer this critical research. This partnership acknowledges a simple fact, that fossil energy, oil, gas, and coal, will continue for decades to be the lowest-cost and most readily available energy resource in the world.

At the same time, we've taken major steps to

transform the way we use energy over the long term. Our Department's Hydrogen Energy Initiative and other new technology efforts are helping them to guarantee the fuel diversity which is critical to maximizing our nation's energy security for the future.

We're especially excited about our revolutionary Hydrogen Fuel Initiative, the president's initiative, which is aimed at developing the technology for clean hydrogen production and commercially viable hydrogen-powered fuel cells.

As you know, we initiated a public-private partnership between DOE and the nation's auto makers to accelerate the development of hydrogen fuel cell vehicles and important bridging of automotive technologies, like hydro-drive trains and clean diesel. We're also working with energy companies to address production and storage challenges.

Looking even further ahead, we're seeking other new sources of energy for the future. One of the most fascinating possibilities is nuclear fusion. Fusion power is one of those technologies driven by success in basic research that can truly transform the world's energy equation.

We know that in developing countries, the demand for large, huge supplies of electricity is just

around the corner. If successfully developed, a fusion plant could generate vast amounts of electricity during the day to power mega cities and at night produce hydrogen for transportation needs with no emissions of pollution or greenhouse gases.

Drawing on clean and almost exhaustible fuel sources, fusion would have virtually no security concerns with respect to proliferation and produce no long-term waste.

So fusion and the carbon sequestration and hydrogen partnerships I mentioned are very important elements in the future of the Department of Energy. They're also ones in which we've had a very successful international collaboration.

In addition to those, we've also signed a number of significant agreements with countries in Asia, the Middle East, Europe, and Central and South America to strengthen energy trade and investment opportunities, to enhance the infrastructure for LNG transport, to share efficiency and conservation techniques, and to build mutually beneficial energy security relationships.

We believe that good international relationships in these areas are increasingly vital in a global energy market, and we have made, I think,

excellent progress in developing working partnerships with countries around the world to that end.

All these important steps we've taken would not have been possible, however, without the dramatic improvements which we have been able to achieve in the Department in terms of our own internal management.

At the beginning of this administration, the Office of Management and Budget established a new management agenda for federal departments and agencies. Five areas of focus were highlighted for improvement: human capital, competitive sourcing, financial performance, e-government, and budget and performance integration.

Since then, the Office of Management and Budget has conducted a regular process to assess operations and performance by rating each of the departments in these five categories. On the initial score cards in 2001, our Department was given the lowest rating in each of these areas. This was, of course, probably consistent with your observations, the external opinions of how the Department had operated in recent years.

But we didn't believe that the Department always had to be perceived that way or operate in that fashion. Over the last four years, we have made

improving management operations the top priority for our project managers and division heads.

We've got a lot of serious responsibilities in this Department. We have a budget of taxpayer dollars of $23-plus billion, and these responsibilities and projects we work on, as you know, are some of the most significant, serious, and important in the world.

So we've spent the last four years trying to make a significant change. We have streamlined and consolidated the Department's financial and information technology systems. We've begun to link the allocation of resources in the budget to an objective assessment of whether or not they're working.

As a result, our 116,000 employees and contractors have transformed the Department from an organization generally thought to be one of the government's worst-managed agencies to what I think is today one of the best. In fact, on the most recent score card, in September, our Department received the highest rating in four of the five categories that we were assessed on, and the second-highest rating in the fifth.

So I'm happy to tell you that today the Department of Energy has the highest rating of all federal departments in the federal government across

the board on this rating system.

So, in addition to the projects that we've worked on in a substantive way in the Department, I'm very pleased that we've been also able to improve its management as well.

All of these accomplishments which I've discussed are important and obviously ones I'm proud of. But there's one final achievement which I think is perhaps the most significant because I think over the last four years we really have begun -- and this is, obviously, largely due to the president's leadership -- to change the energy debate in this country in a fundamental way.

Our Department and this administration have made it clear that we must produce more energy domestically. We have made the argument and, I think, made it effectively that only a balanced approach which combines conservation and new production will meet the challenges of the 21st century.

For too long, that side of the energy debate had not been, I think, well articulated in Washington. Today it is. I think people have a clearer understanding of energy issues now than they did when only one side of the equation was being voiced.

I think that means that as energy policy is

addressed in the years ahead, we can look forward to results that are much more consistent with a balanced, forward-looking approach, the kind of approach which America deserves, the kind of approach which means that this country's need, demand for a safe, stable, affordable, environmentally sound supply of energy will be in fact accomplished, and that as a result of that, our economic security and our national security will be protected.

In closing, let me just say there's still a great deal to be done to achieve real long-term energy security for our country and to make our use of energy safer, cleaner, and more reliable. But I think in the last four years we have made enormous strides to move us closer to that goal through our investments in transformative energy technologies, through our basic research and science to uncover new, better energy sources, and through our cooperative efforts internationally, and also by making the Department itself a stronger, more efficient place.

I'm very proud of all which we have done and I'm proud to have helped in my way serve the president to serve the American people in the role I've had, and of course, to work with all of you.

In closing, I just want to say that I truly

have enjoyed and appreciated the association which I've had with this organization. All of the members of the NPC really are committed and demonstrate that commitment year in and year out to the goal which we all share.

So I want to close by saying two things. First, to all of you, thank you for the opportunity to work together and for your commitment. In particular, I want to thank Bobby Shackouls for his leadership. Somewhere, I'm told, there may be even a presentation I can make to you.

Bobby, if you'll let me here, from the Department of Energy, a special certificate thanking you specifically for what you've done.

(Presentation of certificate to Chairman Shackouls.)

CHAIRMAN SHACKOULS: I appreciate it. Thank you.

THE HONORABLE MR. ABRAHAM: Thanks a lot.

CHAIRMAN SHACKOULS: And to all of you, it's been great to work together.

(Applause)

CHAIRMAN SHACKOULS: Thank you, Mr. Secretary, for your remarks. I know that all the members of the Council join me in thanking you for your

dedicated service to our nation, and we wish you the best in whatever future endeavors lie in front of you.

Thank you very much.

(Applause)

CHAIRMAN SHACKOULS: We will now consider the proposed final report from the NPC Committee on Refining and Inventory Issues. I especially want to thank Jim Mulva and Lee Raymond for chairing this very important committee.

Jim will now begin the presentation of the committee's report.

Jim?

Consideration of the Council's Response to the Secretary's Request for Advice on Petroleum Refining and Inventory Issues

Report by James J. Mulva

MR. MULVA: Thank you, Bobby.

Good morning to everyone. I'd also like to extend my welcome to the Council members and to the guests that are here with us this morning.

We have before us the proposed final report for Refining and Inventory Issues Study Supplement which was requested by Secretary Abraham.

As I'm sure all of you will recall, at our last meeting, Secretary Abraham requested advice with

respect -- from the Council on issues surrounding domestic refining capacity, product imports, and inventories. He asked for our response in a very short time period, much shorter than the time that this organization typically spends analyzing issues and developing recommendations.

So we did agree to undertake this update, which it essentially is, an update, of the 1998 inventory and the 2000 refining studies after Lee Raymond and myself, we met with the secretary and discussed the scope and methodology that could be achieved in this relatively short time frame.

So in early July, at a Council forum, a Committee on Inventory and Refining Issues with Lee Raymond of Exxon Mobil, David Garman of the Department of Energy, and myself serving as co-chairs.

The committee formed two subcommittees who essentially have done all this work to separately address the refining and the inventory issues. Phil Frederickson, ConocoPhillips, chaired the Inventory Subcommittee, Don Daigle of Exxon Mobil chaired the Refining Subcommittee, and Mark Maddox of the Department of Energy served as the government co-chair for both of the subcommittees.

We asked the subcommittees to complete their

work and provide us with the proposed report for consideration within the time frame that was requested by the secretary. So our organizations have responded. Although this current effort has been largely qualitative, we are quite confident in the valuable insights and recommendations that have been generated from these reports.

So the report is based on the vast experience that the participants brought from their own individual backgrounds. Both subcommittees had broad, diverse participation not only from the industry but also from related organizations.

So what I intend to do is to turn the floor over to Phil and Don in a moment and give you a summary of the proposed report. You will hear from them that the fundamentals of our 1998 and 2000 work remain valid today, and you'll hear a reassessment of the appropriate levels for the operating inventory indicators for crude oil and inventories.

You'll hear that we don't foresee significant problems supplying gasoline and heating oil in the near term, but we do see some potential problems with respect to implementing ultra-low sulfur diesel in 2006 due to the challenges posed during distribution of the product to the customer.

You'll also hear a number of recommendations that could reduce hindrances with respect to expansion of domestic refining capacity and distribution capability if implemented.

Some of these recommendations are very much carryovers from the 2000 study, including recommendations where this administration has attempted to reform but has been resisted. An example is the New Source Review.

So what I'd like to do now is turn the floor over to Phil and to Don, who will present the findings of the subcommittees.

Phil, you ready?

Report by Phil Frederickson

(PowerPoint presentation)

MR. FREDERICKSON: Thank you, Jim.

It's a pleasure to be here this morning to present the results of the 2004 Refining and Inventory Issues Supplemental Study. Don Daigle and I will share the presentation this morning.

I'm going to start by providing the background. I'll summarize the key findings of the entire study, and then I'll present the results of the inventory portion of the study. Then Don's going to present the refining and the import section, and then

he will propose or share the key recommendations from the entire study.

Jim mentioned Secretary Abraham's request from the last NPC meeting. Subsequently, in his July 16th letter, the Secretary formally requested that we identify the factors that would impact the refining and distribution industry's ability to meet product demand. Additionally, the letter asked that the Council reexamine its 1998 advice on lower operating inventory levels for crude and petroleum products.

Given the study's limited time frame, the Council determined that the scope of the study would be to review and to supplement the '98 Inventory Report and the 2000 Refining Report.

Broadly, what we did is, the supplement reviews the findings of the previous studies, reaffirms or modifies the recommendations as appropriate, and develops a consensus on additional observations and recommendations based on our experience since the last or the prior studies.

Jim shared with you the organization that was assembled to undertake this study. Let me just add that the members of the committee and subcommittees were drawn from NPC member companies, other organizations, as well as government. They represented

broad and diverse interests, including integrated oil and gas companies, large and small petroleum refiners. We had transporters, marketers, and financial and consultant services.

So with that, let me summarize the key findings of the study. First, the NPC does not foresee significant hurdles to the general availability of gasoline and heating oil supplies to meet consumer demand. However, we do have concerns about meeting ultra-low sulfur diesel demand during the transition to the 15 part per million maximum sulfur specification beginning in mid 2006.

The NPC believes that the transition period for ultra-low sulfur diesel is likely to be more difficult and longer than historically associated with major product specification changes. This is due to the difficulty anticipated in maintaining and assuring the specified sulfur level and volumes during distribution from refineries to the ultimate consumer.

Furthermore, the NPC does not expect that imports of ultra-low sulfur diesel will be widely available to make up for product downgrades or volume downgrades during distribution.

This is a very important issue, and Don will discuss it in greater depth in his presentation.

Another significant finding is that the product imports are expected to continue to be an economic component of U.S. supply. It's very important to understand that the U.S. products market is part of a global petroleum market. Product imports have been growing. The volume of imports in the future will depend upon a number of factors, including domestic demand and refining capacity growth, as well as supply and demand factors outside the United States that affect the economics of imports versus domestic refining.

Don will cover several recommendations that would avoid impeding domestic refining capacity growth and improve the domestic climate for domestic refining.

The study also has important observations about how market mechanisms contribute to supply reliability. Market mechanisms provide the fastest and the most efficient response to supply disturbances. Petroleum markets respond to supply-demand changes with price movements that provide the incentive to increase or decrease supply to correct any imbalance. This is an integral part of normal and effective market operation.

The U.S. supply system is robust and has the flexibility to adjust to significant supply

disturbances. Each year across the U.S., there are hundreds if not thousands of events that have the potential to affect the supply-demand balance to some extent at local or regional levels. It is a measure of the efficiency of the industry supply system that the public are generally unaware of these events because there is no interruption to supply. Even major supply disturbances are typically rebalanced within a short period of time.

The market functions efficiently because companies continually strive to operate reliable supply systems and meet consumer demand while financially optimizing operations. The competitive nature of the industry drives companies to minimize working capital, of which inventory is a component, while ensuring reliable supply systems.

Failure to plan for adequate inventories results in lost profit opportunities and competitive disadvantage. Ultimately, consumers benefit from efforts to reduce petroleum supply costs.

With that, I'd like to move to the subject of inventory, starting with crude oil. This chart shows the U.S. crude oil inventory trends from '89 to 2004. You can see with the green line that crude oil inventory has continued the slow downward trend that

was noted in the 1998 study. This trend is attributed to delivery system efficiency improvements and declining domestic crude oil production.

One of the big factors is Alaska crude production. It continues to decline, which lowers the volume of oil in transit from Alaska to the lower 48 states. Since the mid '90s, Alaska oil in transit has declined from over 12 million barrels to about 6 million barrels in 2003. This results in a reduction in inventories, as Alaska crude in transit is considered inventory.

In addition, lower 48 crude oil production has also been declining, and like Alaskan crude, is replaced with imported barrels. These foreign barrels that are in transit are not considered as inventory.

The chart also shows, and the blue line, the lower operational inventory level for crude oil. It's important to understand how LOI is defined. In the '98 study, the NPC defined LOI as the lower end of the demonstrated operating inventory range updated for known and definable changes in the petroleum delivery system.

The concept was introduced to move away from the MOI, or minimum operating inventory, that was in place prior to the '98 study, and the concept that

there is some definable, specific inventory level where supply system reliability becomes a significant issue.

Based on the observed crude oil inventory trends, the NPC concludes that the crude oil LOI should be in the range of 260 to 270 million barrels, compared to the '98 study conclusion of 270 million barrels.

Since the '98 study, crude oil inventory has been observed to be as low as 260 million barrels several weeks with no impact on crude oil supply to U.S. refineries. As previously mentioned, there has been a considerable decline in oil in transit from Alaska.

Concern has been expressed that a few refineries in the Gulf Coast had to borrow oil from the Strategic Petroleum Reserve after Hurricane Ivan in September of 2004 despite the fact that crude oil inventories were at 270 million barrels.

Hurricane Ivan, of course, had a significant impact on the offshore oil platforms, on pipeline movements, and on oil imports. At the peak, 60 percent of Gulf of Mexico crude supplies were disrupted. This created localized supply disruptions at a few refineries, especially those that were highly dependent on sweet crude oil that could not quickly be obtained elsewhere. This was a significant event that caused a

loss of about 30 million barrels of production.

This reinforces the concept that LOI is only one indicator of the adequacy of supply, and therefore a crude oil LOI range is recommended, rather than a single value, to better represent the degree of accuracy associated with the LOI methodology.

The NPC remains highly supportive of the strategic petroleum reserve for use only during significant crude oil supply disruptions that threaten the system's ability to meet domestic demand.

Now I'll turn to product inventories. You can see on this slide the trends in LOIs for U.S. gasoline and distillate. We had a long, slow decline of gasoline inventory at terminals that was noted in the prior study. You can see that it's no longer apparent. Distillate inventory has remained essentially flat through both the previous and the current study periods. Therefore, no change is recommended at this time in the LOIs for gasoline or distillate.

Now I want to turn to the subject of price volatility. I'm addressing this because it was reported on in the 1998 study, so we updated it as a part of this supplement.

The first observation that I want to make

about price volatility is that crude oil price continues to be the main driver of product prices, as was concluded in the previous study. This slide demonstrates that close relationship between WTI prices and gasoline and distillate prices. This observation was supported by a recent report by the Federal Trade Commission that indicated that changes in crude oil prices had accounted for approximately 85 percent of the changes in U.S. motor gasoline prices over the past two decades.

The second observation I'd make about price volatility is that both crude and product price volatility have increased since the previous study. The previous study focused on a time frame of 1992 through 1997, which was a time period of relative calm in the oil markets.

You can see that this chart indicates that the number and magnitude of crude and product price upticks, defined as increases greater than 10 percent or more in price versus the prior-year period, has increased since 1997. You'll also note that most of these price upticks are shown to be driven by events in the global crude oil market.

The last point I want to make about price volatility is, retail gasoline prices continue to be

less volatile than crude prices. You can see this on this slide. The retail gasoline prices are in fact less volatile. Price increases in the global crude market and product spot markets are delayed and somewhat dampened in retail prices.

The last topic I'm going to address this morning is the relationship between inventories and price. This was also discussed in the previous study, and it was updated.

There is an expectation that inventories influence price, based on the economic assumption that inventories do provide a measure, however imperfect, of the changing imbalance between supply and demand. However, statistical analysis of the relationship between inventories and price find only a modest correlation at best.

This conclusion is indicative of the fact that the interaction of inventories and prices is very complex and that prices for crude oil and petroleum products are influenced by many other factors besides inventories.

For example, crude oil inventories were at 270 million barrels in October of 2002, when we had prices under $30, and of course, we have prices today of over $45 and inventories at 292 million barrels.

There are simply many factors at play in addition to inventory that influence prices, and inventory is a bad predictor of price.

Now I want to turn this over to Don Daigle. He will address the refining and import section of this study and then also cover the entire study recommendations.

Report by Don Daigle

MR. DAIGLE: Thank you, Phil.

I'll be covering the refining and imports portion of the study as well, as Phil indicated, the study overall recommendations. I have about 20 minutes of prepared material, including 10 slides.

(PowerPoint presentation.)

MR. DAIGLE: There has been a lot of press coverage and some congressional testimony over the past few months concerning domestic refining capacity and petroleum product supply. As shown by the chart on this slide, domestic refining capacity, indicated by the yellow line, and measured by crude distillation has increased over the past decade, although the rate of increase has slowed during the past few years.

Between 1996 and 2000, the year of the last NPC Refining Report, domestic capacity grew about 300,000 barrels per day per year, an amount equal to

adding two average-size refineries each year.

Since 2000, the growth rate has been one-third of that level, or about 0.6 of 1 percent per year. Light product demand growth, on the other hand, has been about 2 percent per year, so capacity growth has not kept up with demand growth recently.

The chart also shows the number of U.S. refineries. The red line shows a steady reduction in the number of operating domestic refineries for the last several decades, as some of these refineries have become uneconomical to operate. The remaining refineries, though, have expanded sufficiently to offset these shut-downs and to net increase overall capacity.

The U.S. has a net import of gasoline, jet fuel, and distillates. Imports have been for years, and are expected to continue to be, an economic component in U.S. supply.

The chart focuses on gasoline production and imports. The majority of the U.S. product imports are gasoline. I'll have some specific comments on diesel a little bit later.

The chart on the lower left shows domestic gasoline demand, the top line in yellow, and domestic production, in red, slightly below that. The

difference is imported gasoline, which, as shown, is a small component of supply. For 2003, net gasoline imports were 8 percent of total supplies.

Gasoline imports have been increasing recently, shown more clearly by the chart on the lower right, which depicts imports by source. Since 2000, imports have increased about one-third, and that increase has supplied slightly less than one-half of the domestic demand growth since then.

The majority of imported gasoline comes from Europe, Canada, and the Caribbean basin. We have confidence that these areas will continue to be economic supply sources, as we have seen refineries in Canada, the Caribbean, and Venezuela undergo reconfigurations that will allow them to provide product quality suitable for sale in the U.S.

Furthermore, we expect the availability of gasoline from Europe to actually increase in the near term because Europe is shifting from gasoline use more toward diesel, and we expect this trend to continue.

While we believe that this increase in imports reflects economic operation of the worldwide petroleum products market, this increase was at least partially responsible for raising the question, what can be done to increase domestic refining capacity?

This study has identified a number of factors that can impede the growth of domestic refining capacity, and I'll cover those in the next three charts.

The economics of refining investment is a significant factor. It won't be any news to any of the industry people here that domestic refining returns have been pretty low over a long period of time. The chart on the lower left shows the return on equity of the total domestic petroleum industry as reported by DOE, in red, and for the S & P 500, in blue. Total petroleum industry return is about 1 percent below the average of the S & P 500 over the last two decades.

The chart on the right shows the return on capital employed for the refining and marketing segment, in green, compared to the total petroleum business, in red. Over the period, refining and marketing averaged a little over 5 percent, nearly 2 percent below total petroleum. So, clearly, investment in domestic refining and marketing has been less attractive on average than other U.S. business opportunities.

The situation doesn't change if you take a shorter term view and look at just the period since 1990, as shown by the horizontal lines. There is a significant year-to-year variability. Even though

refining and marketing profits are higher in 2004, the lower right chart shows that as recently as 2002 there was extremely low downstream profitability.

This is a capital-intensive industry with long lead times to install significant investment and long payout periods for those investments. While each company makes its own decisions based on its own analyses and forecasts, the long-term history of below-average rates of return remains a key factor that must be considered in refining investment decisions.

Uncertainty is another significant factor in refining investment decisions. While uncertainty results from many factors and will always be present as we consider the future, uncertainty can be significantly affected by government action. For refinery investment decisions requiring large amounts of capital with long payout periods, increasing uncertainty tends to minimize, delay, or even stop investment.

This results because awaiting resolution of uncertainty by delaying investment, even if it means an economic loss in the short term, can be a much more attractive alternative than investing in equipment that is not optimum for the long term.

We see a number of sources of increased

uncertainty resulting from regulatory action or inaction. One of the most important and prominent is the EPA's retroactive reinterpretation of New Source Review regulations over the last few years and challenges to recent efforts to better define and reform the rules.

Another is implementation of the new National Ambient Air Quality Standards, with the unknown actions that states will need to pursue to come into compliance, and whether these actions can even be sufficient and in time.

A third is the potential for waivers, exceptions, and exemptions of regulations, particularly product quality requirements, which raise questions about what standards will actually be applied.

The proliferation of botique fuels has attracted a lot of attention over the last few years, and botiques pose both a challenge to the efficient operation of the supply system as well as complicates the future for those considering investment.

One of the drivers behind botique fuels is the RFG oxygenate mandate, and the outlook remains uncertain for national energy legislation to eliminate it.

While the body of this report details other

factors that affect refinery capacity expansion, I'll mention just one other here, and that is resource constraints. The U.S. downstream petroleum industry continues to make significant investments in its facilities, to the tune of about $8 billion per year, for a variety of improvements: for expansion, for product quality changes, for environmental improvement, for reduction in energy consumption, and for security enhancement.

The refining industry is a very diverse group of companies with varying access to resources. For example, for some companies, access to capital can be limited by the assessment of the attractiveness of the refining business by outside financial parties. For international companies, opportunities in other countries compete for resources with domestic opportunities.

And for all companies, highly skilled human resources are not limitless. Whether capital or human, increased demand for resources by one area, such as product quality improvement for environmental purposes, can in some instances detract from resources available to pursue other opportunities, such as domestic capacity expansion.

With this as background, I want to cover the

major study conclusions. First, the NPC does not foresee significant hurdles to the availability of gasoline and heating oil supplies to meet consumer demand for the next few years. We foresee no general supply problems from the implementation of the low sulfur gasoline requirements which are currently underway. However, we may still see some of the typical short-term localized problems that can accompany major product quality changes.

We also don't see any significant issues with heating oil supplies near-term. As was mentioned earlier, though, we do see potential for significant supply disruptions accompanying the implementation of the ultra-low sulfur diesel requirements beginning in mid 2006.

Refiners are proceeding with preparations to manufacture ultra-low sulfur diesel, as reported by EPA in the most recent pre-compliance report released in late September. However, we foresee potential problems maintaining and assuring product quality during distribution to the end user for two reasons.

First, EPA has established a downstream test tolerance which is significantly less than the actual test variability, which means that product which meets specification could be declared off-specification

simply by the variability in test results.

Efforts to reduce variability have shown some progress. However, they are still a long way from matching the tolerances specified by EPA.

Second, there is a significant potential for contamination of ultra-low sulfur diesel with small quantities of other material during movement through the tanks, pipelines, ships, and trucks. Quantitative test information has recently become available which suggests that the magnitude of this distribution degradation could be quite large, especially in the complex systems that transport products from the Gulf Coast to the northeast, mid Atlantic, and midwest.

We have concerns that there will not be sufficient production excess to offset the distribution downgrade, and there may not be a viable outlet for the downgraded volume in some markets.

Furthermore, we don't expect imports of ultra-low sulfur diesel to be widely available to offset any loss of domestic production due to downgrade during distribution. While we currently import diesel, the volume is small. European demand is increasing, and their diesel specifications are also being tightened.

We do not foresee spare foreign production

capability for increased ultra-low sulfur diesel to the U.S. in the 2006 time frame.

With the exception of ultra-low sulfur diesel, we expect imports to continue to be an economic component of supply to meet the U.S. demand for products. Whether imports increase or decrease will depend on a number of factors, including the rate of growth of demand, economics of domestic versus foreign production, and the amount of domestic capacity increase.

I'll move next to the recommendations identified to help ensure reliable petroleum product supplies. These recommendations are aimed at avoiding the hindrance of refining capacity expansion, improving the environment for domestic investment, and not impeding effective operation of the supply system.

It is important that prompt implementation be pursued so that these recommendations can begin to take effect. As mentioned earlier, the lead time for significant refining investment is measured in years, not months.

First, we reiterate the recommendations from the 2000 refining study. These remain applicable and should be implemented to the extent that they have not been. Some have been, some are in progress. I'll

mention a few key ones individually a little later, and a full listing is included in the appendix of the proposed report.

The first and most significant step that can be taken to reduce hindrance to capacity expansion is to implement the New Source Review reforms promulgated by the administration. These reforms are currently being challenged, and the challenge should be vigorously opposed.

These reforms will reduce the uncertainty about how modifications to existing sites must be evaluated and will prevent capacity expansions from being burdened with providing emission reductions beyond the projects' actual effect.

Reforms will also ensure that the extensive New Source Review permitting requirements are applied only to projects where these requirements are warranted.

The EPA has also proposed additional reforms regarding de-bottlenecking and project aggregation that should also be finalized. These additional reforms will further facilitate domestic refining capacity expansion.

Next, the EPA should review and revise the compliance deadlines and procedures from the National

Ambient Air Quality Standards. The existing rules will not allow some areas to take full advantage of the emission reductions benefits that will be provided by programs that are already in place. As a result, states may be forced to require additional costly controls that might not otherwise be needed and might not be deliverable in the required time frame.

This could result in additional investment in station air resource controls at existing refineries, diverting resources and reducing the viability of domestic refining versus imports. It could also increase the requirements for emissions offsets for refinery expansions, reducing the economic attractiveness of those potential investments. It could also result in new requirements for botique fuels, which will reduce the efficiency and reliability of the distribution system.

We do not believe that the fuel supply implications of current National Ambient Air Quality Standards requirements have been adequately considered.

Next, I mentioned earlier that we have significant concern about the potential for supply disruption with the implementation of ultra-low sulfur diesel in mid 2006. EPA released their draft 2004 Pre-Compliance Report about the same time that this draft

NPC report was distributed for review. EPA concludes that domestic refineries should be able to produce volumes of ultra-low sulfur diesel about equal to projected consumer demand.

However, we believe that there is potential for significant loss of on-specification ultra-low sulfur diesel downstream of the refineries during distribution. Recently, studies of several actual test shipments have become available, and these results support our concern.

EPA should work with DOE and industry to understand the results of these tests and to determine how to achieve the emissions reduction goals of the programs while keeping diesel users reliably supplied with fuel.

We also recommend EPA's sulfur test tolerance downstream of the refineries be increased to match the statistical reproducibility of the test. This will avoid loss of ultra-low sulfur diesel volume due to testing inaccuracy. While industry has been seeking improvements in the tests, those improvements are a long way from matching,the tolerance specified by EPA. Should improvements be made in the future, the test tolerance could then be addressed accordingly.

Next, NPC recommends passage of national

energy legislation as embodied in the current Conference Report on H.R.6 as a vehicle that we see with the highest probability of obtaining prompt action to address the issues associated with the reformulated gasoline oxygenate requirement, with MTBE liability, and with the proliferation of botique fuels.

The fuels provisions of H.R.6 represent a carefully crafted compromise. While there are parts of that individual compromise that individual companies might not like, on the whole this package will help remove some of the uncertainty impact in the domestic refining industry.

I'll mention two parts of this legislation that have broad industry consensus.

The limited liability protection for defective product claims involving MTBE and other federally required oxygenates should be approved. This would eliminate only defective product claims that penalize fuel manufacturers for meeting the Clean Air Act requirements. This would not affect liability or clean-up of leaked or spilled product and remediating any damage.

Second, requests for additional botique fuels should only be approved when they are a necessary and cost-effective emissions reduction step. Continued

proliferation of botique fuels will further fragment the market, increasing the potential for supply disturbances and price volatility.

Where state and local special fuel programs are implemented, they should be coordinated to avoid hindering the efficient operation of the distribution system, and they should provide sufficient lead time to implement any changes necessary to refineries and the distribution system.

We're not in a position to recommend any specific changes to the currently required slate of fuels across the nation. However, we do support a joint DOE and EPA study on the current botique fuel issue, with participation of all the stakeholders.

The 2000 NPC Refining Report recommended that regulation should be based on sound science with thorough analysis of cost effectiveness, and that recommendation remains valid today. Regulations that are soundly based are more likely to survive challenges and provide planning certainty.

In 2001, President Bush signed Executive Order 13211, which requires a statement of energy effects when undertaking regulatory actions. This executive order should be made law and strictly enforced.

Furthermore, cost benefit analysis should be performed on an incremental basis to ensure that each increment of regulatory severity is justified. A total and average analysis can disguise high cost requirements with little incremental benefit.

There has recently been considerable discussion and even proposed legislation concerning streamlining the permitting process. A streamlined process could reduce the uncertainty posed by current indefinite timelines and overlapping agency roles. Any streamlining should include clear definition of process, agency roles, and deadlines for decisions. The streamlining effort should include all stakeholders to avoid the potential for a later challenge outside the permit system.

Next, NPC recommends reducing the tax depreciation schedule for refining equipment from the current 10 years to five, consistent with the treatment of process equipment in the chemical industry and with other manufacturing equipment. We also recommend reducing the depreciation period for pipelines and storage facilities.

Such a reduction would reduce the capital recovery period for investment, helping to offset the historically low returns in this business. The

adjustments should be applied to all new refining and distribution equipment.

Past experiences can sometimes be part of a broader efficiency and yield improvement project, so attempting to apply any depreciation revision on a narrowly defined segment of investment could have the perverse effect of reducing the incentive for more significant additions to base capacity.

The use of exemptions, exceptions, and waivers should be limited to responding to serious supply disruptions that affect delivery of fuel to consumers. The possibility of waivers and the like increase market uncertainty and hinder investment.

To reduce this uncertainty, EPA should issue a definitive procedure for considering and issuing waivers and variances to provide clarity of future requirements. Proposed guidelines have recently been issued as a first step in this process.

Policymakers should recognize that mandates or subsidies for alternative fuels would increase the uncertainty for the future of the petroleum refining business and reduce the incentive for investment. As a result, they may not actually reduce petroleum product imports as intended and could actually increase the overall fuel cost to consumers.

Next, the 2000 Refining Report recommended that the drivability index requirement for gasoline not be reduced without thorough additional analysis. Such a reduction could significantly reduce existing refinery gasoline production capacity by 10 percent or more for the change evaluated at the time of the 2000 study.

To date, EPA has resisted auto makers' calls for a reduction in drivability index and a change to distillation index, and EPA should continue this stance.

Lastly, site security should remain an industry responsibility, with ongoing risk assessment and security improvements coordinated with the Department of Homeland Security, which should retain the lead federal role. Refining industry participants are committed to keeping their facilities secure from threats and violence or terrorism.

Refiners have expended substantial resources to enhance security, and they expect to continue to do so. There are proposals being discussed that include provisions for forcing technology change and for criminal liability. These provisions would not provide a security benefit and could reduce domestic fuel production capability.

As I mentioned earlier, significant refinery investment requires long lead time to implement. It can take four years or more to implement the steps necessary to install a major refinery modification. As a result, the effects from implementing these recommendations will generally be translated into additional refinery capacity coming on stream years from now.

The secretary asked for options that could help meet demand over the next year. We did not identify in this study any steps that could significantly increase domestic refining capacity within the next year. The refining capacity that will exist in 2005 is the result of investment decisions and regulatory actions over the past several years.

However, we do believe that, barring unforeseen events and further restrictions of domestic capacity and worldwide free trade flows, product supplies should be sufficient to meet domestic demand in the near term.

Finally, I want to summarize and conclude with this final chart. In the,near term, the NPC does not foresee significant hurdles to the availability of gasoline and heating oil supplies, though we do have significant concerns about ultra-low sulfur diesel fuel

implementation beginning in 2006.

The U.S. products market is part of a global petroleum market and is influenced by global fundamentals. We expect imports to continue to be an economic component of supply. Market mechanisms provide the fastest and most efficient response to supply disturbances.

Finally, we have provided recommendations to help ensure reliable product supplies both to allow for efficient operation of the supply system and to mitigate some of the factors that have impeded domestic refining capacity growth.

That concludes our report, so Lee, I'll turn the floor over to you.

Remarks by Lee Raymond

MR. RAYMOND: Thanks, Don and Phil.

Jim and I wish to extend the committee's thanks to all the participants of this study for their commitment and diligent effort. The findings and recommendations are most timely, considering the high level of interest and proposed legislation in many of the areas.

I also wish to express our appreciation to the DOE for their considerable support and participation in the study.

Mr. Chairman, this completes the study presentation to the Council. I believe that this report is responsive to the secretary's request, and it should be of significant value to the administration in formulating and carrying out policy.

I echo Mr. Mulva's comments that our organizations that responded to the secretary's request with extensive effort in a very compressed time frame. Although this current effort has been largely qualitative, we are confident that valuable insights and recommendations have been generated.

This report is based on the vast experience that the participants brought from their own individual backgrounds. Both subcommittees had broad, diverse participation not only from industry but also from related organizations.

I want to thank all of you for the resources you have contributed to this work. In spite of the very short time frame, your people have put in a significant amount of effort into this study, and we hope that this report will provide additional enlightenment to the public discourse on these topics.

Accordingly, I move that the National Petroleum Council adopt the proposed report, subject to final editing.

Bobby?

CHAIRMAN SHACKOULS: Thank you, Jim and Lee.

We have a motion to adopt the report of the Committee on Refining and Inventory Issues subject to final editing. Do I have a second?

(Seconded)

CHAIRMAN SHACKOULS: Are there any Council members who have questions or comments on the proposed final report?

(No response)

CHAIRMAN SHACKOULS: All in favor, please say "aye."

(There was a chorus of "ayes.")

CHAIRMAN SHACKOULS: Opposed?

(No response)

CHAIRMAN SHACKOULS: Thank you. The report is adopted.

I thank you, Jim and Lee, your committee, Phil and Don, your subcommittees, and the many volunteers who helped to complete this work. You have prepared a very valuable report, and I'm confident that you, Mark, and the secretary will,, along with others in the administration, will find this work very useful as you address the issues that confront you.

Mark, would you like to make a few comments

at this time?

Remarks by Mark Maddox

MR. MADDOX: First, I want to thank the NPC, Jim Mulva, Lee Raymond, Don Daigle, Phil Frederickson, and Tom Mueller for all their hard work and all their committee members' hard work on this.

At my first response, I have a couple conclusions strike me. First, that in spite of the U.S. being an attractive place to do business due to its large market, market transparency, and legal certainty, we have made this a hard place to build a refinery. Our regulatory approach creates a climate of investment uncertainty, and the cost of regulations means more than pennies at the pump. It diverts dollars from capacity expansion to regulatory compliance.

Second, a passive policy that discourages refinery expansion or construction also means we are making a passive decision to participate in a global product market. As such, we need to think how our regulatory decisions impact our access to this world market.

As I told FERC last year regarding natural gas quality, we must look not just at how decisions impact liquidity in domestic markets but how decisions

impact global market liquidity or risk paying a higher price premium for this product for this lack of liquidity in reducing the economic competitiveness of our nation. For policymakers, this means synchronizing and coordinating our policies with other consuming nations.

How we go about meeting and understanding the global policy approach and how other nations are developing their refinery approaches will be a challenge that we have not taken up as a nation and haven't had to. This report, I think, lays out how important that process is going to be and how it may impact us sooner rather than later, perhaps later in this decade if we don't.

To reiterate the secretary's earlier comments, I want to reiterate our appreciation to the NPC for their hard work and their valuable advice.

Thank you.

Administrative Matters

Bobby S. Shackouls

CHAIRMAN SHACKOULS: Thank you, Mark.

We now turn to our administrative matters. The first is a note for the benefit of members of the press. Following adjournment, study leaders will be available here at the head table to respond to your

questions.

The second is to inform members that final printed copies of the Refining and Inventory Issues Report will be available from the NPC and on the NPC's website by the end of this month.

I also want to inform members that we'll be sending out questionnaires to many of you requesting operating and financial data for calendar years 2002 and 2003. These non-proprietary data will be used by the Finance Committee to update contribution requests for the coming year. While there will be no substantive change in the total funds requested, members can expect their individual requested amounts to change.

If you receive one of these questionnaires, would you please return it to the NPC by December 15th.

Discussion of Any Other Business Properly Brought Before the National Petroleum Council

Bobby S. Shackouls

CHAIRMAN SHACKOULS: Ladies and gentlemen, before I turn to the final item on our final agenda, let me ask if there are any council members that have any other matters to raise at this time?

(No response)

CHAIRMAN SHACKOULS: Does any non-member wish

to be recognized?

(No response)

In Memorium to Patrick F. Taylor

Bobby S. Shackouls

CHAIRMAN SHACKOULS: Our last item is a sad one. We've recently been told of the death of one of our longstanding members of the Council, Pat Taylor of Taylor Energy in New Orleans.

Pat founded his company more than 25 years ago, and while he was very successful as an oil man, he was most proud of his efforts to provide a college education to Louisiana high school graduates.

I would now ask you all to stand and remember Pat Taylor with a moment of silence.

(Moment of silence)

CHAIRMAN SHACKOULS: Thank you.

The 114th meeting of the National Petroleum Council is hereby adjourned. Thank you very much.

(Whereupon, at 10:47 a.m., the meeting was adjourned.)

REPORTER'S CERTIFICATE

This is to certify that the attached proceedings before:

DEPARTMENT OF ENERGY
NATIONAL PETROLEUM COUNCIL
In the Matter of:

114TH MEETING OF THR NATIONAL PETROLEUM COUNCIL

were held as herein appears and that this is the original transcript thereof for the file of the Department, Commission, Board, Administrative Law Judge or the Agency.

Further, I am neither counsel for or related to any party to the above proceedings.

Debbie Derr
Official Reporter

Dated: **DECEMBER 2, 2004**