at

DEPARTMENT OF ENERGY

FOSSIL ENERGY

NATIONAL PETROLEUM COUNCIL

101st MEETING

Wednesday, October 20, 1993

9 o'clock a.m.

Dolley Madison Ballroom
The Madison Hotel
Fifteenth and M Streets, N.W.
Washington, D.C.

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507 C STREET, N.E.
WASHINGTON, D.C. 20002
(202) 546-6666

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PROCEEDINGS

CALL TO ORDER

MR. HUNT: Ladies and gentlemen, I would like to go ahead and call to order this, the 101st meeting of the National Petroleum Council. As everyone can see, we have a very full agenda and I want to apologize, in advance, for being rude and a bunch of other things, but it would be terrible for us not to have the maximum amount of time indicated on the agenda for dialogue and discussion, especially considering the very distinguished panel which we will have with us.

I would like to state for the record that we would like everyone to be sure and sign in. If you haven't already, please do so before you leave because that will serve as the official record of attendance and, unless there is a groundswell support for me to do a roll call of attendance, we will dispense with that.

I would like to briefly overview the agenda. We have several administrative matters which we are going to move through quite quickly. We then will have a presentation -- Ken Derr, the Chair of the Refining Study

Committee, will make a presentation of the report of that Committee following which there will be a discussion with input from the panel that will be present and, also, the membership of the NPC.

At approximately 10 o'clock, we will bring that discussion to a close. We will move to the Oil Pollution Act of 1990 and some federal leasing issues, then talk about the Domestic Gas and Oil Initiative and some comments from the Secretary as to issue involving the newly independent states of the former Soviet Union.

At the end of this meeting, when this meeting concludes, there will be a 15-minute break. Then the Department of Energy has scheduled a seminar to discuss, in greater detail, many of the details of the report which has been completed.

I am going to defer introductions until we complete the administrative matters because some of our panelists are just now arriving.

ADMINISTRATIVE MATTERS

With that, I would like to move to the first administrative matter, and that is the report of the NPC Agenda Committee. Frank McPherson serves as Chair of that

Committee and it just completed meeting this morning.

Frank?

REPORT OF THE NPC AGENDA COMMITTEE

MR. McPHERSON: Thank you, Ray. Members of the Council, you will hear this morning, a little bit later, Secretary O'Leary's request for the Council to advise her on the potential impact on domestic oil and gas production of the financial responsibility provisions in the Oil Pollution Control Act of 1990. The discussion with the panel this morning will also underscore the significance of this subject.

As required by the Council's Articles of Organization, their Agenda Committee met for the purpose of formulating a recommendation as to whether this request is, according to the Articles of Organization, proper and advisable for Council consideration. It is the conclusion of the Agenda Committee that it can be collected and analysis made within the time frame requested by the Secretary.

The Agenda Committee suggests, however, consideration of a schedule which allows for an interim report on or about December 1 with additional time to be spent developing suggested remedies for this very complex issue.

Accordingly, it is the recommendation of the Agenda Committee that this report is proper and advisable for Council consideration and, on behalf of the Committee, I move that it be accepted by the Council.

AUDIENCE: Second.

MR. McPHERSON: Thank you, Frank. The motion has been made. I heard a second. Is there any further discussion? All in favor, signify by saying aye.

[Chorus of ayes.]

MR. McPHERSON: Opposed?

[No response.]

MR. McPHERSON: The motion carries.

When we received the Secretary's letter recently, in anticipation that the request for this study would be approved, we made a couple of phone calls. I am very pleased to say that Leighton Steward has agreed to chair this study committee subject to it having been approved by this group, which just occurred. Leighton is overseas and could not be with us today. Robert Armstrong -- where is Robert? We have two Roberts. I will introduce that Robert in a couple of minutes.

Robert, why don't you stand in the back, please. Anyone who is interested in serving on this Committee please touch base with Robert or with me before the meeting concludes and we will organize this group very, very quickly, because we do have an aggressive time schedule facing us.

The next item -- by the way; people who can serve on that committee could also come from the companies you represent. So even if you are not in a position where you could serve on this committee, but there is someone within your organization who has special knowledge or could contribute, please furnish those names to Robert.

The next report is the report of the Finance Committee. John Hall.

REPORT OF NPC FINANCE COMMITTEE

MR. HALL: Thank you, Ray. The Finance Committee met yesterday to review the financial status of the Council. I am happy to report to you that our financial condition is strong. We reviewed our Calendar 1993 receipts and expenditures to date, and projections for the fourth quarter of 1993. I am pleased to report that we will end the year with a surplus which will allow us to meet the first half of our goal to reestablish the contingency fund that was nearly depleted by the natural gas and the refining studies.

We then looked at some budget options for 1994. As you heard this morning from Frank, Secretary O'Leary plans to utilize the Council. She requested, and we agreed, to undertake a study on the Oil Pollution Act of 1990 and additional study requests are likely. Accordingly, we recommend a 1994 budget of $2.88 million, which is a little less than last year, and that will provide the funds to undertake this study and, possibly, additional ones.

We then reviewed member contributions for 1994. As you may recall, the 1993 contributions requested of you included funds for the first year of a two-year program to replenish our contingency fund. We have reached half our goal and, with the Calendar Year 1994 budget being about the same as that of 1993, we recommend that 1994 member contributions be the same as last year.

Mr. Chairman, that completes my report. I would like to move that the Council approve a Calendar Year 1994 budget in the amount of $2,881,000 and that member contributions be held at the 1993 level. I would also like

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to move that Ernst & Young be reappointed as Council's outside auditor.

MR. HUNT: Thank you, John. The membership has heard the motion. Is there a second?

AUDIENCE: Second.

MR. HUNT: Second. Any discussion? All in favor signify by saying aye.

[Chorus of ayes.]

MR. HUNT: Opposed?

[No response.]

MR. HUNT: Motion carries. Thank you very much, John.

The next and the last of the administrative matters relates to the Report of the Nominating Committee. Collis Chandler serves as Chairman of that Committee.

Collis?

REPORT OF THE NPC NOMINATING COMMITTEE

MR. CHANDLER: Thank you, Mr. Chairman. The Articles of Organization of the Council state that at the first meeting of each Calendar Year, the Nominating Committee shall recommend, and the Council shall elect, a Chairman, a Vice-Chairman, Chairman and Members of the

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Agenda and Appointment Committees of the Council.

Additionally, the Nominating Committee recommends individuals for the five at-large seats on the Chairs Coordinating Committee. The Nominating Committee met this morning to agree on its recommendations and to address two particular matters. The first is the fact that 1993 is almost over. Our choices were to nominate a new slate for an abbreviated term or to suggest that the current individuals extend their service until the first meeting of the Council next year. It is the recommendation of your Nominating Committee to do the latter.

The second matter concerns the position of Vice Chairman. Ken Derr has asked that he not be considered for renomination as Vice Chairman of the Council. We are fortunate that Larry Fuller has agreed to having his name placed in nomination to be your next Vice Chairman. Accordingly, the recommendations of your Nominating Committee are as follows: NPC Chairman, Ray Hunt; NPC Vice Chairman, Larry Fuller.

For the Agenda Committee, we recommend the following as members: Gene Ames, Vic Beghini, Phil Carroll, Ken Derr, Dick Farman, Joe Foster, Ken Lay, John Miller, Jack Murphy, Pete Silas with Frank McPherson serving as Chairman.

For the Appointment Committee, we recommend the following as members: John Croom, Tom Cruickshank, Al DeCrane, A.V. Jones, Dino Nicandros, Bobby Parker, Lee Raymond, Dick Stegemeier, Joe Williams, Irene Wischer with Dennis Hendrix serving as Chairman.

In addition, we recommend the following as at-large members of the Chairs Coordinating Committee: Truman Arnold, Dave Biegler, Fred Hamilton, Frank Heintz, Bobby Parker.

Mr. Chairman, this completes the report of the Nominating Committee and, on their behalf, I move that the above slates be elected until the next organization of the Council.

MR. HUNT: Thank you, Collis. The motion has been made. Is there a second?

AUDIENCE: Second.

MR. HUNT: Any discussion? All in favor signify by saying aye.

[Chorus of ayes.]

MR. HUNT: Opposed?

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[No response.]

MR. HUNT: Motion carried. It is good to see that democracy is alive and well. I would like to say that I am sincerely honored that you have extended my lame-duck status for several months. I feel very strongly, as we all do, about people serving their term and then moving on. The only reason that I am being asked to serve a couple more months is so the next Chairperson can serve a complete and uninterrupted term.

At this point, I would like to introduce the people at the head tables. Starting on my far left, the three members of our panel which we will be visiting with shortly. On my far left is Robert Armstrong. Robert, do you prefer Bob or Robert?

MR. ARMSTRONG: Bob.

MR. HUNT: Bob Armstrong who is the Assistant Secretary for Land and Minerals Management in the U.S. Department of Interior. Next to him is Bill White, Deputy Secretary of Energy. And to Bill's right is Bob Sussman who is the Deputy Administrator of the Environmental Protection Agency. On my far right, everyone knows, Marshall Nichols, the Executive Director of the National Petroleum Council.

Hazel O'Leary will be seated by my left. She has been very active, and Bill -- they have been very active in the planning of this meeting.

At 4:30 yesterday afternoon, she was called by the White House and she is over there at this time. She will be joining us very shortly. She will be joining us somewhere between 10:00 and 10:30. So we have juggled the agenda a little but she will walk in at around that time. Obviously, to my right, is Ken Derr, the Vice Chairman of the National Petroleum Council, until a minute ago, I guess. Equally important, Ken, of course, was the Chair of the Refining Study Committee and he will be making that presentation very, very shortly.

Paragraph. I would like to make just a couple of comments about this meeting. The membership, obviously, will have noticed over the last year, year and a half, sort of an evolution in the agendas of these meetings. What we have today is a structure for the meeting that will optimize and maximize the opportunity for dialogue and discussion not just between the membership of the NPC and Department of Energy but, thanks to the leadership of Hazel O'Leary and Bill White, the other agencies; EPA, Interior and, in this room, are members from many other portions of the government who play a very critical role with respect to our industry.

The members of the NPC have long desired that we have a situation where we could have this kind of communication. Clearly, one of the strongest desires of this administration, of this Secretary, of this Deputy Secretary, are to accomplish the same thing.

That, in my opinion, puts a heavy burden on the shoulders of us who are active in the industry. Today, when we have our dialogue on the different subjects which are of importance, this is not the time for speeches. It is not the time for long, long questions. It is the time for candid discussion and I'm sure that is what we will occur.

I don't know that I have ever gone into a meeting where I had less of a feel of what was going to happen in a meeting than today. But, likewise, I don't know when I've gone into a meeting feeling more optimistic that, whatever it is that is going to happen is going to be good and productive for everyone in the room.

Before we move to the Refining Study, I would like to ask -- last night, Bill shared with me a couple of comments that I thought were particularly relevant to today and I have asked if he would repeat those to the group today.

Bill?

MR. WHITE: Thank you, Ray. Ray had asked me when we first visited at the beginning of the year. After a meeting, we went out in the hall to the side and he said something to the effect of, "Well, it is an honor to be on the National Petroleum Council but, you know, there's other things that I and others can be doing with our time and I really want to know, as we have a change of administration, is this a worth-while activity that has an impact?"

Of course, I know from knowing your budget and listening to the budget presentation, if it is an honor, it is also an honor that is not free. So I have been thinking about this. And I thought about that. And I have told you, Ray, let me, as I get my feet more wet in government give you my candid response, which I did last night. And this is essentially where I see it.

It is emphatically yes, that it has an impact. And I'll tell you why. We need, as we are making decisions, and the gentleman to the my right and to my left, outstanding public servants, are making decisions, the need for information, not polemics but economic, scientific analysis concerning the consequences of decisions or possible consequences is overwhelming.

And, in this country, as you know, it is the private sector in this industry that has that information. And it is vital that we have authoritative sources which are not in reality, or in perception, trade or lobbying associations which have, as their agenda, how does this or that pronouncement affect this or that vote on this or that regulation or tax bill that is coming up a month from now, et cetera.

It is also, I think, vital, in fact, that we have -- and essential that we have the participation by Chief Executives that we see represented in this room. We know the demands on time of Chief Executives who have not only administrative responsibilities and responsibilities to their shareholders, but we, in leadership positions in the government, appreciate that you are leaders of organizations who miss you when you are gone and for which you must set an example.

But I will tell you, hearing something from the mouth of somebody who can speak for an organization and

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speak definitely and set the priorities of the organization based on the commercial realities as opposed to this and that lobbying priority is essential if people are to understand the industry and the economics of the consequences of what we do in the industry.

Finally, I might say, another part of my thinking and my response to your question, Ray, which I have tried to think through as candidly as I can is it is so important, given the bipartisan national interest that we have in maintaining a vital domestic job base in high-tech industries, including this very critical high-tech industry, that we have a forum that is, as I am saying, not a trade association or lobbying group, that is also bipartisan and that we can have a continuity of opinion and dialogue as administrations change.

That continuity, sometimes, is missing in government although let's not trade democracy for it. But it is organizations which can provide input like this from Secretary to Secretary who have been selected for perceived leadership ability that can help us provide that.

So when people make the tough decisions to expend the tremendous resources that are expended in the study, for

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example, on the refining industry that has now been completed. And think about the sacrifices that may be entailed. I am emphatically assuring you that the Secretary, or nobody from the administration, will ask anybody to attend a meeting or to do a study just for make-work. It is because we really need your input.

MR. HUNT: Thank you very much, Bill. The only modifier I would add is some of us come from organizations that, when we leave town, people back home applaud.

[Laughter.]

With that, I would like to move to the next item on the Agenda which is the presentation of the Refining Study. Ken Derr, the Chairman of that Committee, will lead that discussion.

Ken?

PRESENTATION AND DISCUSSION OF NPC REFINING STUDY

MR. DERR: Thank you very much, Ray, and good morning, ladies and gentlemen. We will see how the high-tech industry is working here. There it is.

As I think all of you know, we have spent most of the last two-and-a-half years working on a major study of the U.S. refining business. I would like to start out this

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morning by thanking all of the companies for their participation in this study.

In addition to the money that you sent in for your dues, we have over 93 percent of the refining capacity of the United States represented in our surveys. The surveys we sent out were lengthy and complex and took a lot of time from an awful lot of members of the Council. But, without that response, we would not have had the kind of study that we had. So thank you to all the companies that participated.

Secondly, an awful lot of individuals spent a lot of time and effort over the last couple of years, especially the Coordinating Subcommittee which really assured the success of the study. Since Mr. Hunt is a tough chairman and doesn't give me much time, I am not going to introduce all of them. I do want to thank them -- they are sitting over there -- and pay special note to Jack Matkin of Chevron who was the Chair of the Coordinating Subcommittee.

This is a little different procedure this morning than we usually have in presenting a report, since, as most of you remember, we were supposed to present this report a month or two ago and the meeting got cancelled. So we have already published the report. I think you have all received copies of the summary.

We presented it officially to Secretary O'Leary in Houston and, actually, had a press conference. And it has received quite a bit of press. So, since that has already occurred, we are going to have a much briefer presentation this morning than, perhaps, otherwise we might have had.

The background of the study is that in June of 1990, the Council was requested by the Secretary of Energy to do a major study of the U.S. refining industry. The Secretary observed in that letter that refiners face significant changes as a result of a number of laws, rules and regulations, specifically involving expenditures for reduction of emissions, waste disposal, significant changes in the composition of petroleum products, especially gasoline and diesel and, obviously, a significant amount of money required to meet these new regulations.

The Secretary's specific concerns was what effect these regulations would have on the industry, what might happen to product imports, rationalization, could the industry meet the requirements, could the construction industry meet the requirements and maybe last, and all

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encompassing, what might be the economic impact on the refining industry of these investments.

So that was the background. I think what I will do is start out with the results, and then we will talk about some of them in a little more detail.

I don't know. I push forward and nothing seems to happen. There we go. It is a very small button, but I -- you should never have called us a high-tech industry, Ray. I guess we can start out the results as a classic good-news, somewhat bad-news, story. The good news is that the study concludes that the U.S. refining industry can, in fact, meet the environmental regulations on refineries and on product composition.

I guess the bad-news part of it is the estimated capital requirements in the period 1990 through the year 2000 are $37 billion in 1990 dollars. As you will see in a later chart, that $37 billion compares to a total book value of the refining industry today of about $31 billion.

We estimate a negative cash flow of the industry of somewhere in the $30 billion range in the first half of the decade. Obviously, these expenditures and the operating costs that go along with them, will result in significant increases in the cost of manufacturing products. Average cost increase versus 1989 for all light products, as you see, 6 cents per gallon in '95, 10 cents per gallon in the year 2000.

We will look at some of those figures in a little more detail in a minute. I think this cost, obviously, has to be reflected in the market place. Finally, there are a lot of uncertainties, not only in the assumptions in the study but how the industry actually will react and operate over this period of time.

These are just some of the uncertainties that we all face going through this decade of the '90's in the refining business. What future regulations may be or what changes or new regulations -- certainly, what the demand for our products will be and, all importantly, and we will take a look at this a little bit more in a minute, what the level of profitability of the industry will be in order to support these investments.

What will happen to the cost of refining overseas; that is a complicated issue, one that we had a lot of time and effort spent on the study, and what that impact could have, what the combination of the change in foreign refining

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costs can have on imports into the United States and, therefore, potential lower utilization of our U.S. refining capacity.

The next to last bullet; not all refiners will make the expenditures. It was assumed in this study that all refineries would stay in business, but I think there is a strong feeling that -- and there are certainly facts to support it -- that not all refiners will, in fact, feel they can, for whatever reason, mainly economic, make the expenditures. And this could lead to some rationalization of refining capacity in the United States.

Now, we had a number of conclusions that came out of the report that then led to three recommendations. I am not going to discuss all the conclusions this morning. I am going to hit three or four of them, the ones that we think are the most critical in terms of what is really going to happen to the financial status of the industry and what is going to happen to the cost of petroleum products.

Let's first look at what we estimate will happen to the cost of making reformulated gasoline over three time frames; 1995, 2000 and 2010. This is reformulated gasoline as specified in the Clean-Air Act for non-attainment areas.

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At the bottom, and I don't know how well you can see, it there are a number of contributors to this cost: stationary source reduction, in blue; added manufacturing costs, in grey; logistics costs, which are smaller; added marketing environment costs, which are sort of supposed to be green; and then what we call, in red, the fuel economy effect.

That is the fact that -- that is not a cost to the refiner, if you will. That part is a cost to the consumer because the fuel economy will be hurt as a result of changing composition.

You see in 1995 an increase in cost of roughly 10 cents. And with the fuel economy, you get up close to 12.5, 13 cents for reformulated gasoline. Those numbers continue to increase in excess of 15 cents by 2000, and 2010, close to 17 or 18 cents. Everything in this report is in 1990 dollars. So those are significant increases, and they are one of the major contributors to that 6 cents a gallon figure I quoted for all light products.

Now, to give you a little idea of what the costs look like for different types of products, and it is fairly dramatic -- this is all for the year 2000. Conventional gasoline, on the left, roughly a nickel. And that consists almost entirely of the stationary-source refining costs, costs in refineries, to reduce emissions from stationary sources.

The reformulated gasoline is roughly an additional 10 cents. This is the same chart we saw for 2000 on the prior. For those of you who are lucky enough to have refineries in California, like a few of us, we have a special set of regulations by the California Air Resources Board which will add an additional almost 8 to 9 cents a gallon to make the California specifications.

So I think this is a pretty dramatic illustration of the fact that the regulatory changes between conventional gasoline, reformulated gasoline as specified in the Clean Air Act and, finally, CARB does have a very, very significant effect on the cost of manufacturing these products.

I mentioned in the summary that the estimated cumulative capital -- this is just capital expenditure to meet these regulations -- was $37 billion. As you can see, $14 billion for product quality; $23 billion, stationary source facilities. That is a very large number and it becomes even larger when you put it in the context of the

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total existing asset base of the refining industry of $31 billion where the industry is going to have to spend more than their total net asset base to meet these regulations. This is not to increase capacity. It is to meet new laws and regulations.

What might that mean to the industry. Trying to project the profit levels and refining margins is a very difficult task at best in our industry. What we have just tried to do here, and there is a lot of detail in the study on this; this is cumulative cash flow. As you can see in the period of '80 to '90, it has been negative.

This is the line going down there in the first five -- essentially four or five years -- is the big negative cash flow because of an awful lot of this expenditure. Then we have assumed three different levels of refining margin. I am not going to get into the details of what those cases represent, but let me point out that this is more or less an historical type of margin.

This is a margin that would be considered certainly optimistic by historical standards. This is one that has occurred frequently in the industry. So whatever case you want to pick, you can see this tremendous negative

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cash flow for the industry if, in fact, KC, which assumes that you recover all of the new expenditure plus a return on investment and gets you almost to break even by the year 2000, you have had ten years in which people are going to have to absorb very, very significant negative cash flows.

I think that shows the concern on the part of the industry as to how these expenditures are going to be made and still pay such things as interest and dividends to our shareholders.

The last -- wait a minute. Did we miss one? Can we go back one, or did we not have Conclusion 8 in there. I guess we don't have it. Did we have the capacity one in there, Jack, do you know?

AUDIENCE: It's not in there.

MR. DERR: Let me just mention -- what this last one was going to be was to give you a little bit of feel for demand variation and refiner utilization. I will just quote a couple of numbers. In 1989, the light-product demand was $12 million barrels a day. We assumed three different demand scenarios which meant by the year 2010, we could see demand of 10.4 to 14.2. It could be roughly 2 million less or 2 million higher than 1989.

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The capability of the industry to make light products on the assumption that refineries stay in business increases slightly from about 13 million barrels a day up to 13.8, close to 14 million through assumed expansion of existing capacity.

The utilization rate, and this is key to the profitability of the industry as all of you are well aware, was 86 percent in 1989. Based on the increase in capacity and the variation in demand, we estimate that the in the year 2000, the utilization could be between 80 and 88 percent. By 2010, the capacity utilization could be 75 to 93 percent. Obviously, if it is in those lower ranges, it has some significant impact on the refining margins.

As a result of our conclusions, and as I say, I did not go through all of them, the study has three specific recommendations for the Secretary of Energy that she take the lead in implementing the following three recommendations

The first is that we assure that we end up with cost-effective regulations on reformulated gasoline. I think most of you in the gasoline business -- all of you in the gasoline business -- are well aware that the process is under way right now on coming up with the regulations that

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we will have to deal with for reformulated gasoline under the Clean Air Act. It is absolutely essential that those regulations allow us to continue to operate.

Product compatibility is an extremely important aspect so that the existing distribution system can continue in effect. We are also pointing out the importance that the program for enforcement downstream of the refinery does not occur in a way that reduces the flexibility of the refining industry and, therefore, increase the cost by even more than the estimates we have shown.

The second recommendation, and perhaps this is the guts of what we can try to talk about, is that the U.S. refining industry should be included in a constructive process with government and other interested stakeholders in order to plan strategies and develop cost-effective solutions to societal concerns related to the industry.

I think the dramatic financial effects on the industry that were shown in the prior charts make it clear that we need a partnership between the regulatory agencies, the Congress or the states in those many cases, and the industry, to try to come up with regulations that are as cost-effective as possible, that give the industry

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flexibility to meet targets in the most efficient way, not necessarily command and control, but allow flexibility and broad consideration, obviously, of the overall goals, the overall solutions.

This is a much easier recommendation to put on a slide than, perhaps, it is to implement effectively, but I think it is a key issue and one on which we all feel strongly.

Finally, and I think this goes without saying, is that everyone should recognize prior to the legislative or regulatory process that the outcome of these regulations, laws or regulations, must be reflected and will be reflected in the market place and, therefore, increase costs will result and, in effect, the consumer will pay and recognize that they are paying for these regulations, which is fine as long as everybody is well aware ahead of time, and that is really the point here -- ahead of time of what these costs may be and, certainly, what the cost-benefit ratios might also be.

Finally, the last point is a reminder that the U.S. refining industry must compete globally and that, to the extent our costs are significantly higher than foreign refining costs, we could find ourselves in a position of being unable to meet foreign competition and see an increase in foreign imports.

So those are the three recommendations. When we presented this study to Secretary O'Leary a short time back, she commented on them. She accepted them and, certainly, indicated that it would be a charge for the department to try to work with the industry to help implement all three of these recommendations.

I think that completes my actual presentation. At this point, I would be happy to take any comments or questions from -- how are we going to do it; from the audience?

MR. HUNT: Why don't we go to with the panel first.

MR. DERR: Okay. We will take any comments or any questions -- do you want to take them from the panel first?

MR. WHITE: And Ken and Ray, if I could share one thought with the members of this group. As we were acknowledged at the outside, I would like to say something about the other panelists so that people understand the full honor that I have sitting next to these individuals on how

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important these two individuals sitting next to me will be concerning our nation's energy policy and their roles.

Probably, as we come into this -- that refinery study and some of those numbers, for all of us, are a pretty staggering reality. Just as significant a reality is the responsibility that many of us in government feel that we have to be guardians of the public resources, including the air, water and lands.

I know that people in this room very well appreciate that because, in hanging around with people in this business for some time, there are relatively few who don't take their free time to spend it outdoors with their families, and they want their grandchildren and great grandchildren to have that same opportunity and to make the same choices that we have been able to make and our fathers have been able to make, and mothers, concerning the use of our resources.

The awareness of that responsibility is something, in many cases, that has only recently come about. We know that at the Department of Energy because we have to clean up with your money and other taxpayers' money, including every government official's money that pays taxes, some of the

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nuclear waste dumps and sites which have been created in the past because people were not -- didn't take into account as much what we did with our air, our water and our resources.

The two people that are sitting with me to my left and right have some great responsibilities to preserve that guardianship that we all assumed but was unarticulated yet -- and I thought I would just articulate it -- and to balance those interests with the interests of employment of our people and economic growth that we all think need to be balanced in a way that makes sense to the American people.

Bob Armstrong, at the Department of Interior, has some -- oh, I forget how many acres it is, Bob -- it is over 250 million acres of lands within his responsibility. By way of background -- no long biographies for these gentlemen, but so you understand, he managed, for some time, the public lands of the State of Texas which are very prolific in oil and gas.

During the period of time that he did that, and later as he served on the Texas Parks and Wildlife Commission and was the energy advisor to the Governor, had the very unusual attribute of being beloved and respected not only by this industry but by the whole range of

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environmental groups who knew that Bob Armstrong as someone who was not doctrinaire but took it as a very, very serious responsibility to balance the two interests and to harmonize the two interests because they are not at all incompatible in many cases, as some firms who will make reformulated gasoline, I think, will discover -- that there are economic opportunities in cleaning the environment and something that a lot of firms appreciate.

So he has come to this -- he has dealt with some of the thorniest issues in the government. Boy, if you talk about off-shore leasing policy as being a thorny issue, he just got out of grazing fees. He does so, and people trust his judgement because people, when they leave his office and when he makes a decision, always know that he has dealt with them very fair and straight.

Same thing with Bob Sussman who was one of the most brilliant lawyers in the country with two of the very finest law firms in the country, just an incredible academic record before he went into the practice of law. Here, he is put into the middle of being one of this administration's leads on rewriting the Superfund legislation to accomplish many goals, not the least of which you have heard the

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President personally articulate; to make sure that we make progress on these things without just enriching the legal profession and the consulting profession which has made so much money out of Superfund to date.

I will say two other things and this is more than just listening to myself talk. The fact that these two leaders within our administration in the environmental field are here is a demonstration that one of the recommendations that you articulated has been taken to heart.

Second observation; this administration has credibility to call it as we see it on some issues in which I know there were some doubts, that can do things that others didn't do because others, in prior administrations, would not have had the credibility with the entire communities that you need in order to make decisions that are balanced.

So, with that, I just wanted to say a thing or two. I don't know -- I think it would probably be appropriate to recognize Bob or Bob if they have anything to say in reaction to the study that I know that they have had access to before -- obviously, the EPA has more of an intersection with some of the issues raised there.

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Do you want to comment, Bob?

MR. SUSSMAN: Thanks for the introduction, Bill, and let me, at the outset, agree that I think it is very important for EPA to be here today and represented in the room. It is very important for us to be aware of this study, to understand the results and to understand our role in developing the regulations that are driving the results of the study.

So, from our standpoint, this is an important group and an important study, and it is important for us to be here today. Let me say that, in my six months as EPA Deputy Administrator, I have learned that one of the toughest parts of my job is talking to regulated industries about the costs of protecting the environment.

In many cases, these costs are substantial and, as we are hearing this morning, the petroleum refining industry faces costs which, I think, by any standard are unusually, strikingly large and, for that reason, very sobering. Why are these costs being incurred? I don't want to get up on a soap box, but I think these costs do reflect the high environmental expectations of the public.

Those expectations, as we all know, are reflected in many laws which the Congress, who is enacted over the last 10 or 15 years. The Clean Air Act is probably the most important of those laws, but others like RCRA, the Resource Conservation and Recovery Act, are obviously major contributors as well.

I think we need to start from the premise that the environmental expectations reflected in these laws are legitimate and that we at EPA, we in this administration and all of us in this society, do have an obligation to meet those expectations. We have an obligation to deliver the environmental benefits that the Congress and the public have said are important.

We at EPA are very serious about that. We have a big job ahead of us, particularly under the Clean Air Act. We have some extraordinary pressures on us and we are very committed to getting the job done. We have to get the job done. Congress has said that that is our mission.

At that same time, we are sensitive to the price tag. We have to be sensitive to the price tag. And we have to step up to the mark and work with our stakeholders, work with the regulated community, to try to get the costs down to the extent we can without sacrificing our environmental goals.

In that spirit, let me say that we view the projections and findings in the NPC report not as an inevitable reality but as a challenge, a challenge to us, a challenge to you. And I think if we can, we need to work together to get the costs down.

That is easier said than done, but there are a number of things that we can do together in the next four years. Let me just mention a few of them. First, I think we could do more, we at EPA could do more, to reap the benefits of the knowledge and expertise of all segments of the regulated community, but particularly the petroleum refining industry.

We need dialogue and discussion up front before we embark down the road of developing regulations which could have a very far-reaching impact. I think that where there has been dialogue with the petroleum refining industry at EPA, it is worked well. There are many aspects of the development of the reformulated gasoline regulations which are controversial but we ought to all remember that the regulatory negotiation that occurred at the front end was very productive.

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I think it served EPA well and I believe that it served the industry well. And it does give me some confidence that we have a model that we can return to as we develop other regulations which are going to impact the refinery industry.

For that reason, as we go down the road and develop the regulations that are on our screen, and, frankly, there are many of them, as you know. We need to have some up-front dialogue. We need to get your ideas on solutions that are cost-effective, that will work for you and work for us. We need that input before we at the Agency get locked in.

As many of you know, but as I think I need to reemphasize, under the Clean Air Act in particular, we are at the mercy of Congressionally-mandated deadlines which are very specific. We are also subject to statutory requirements which, in many ways, are very prescriptive. They tell us what we have to do as well as telling us when we have to do it.

But we do have, I think, some flexibility in formulating compliance strategies and developing compliance tools. That, I think, is where we have opportunities to

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work together. To work together successfully, I think, requires us to have an open mind and a willingness to listen. From the standpoint of the industry, I think it requires that the industry be specific wherever possible and that, as Bill said earlier, that we get a good, solid cost of technical information rather than polemic.

Also, that we get practical solutions which take into account some of the legal constraints that we are operating at. But I know that this industry can be constructive. I think it has been constructive on reformulated gasoline and other issues. And I think that we could work together in a constructive vein in the future.

So let me say that we are open to cooperation and that, indeed, is one of the recommendations of the NPC study, that we work together. I think I can assure this group that we will find mechanisms to cooperate as we go down the road. We are not going to be able to eliminate these costs. In many cases, we may not be able to fundamentally alter the legal and regulatory framework that we are operating in but I think that we have some opportunities to make some real progress on practical issues. And that, I think, in turn, will translate into some significant relief for the industry as well as greater rationality in our approach to environmental compliance.

So let me say there is a big challenge out there but, hopefully, we can work together and meet it.

MR. WHITE: Thank you. Do you have anything to share with us, Bob?

MR. ARMSTRONG: Except tangentially, I don't believe we deal much in the refining business, so I will pass.

MR. DERR: Bill and Bob, thank you very, very much for your comments. Perhaps now would be a good time to just throw it open to members of the Council who may have questions either about the study or comments for our panel.

Yes, sir.

MR. WOODS: I'm Dalton Woods. I would like to ask the question; considering the costs of environmental compliance would exceed the book value of all the existing refineries, and considering the fact that part of the refineries will be able to operate more economically, not having to comply with these environmental regulations, have you made an estimate, in your panel study, of how many refineries we will probably have in the year 2000 operating

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in the United States?

MR. DERR: We did not try to make an estimate of what refineries might decide for whatever set of reasons to shut down. It was assumed that the refining capacity would remain. There was a great deal of effort, however, expended on the question of how competitive the U.S. refineries would be during this period of time vis-a-vis foreign refineries.

That was clearly, probably, the most difficult and complicated part of the study and, also, perhaps, the most controversial. It is clear that foreign refineries in most parts of the world are going to have to spend significant amounts of capital also to meet environmental regulations. They are behind us.

A lot of the money that they will have to spend, say, in the '90's are to do a lot of things that we are just doing -- that we have already done. But the best estimates that we could come up with, based on assumptions about changes in laws overseas, were that the foreign refineries would not have a major cost differential vis-a-vis U.S. refineries, and, therefore, we did not project significant increases in product imports.

But, having said all that, there are an awful --

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that is a very, very difficult subject to deal with and there is, certainly, a lot of concern on the part of the industry that some foreign refineries could be more competitive on a cost standpoint than U.S. refineries, especially over the next 10 years.

But we did not try to estimate how many U.S. refineries might choose to shut down. We just had no real basis for doing that. Certainly, when you look at all the financial data that you see in this study and the negative cash flows, your intuition tells you that some refineries are going to decide probably not to make those investments and some such decisions have already been announced.

Other comments or questions? John?

MR. ASHMAN: I had a question for, I guess, the Deputy Administrator of the EPA. Our study, if I am correct, assumes that existing technology will be used to meet the maximum achievable technology provisions of the Clean Air Act. Of course, if MACT is defined as something new, then 37 billion is not enough.

I was wondering, has the EPA given any further consideration to the MACT criteria and exactly how that will be enforced?

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MR. SUSSMAN: Let me say that that is, I think, a good question because a big chunk of the costs that we are looking at are going to be costs for complying with Title III of the Clean Air Act which does mandate technology having standards to control air toxics and is slated to result in the development of an ESHAP, an air toxic standard for the petroleum refinery source category.

The way Congress adopted Title III, it directed us to implement a program of technology-based requirements. The term of art is MACT, Maximum Achievable Control Technology. We are directed by the statute to determine what is maximum achievable control technology for both existing sources -- that is, existing facilities -- and new, as yet unconstructed facilities.

The statute requires that we define MACT to mean at least the control technology which is being employed by the best 12 percent of existing sources. That is what is know as the MACT floor. That requires us to do an analysis of existing control technology in the industry, to identify the control technology which is most effective and then to set the MACT floor as the average level of control which is being achieved by the best 12 percent.

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At a minimum, that is our target that we have to hit. We have some discretion under the statute to go above that floor and to require more stringent control technology. There may be some instances when we do that. There will probably be many instances when we don't.

Certainly, if we go above the MACT floor, we will look very hard at cost-effectiveness. And we will make sure that we are getting an increase in emission reduction which is proportional to the increased costs that we are requiring.

MR. WHITE: Ken, could I make a quick comment and make a suggestion on format concerning some time constraints. I know in my whispers to Bob and others in this administration, in discussions with others in this administration, the method, the technique of trying to objectively quantify in a credible manner cents-per-gallon impact is such a helpful thing in our decision-making process.

You all know what significance were given in those figures during the debates over BTU tax and gasoline tax and yet, in so many of these discussions that we have had concerning the environment, the same kind of credible

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numbers, as opposed to polemics, have not played as important a role as they should and, I think people in this group, and people within this panel feel they should.

So if all of us do appreciate the work that went into this study, and there will be some specific references with further formal consideration of the study with the DOE and the EPA that you will see when this administration announces an initiative concerning the domestic gas and oil industry.

We might turn to another topic, though, that you have on the program while we have the benefit of having Assistant Secretary Bob Armstrong with us. I know that a number of members of this group and a number of the members of Congress are interested in the offshore rules envisioned by OPA '90 and just questions of federal leasing, generally.

Bob Armstrong has taken a leadership in these issues, although in his fights about grazing fees, I don't know how he had the time to take a lot of leadership. It might be good if Bob shared a couple of thoughts with you on these topics and we had a little chance to discuss them before he has to leave in a few minutes.

With that, Bob, do you want to say anything in particular on those topics?

MR. ARMSTRONG: Let me say generally, and first of all, that I am delighted to be in this group where a number of people don't have accents, unlike many that I address. I have been at a number of places like this where they change the guard, Ray, and they are always the old guys getting ready to give way to the new one.

One of my favorites was when this guy said that he had been chairman through a very bad year and the only thing that he really had lusted after was to be the immediate past-chairman of this sorry son-of-a-gun. So I hope you didn't find yourself in that position and have to, then, do it again.

I have, in fact, had a lot of hats to wear. My job is not just for MMS and the offshore leasing, but I also deal with the Bureau of Land Management and the Coal Reclamation under the Office of Surface Mining. So it does keep you on a merry-go-round.

On the other hand, that also keeps you challenged an it keeps your energy flowing, and it has been a happy job. One of the reasons that it has been happy has been because I have been able to attract some good people, many of whom are not strangers to you.

Tom Fry, who is the Director of MMS, comes to us from Dallas, has been in the gas business, understands what it is that you go through every day. I have stolen, from Gary Marlow, Walt Rosenbush who is in the back of the room who probably knows as much about offshore and about royalty collection from a practical point of view as any young man in America.

We also have Cynthia Porterman who is Tom Fry's deputy. She worked for a law firm that represented ARCO and is an outstanding former lawyer, I guess still a lawyer. But she works for us. I say this so that you might know other people that you want to talk to or might need to talk to as we work through some of these problems.

The Oil Pollution Act is as new to us as it is to you and it has been fraught with some difficulties. As you know, it was passed in almost direct response to the Exxon Valdez situation. And Congress acted very quickly. There are two areas that we have found as we have talked to you that cause the most concern.

The first is the scope of who is covered. And, as you may know, Congress frequently borrows from other

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language in other statutes when they write the statute. So what they have done is to define navigable waters as the waters of the United States. That is pretty broad. It moved me to ask my cabbie this morning, as we went through a particularly big mud puddle, if he had $150 million of insurance [Laughter.]

The second aspect of it is what is the real effect of requiring $150 million of coverage. Now, if the target is obviously in some cases, it will be obvious. A massive drilling effort in the Gulf with lots of things that we now know how to do with technology so that one platform might produce several wells, then you have got a reasonable number.

But, as we have gone out for public comment, then what we have found is that this is something that we need to talk to Congress about because not just from the oil industry but maybe more significantly from the insurance industry, we are finding that there may not be enough coverage to go around, particularly if there is a direct capability to reach the insurer without going through -- they are just saying, "We are not going to write that. We are too big a target and too tough a target."

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Conversely, when you look at the results of spills during the last 10 years, the industry has has an enviable record. And we think that there are possibly good arguments to make, as I have made for years, that tankering exchanges, lightering barges and that sort of thing are frequently much more risk-prone than the drilling of an offshore well with a pipeline under the bottom of the ocean and on into a safe destination on shore.

And I frequently say, "Don't ask the industry people that question because you might get a biased answer. Ask the insurance companies which is the safest." And you get those answers that show that we have had a pretty good record.

I won't burden you with that record but let me just say that we are in the process of talking to Congress and, as often is the case, when we have this kind of statute to enforce, we have tried to do this with some reasonable process that gives you an opportunity to tell us what the effect of our actions is going to be.

We have an advance notice of public rule-making which is presently out. We started that process and, to date, we have received 28 responses, as of October 6 to be sure that we get everybody a chance to talk to us. We have, in addition to that, given the industry and the people who want to comment, until the 24th of December to finish commenting.

Now, that is not because we want to read these on Christmas day. It is just that that seemed like a reasonable extension period and so if you tend to procrastinate, as I do, we don't want that 24th day to interfere with your last-minute shopping, but if you could get it in by then, that will be very helpful to us. We have extended the period for that purpose.

In the meantime, we are going to talk to Congress. The insurance industry tells us that there are probably only 300 -- that they could only do 300 operations at the $150 million level if, in fact, they had responsible people to deal with, the premiums were right and so forth. That is all the capacity there is.

So it is obvious that we are going to have to make some adjustments coupled with -- and we are going to do with our comments, with your comments, and talking to Congress to see if we can get a reasonable coverage so that people who do make the errors have some kind of insurance capability to

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respond and to clean up for that.

We hope there won't be any error and that everything will work as smoothly as I think it can work if the industry is appropriate in its actions offshore. I have been with the Secretary offshore in the Gulf as well as in the North Sea. This is a new area for him. He is not, being an Arizona Governor, an offshore person but he is getting knowledgeable about it. And I will say, candidly, I think he has been impressed with the way the operations are conducted.

We were on the North Slope when we were within 20 to 40 feet of a target depth at Kuvla. If you read the Journal recently, unfortunately, that was not successful but they are going to move and try again. But, basically, if I had to describe where we are with offshore, I would say that we are moving carefully and cautiously certainly in the Central and Western Gulf.

We will look at the remainder of the available tracts. Let me say, so I will not get the letters, one more time, we have no plans to institute new leasing offshore California right now. Senator Boxer; we have no plans to institute additional leasing offshore California right now.

Now, we have some development that is going on on existing leases, but I think it is fair to say that what we are trying to do is appropriately look at the capability that we have offshore. We are presently producing 25 percent of the natural gas that this country uses from federal offshore, not inconsequentially. I believe we are the second largest income producer next to the income tax at $3.8 billion plus or minus. And that is not inconsequential when I talk to the Office of Management and Budget.

But we are going to look at the science of this process. That is one of the things that we think is appropriate. If you look at the background of what has happened, we had a political response to a decision several years back to lease everything without any regard to what the states thought about what was happening offshore.

And they did what you might expect. They found a way to get to the House Committee on Appropriations for Interior and said, "Don't give them any money if they are going to lease offshore in my state." And so you had a series of moratoria that began to develop in response.

Well, we are beyond that stage now. What we want to do is figure out what is appropriate from an

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environmental point of view and from an energy point of view and look at each of these instances, on a case-by-case basis, in each of these areas. There have been, as you know, some suggestions that we ought to have incentives, particularly from Senator Johnston and particularly in the deep-Gulf area -- and we are going to look at that.

We have done some studies that showed, as you might expect, that a royalty holiday or a reduction in royalty on existing leases, might be appropriate in order to provide incentive for somebody to go look. Conversely, there are some areas where it is obvious that you don't need that much incentive to still make a profit and be productive. We have to sort of sort that kind of thing out.

Candidly, when we were looking at how you might delineate what needed the royalty holiday and what didn't, one of the things we looked at was doing it on a tract-by-tract basis. So you might have a royalty holiday here and not over here where you didn't need it in order to be successful in terms of our analysis.

That lead to sort of a big worry that we were immediately going back to all tract-by-tract leasing. Let me just say that we are looking at all of our operation

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right now. We have only been here -- I was confirmed, I don't know what, six months ago and we are trying to be reasonable, logical and basing our decisions on your input, on other people's input, and on science, by and large, so that people can have some confidence in the kind of operation that we conduct.

I have with me Jeff Zippen who is an acknowledged expert on the Oil Pollution Act, our best person. If you need to talk to somebody about details of it, he is here. Hold you hand up, please, Jeff. Walt Rosenbush is in the back. I have an 11 o'clock meeting with the Director of the Bureau of Land Management. I, in times past, have thought sometimes that the people in the industry were fairly tough in stating their position. But, until you have dealt with the cowboys on grazing, nobody is tough.

The best comment was the person that told us in Bozeman that vegetables were not food, that vegetables were what food eats in order to get fat. [Laughter.] So it is a very interesting job that I have.

And I enjoy being here. Tony Sanchez and I once, as Parks and Wildlife Commissioners, bought a magnificent ranch from Robert O. Anderson which is now one of the best

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state parks in America. And it just good to see some friendly faces. And we are here for a purpose which is to be the stewards of the public lands of the United States of America.

We understand that it needs to be productive in some areas for extractive minerals. We also think that it has some tremendous ability to do things with nature that we have not done in the past in terms of management. We are going to do some basic systems management which has not been attempted before. But we are going to have our decisions made on a scientific basis, and that is not a negative. That should be a positive because it is going to let you in to some places where people will have some confidence in what we are doing if we do it right.

It is also going to let you have, ahead of time, some knowledge about where you are not going to be able to do but then you don't get into these awkward situations of buy-backs and all of the other things that we are dealing with in that area.

I look forward to the ensuing months and hope to get to be with you frequently. And you need to tell us what we need to know so we can do a good job. If we do a good

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job, I will be very proud. If we don't, it was that other Bob Armstrong in the back of the room that did it.

MR. HUNT: Bob, thank you very much for your comment. Bill, I know that the two Bobs will not be able to stay with us for the entirety of our meeting. Bill, why don't you continue to moderate this portion of the meeting either from there or from up here. Your choice where you moderate.

MR. WHITE: Indeed, my colleagues here need to -- they both informed me that they need to make a graceful exit so what I suggest, Ray, is, as they leave, I will move to this other podium and, perhaps, we can talk about a couple of the other items on the agenda here on the domestic gas-and-oil initiative and Newly Independent States. We expect Hazel O'Leary. I don't know if you have time for a question.

MR. ARMSTRONG: Sure. Bill, I do not have that much time constraint. I would be happy to talk to anybody.

MR. SUSSMAN: No; I was going to say, I am not going to speak and run.

MR. HUNT: If time would allow, I know that several of the members would probably wish to share some comments concerning the Oil Pollution Act.

MR. WHITE: Good. I did not know that. I got the wrong note.

MR. ARMSTRONG: I'll take time.

MR. WHITE: Thank you, Bob. With that, I will walk over and moderate. Anybody have any questions?

MR. HUNT: Mr. Taylor?

MR. WHITE: And would you please state your name clearly for the record as questions are asked. The question earlier was from John Ashman.

MR. TAYLOR: Thank you, Ray. And thank you, Secretary Smith. I am Pat Taylor with Taylor Energy Company. I operate, strictly, of course, in federal waters at this time. Mr. Secretary, I am a little -- I want to publicly thank John Breaux for interceding with Secretary O'Leary on this issue. And especially I want to thank her and you, sir, for responding so quickly in getting this Council involved on OPA '90.

I would like to ask two question. Number one, this letter, and it indirectly was triggered by me or directly triggered by me, and I am an independent producer. But this letter seems to limit the NPC's analysis to the

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impact on the producing segment of the industry.

And there are a number of people here, obviously, from the distribution and transportation segment of the industry which will, also, be tremendously impacted by OPA '90 and it is beginning to cause trouble. So, number one, is our task going to be expanded beyond just what the letter says the impact on the production to include -- distribution.

Number two, can we, in fact, do what we should do as far as a report due by December 1? That is not much time.

MR. WHITE: I understand that. On the two questions, I believe that it was not our intent -- it was not our intent to limit the input. We have, obviously, understood from people such as yourself and others -- we have heard more from producers. And we also know that we have outstanding staff at the DOE many of which have joined us here in the back. But this is an important issue with the time limits, even with the extensions that Bob discussed which, itself, is on a pretty fast track.

So with that, I will say that we would welcome input and would desire input on all the energy-related

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consequences of the proposal and it would be, then, up to the members of your committee to organize itself in a way. I know it doesn't coerce people, it relies on people to take the time to organize itself in order to get that input.

I believe that there was a meeting which I did not participate in this morning in which I heard a report about this morning that an interim report, some kind of interim report, could be with us on December 1. Frankly, it is not up to me to say whether that is a reasonable time table for the participants other than to say, you know, we are all both in government and industry trying to improve our quality management of cycle time and other things.

We, in government, are dedicated to making decisions relatively more quickly rather than more slowly. That is what we are trying to do.

Any other questions? Yes, sir?

MR. CALDER: I am Bruce Calder. I would just like to make a couple of comments. One, I like everything that Secretary Armstrong said except one thing, and that was his characterization of the offshore drilling industry as being "pretty good" environmentally. I think they have had an outstanding record, and I am not in the offshore drilling

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business. I would like the Secretary to consider upgrading his opinion.

MR. ARMSTRONG: One thing I have learned from Congress is you can revise and extend your remarks. And I will put that in the record.

MR. CALDER: The other comment I would like to make is on the refining report, and that is that the person that will be the ultimate payor of this $37 billion will be the consumer. And I hope that in the $37 billion expenditure there is room for educating the consumer on the fact that he will be the payor and the oil industry will not be the villain for, once more, raising the price of gasoline.

Thank you.

MR. WHITE: Thank you, sir. Any other comments, questions, for Secretary Armstrong or myself? Mr. Taylor?

MR. TAYLOR: Mr. Secretary, once again, on this particular issue, on the implementation of the regulations of OPA '90, take a good, good long time before you can do this or hope that the Congress can correct before you put us all out of business.

MR. WHITE: I accept that comment. And we are

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going to have hearings in New Orleans, in Houston and in San Francisco. That will be through the November 2 through December period. We are carrying these observations which we have received forward to the various subcommittees and members of the Committee. Let me say, these are your comments.

So we will get that to them and see what the response will be.

MR. HUNT: Yes, sir.

MR. HYDOK: Joe Hydok, just recently retired from Con Edison and, as such, probably am as close or closer to the consumer end of this industry than most and a couple of comments from that standpoint. First of all, really, it is important in the communication to stress what the real cost is. You made the point there is a lot of rebellion when you started talking about energy taxes.

I think the consumer's view with respect to cost-benefit analysis and so on might be a little bit different when they begin to think in terms of what the cost impact of some of these regulations are.

Second, the natural-gas study which recently concluded -- recently; time seems to fly when you are having

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fun -- made a great point with respect to future growth of the natural-gas market and the major growth within the electric generation market. We know from an environmental standpoint natural gas is seen as a major contributor to the environment.

At the same time, environmental regulations -- and Secretary Armstrong, there are many obstacles appear to be in the way of developing that natural-gas resource to meet the increased market. The end result of that is a loss of credibility. Consumers, and particularly electric-generation people, aren't at all convinced that we are going to have sufficient natural gas over the long run, in spite of our study, and that the prices are going to be competitive with alternatives.

And there is a reluctance to make major investments in new plants. Part of this uncertainty comes about because of what appears to be contradiction from the regulatory and government community with respect to, "Yes; we want more use of natural gas but we have all of these restrictions that are creating uncertainty as to where it is going to come from," and even to the point of where a lot of those in the production end of the business are shifting

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their investment from this country overseas.

This contradiction is going to have an impact on what the market perceives as whether or not Clean Air will be helped by increasing the natural gas. A comment and, I think, you have indicated an awareness of that. Do you have any further comment.

MR. ARMSTRONG: I don't want to belabor the fact that the one thing we have said as an administration is that we have a high degree of interest in the development of natural gas because we think it is clean burning and because we think it is a suitable industry. At some point, that 25 percent that we produce right now is going to play out and we are aware of the fact that it needs to be replaced from some source if, in fact, as we believe, natural gas is a suitable way to produce electricity and other things.

We are working on one process which is not going to, as I have said frequently, impact the industry tremendously, but we are working with Gary Marlow to try to put all of the federal vehicles into compressed natural-gas stance just as he has done with many of the State vehicles in Texas. But we will keep working on that. And we are aware of the need.

MR. WHITE: Let me comment, Joe, too. You will see as the months and years go by not just on the fleet conversion and the efforts we are doing with CNG, but on some of the actions that Bob talked about concerning what we can do on leasing in the Central and Western Gulf to increase our revenues by increasing activity out there. Some of the reports that we will be making on how to stimulate gas markets as part of the domestic gas and oil initiative that will be coming out, that stimulating markets for natural and getting gas completions up, which are so essential for that, are an important part of our agenda.

It is particularly good, also, to hear you and many in the industry -- I know that you come from the utility end of the industry and over a period of 20 or 30 years, people who share my interest in getting increased utilization of natural gas up and focussing on how we get the completions in order to get there, we need the utility industry right there and strong in how to develop new markets for natural gas no matter who that might benefit.

Some interesting things are being done, as you know, with independent power generation and other things. So it is particularly good to hear that comment from

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somebody who has a utility background such as yourself.

I think I saw a question down here.

MR. SMITH: I am Weldon Smith with the Big 6 Drilling Company in Houston. I think you made a very fine point when you said that drilling is not a threat to the environment as much as transportation. I think that has been proven time and again. But, if that's the case, why is leasing so restricted for drilling?

MR. ARMSTRONG: For many of the reasons that I tried to outline, we are under basic moratoria by Congress that says that we cannot use our budget in Interior for any leasing, for example, off of California. We cannot do this off of many areas of the Atlantic. The moratoria are responsible, in large measure, for our inability to go forward.

On the other hand, we are trying to see where it is appropriate to make changes. These will have to be made slowly but, for example, if there is an area where the target is going to be natural gas, the target might be off-shore, out of site, let's say, of a beach area. If we have those kinds of situations, and science would indicate that this is the appropriate thing to do from and environmental

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point of view, we are going to look at carefully going forward in those areas.

Right now, it just happens that the ones that aren't stopped by virtue of these moratoria are pretty much the Central and Western Gulf, certain areas of the North Slope and, as you know, we have certain leases in existence; offshore North Carolina, offshore Florida. But we are buying back leases in South Florida. We are buying back -- at least we have been asked to and we are negotiating -- if the price was right, we probably would buy them back.

But all of that is in process right now. But it is going to be somewhat tedious. On the other hand, we sold $69 million worth of leases in the Gulf at the last sale. That is twice what the Office of Budget predicted we would get. We are not sure exactly why the interest was there. I think it has to do with natural gas prices.

I think that we just sold 54 percent of the tracts that we offered in Wyoming, in Southwest Wyoming. That, we consider to be a pretty good sale in auction. The Secretary is going to go out in December for that auction. I may, myself. So it is not that we are stopped dead. It is just that we are under certain restrictions and we are trying to

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figure out how best we can approach this, again in an environmental context which I have to keep stressing; otherwise, people organize big opposition.

I keep telling them, "We'll listen to you, too." But we are trying to figure it out.

MR. WHITE: We have time for one more question or comment while Secretary Armstrong is with us. Yes, sir; Bobby?

MR. PARKER: Bob Parker, Parker Drilling. We are not offshore. I am repeating that you consider new technology and what would have happened a few years ago isn't happening anymore. In the State of Alaska, now, there are simply no tracts. You cannot find where people have been and explored. In the mountains and Teton Range, now, we are drilling wells that were not allowed a few years ago.

So new technology has been meeting the challenge of environmental compatibility. I just hope that the doors are not closed to new ideas, new techniques, they are really happening.

MR. ARMSTRONG: I think that is a very valid point. I just came off of two years working for Governor Richards. One of the things we did, with TIPRO, was to finance a technology exchange program. Most of that happened to be down -- but transportation on the tundra -- and parenthetically, I don't know if you have been north in a long time -- I was there before the pipeline was built. And I saw, for example, the footprint that you had then compared to what you need now in terms of acreage or feet, square feet, in order to produce the same amount of production.

And it is simply amazing, plus the fact that there has been an exorbitant amount of money just to clean that place up totally, which is a very impressive operation and which impressed the Secretary, let me say.

MR. WHITE: Thank you very much for your time with us and the comments were enlightening. We might move on to the next topic on the agenda with folks' permission, if that seems appropriate, Ray and Ken. Thank you, Bob.

[Applause.]

MR. WHITE: I think you see why I have confidence that this process, and it is a process -- it is not just making a decision within government; it is a process that requires credibility with Congress, credibility with the states, that this process is going to be enhanced by the

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participation of Bob Armstrong and Bob Sussman as well, I might add, besides myself -- other than myself, some of the great leaders we have at the Department of Energy -- not that I am that category, but let's just take Hazel O'Leary a second who has had an extensive background in the electrical-generation industry dealing with controversial topics, having to deal with a consensus of a wide range of groups on things like nuclear power plants siting and continued operation.

People, whether it be Bob Armstrong, Bob Sussman and others that have been brought into the administration have been on the firing lines on these particular issues where they have had the job to try to make something happen and don't get in a situation in which policy is made by a mandate such as categorical moratorium or a nationwide standard or something that doesn't have the flexibility which I think everybody, whatever their objective might be in the middle part of the spectrum, would agree is good public policy.

I have been passed a note that there is a consequence when completely unexpectedly and, by surprise, senior-level officers of the administration this morning

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walked in to meet our appointments to cross a picket line, that calls were immediately made because, apparently, there are policies about how Cabinet members, including the Secretary of Energy, should decide when and when not to cross the picket line

So, for that reason, Hazel is stalled. I am picking up her -- this is one of the new things in government that I am learning about, not having been an elected official before. So what I would like to do is share with you some thoughts that she was coming over here to share before the repercussions of my, and others, crossing the picket line occurred.

ADDITIONAL ISSUES FOR DISCUSSION

MR. WHITE: First, the Domestic Gas and Oil Initiative. Let me go back on that topic. The last meeting, Ray, that we had scheduled did occur at a time when there was a fairly unique opportunity. When you were presenting the refining study, you had, and your leadership had, taken great pains to schedule the meeting at a time when the Secretary and others did not have a conflict.

Then, the Russian Prime Minister, Prime Minister Chernamyrden, announced that on that particular day, he

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wanted to meet with American executives in the oil and gas industry under the auspices of the Department of Energy because he would have the Energy Minister there. To facilitate that process, we had to reschedule this meeting.

I don't want anyone to believe that that process of rescheduling, or this interesting development this morning, reflects on less than a very high priority that we and others in the administration put in this particular group in its deliberations and the attention that it's gotten.

The staff members we have as well as the decision makers -- if you know how the government works, you had some real decision makers sitting at this table to the left on issues that will affect the topics of interest we have been talking about. This group is important and its work is respected.

Gas and Oil Initiative. I will begin with two observations. The first observation is that we -- and "we" being not just the Department of Energy -- but we have been working with all affected Cabinet Departments and the White House, want to make clear that the survival and growth of the energy industry and the gas-and-oil industry, in

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particular, is of strategic consequence to the United States.

Just as we hear, from time to time, is the survival of the advanced computing industry of the United States, the semi-conductor industry, the aerospace industry and the auto industry, industries in which we know that if we lose those job bases, and our competitors are chipping away at them, that our country would hold less opportunity for others in the future, if we were to lose them.

We need to, not as a matter of rhetoric, not as a matter of public relations, but as a matter of substance make people understand that this is an industry in which the United States, regardless of where some of the oil and gas is drilled for them, that this is an industry which must survive within the United States and we must maintain our comparative advantage. And those in industry as well as those in government must tailor their policies to take into account what that overall strategic objective of the country is.

I predict, and many wise people outside of government who observe believe, and the President believes, that as the Cold War has ended and we are sorting through our role in the world that you see in these messy situations that have dominated attention in Somalia and Bosnia, and as we understand and reach some kind of consensus on the fact that we can't borrow our way to prosperity, that there will be a new, substantial national theme that people in both parties tend to rally to; and that is, how do we position ourselves, our industries, in a way that we can preserve jobs that otherwise would go overseas.

And I am not talking about protectionism. I am talking about what do we do to foster the growth of industries and what do we do to foster young people be educated finding productive employment. So when you walk into a room and see who is employed by the gas-and-oil industry in this country, you do not see an aging population.

That will be a theme that we are trying to carry and a priority and a way to articulate a group of policies concerning our energy strategy. Now, that sounds good. I will give you a big qualification, though. There is not a consensus within your industry and, certainly, not within the different departments of the administration concerning some of the tougher calls for sacrifice that various parts

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of the industry have made.

At no time do I attend a meeting of independent oil and gas producers in which somebody does not -- well, let me give you an example. I was at a meeting of TIPRO, say, two months ago. Large meeting on -- incidently, conducted by TIPRO; I was just there sitting in the back of the room -- on technology transfer and cooperative technology arrangements. How could the independents keep up with firms that had been on the cutting edge of technological innovation, many of which are represented here; like Chevron, for example, and its technology department.

How could they pool their resources? How could they get in a position so that they could use advanced technologies, advanced seismic technologies, reservoir-modeling technologies, to be competitive. And then some of the people took a break. I got up to speak. Some of the people left for golf. More about that later.

There was keen interest in that topic, a topic in which the government of the United States also has some facilities and keen interest in. And the question was; import fee, or taxes. You can imagine that these are topics on which the industry does not have a consensus, and giving the bruising battle for the BTU tax and on the gasoline tax, and where figured on that -- you can imagine if you have an issue or a specific proposal which is perceived to have only a regional -- be just a regional issue rather than a national-security issue, and where you face a divided industry, can you put something like that as a cornerstone of an energy policy?

Well, the answer is, obviously, no. But that does mean what is important is that we have a process where we articulate what the objectives have as concretely as we can. And one of those objectives has to do with imports and one of those objectives has to do with the domestic job base.

To summarize what I have said before, I think we will work with you all and work with this industry to make sure that, as we proceed in this decade of the '90's, this industry in every consideration and every discussion, whether it be the environmental tradeoffs, whether it be tax policy, is up there and considered as one of the strategic industries in the United States, and we must adopt policies not to subsidize but to make sure that we don't see it evaporate.

One other story on that that I shared; within two years, at the University of Texas at Austin Petroleum Engineering School, one year -- this is three years ago -- they had 108 graduates, 3 Americans. 128 graduates the next year; 15 Americans. This is a wake-up call, and a wake-up call that we are sounding within the administration and a wake-up call that the industry needs to sound and help us sound within its own ranks.

We want there to be an organization like this with Americans in 20 years and a thriving industry. So one point I make is we will help you keynote that effort. And the second point is that this is important that you participate in a process. The process will have some big steps and it will have some small steps, but it will be a process that is market-oriented and working in the right direction.

We began this process early in the administration so we couldn't just study a problem and have a report on the fourth year, or the eighth year, of an administration and then not have an implementation plan. So we started it early despite the competing considerations and attention that we have for issues such as health care and NAFTA.

There will be four major headings. We are not

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prepared to announce the program, but they will have to do with; No. 1, technology, both the dissemination of technology and the use of a wide range of government policies that would help further basic research and enhance basic research in this industry, particularly on those topics that we have historically dealt with concerning subsurface modeling of both prospects and reservoirs which have already been discovered.

A number of organizations with members in this audience have participated cooperatively with us in trying to design new and improved programs in those areas.

Second; we want to stimulate markets for natural gas and the use of natural gas and remove some impediments to its use as well as drilling. There is a whole host of measures which cut across the FERC, principally, as well as some private organizations working with the DOE to provide the infrastructure for gas and to remove impediments to its use in various markets.

Third; quite a range of proposals on cutting red tape and improving governmental processes. And this includes some particular incentives on public lands particularly offshore, as well as mechanisms for resolving

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problems where you have energy input, DOE input and industry input in decisions that are made before the last minute.

So it is not, "Here is what is going to be made. What do you have to think about it?" so that we have a better way to get the kind of cost analysis that we see in the refinery study in the front end. And you need to do that. You have to have formal mechanisms. And we will discuss those formal mechanisms.

Fourthly; there is how do you integrate -- it is not a question but there will be an answer to the question of how we integrate the policies designed to help stimulate the gas and oil industry with policies designed, yes, but the plan for our long-term transportation needs in a manner that is environmentally compatible and uses domestic resources when it is cost-effective.

Second, improve energy efficiency in buildings and in industries including -- there is much progress which has been made and will be made in refining in petrochemical industries -- and the needs of our country to diversify its sources of oil that it imports. All those policies must be integrated to be coherent so we don't be in the position that you pointed out, Joe (Hydok), that you have one policy competing with another policy.

Doing that kind of work, we have sought input at every turn from industry. So those are some outlines. Timing of the announcement. This is being coordinated -- led by us and coordinated by the very highest economic decision-making body we have in the administration below the President of the United States, which is the National Economic Council which, in prestige, has every bit as much as the National Security Council has enjoyed in times past.

And we are, I believe, near the tail end of the meeting through that National Economic Council in order to get a final product to you, we believe, and to the public, in a matter of weeks as opposed to months. It has been delayed, but it has been delayed so that we have buy-in at the highest levels at government and across government, that this, having an energy policy and an energy strategy, is not simply some regional issue or protectionist type of impetus but is something that is a national priority, both in terms of our economic security and job growth for Americans.

I would also mention one other item that we mentioned, Ray and others who were in the at the first meetings of the -- what is it called; the President's

Council or Chairman's Council of this organization, which is, we asked, and we asked across the board before we did anything as an administration, "Should the United States, at the senior levels, get involved in trying to open markets abroad where foreign governments and foreign-government policies were slow and standing in the way?" and particularly the Former Soviet Union, or would government just get underfoot and interfere.

We asked you that and, I know there were various people that commented under that. And, by the way, we are not under any illusions, and you shouldn't be either, that government is going to solve energy problems. I mean, the market is going to solve those problems and private enterprise is.

It is refreshing to see that there is a total break from some of the ideologies you saw on both parties 20, 30 years ago, that it was consumers versus producers, that the government had to dictate the solutions to all the problems. Well, we are not there.

But, at the same time, whether you are dealing with matters south of the border or in the Former Soviet Union and so many provinces in this world that have opened

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their doors to industry. We know that you are dealing with government officials and bureaucrats who are not used to privatization and making things happen, and are used to dealing with their counterparts government-to-government.

We want the force of the American government to be in favor of quicker, faster, more stable privatization, free trade, fewer preferences to the service industries abroad by their state-owned or state-sponsored companies. And we have spent, and the Secretary of Energy has spent, quite a bit of her time, and the Vice President has spent a fair amount of his time -- I don't know if anybody from Texaco is here, but specific companies will be able to tell you at the senior levels of government, convincing people that a market-oriented system of incentives in which foreign investors and, particularly, Americans who have service companies, who are looking for oil and gas concessions, can find an open door abroad is important.

We appreciate the efforts of people in this room to support the North American Free Trade Agreement. And your efforts are crucial. There are people in this room who don't have a direct -- their companies in the next year or two, a direct stake in the outcome and there are many who

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do.

But you know what obstacles there were, separate and apart from the Mexican constitution in days in which the corrupt labor unions were able to award the service contracts to Pemex, and you know what a market Pemex is for those who provide services. And those people, American negotiators bowed long and hard to write in to the NAFTA agreement, that American firms could have service contracts with performance clauses.

And anybody who has been in the drilling business knows what their attitude towards that has been in the past and we are making progress there. The American industry has tremendous skills and talents that exceed those of people anywhere in the world. Just as we must -- we must -- keep a large and vital domestic drilling base and domestic production base and domestic marketing and refining in order to keep the saw of those skills sharp, so must we also, in this business as in other business, look to opportunities to expand our market share in foreign markets.

And we have both had the senior leadership of the Soviet Union over here, both their Energy Minister and Environment Minister and their Prime Minister. And we have

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met with them, both Secretary O'Leary and I did just days before the events of several weeks ago, the conflicts in Moscow, and expressed this administration's firm support for market-oriented reforms and a support and hope for an election of a new parliament which is market-oriented.

And as we travel, and as others in the State Department and Commerce Department travel throughout the world, we will push market-oriented reforms and privatization which we know will rebound to the benefit of American businesses.

Two other topics, and then I will wind up. Sorry for going over just a little bit, Ray. That is, we will be adding some others to the National Petroleum Council and, in keeping our commitment to you that we will help serve to create a dialogue between some environmental interests and this industry by having the EPA and others deal with us on some of the difficult issues that we are confronting, just as we are committed to do that and we are doing that, so that energy consequences can be considered as part of EPA decision making.

We shall include some people who are identified and known as reasonable, thoughtful environmentalists within this organization when we nominate some people to be part of its charter. We are particularly honored to have a number of people who have joined us for the first time, here, whom I would like to recognize.

If you haven't visited with them, they have been people who I know have great stature within different segments of the industry in different geographic areas. They are Truman Arnold who is Chief Executive Officer of the Arnold Companies. Why don't I just list -- why don't you just raise your hand, Truman, if you could. Then I'll go through and I want to give you all a round of applause.

Merle Chambers, who is sitting in front of me here, who is President and CEO of Axem Resources from Denver. Truman is from Texarcana. Fred Julander, whom many of you may know, also from Denver with Julander Energy. Tony Sanchez, who has excused himself. He is in the back, there, giving me the sign that I've gone too long. Milt -- I don't know of Milt Honea, the new Chairman of Arkla who has joined us right here.

Thank you and welcome to this meeting, and thanks for joining us. Why don't we give them a round of applause.

[Round of applause.]

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MR. WHITE: I have said enough. You have run a good meeting except you let me run too long, Ray, but it is always a pleasure to be here.

MR. HUNT: Bill, could I suggest this. I don't know what your schedule is, but if there are other questions or comments from the floor, would you be willing to handle those?

MR. WHITE: Certainly.

MR. HUNT: If there are any other questions or comments in terms of dialogue.

MR. WHITE: Yes, sir.

MR. HUNT: Be sure and introduce yourself.

MR. AMES: I am Gene Ames from Venus Oil Company an independent exploration company in San Antonio. Excuse me, I am fighting laryngitis. Mr. Secretary, I would like to question you briefly about the domestic energy initiative. You alluded to the fact that you hoped that it would stimulate drilling.

MR. WHITE: Yes, sir.

MR. AMES: I imagine you can't announce -- you are not in a position to announce the study yet, but what about tax incentives to stimulate drilling. Our drilling, at 800 rigs, is nothing. It is nice to come up from 650 to 800, but we need to be drilling 11 or 1200 wells in this country. What can we do to get drilling stimulated in the country?

MR. WHITE: Well, two comments on tax incentives. The first comment, and we all know that tax incentives, and the right tax incentives, on a -- to use a word that has been used; cost-benefit basis -- can be a powerful stimulus to drilling. Consideration of tax policy and how you promote drilling in this industry cannot be divorced from the year-to-year issue that all of us as Americans as going to be facing on the U.S. deficit.

That is not to say that there is not room for tax incentive during the life of this administration. But it is a comment on timing. This is probably not the only legislative session in which Congress is going to consider tax policy. Tax policy goes to the heart of our economy.

I will give you an example. In the next 12 months, the total receipts on the personal income tax, even with the increases in the top brackets, are expected to be a little under $600 billion. That is a lot of money. That is the total receipts on the principal source of revenue of the United States of America.

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Because of the fiscal policies of our country, and three-fourths of this impact accrued over the last 13 years, the total interest payments that we are going to make this year are in the neighborhood -- the 12 months from October 1, 1994 through the end of Fiscal Year -- October 1, 1993 to the end of September, 1994 -- is going to be $310 billion, more or less. So that half of the amount of money that you pay on your estimated tax form or that is withheld on behalf of your employees is going to go for interest only.

And as the deficit continues to be a major feature of American fiscal life, we face the problems of compound interest on that. And if interest rates are cyclical, as they have been for the preceding 5,000 years of human history, then sooner or later, they may be an increasing portion just because of increased interest rates.

So when somebody treads into the waters of decreasing tax rates -- and boy, let me tell you; we wish we did not have this coming into this administration, not just as government officials but as Americans. But given the bill which is now being presented to the American people, when we talk about policies that could decrease revenue to promote a particular industry or form of economic activity,

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it will have to be as part of an overall national strategy.

So, for this reason, what we have tried to do and what we are trying to do now, frankly, is engage those principal agencies of government which need to be engaged in this -- namely, Treasury and the OMB -- to looking realistically at what we can do to accomplish national purposes over a longer period of time and look at particular tax proposals, one-by-one, to test their cost effectiveness.

I have to tell you that the industry -- various people want to do different things with the tax code in the industry ranging from certain depletion allowances, which will have a particular impact on stripper production, to people who want accelerated expensing, for example, of certain environmental expenditures. We have to sort through all them, as well.

So tax policy will be addressed and a specific tax policy will be addressed, but don't expect something in November of 1994, a new bill to be introduced. Tax policy is not off limits as part of this administration as it affects this industry, but will have to be part of a more overall -- and it will be an annual debate that we, as a nation, have on tax policy.

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And let me assure you that we can considered and vetted, as you can see from some reports in the public media, a wide variety of tax options. One other thing; we are an advocate for the consideration of all the economic consequences of the tax cuts including revenues that will come back to the Treasury from increased economic activity. And that's true, whether it be NAFTA or something affecting this industry.

MR. JULANDER: Fred Julander, Julander Energy. With regard to your policies that you are about to announce, and also what you have done here this morning, I would like to give you an "Atta'boy" and encourage you to continue. It is something that, to me as an independent, will be as effective as a stimulative tax policy; and that is intra-agency cooperation as has been initiated this morning between the EPA, Interior and DOE.

Secretary Armstrong mentioned the Wyoming sale where 54 percent of the leases were sold and the fact that that caught their attention. That sale stimulated that kind of interest because of increased natural gas prices and new pipe-line access to that part of the world.

We are heavily involved out there. We think there

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are several hundred thousand acres that are prospective. We have assembled a lot of that. As we go to develop that, if we have policies and standards that we know in advance and can meet, and if we do a good job, we can proceed with development at a reasonable pace and at reasonable expense because we have done a good job seeing what needed to be done.

You all have told us and we have done it. That prospect is much more economic and we can do a lot better job of job creation and energy production. We need those departments to work in harmony to tell us the standards and then say, "Yes; you've complied," when we have done our very best and we have complied.

Please. I think this is an important part of the initiative and, if this is new, please continue this inter-agency cooperation and help us to do a good, efficient and sound environmental job.

MR. WHITE: I appreciate that applause. And to all people, and my fellow panelists, I have to tell you, too, the government is a very conservative institution in the sense that there is a lot of inertia. Making some changes to increase predictability will take a lot of work

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by the gentlemen that you see here and the many men and women who have just recently joined government.

I think it is, Fred, a signal when you have a report authored, in large part, by the Vice President and his staff and adopted by the President and the national performance review that says, in plain English language, that EPA needs to be reformed because of an inadequate assessment of market-oriented alternatives and too much failure to consider, at an early point, cost effectiveness.

That is a pretty strong stand by someone who has a lot of credibility with the environmental community. So we are trying to move in that direction.

Any other comments, questions? They have heard enough from me, fellows.

[Applause.]

MR. HUNT: Thank you, Bill. I have a couple of comments, but before those, is there any other business that should come before this meeting? Okay. I would like to just make a couple of comments in closing. First of all, I think that the DOE, Bill, Hazel O'Leary, are due a tremendous amount of thanks and commendation for what Fred referred to.

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This is the first time that I am aware of where you have had an inter-agency approach, where you have had multiple organizations of government come into one room at one time to interface with those of us in the industry. And there are quite a few representatives from different agencies and departments who are with us in the upper tier of this room this morning.

That has to be a very positive step in terms of the improvements in communication which all of us, both in the public and the private sectors, realize are so important. Today's agenda, as I referenced at the beginning of this meeting, was designed to, hopefully, foster as much dialogue as was optimum. I'm sure we will do a better job next time, and we will do a better job after that.

The intent of these meetings is going to be to try to maximize the amount of free flow of conversation and information back and forth. We moved from the discussion on the refining study into the discussion of OPA '90 and offshore leasing. After about 15 minutes, there were still a lot of questions and comments out there. But, as everyone knows, we are going to have a seminar -- or DOE is sponsoring a seminar -- to talk about the details of that study which will commence 15 minutes after this meeting concludes.

All the members who wish to stay for that, please do. The people who chaired the very important subcommittees for that study will be here and I'm sure that will be a very productive time spent.

Ken, do you have any comments that you would like to make before we adjourn?

MR. DERR: No.

MR. HUNT: Bill? Any additional comments that you would like to make?

MR. WHITE: No, thanks.

MR. HUNT: Marshall?

MR. NICHOLS: No.

MR. HUNT: Any other comments from anybody? Okay. In 15 minutes, we will start up with the seminar. This meeting is adjourned. Thank you.

[Whereupon, at 11:30 a.m., the meeting was adjourned.]

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NATIONAL PETROLEUM COUNCIL

I hereby certify that this corrected transcript constitutes an accurate record of the 101st meeting of the National Petroleum Council held on October 20, 1993 in Washington, D.C.

12/10/93
(Date)

Chairman
National Petroleum Council