

NATIONAL PETROLEUM COUNCIL
115TH MEETING OF THE NATIONAL PETROLEUM COUNCIL

Park Ballroom
Park Hyatt Washington Hotel
24th and M Streets, Northwest
Washington, D.C.

Wednesday, June 22, 2005
7:30 a.m.

National Petroleum Council Members

BOBBY S. SHACKOULS, Chair
Burlington Resources, Inc.

PHILIP C. ACKERMAN
National Fuel Gas Company

JACOB ADAMS
Arctic Slope Regional Corporation

RICHARD J. ALARIO
Key Energy Services, Inc.

GEORGE A. ALCORN, SR.
Alcorn Exploration, Inc.

PAUL M. ANDERSON
Duke Energy Corporation

ROBERT O. ANDERSON
Roswell, New Mexico

THURMON M. ANDRESS
BreitBurn Energy LP

PHILIP F. ANSCHUTZ
The Anschutz Corporation

GREGORY L. ARMSTRONG
Plains All American Pipeline, LP

ROBERT G. ARMSTRONG
Armstrong Energy Corporation

GREG A. ARNOLD
Truman Arnold Companies

EXECUTIVE COURT REPORTERS, INC.
(301) 565-0064

National Petroleum Council Members

RALPH E. BAILEY
Fuel-Tech N.V.

ROBERT W. BEST
Atmos Energy Corporation

ALAN L. BOECKMANN
Fluor Corporation

DONALD T. BOLLINGER
Bollinger Shipyards, Inc.

JOHN F. BOOKOUT
Houston, Texas

WAYNE H. BRUNETTI
Xcel Energy, Inc.

PHILIP J. BURGUIERES
EMC Holdings, LLC

VICTOR A. BURK
Deloitte & Touche, LLP

FRANK M. BURKE, JR.
Burke, Mayborn Company, Ltd.

KARL R. BUTLER
ICC Energy Corporation

ROBERT B. CATELL
KeySpan

CLARENCE P. CAZALOT, JR.
Marathon Oil Company

H. CRAIG CLARK
Forest Oil Corporation

LUKE R. CORBETT
Kerr-McGee Corporation

GREGORY L. CRAIG
Cook Inlet Energy Supply, LLC

WILLIAM A. CUSTARD
Dallas Production, Inc.

EXECUTIVE COURT REPORTERS, INC.
(301) 565-0064

National Petroleum Council Members

CHARLES D. DAVIDSON
Noble Energy, Inc.

CHADWICK C. DEATON
Baker Hughes Incorporated

CLAIBORNE P. DEMING
Murphy Oil Corporation

CORTLANDT S. DIETLER
TransMontaigne Inc.

DAVID F. DORN
Denver, Colorado

LAURENCE M. DOWNES
New Jersey Resources

W. BYRON DUNN
Lone Star Steel Company

DANIEL C. ECKERMANN
LeTourneau, Inc.

LYNN LAVERTY ELSENHANS
Shell Oil Company

JAMES W. EMISON
Western Petroleum Company

RONALD A. ERICKSON
Holiday Companies

SHELDON R. ERIKSON
Cooper Cameron Corporation

STEPHEN E. EWING
DTE Energy Gas

JOHN G. FARBES
Big Lake Corporation

CLAIRE SCOBEE FARLEY
Randall & Dewey, Inc.

G. STEVEN FARRIS
Apache Corporation

EXECUTIVE COURT REPORTERS, INC.
(301) 565-0064

National Petroleum Council Members

WILLIAM L. FISHER
University of Texas

JAMES C. FLORES
Plains Exploration & Production Company

ERIC O. FORNELL
J.P. Morgan Securities, Inc.

JOE B. FOSTER
Houston, Texas

ROBERT W. FRI
Resources For the Future, Inc.

JAMES A. GIBBS
Five States Energy Company, LLC

JOHN D. GIGLIO
National Association of State Energy
Officials

LAWRENCE J. GOLDSTEIN
Petroleum Industry Research Foundation, Inc.

CHARLES W. GOODYEAR
BHP Billiton Plc

ANDREW GOULD
Schlumberger Limited

S. DIANE GRAHAM
STRATCO, Inc. and Ecopath

PATRICK J.F. GRATTON
American Association of Petroleum Geologists

WILLIAM E. GREEHEY
Valero Energy Corporation

JAMES T. HACKETT
Anadarko Petroleum Corporation

FREDERIC C. HAMILTON
The Hamilton Companies, LLC

National Petroleum Council Members

CHRISTINE A. HANSEN
Interstate Oil and Gas Compact Commission

ROBERT F. HEINEMANN
Berry Petroleum Company

JOHN B. HESS
Amerada Hess Corporation

JACK D. HIGHTOWER
Celero Energy, LP

ROY M. HUFFINGTON
Roy M. Huffington, Inc.

DUDLEY J. HUGHES
Hughes South Corporation

RAY L. HUNT
Hunt Oil Company

HILLARD G. HUNTINGTON
Stanford University

JOHN R. HURD
Hurd Enterprises, Ltd.

RAY R. IRANI
Occidental Petroleum Corporation

EUGENE J. ISENBURG
Nabors Industries, Inc.

MARK A. JACKSON
Noble Corporation

ROBERT J. JOHNSON
National Association of Black Geologists and
Geophysicists

A.V. JONES, JR.
Van Operating, Ltd.

JON REX JONES
Jones Management Corporation

National Petroleum Council Members

JERRY D. JORDAN
Jordan Energy, Inc.

FRED C. JULANDER
Julander Energy Company

JOHN A. KANEB
Gulf Oil Limited Partnership

W. ROBERT KEATING
Commonwealth of Massachusetts

JAMES W. KEYES
7-Eleven, Inc.

RICHARD D. KINDER
Kinder Morgan, Inc.

WILLIAM G. KINNEY
Summit Petroleum, Inc.

HAROLD N. KVISLE
TransCanada Corporation

SUSAN M. LANDON
Denver, Colorado

STEPHEN D. LAYTON
E&B Natural Resources

VIRGINIA B. LAZENBY
Bretagne G.P.

JOSEPH LEE, III
Memphis Light, Gas and Water Division

DAVID J. LESAR
Halliburton Company

MICHAEL C. LINN
Linn Energy, LLC

ANDREW N. LIVERIS
The Dow Chemical Company

DANIEL H. LOPEZ
New Mexico Institute of Mining and Technology

EXECUTIVE COURT REPORTERS, INC.
(301) 565-0064

National Petroleum Council Members

THOMAS E. LOVE
Love's Country Stores, Inc.

WILLIAM D. McCABE
Distributed Generation Systems, Incorporated

AUBREY K. McCLENDON
Chesapeake Energy Corporation

W. GARY McGILVRAY
DeGolyer and MacNaughton

CARY M. MAGUIRE
Maguire Oil Company

STEVEN J. MALCOLM
The Williams Companies, Inc.

CHARLES J. MANKIN
Oklahoma Geological Survey

TIMOTHY M. MARQUEZ
Venoco, Inc.

DONALD L. MASON
The Public Utilities Commission of Ohio

FREDERICK R. MAYER
Captiva Resources, Inc.

F.H. MERELLI
Cimarex Energy Company

C. JOHN MILLER
Miller Energy, Inc.

DAVID B. MILLER
EnCap Investments, L.P.

MERRILL A. MILLER, JR.
National Oilwell, Inc.

GWYN MORGAN
EnCana Corporation

MICHAEL G. MORRIS
American Electric Power Company, Inc.

EXECUTIVE COURT REPORTERS, INC.
(301) 565-0064

National Petroleum Council Members

ROBERT A. MOSBACHER
Mosbacher Energy Company

JAMES J. MULVA
ConocoPhillips

JOHN THOMAS MUNRO
Munro Petroleum & Terminal Corporation

DAVID L. MURFIN
Murfin Drilling Company, Inc.

MARK B. MURPHY
Strata Production Company

WILLIAM C. MYLER, JR.
The Muskegon Development Company

GARY L. NEALE
NiSource, Inc.

JAMES E. NEWSOME
New York Mercantile Exchange

J. LARRY NICHOLS
Devon Energy Corporation

JOHN W.B. NORTHINGTON
Thomas Advisors, Inc.

ERLE NYE
TXU Corporation

CHRISTINE J. OLSON
S.W. Jack Drilling Company

DAVID J. O'REILLY
Chevron Corporation

C.R. PALMER
Rowan Companies, Inc.

MARK G. PAPA
EOG Resources, Inc.

PAUL H. PARKER
Center for Resource Management

EXECUTIVE COURT REPORTERS, INC.
(301) 565-0064

National Petroleum Council Members

ROBERT L. PARKER, SR.
Parker Drilling Company

A. GLENN PATTERSON
Patterson-UTI Energy, Inc.

ROSS J. PILLARI
BP America, Inc.

HILDA PINNIX-RAGLAND
American Association of Blacks in Energy

L. FRANK PITTS
Pitts Energy Group

KEITH O. RATTIE
Questar Corporation

LEE R. RAYMOND
Exxon Mobil Corporation

JOHN G. RICE
GE Energy

CORBIN J. ROBERTSON, JR.
Quintana Minerals Corporation

ROBERT E. ROSE
GlobalSantaFe Corporation

HENRY A. ROSENBERG, JR.
Rosemore, Inc.

MARK A. RUBIN
Society of Petroleum Engineers

S. SCOTT SEWELL
Delta Energy Management, Inc.

MAYO A. SHATTUCK, III
Constellation Energy Group, Inc.

R. GORDON SHEARER
HESS LNG, LLC

SCOTT D. SHEFFIELD
Pioneer Natural Resources Company

EXECUTIVE COURT REPORTERS, INC.
(301) 565-0064

National Petroleum Council Members

MATTHEW R. SIMMONS
Simmons and Company International

SAM R. SIMON
Atlas Oil Company

BOB R. SIMPSON
XTO Energy, Inc.

ROBERT D. SOMERVILLE
American Bureau of Shipping & Affiliated
Companies

JOEL V. STAFF
Reliant Resources, Inc.

CHARLES C. STEPHENSON, JR.
Vintage Petroleum, Inc.

J.W. STEWART
BJ Services Company

RICHARD H. STRAETER
Continental Resources of Illinois, Inc.

DAVID A. TRICE
Newfield Exploration Company

DIEMER TRUE
True Companies, Inc.

H.A. TRUE, III
True Oil Company

WILLIAM P. UTT
SUEZ Energy North America, Inc.

W. BRUCE VALDEZ
Southern Ute Growth Fund

PAUL G. VAN WAGENEN
Pogo Producing Company

RANDY E. VELARDE
The Plaza Group

National Petroleum Council Members

PHILIP K. VERLEGER, JR.
PKVerleger, LLC

FRED P. VIGIL
Jicarilla Apache Nation

JOHN B. WALKER
EnerVest Management Partners, Ltd.

JOSEPH C. WALTER, III
Walter Oil & Gas Corporation

L.O. WARD
Ward Petroleum Corporation

WILLIAM MICHAEL WARREN, JR.
Energen Corporation

GEORGE E. WEST
The Energy Council

J. ROBINSON WEST
PFC Energy, Inc.

MICHAEL E. WILEY
Houston, Texas

BRUCE W. WILKINSON
McDermott International, Inc.

BARRY A. WILLIAMSON
Austin, Texas

CHARLES R. WILLIAMSON
Unocal Corporation

MARY JANE WILSON
WZI, Inc.

GEORGE M. YATES
HEYCO Energy Group

JOHN A. YATES
Yates Petroleum Corporation

DANIEL H. YERGIN
Cambridge Energy Research Associates

EXECUTIVE COURT REPORTERS, INC.
(301) 565-0064

National Petroleum Council Members

HENRY ZARROW
Sooner Pipe, L.P.

A G E N D A

<u>AGENDA ITEM:</u>	<u>PAGE:</u>
I. Call to Order and Introductory Remarks	14
Bobby S. Shackouls, NPC Chair	
II. Remarks by the Honorable Samuel W. Bodman, Secretary of Energy	16
III. Administrative Matters	
A. Report of the NPC Finance Committee	39
Claiborne P. Deming, Finance Committee	
B. Report of the NPC Nominating Committee	46
C. John Miller, Member of the Nominating Committee	
IV. Discussion of Any Other Business Properly Brought Before the National Petroleum Council	49
Bobby S. Shackouls	
V. Adjournment	

P R O C E E D I N G S

7:30 a.m.

Call to Order and Introductory Remarks

Bobby S. Shackouls, NPC Chair

CHAIRMAN SHACKOULS: Will the 115th 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 we hope today will be a very interesting and
worthwhile session for you. This is our first Council
meeting with Secretary Bodman, and we are looking
forward to his remarks.

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 who has not checked in, please do so
before you leave so that we will 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
left here is Mark Maddux, principal deputy assistant
secretary of fossil fuels. On my far right is Marshall
Nichols, who is executive director of the Council.
Next to Marshall is the council's vice chair, Lee
Raymond. And then, on my immediate right is Samuel

1 Bodman, Secretary of Energy.

2 Our first order of business this morning is
3 to hear from the Secretary of Energy. Samuel Wright
4 Bodman was sworn in as the eleventh Secretary of Energy
5 on February 1st, 2005, after the United States Senate
6 unanimously confirmed him. He leads the Department of
7 Energy with a budget in excess of \$23 billion and over
8 100,000 federal and contractor employees.

9 Previously, Secretary Bodman served as deputy
10 secretary of the treasury, beginning in February of
11 2004. He also served the Bush administration as deputy
12 secretary of commerce, beginning in 2001.

13 A financier and an executive by trade with
14 over three decades of experience in the private sector,
15 Secretary Bodman is well suited to manage the day-to-
16 day operations of both of those cabinet agencies. A
17 chemical engineer and a one time professor at MIT, he
18 has also been president of an investment firm and head
19 of an industrial company.

20 President Bush has said, and I quote, "In
21 academics and in government, Sam Bodman has shown
22 himself to be a problem-solver and knows how to set
23 goals and knows how to reach them. He will bring to
24 the Department of Energy a great talent for management
25 and the precise thinking of an engineer."

1 Now, Lee and I, and I suspect a number of
2 other members of the Council, are also chemical
3 engineers, and we understand and appreciate the
4 discipline that this training brings to running an
5 entity like the Department of Energy.

6 Mr. Secretary, we are honored to have you
7 with us this morning, and we look forward to your
8 comments.

9 Please join me in welcoming Secretary of
10 Energy Samuel Bodman.

11 (Applause)

Remarks by the Honorable Samuel W. Bodman, Secretary of
Energy

14 THE HONORABLE MR. BODMAN: Thank you, Bobby.

15 First, I want to thank all of you for
16 accommodating the change in schedule. I explained to
17 Bobby that I have been conscripted, as I will comment
18 on in a minute, and I appreciate your flexibility.

19 A couple of days ago, the President invited
20 me to join him later this morning at an event in which
21 he will be discussing energy policy and the Energy
22 Bill, which is something that is on all of our minds
23 here in Washington these days. The President has spent
24 a lot of time over the last few months, and others of
25 us have been working along with him, with congressional

1 leaders in an effort to get comprehensive energy
2 legislation passed this year.

3 We are very hopeful that Congress will,
4 within the next two weeks, send the President a bill
5 that ensures adequate electric-generating capacity to
6 meet our growing economic needs, that strengthens our
7 electric power delivery system, expands the use of
8 clean, renewable energy, and increases our energy
9 efficiency.

10 We are also pushing to ensure that the bill
11 will provide for environmentally responsible energy
12 exploration of ANWAR and include provisions to expand
13 and safely maintain our petroleum and natural gas
14 pipeline networks.

15 All of these steps, and others, are critical
16 to ensuring our nation's energy security, which, as you
17 all very well know, is essential to our nation's
18 economic security.

19 I have to tell you what I think of Bobby's
20 introduction. I have to digress for a minute and tell
21 you a story, and that is that my boss immediately
22 preceding coming over to this job in the Energy
23 Department was John Snow in the Treasury. I had spent
24 a year in the Treasury as the deputy, and basically the
25 deputies run the inside, day-to-day operations of these

1 departments.

2 John, I guess a couple of months after I had
3 arrived, prepared a chart for me showing the increase
4 in oil prices since I had taken office. Along with it
5 was a quote that "This man knows how to set goals and
6 get things done."

7 (Laughter)

8 THE HONORABLE MR. BODMAN: So he was making
9 some light of my newfound notoriety in the public.

10 When the President invites you to join him
11 for a major speech, it is really kind of a command
12 performance, but I also felt very strongly about being
13 here for the first meeting of the NPC during my tenure
14 as the Energy Secretary. So I'm particularly grateful
15 for all of you making, as I said, the change in
16 schedule.

17 At the outset here, I would also like to take
18 the opportunity to thank Bobby Shackouls for his hard
19 work as chairman, congratulate him on the fine work
20 done by the NPC under his leadership, and congratulate
21 Lee Raymond, the incoming chairman. I wish him the
22 best as he undertakes his new duties.

23 I also know that there are 14 new Council
24 members, many of whom are here this morning, and I want
25 to welcome all of you to membership in this group.

1 I have to tell you that as I looked through
2 the membership roster, it really is a who's who of the
3 oil and gas business. I found it as I read it over
4 last evening and find it today a great honor to be here
5 in your midst.

6 This organization serves an extremely
7 valuable purpose, and I know how much my predecessors
8 have appreciated the advice and guidance from this
9 organization both informally, through conversations and
10 discussions, as well as formally in the many
11 outstanding studies and reports that have been prepared
12 by the NPC.

13 The work and effort that goes into producing
14 these reports and maintaining this organization is all
15 the more laudatory because of the voluntary nature of
16 your service, and I thank you for that.

17 The National Petroleum Council is not a trade
18 organization. It exists to serve and advise the
19 Secretary of Energy and the Department of Energy, and
20 so I express my personal appreciation as well as that
21 of my predecessors and my colleagues at the Department
22 for the time and effort and expertise which go into
23 producing the results of your work. I will tell you
24 that these reports do in fact -- are in fact listened
25 to and are paid attention to and provide the kind of

1 insight that helps set public policy.

2 That is particularly true as I think back on
3 the 2003 Study on Natural Gas that this organization
4 did. When that study was commissioned, we were facing
5 a lot of uncertainty about North American gas supply,
6 although there was quite a bit of certainty about the
7 growing demand for natural gas for electric power
8 generation as well as for use as an industrial
9 feedstock. LNG was just starting to appear on the
10 radar, although those of us who had been in the LNG
11 business had it as a much bigger part of our day-to-day
12 activities. At most companies, it was really kind of a
13 blip on the screen.

14 So when the NPC conducted an exhaustive
15 analysis of the situation, I think it really brought
16 light to the situation that we were facing. The result
17 was a truly very important, landmark report, at least
18 in my view. It provided a region-by-region analysis of
19 supply and demand and offered the analytical basis for
20 how LNG could support a growing proportion of our
21 natural gas needs in this country. That in turn has
22 influenced our thinking about this current energy bill
23 that is before the Congress.

24 In that report, there were a number of
25 recommendations, many of which in fact have been

1 incorporated into the policy-making process not only by
2 our Department but by the President's entire
3 administration and the Congress.

4 Some of these questions include how to
5 improve the way we lease and oversee the development of
6 federal lands, which our friends in the Interior
7 Department are particularly focused on, and the
8 clarification of the responsibilities for siting and
9 the oversight process for LNG terminals, which of
10 course is a subject of continuing interest and
11 importance to not just the administration but really to
12 the country.

13 Now, our markets for natural gas remain very
14 tight. In fact, our country has the most expensive
15 natural gas in the world, which is causing a
16 significant set of problems with respect to job
17 location in the chemical industry in particular as they
18 are shifting production abroad, facing what appear to
19 be continuing issues with natural gas prices in this
20 country.

21 That is a trend that, at least as far as I
22 can tell, seems likely to continue, at least for a
23 while. So we need to do a lot more and are trying to
24 hard to do more to bring about adequate and affordable
25 supplies of natural gas both as a fuel source and, as I

1 said before, as an industrial feedstock.

2 If we take a moment to look at a few of the
3 specific challenges that we currently face in the oil
4 and gas sector, we could then be in a position to
5 suggest some ideas that might serve as a basis for
6 future work by this Council.

7 Obviously, the issue that has been dominating
8 the headlines, at least ever since I got into this job,
9 is the price of oil. Worldwide, the supply of oil is
10 having considerable difficulty keeping pace with the
11 growing demand that we are all aware of.

12 Prior to 2004, the average rate of increase
13 in oil demand was about 1 million barrels a day. There
14 was some variation, but it tended to increase year to
15 year about 1 million barrels a day. In the year 2004,
16 that number increased to 2.7 million barrels a day, an
17 extraordinary change. The gap between this kind of
18 increased consumption on the one hand and the
19 capability of the industry to respond, in my view, will
20 take some years to close.

21 We clearly have an economic incentive there,
22 and I believe the industry will and is now responding,
23 but it will -- I think we are going to be measuring
24 this in years, not in months.

25 The EIA, part of the Energy Department,

1 estimates that we are going to see about a 50 percent
2 increase in oil demand by the year 2025. In other
3 words, in the next two decades, they are looking for
4 oil demand to increase from 82 million barrels a day to
5 121 million barrels a day two decades out, about a 50
6 percent increase.

7 The most dramatic current manifestation of
8 that kind of demand is the high price of gasoline.
9 That is certainly a very active issue with respect to
10 many of our citizens. This is an issue that, as you
11 might imagine, I am confronted with in my dealings with
12 the media almost every day. When I'm asked about high
13 gasoline prices, I like to point out that these prices
14 are driven by, in large measure, increased economic
15 activity, increased economic activity in China, in
16 India, and of course here in the United States as
17 things are improving here economically.

18 Now, therefore, the, you know, growing energy
19 demand obviously has the problems reflected in price,
20 but the underlying cause, namely robust economic
21 growth, is a good thing. So that, as we are focusing
22 on the problem, it is important to remember the balance
23 that exists.

24 Now, growing demand is only a part of the
25 equation. I think that, to a considerable degree, the

1 market is also being affected by uncertainty about
2 long-term supply. Are there adequate supplies
3 available. In my view, greater transparency about
4 known reserves in producer nations, more current and
5 reliable information about reserve estimates, would not
6 only be invaluable for investors but would help reduce
7 the uncertainty that puts upward pressure on prices.

8 This also would be very valuable to policy-
9 makers at the state and federal level and indeed for
10 decision-makers throughout the world to have greater
11 transparency, greater knowledge about the world's oil
12 reserves.

13 Having more and better information about
14 reserves would also clarify some of the challenges that
15 we will be facing in developing future petroleum
16 reserves for our use and for use around the world.

17 We believe that the days of easily accessible
18 oil are probably coming to a close. That certainly
19 appears to be the case here in the lower 48 states.
20 Increasingly, the global oil demand that we talk about
21 will have to be met by developing petroleum reserves
22 that involve serious technical and often political
23 challenges.

24 The technical challenges of course include
25 drilling in very deep water and in other hard-to-reach

1 frontier regions, as well as enhanced oil recovery
2 techniques such as CO2 injection and various thermal
3 processes that are being worked on, all of which means
4 that such projects will be more capital-intensive, they
5 will have higher risk, and they are going to have
6 greater lead time before we see results.

7 These are very difficult circumstances in and
8 of themselves, but the challenges are multiplied
9 several times over when they are compounded by
10 political or regulatory uncertainty. The importance of
11 a secure investment climate, including guarantees
12 related to the sanctity of contracts and a stable legal
13 system, really cannot be overstated; at least I don't
14 believe so.

15 It seems that since I had this wonderful idea
16 of coming out of the private sector and coming here to
17 Washington, as I look back on it I have spent about
18 half my time visiting with representatives of other
19 nations and talking exactly about these issues. I
20 think it is hard to overstate the importance of the
21 legal environment in which our private sector and in
22 which you are operating around the world.

23 It is very hard to imagine that people will
24 knowingly invest millions or billions of dollars in an
25 environment that doesn't have these kinds of

1 protections and where you have the prospects of returns
2 on that investment being subject to a very rapidly
3 changing political environment.

4 The issue of deeper and harder-to-access
5 petroleum also raises questions about the degree to
6 which heavier crude may fill a larger part of our oil
7 needs. As heavier crude continues to take on a larger
8 share of our oil consumption, that will have a lot of
9 implications related to the kind of investment that
10 will be required in modifications to our refining
11 assets that are the responsibility of many in this
12 room.

13 So, in addition to developing more
14 sophisticated refining technologies and operating
15 practices, we will also need to address the
16 environmental impacts that come from heavy crude oil
17 and all that that represents. So --

18 (BRIDGE 1A TO 2A)

19 THE HONORABLE MR. BODMAN: -- of his service.

20 So, Bobby, if I could present that to you.

21 CHAIRMAN SHACKOULS: Thank you very much.

22 (Applause)

23 THE HONORABLE MR. BODMAN: I hope you can
24 find a spot for that and that you enjoy having it as
25 much as we have enjoyed presenting it and benefitting

1 from your hard work.

2 With that, let me conclude with my thanks to
3 all of you for being here this morning, especially for
4 all of you accommodating the schedule change. I very
5 much look forward to working with each of you and
6 getting to know many of you better. I have a lot of
7 old friends that I know are in the audience, people
8 that I have known for years. I look forward to working
9 with them and getting to know a number of the others
10 better as time goes on.

11 As the President has said, and I expect to
12 hear him say again today when we are off a half hour,
13 45 minutes from now, energy security is essential to
14 maintaining our nation's strong economic growth and
15 ensuring our long-term prosperity. These are goals
16 that we all share as we strive to leave a brighter,
17 healthier, more secure America for future generations.

18 That really summarizes the reason I came here
19 four years ago. I'm here, really, trying to be as
20 helpful as I can such that we can leave the world in
21 better shape for my grandchildren and their
22 grandchildren, and I know many of you feel the same
23 way, which is why you are here.

24 Thanks very much for your attention and for
25 allowing me to come to you today. Thanks.

1 (Applause)

2 CHAIRMAN SHACKOULS: Thank you, Mr. Secretary

3 The Secretary has graciously agreed to take
4 your questions. Does any member of the Council have
5 any questions that they would like to pose to the
6 Secretary at this time?

7 Yes, Thurmon?

8 MR. ANDRESS: Mr. Secretary, I'm Thurmon
9 Andress, Breitburn Energy in Houston.

10 THE HONORABLE MR. BODMAN: Yes, sir.

11 MR. ANDRESS: (Off mike)

12 THE HONORABLE MR. BODMAN: You know, that is
13 not a question, frankly, that I have confronted. I am
14 aware of the issue with the cyclicalality in the prices
15 that we have seen over my lifetime at least and where I
16 -- a lot of which has been spent in and around your
17 industry, and as companies, particularly the public
18 companies, have responded to the pressures that brought
19 about by those. We have seen layoffs, we have seen
20 good people leave this industry over the years, and we
21 are short on people for sure.

22 I would take that, you know, as a suggestion.
23 I don't have any, you know, quick answer. I think
24 that we are working hard -- let me take a step back.

25 The Energy Department has three major

1 responsibilities. We are responsible for overseeing
2 the maintenance of our nuclear weapons, one. Two, we
3 are responsible for cleaning up all of the sites around
4 this country that were part and parcel to the
5 development of our knowledge of nuclear chemistry and
6 physics, so Hanford and Idaho Falls and Savannah River
7 and Oak Ridge, and so forth. These are all areas that
8 we work very hard on.

9 And then, we are responsible for funding
10 science. We are the primary funder of science and for
11 science research, and then we do have responsibilities
12 in various policy areas. In terms of where the money
13 goes, it is those first three in about equal amounts.

14 So we are working with the Department of
15 Education and with others to try to stimulate more
16 interest in science and training of science and
17 engineering. So this may have some fall-off that would
18 be helpful to the industry, but it is indirect. So I
19 would take it as a good suggestion and something that
20 we probably ought to look at and see, you know, are
21 there things that we could be doing.

22 If you have thoughts as to what we should or
23 can be doing other than this general effort that I
24 mentioned, I would appreciate it. Thank you.

25 Yes, sir.

1 MR. WALKER: Mr. Secretary, John Walker from
2 EnerVest. (Off mike)

3 THE HONORABLE MR. BODMAN: The question, for
4 those in the back who may not have heard it, relates to
5 the funding for oil and gas research.

6 You know, I would be happy to hear from you
7 and from members of this Council about that question.
8 The President has taken a very strong position. I
9 don't disagree with him. With oil at \$50 and \$60 a
10 barrel, that seems to me to be a lot of stimulus and
11 gives you a lot of room, a lot of margin, with which to
12 fund research and to fund efforts.

13 These are very tough times. If you are not
14 in the homeland security business, if you are not in
15 the defense business, your budget is getting cut, and
16 that is true of the Energy Department. So these are
17 areas, as we are looking at trying to make choices,
18 that we have come down on the other side of that
19 particular question.

20 But I would be happy to hear from you as to
21 what -- the one area that, frankly, has caused me some
22 pause as we have rethought relates to methane hydrates
23 and clathrates, which are present in significant
24 amounts up in Alaska and elsewhere. That is an area
25 where it seems to me, you know, some research might

1 well be called for.

2 But in terms of the kind of work that the
3 industries that the people in this room generally are
4 involved with, it seems to me that is a hard case to
5 make given the price levels which your product is
6 getting sold for.

7 But I'm happy to learn, so I would be happy
8 to hear from you.

9 Okay. Dan. I think that's you, Dan. Is
10 that you?

11 MR. YERGIN: Dan Yergin from Cambridge
12 Energy. You mentioned in your remarks that you have
13 spent a lot of time (off mike).

14 THE HONORABLE MR. BODMAN: Yes.

15 MR. YERGIN: I wonder if you could share with
16 us any trends you see on that issue and how you see the
17 Department (off mike).

18 THE HONORABLE MR. BODMAN: Well, I guess the
19 one -- first of all, the question relates to my
20 comments about the sanctity of contracts, and Mr.
21 Yergin's question is do I see any trends.

22 I guess there are trends and the trends kind
23 of go by individual country. There is progress being
24 made. One sees progress being made in eastern Europe.
25 One sees progress being made in what used to be called

1 central Europe and starting to move in that direction.

2 As you know, I ran into you in Moscow. One
3 of the challenges that the President presented to the
4 Secretary of Energy was his request, along with that of
5 President of Putin of Russia, that we look at
6 developing means of restimulating the so-called
7 commercial energy dialog; is there a role for U.S.
8 companies to develop the reserves and assets that are
9 in Russia and how do we go about doing that.

10 So Carlos Gutierrez and I have been working
11 hard on that over the last few months. We have a
12 report that is due to the President at the end of this
13 month, so we are in the process of pulling all that
14 together.

15 I have to tell you that at least as of this
16 point I have been disappointed at the rate and the
17 responsiveness of those in Russia to our efforts. I'm
18 hopeful -- I remain hopeful -- that we will see some
19 change, but there has not been so far the kind of
20 response that I would hope for. That is a message I
21 delivered I think fairly clearly when I was there, and
22 I will continue to do that as long as the situation
23 calls for it.

24 But we have seen continuing progress in other
25 parts of the world, and so it kind of moves on a

1 country-by-country basis. But on the one the President
2 put on my plate, namely Russia, at least so far, while
3 I remain hopeful that we will get some response, so far
4 I can't give you any very favorable reports.

5 Yes, Bob?

6 MR. MOSBACHER: Bob Mosbacher, Mosbacher
7 Energy. Could you see any change in the climate
8 internally towards offshore drilling (off mike).

9 THE HONORABLE MR. BODMAN: The question
10 relates to offshore drilling and do I see any changes
11 in the environment. The administration's position has
12 been pretty consistent that with respect to
13 particularly the eastern Gulf of Mexico that -- the
14 President has stated during the campaign and ran on it
15 that he would not permit drilling there, and therefore
16 that is our position.

17 Senator Landrieu, during the debate on this
18 Energy Bill, has had various proposals that would
19 permit states individually to opt out of the moratorium
20 that has been imposed by Congress, and in exchange for
21 that, the states would receive a bigger share of the
22 gain that the federal government now takes basically in
23 its entirety.

24 I have to say that that generated a lot of
25 interest among various members of the administration.

1 We haven't yet taken, to my knowledge anyway, any
2 formal position.

3 So I think that we are starting to see just
4 the economics of what we are dealing with affect
5 things. But, you know, the President does take a
6 position. He is not going to change it, and therefore,
7 you know, I'm not going to change it unilaterally. But
8 we -- I think as we start to see Congress come up with
9 alternatives and different ideas, we are certainly open
10 to listening to them and debating them and trying to
11 reach some reasonable compromises.

12 If the states are going to take the
13 initiative, then I think to some degree that relieves
14 whatever commitments have been made by leadership
15 during campaigns. Obviously, situations change over
16 time, and we have a very different situation today in
17 terms of energy prices than we had during the campaign
18 days and it is a different environment.

19 So I remain, like you, hopeful, but at least
20 at this point it is still a bit like dealing with the
21 Russians. I don't -- I'm optimistic, but so far I
22 can't give you anything very specific that you would
23 find satisfying.

24 Yes, sir.

25 COUNCIL MEMBER: (Off mike)

1 THE HONORABLE MR. BODMAN: Well, we are
2 seeing -- the world is an increasingly competitive
3 place, and in many ways that's good. We are seeing
4 China out in the marketplace. That may be what you are
5 referring to. We are seeing, you know, China. We have
6 seen them -- I was visiting with the premier of Alberta
7 just recently and the Chinese are there and they are
8 looking -- they have already made a deal, and I think
9 they are looking at making other acquisitions in that
10 area.

11 No doubt, India will be following suit. We
12 do have an ongoing so-called energy dialog that will go
13 across the board in dealing with what the United States
14 can do to be helpful to India.

15 So I agree with you that it will be
16 increasingly difficult for our country to maintain its
17 share, if you will, of access to reserves elsewhere
18 because the world is more competitive. The same thing
19 is true in the -- remember I alluded to the science
20 area. The same thing is happening there.

21 Our economy developed so well over the last
22 50 years in significant measure because we had the best
23 science in the world and it came out of the research
24 universities, which in turn funded and created the
25 industries that were around them, and out of that came

1 the semi-conductor and Microsoft and the changes that
2 have affected our lives in very significant ways.

3 China has seen that. India has seen that.
4 Other countries have seen that, and they are keeping
5 their students home. Some of my best students when I
6 was a young man teaching were from those countries, and
7 increasingly, they are keeping them at home. They are
8 running their own universities. They are trying to
9 create their own environments, similar thing.

10 So that is one of the concerns that I have,
11 looking at our funding of science and the interest of
12 young people in studying science and engineering. This
13 is also true in terms of just the economics and dealing
14 with access.

15 So I agree with your observation. Our role
16 is to try to -- when you asked what role the Department
17 plays, our role is to try to work with these countries
18 and see to it that we have a level playing field, see
19 to it that we are trying to -- that we do business in a
20 way that is consistent, that is straightforward, that
21 is transparent, so that we know why decisions get made,
22 who made them, and for what reason.

23 That is what we work on, and so that is what
24 I do, or at least in part what I do, when I'm traveling
25 because that is my part of my job, is to try to do

1 that.

2 It is tough because the people view,
3 particularly their oil and gas assets in different
4 countries, as kind of -- it is viewed in sort of an
5 emotional thing, much more so than I see that we do
6 here in America, where oil and gas are assets to be
7 used. They are part of what we inherited, and we have
8 been using them. There it is viewed as being -- it is
9 more of a political, sociological sort of feeling about
10 it, and you've got to get through that and get down to
11 what the economics call for. So that is part of what I
12 do and will continue to try to do.

13 Yes, sir.

14 MR. ROSE: Secretary, Bob Rose, GlobalSantaFe
15 out of Houston.

16 THE HONORABLE MR. BODMAN: Yes, sir.

17 MR. ROSE: I wonder if you could comment on
18 the recent speculations about (off mike).

19 THE HONORABLE MR. BODMAN: I have seen the
20 speculation. I'm aware of it. In order for the
21 government to take a position on that, there is a whole
22 interagency process where you have a foreign nation
23 that wishes or may wish to make an investment in a U.S.
24 corporation. This is an area -- this is a briar patch
25 in which I have lived before during my days first at

1 Commerce and then at Treasury.

2 It is a very complicated world. There is a
3 process, a committee called CFIIUS, the Committee for
4 Foreign Investment in the United States. It involves,
5 I think, six different departments of the government,
6 and it is an extremely complex matter. It has not even
7 come up because there is nothing to look at at this
8 point in time.

9 I would expect that, if this would
10 materialize along the lines you suggest, that there
11 would have to be some kind of interagency process,
12 because this involves the State Department. It
13 involves the Defense Department and potential defense
14 issues. It certainly involves the Treasury. It would
15 involve the Energy Department and involve the Commerce
16 Department because of the trade issue.

17 If there is one thing that I have learned in
18 my time in Washington, trying to forecast the results
19 of an interagency process is not a good way to spend
20 your time. But that is what would be involved in it.

21 CHAIRMAN SHACKOULS: Thank you, Mr.
22 Secretary.

23 THE HONORABLE MR. BODMAN: Thank you, sir.
24 Thanks a lot.

25 (Applause)

1 CHAIRMAN SHACKOULS: As you all heard, the
2 Secretary is on a pretty tight time schedule, so I know
3 he needs to leave.

4 Again, thank you for your comments and your
5 service to our country. Thank you very much. Thanks
6 again.

7 (Applause)

8 CHAIRMAN SHACKOULS: We will now turn to our
9 Administrative Matters. First, I would like to turn to
10 the Council's finances. Claiborne Deming, chair of the
11 NPC Finance Committee, will now present the committee's
12 report.

13 Claiborne?

14 Administrative Matters

15 Report of the NPC Finance Committee

16 Claiborne P. Deming, Chair, Finance Committee

17 MR. DEMING: Thank you, Mr. Chairman.

18 First of all, I have heard that phrase, "What
19 goes around comes around." About a year ago, I called
20 Bobby and asked him to succeed me as chairman of the
21 API Finance Committee, and he graciously said yes. My
22 phone rings about two months later. "Claiborne, Bobby
23 Shackouls. I'm calling in my capacity as chairman of
24 the NPC. Will you chair the Finance Committee?" "Yes,
25 sir, I will."

1 (Laughter)

2 MR. DEMING: Thank you, Mr. Chairman.

3 It has been an active year for the Finance
4 Committee. As you know from prior communications, our
5 committee met twice by conference call earlier this
6 year to review the Council's financial requirements for
7 calendar year 2005. Based on this review, we
8 recommended a total budget in the amount of \$3,412,500.

9 To fund this budget, we recommended requesting
10 contributions from the membership in the same amount,
11 namely \$3.4 million.

12 The committee also examined the status of the
13 NPC Contingency Fund and noted that it had been
14 depleted over the last several years, primarily because
15 of the significant contractor support cost of the 1999
16 and 2003 natural gas studies and uncollected or
17 underpaid member contributions.

18 The Finance Committee strongly endorsed the
19 need for the Contingency Fund and its replenishment.
20 We examined methods for rebuilding the fund and
21 providing for its long-term viability. In order to
22 adequately address these issues, the committee
23 established a Contribution Subcommittee to assist it in
24 comprehensively examining and analyzing, amongst other
25 things, NPC budget expenditures, contribution requests,

1 dues fairness and follow-up procedures, replenishment
2 of the Contingency Fund, and lastly, retention and
3 expansion of our membership base.

4 Based on our review and benchmarking of the
5 Council's financial history and operating procedures
6 described in the report that was sent to you in late
7 April, the committee submitted four conclusions.

8 First, contingency funds equivalent to six to
9 12 months of budget are an appropriate and typical
10 financial tool used by a variety of other energy
11 organizations.

12 Second, NPC expenditures compare favorably
13 with a variety of other industry-related non-profit
14 organizations on a number of measures, such as
15 expenditures per employee, percentage of expenditures
16 for rent, salaries, and benefits, and GNA expenditures.

17 Third, appointment to the Council provides
18 value to members through the credibility of its work
19 and unique and cost-effective opportunities to
20 interface with each other and senior government
21 officials.

22 Fourth, the contribution system in place
23 remains appropriate. It is structurally sound but
24 could benefit from small adjustments.

25 Based on these conclusions, the committee

1 made six recommendations to the Council. First,
2 implement a pay-as-you-go approach to annual funding
3 and rebuild of the contingency fund to partially offset
4 year-to-year study cost changes. Contribution requests
5 for 2005 and 2006 should include a clearly identified,
6 separate request for an additional 25 percent to apply
7 to the contingency fund.

8 Second, update the membership categories to
9 provide better clarity and to recognize the changing
10 nature of the oil and gas industry by creating separate
11 categories and contribution formulas for independent
12 oil transporters, refiners, and marketers, and for
13 electric companies, chemical companies, and other
14 energy-intensive consumers.

15 Third, implement some minor adjustments to
16 the existing contributions formula.

17 Fourth, send out requests for recommended
18 contribution amounts at the beginning of each year
19 based on assumption of payments of 100 percent. If
20 there are non-payments, the Finance Committee, in the
21 fall, will determine whether to reduce costs, draw from
22 the Contingency Fund, or request supplemental
23 contributions.

24 Fifth, strengthen follow-up procedures to
25 encourage payments by non-contributors.

1 Sixth, retain and expand NPC membership to
2 provide broader advice to the Secretary and a stronger
3 financial base for Council operations.

4 The committee believes that all members
5 should pay the contribution amount suggested, and we
6 expect that the recommended updates and adjustments
7 will have a positive effect on contribution performance
8 as well as on the retention and addition of members.

9 I'm pleased to report that the Council's fax
10 ballots unanimously approved the Finance Committee's
11 report and implementation of these recommendations. In
12 early May, Bobby Shackouls wrote to each member of the
13 Council requesting a contribution to support the 2005
14 operations and to begin rebuilding the Contingency
15 Fund.

16 The Finance Committee will meet again later
17 this morning to review the status of contribution
18 receipts and expenditures to date, and secondly, to
19 review calendar year 2004 financial statements with
20 Johnson, Lambert, and Company, the Council's outside
21 auditors.

22 The auditors have provided the Council a
23 clean opinion letter which agrees that our financial
24 controls are sound. The calendar year 2004 financial
25 statements do show the effects of the depleted

1 Contingency Fund, but thanks to your support of our
2 recommendations, the prospects for 2005 are much
3 improved.

4 The committee will discuss the engagement of
5 Johnson, Lambert, and Company to serve as the Council's
6 outside auditors for the calendar year 2005 financial
7 statements. Barring any unforeseen issues, we will
8 retain them for next year's audit.

9 We will review 2005 expenditures, which so
10 far indicate that we should end the year in good shape,
11 with the rebuilding of the Contingency Fund well
12 underway.

13 I should point out that the approved 2005
14 budget includes funds to start a new study project for
15 Secretary Bodman, the requirements of which have yet to
16 be fully defined.

17 On the income side, I'm pleased to report
18 that we have received to date \$2,443,687 as of
19 yesterday, representing 57.3 percent of the amount
20 requested for the 2005 operating budget and Contingency
21 Fund. We are optimistic that most of the remaining
22 amount will be submitted.

23 The Finance Committee strongly encourages
24 those who have yet to send in their contributions to do
25 so. While we all serve at the pleasure of the

1 Secretary, the Council is a self-funded organization
2 and it is only equitable if every member contributes
3 his or her fair share of the cost of the Council's
4 operations.

5 As I previously stated, one of the
6 recommendations from our work this spring was to
7 strengthen the follow-up procedures to encourage
8 payment by non-contributors. To this end, reminder
9 letters will be going out shortly to those of you who
10 have yet to contribute. We will continue to encourage
11 your support, including at some point phone calls,
12 until we hear from you.

13 We are using 10(k) or other publicly
14 available data in calculating suggested contribution
15 amounts and recognize the possibility that we used
16 incorrect data, particularly for privately owned
17 operations. Please contact the NPC office if you think
18 this is the case.

19 The Finance Committee will meet again in the
20 fall to monitor the contributions process, Council
21 expenditures, and the status of the Contingency Fund.

22 Mr. Chairman, this completes the report of
23 the Finance Committee, and I move that it be adopted by
24 the Council membership.

25 CHAIRMAN SHACKOULS: Thank you, Claiborne.

1 I have a motion to adopt the report of the
2 Finance Committee. Do I have a second?

3 COUNCIL MEMBER: Second.

4 CHAIRMAN SHACKOULS: Are there any questions
5 or comments for the Finance Committee?

6 (No response)

7 CHAIRMAN SHACKOULS: All those in favor of
8 the motion, please say "aye."

9 (There was a chorus of "ayes.")

10 CHAIRMAN SHACKOULS: Opposed?

11 (No response)

12 CHAIRMAN SHACKOULS: Thank you. The report
13 is adopted.

14 Thanks again, Claiborne, for your work. On
15 behalf of the other Council members here, we really
16 appreciate all of the effort and hard work that has
17 gone into your committee.

18 Our final administrative report this morning
19 is from the Nominating Committee. John Miller will now
20 present the committee's recommendations.

21 Report of the NPC Nominating Committee
22 C. John Miller, Member of the Nominating Committee

23 MR. MILLER: The report of the Nominating
24 Committee to the National Petroleum Council. The
25 National Petroleum Council's Nominating Committee met

1 yesterday and agreed on its recommendations for NPC
2 officers and chairs and members of the agenda and
3 appointment committees to the Council, as well as the
4 five at-large members of the NPC Co-Chairs Coordinating
5 Committee.

6 On behalf of the committee, I am pleased to
7 offer the following nominations: for NPC chair, Lee
8 Raymond; NPC vice chair, Rich Kinder.

9 For the Agenda Committee, we recommend the
10 following as members: Bob Catell, Joe Foster, Bob Fri,
11 Ray Hunt, Dave Lesar, John Miller, Mike Morris, Jim
12 Mulva, Dave O'Reilly, Dan Yergin, with Larry Nichols
13 serving as the chair.

14 For the Appointment Committee, we recommend
15 the following as members: George Alcorn, Bob Best,
16 Luke Corbett, Lynn Elsenhans, Jim Hackett, John Hess,
17 Bobby Parker, Bob Rose, Lou Ward, Mike Warren, with Bob
18 Palmer serving as the chair.

19 In addition, we recommend the following as
20 the at-large members of the Co-Chairs Coordinating
21 Committee: Paul Anderson, Clarence Cazalot, Gary
22 Neale, Ross Pillari, and John Rice.

23 This completes the report of the Nominating
24 Committee, and on its behalf, I move that the above
25 slate be elected until the next organizational meeting

1 of the Council. Thank you.

2 CHAIRMAN SHACKOULS: Thank you, John.

3 I have a motion to adopt the report of the
4 Nominating Committee. Do I have a second?

5 COUNCIL MEMBER: Second.

6 CHAIRMAN SHACKOULS: Are there any further
7 nominations from the floor?

8 (No response)

9 CHAIRMAN SHACKOULS: All those in favor of
10 approving the report, please say "aye."

11 (There was a chorus of "ayes.")

12 CHAIRMAN SHACKOULS: Opposed?

13 (No response)

14 CHAIRMAN SHACKOULS: The report is adopted.

15 I would like to just take just a few moments
16 to thank the Council for all of the support that you
17 have provided me during my tenure as chairman of this
18 organization.

19 Lee, I would like to personally thank you for
20 everything that you have done to help, and I wish you
21 and Rich the very best in the years to come.

22 I think that it has been a real honor for me
23 to preside over this organization during a time when we
24 issued two very, very significant reports that I think
25 have been cited routinely throughout Washington, and I

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

3 (There was a chorus of "ayes.")

4 CHAIRMAN SHACKOULS: Opposed?

5 (No response)

6 CHAIRMAN SHACKOULS: The 115th Meeting of the
7 National Petroleum Council is hereby adjourned. Thank
8 you very much.

9 (Whereupon, at 8:25 a.m., the proceedings
10 were concluded.)

11

12

13

14

15

16

17

18

19

20

21

22

23

24

1 REPORTER'S CERTIFICATE

2

3 This is to certify that the attached

4 proceedings before:

5 DEPARTMENT OF ENERGY

6 In the Matter of:

7 NATIONAL PETROLEUM COUNCIL

8 were held as herein appears and that this is the

9 original transcript thereof for the file of the

10 Department, Commission, Board, Administrative Law Judge

11 or the Agency.

12 Further, I am neither counsel for or related

13 to any party to the above proceedings.

14

15

16 *Debra Derr*

17 Official Reporter

18 Dated: June 14, 2005