REPORTER'S CERTIFICATE

This is to certify that the attached proceedings before DEPT. OF ENERGY

In the Matter of: NATIONAL PETROLEUM COUNCIL

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

OFFICIAL REPORTER

DATE: AUGUST 9, 1995

UNITED STATES
DEPARTMENT OF ENERGY

IN THE MATTER OF:

MEETING OF THE
NATIONAL PETROLEUM COUNCIL

Corcoran Ballroom
Four Seasons Hotel
2800 Pennsylvania Avenue NW
Washington, D.C. 20007

Wednesday
August 9, 1995

The above-entitled matter came on for meeting before H. Laurence Fuller, Chair, at 9:08 a.m., pursuant to notice.

PRESENT:

ORIGINAL

CHAIRPERSONS

H. LAURENCE FULLER	CHAIRMAN, PRESIDENT AND CHIEF EXECUTIVE OFFICER, AMOCO CORPORATION
HON. HAZEL R. O'LEARY	UNITED STATES SECRETARY OF ENERGY
DENNIS R. HENDRIX	CHAIRMAN OF THE BOARD AND CHIEF EXECUTIVE OFFICER, PANHANDLE EASTERN CORP.

PRESENTERS

MARSHALL W. NICHOLS	EXECUTIVE DIRECTOR, NPC
PATRICIA F. GODLEY	DOE, ASSISTANT SECRETARY FOR FOSSIL ENERGY
W. WAYNE ALLEN	CHAIRMAN OF THE BOARD AND CHIEF EXECUTIVE OFFICER, PHILLIPS PETROLEUM CO.

PRESENT: (continued)

PHILIP J. CARROLL	PRESIDENT AND CHIEF EXECUTIVE OFFICER, SHELL OIL COMPANY
CHUCK SITTER	EXXON
GEORGE A. ALCORN	PRESIDENT, ALCORN EXPLORATION, INC.
WILLIAM L. FISHER	LEONADIS T. BARROW CHAIR IN MINERAL RESOURCES, DEPARTMENT OF GEOLOGICAL SCIENCES, UNIVERSITY OF TEXAS AT AUSTIN
HON. WILLIAM H. WHITE	DEPUTY SECRETARY OF ENERGY
JOHN R. HALL	CHAIRMAN AND CHIEF EXECUTIVE OFFICER, ASHLAND OIL, INC.
COLLIS P. CHANDLER, JR.	CHAIRMAN OF THE BOARD AND CHIEF EXECUTIVE OFFICER, CHANDLER & ASSOCIATES, INC.
ALFRED C. DeCRANE, JR.	CHAIRMAN OF THE BOARD AND CHIEF EXECUTIVE OFFICER, MURPHY OIL CORP.

- - -

P R O C E E D I N G S

(On the record at 9:08 a.m.)

CHAIRMAN FULLER: It is hard to get this bunch to come to order, but I would like to call the meeting to order, and wish everybody a good morning, and I hope we find this morning's meeting to be very interesting, and, hopefully, productive.

Now, as is our custom, the check-in, that has already taken place, serves as our official attendance record, so without objection, I will dispense with the calling of the roll, unless there is somebody who is feeling otherwise.

Now, I would like to introduce to you the participants, at the head table. At my far left is Pat Godley, DOE's Assistant Secretary for Fossil Energy, and Cochair of the R & D Needs Committee. Next is Wayne Allen, Chairman of the NPC Committee on Research and Development Needs, and, of course, also has an official position, ~~in~~ with Phillips. Sitting right here, or will be sitting right here, is Bill White, Deputy Secretary of Energy, and Cochair of the Future Issues Subcommittee, who will be with us, later on, this morning. On my far right, of course, is Marshall Nichols, Executive Director of the Council. And next to Marshall is Phil, Chair of the NPC Committee on Future Issues. He will

be reporting to us, later. And on my immediate right is my cochair, the Secretary of Energy, Hazel O'Leary. I am glad to have you with us, Madam Secretary.

SECRETARY O'LEARY: Thank you.

CHAIRMAN FULLER: I very much look forward to your remarks, later on, in the agenda.

As you will see, from the agenda, the first item to be dealt with is the matter of two current NPC studies, and hopefully, their approval. Now, I am pleased to turn the podium over to with Wayne Allen, Chair of the NPC Committee on R & D needs, for that report.

MR. ALLEN: Madam Secretary, National Petroleum Council members, I am Wayne Allen, from Philips, and I am here, representing the Committee on Research and Development Needs. Patricia Godley, Assistant Secretary, Fossil Fuels, and I, served as committee cochairs of the study, with assistance from a coordinating subcommittee, headed by Charlie Bowerman, of Phillips, the Needs Task Group, chaired by Ken P. Cuccinelli, of Consolidated Natural Gas, and the Labs Capabilities Test Group, chaired by Barry Coon, of Conoco.

Madam Secretary, by your letter of July 27, 1994, to the chairman of the National Petroleum

Council, you requested that the NPC conduct a study of research, development, and demonstration needs, of the natural gas and oil industry. The study was to analyze the needs of all the components of the industry, considering the near and long-term needs, both upstream and downstream. We have completed that task, and are here, today, to present the findings of the study, requesting the NPC membership approval of the report.

The main body of the report is organized with four chapters, and an executive summary. Today, I will cover the key points, including the recommendations from the study.

First, oil and gas is essential to maintain economic growth, a high standard of living, and the national security of the United States. Oil and gas supplied nearly 65 percent of the total U.S. energy needs, in 1993. Although alternate energy sources are important, oil and gas will continue to be the major source of energy, for many years to come.

The U.S. economy continues to grow, based on energy from oil and gas, and priced, in some cases, in real terms, at pre-1980 levels. We believe that the industry faces significant challenges, to find, produce, process, and convert into products, new energy reserves, at acceptable costs, while complying with

regulation, and we believe that the development of technology is a strategic imperative, for the industry, and for the nation.

Industry technology needs was the primary focus of our study. These needs were determined by a combination of information, from a comprehensive survey sent to a large cross-section of the industry, while also taking into account other pertinent information, from studies completed in recent years. Our survey was sent to 130 members of the National Petroleum Council, with 89 responding to the survey. The responses included information on some 250 technologies, in 11 key technologies areas.

The responses identified technologies that are the highest priority, based on business impact, and the likelihood of not being met, under business-as-usual scenarios. Now, some of these are, first upstream, high resolution depth imaging, improved well productivity, hydrate control and prevention, paraffin control, horizontal well technology; and, downstream, catalysts with improved selectivities, yields, and lifetimes, new approaches to refining heavy feeds, improved energy efficiencies in processes and equipment, improved plant and process reliability, and, finally, separation technology.

We then determined the capabilities of the labs. Development of technology for the industry is accomplished through a variety of sources, including in-house R & D, university labs, university research institutes, and service companies. Recently, however, the government laboratories have become increasingly involved in oil and gas RD & D, but their capabilities are less well-known to our industry.

As indicated, in Secretary O' Leary' s original request letter to the Council, one of the key components of the program, in the domestic natural gas oil initiative, is to stimulate, facilitate, and coordinate, the development and transfer of technology to the U.S. petroleum industry, and this would be accomplished through technical interaction and collaboration with the DOE national laboratories. Therefore, the committee focused its efforts, primarily, on the capabilities of the National Institute for Petroleum and Energy Research, commonly referred to as NIPER, and the nine DOE national laboratories which perform oil and gas research. These labs are collectively referred to, in our report, as, quote, "the labs."

In order to respond to the Secretary' s request, specific information was compiled on the

government lab capabilities, directed at the needs of the industry. This included a project summary reflecting the current capability being applied in areas of direct interest to the industry. Also, enabling capabilities, which was a description of the technical strengths of the labs, which have a potential value to the industry, not currently being utilized. And finally, there was a historical legacy, and this gave the lab the opportunity to describe this legacy, that led to its current position, as a technology supplier to the industry.

Cumulative petroleum industry-related RD & D expenditures for the labs, during the fiscal years 1991 through 1995, were about $600 million. About 75 percent of this funding went for environmental and regulatory, oil processing, refining, and development technology.

The labs have impressive research and development capabilities, in many energy-related technologies, and they can play an effective role in applied RD & D, provided there is a strong direction, from the industry, in definition of goals and funding levels.

We feel there is a new paradigm for oil and gas RD & D, that is being evolved for suppliers of

advanced technology. Low oil and gas prices have required companies to reevaluate every aspect of their company, and how they do business, and this includes R & D, as well. This new paradigm can be described as, a source of technology, previously was in-house. Now, it is leveraged, and collaborative. The profit motivate prioritization was a technology push. Now, it is a user need push, and the motive was to own it, and now, it is evolved, to use it.

We also noted, from the survey, the willingness to collaborate has increased, where 63 percent indicated a relatively high overall willingness to collaborate. However, there are barriers to collaboration with the DOE labs, such as, excessive paperwork, hold-harmless agreements, and certainty of ongoing funding, red tape, confidentiality issues, intellectual property issues, and differing business objectives.

The Committee arrived at eight conclusions and recommendations, and feel that this study should be the starting point for establishing an improved process of focused RD & D efforts, for user-driven technology development.

First, the Secretary of Energy should immediately utilize and incorporate this study analysis

into the Department's current realignment activities, program development, spending prioritization, and budgeting activities, at all levels of the Department's strategic planning activity.

Second, the Department of Energy should focus its sponsorship or research on areas of technology needs that cannot be effectively conducted, in the private sector.

Third, currently, and proposed new expenditures should be analyzed, in order to match the high impact needs identified by the analysis in this report, with the unique capabilities of the labs. The focus of this activity should be on the highest priority needs, which benefit industry participants, without competing with the private sector developer of technology.

Fourth, continuity should be provided, for logical cost-effective completion of all short-term projects, no matter how the industry lab R & D collaboration changes, over the next few years. Long-term projects should be judged, individually, with transition funding, as necessary.

Five, the Department of Energy should place greater emphasis on prioritizing R & D programs, based on industry needs and participation. Current efforts

by the DOE and government laboratories, such as the natural gas and oil technology partnership, and the refinery of the future initiative, have improved process and identified initiatives, through the oil and gas industry, that can leverage its resources. Improved processes are needed, to accommodate industry input.

Six, the Department of Energy should develop a project definition system, which utilizes broad-based industry input, to prioritize and recommend DOE funding, that is related to oil and gas research, development, and demonstration needs. This process should ensure a user-driven, strategic, collaborative R & D effort, that eliminates duplication.

Seven, the DOE and the government laboratories should remove barriers to collaboration. To implement this recommendation, DOE should initiate simplified administrative procedures, minimize paperwork, and the turnaround time, for bringing technology to practical application.

And, eight, the government lab should not become a technical service organization, competing with industry resources. Consistent with the Gavin Task Force recommendation, we concur, that activities at the national labs should be privatized, as appropriate.

Now, that concludes our recommendation. Now, let me thank all those who generously gave their time and effort, to complete this work. I want to particularly recognize Marshall Nichols, and the NPC support staff, who served us, so well. We appreciate those efforts.

Now, that concludes my report, and I would be pleased to respond to questions. Do we have any questions?

If not, Mr. Chairman, I move that the Council approve the report, for submittal to the Secretary of Energy.

CHAIRMAN FULLER: You have heard the motion. Is there a second?

VOICE: Second.

CHAIRMAN FULLER: Thank you, very kindly. Any further discussion?

(No response.)

CHAIRMAN FULLER: Hearing no further conversation, I would be glad to call for a vote. All those in favor of accepting the report, signify, by saying "Aye."

VOICES: Aye.

CHAIRMAN FULLER: Those opposed, "Nay."

(No response.)

CHAIRMAN FULLER: Thank you, very much.

I think I would, first of all, like to thank Wayne. These, as we all know, are in addition to a fair amount of other duties, both inside the company and out, take a lot of time, a lot of effort, and Wayne went at this, with great energy, as did all of his associates. I appreciate that, very much.

Sometimes we wonder what happens to the recommendations of these reports, after they are issued. In this particular case, I am assured, by both the government side, and what I understand of the private side, that there are in fact some things already going on, as a result of this, within DOE, in terms of the recommendations that Wayne has already indicated, and I know, from talking with my own technology people, who already have some interaction, as many of you do, or your companies do, with the national labs, have found this to be a very worthwhile effort, in terms of identifying capabilities, and, indeed, individuals, throughout the national lab system, that can really be of benefit to us, and I recommend to all of you, in the room, that you take a look at this report, provided to your technologists, if they do not already have it, and see if there is not a real wealth of information, there, that you can use, in

expanding the scope of your R & D activities, going forward. I think we all need to do that.

Does the Secretary have any comments to make, at this point?

SECRETARY O'LEARY: I will do them, in my formal remarks. Thank you, Mr. Chairman.

CHAIRMAN FULLER: Okay. Very good. Carroll

Second, I am now pleased to call on Phil, to report on the NPC Committee on Future Issues. Phil?

MR. CARROLL: Thank you, Larry, Madam Secretary. It is with great pleasure that I present, this morning, our committee's report, for this council's approval. A draft of our report was sent to members of the Council, on the 21st of July, for their review, and a copy, I believe, is in front of each member, this morning.

Now, before we discuss the report's principal findings, and the recommendations, I think it would help to rather briefly review the letter of request, from the Secretary, the timeframe in which our committee operated, the participants, and the methodology, and I think these four items are very important, in gaining a true understanding of the report's messages.

First, Secretary O'Leary's letter, requesting

this study, specifically asks the Council for, first, a candid review of the oil and gas industry's role, in the national economy. Second, she asked to identify the issues and policies that will most likely shape the industry, over the next 25 years. And, finally, she asked for advice, on the most constructive and realistic resolution of these issues, with respect to the future vitality of both the industry and the economy.

Secondly, the study was conducted, in an extremely compressed timeframe. Our committee approved a work plan for the study, in late March, of this year. The scope of the study's analyses was influenced by the shared goal of this very early completion date. For instance, the short timeframe precluded a very rigorous examination of various organizational mechanisms to determine how best to implement the report's recommendations.

Thirdly, the broad participation in the study process ensured that a wide range of industry stakeholder views were considered. The makeup of the committee, of the subcommittee, and various ad hoc working groups, that actually did the work of the study, reflected the various segments of this very diverse industry, as well as many nonindustry

organizations. Their views were augmented by those of a hundred or so thought leaders, mostly from outside of our industry, that participated in interviews and workshops that were part of the study process. I will have more to say about that, a little later.

I think it is appropriate, at this time, that I thank the whole committee, and the committee wishes also to thank the participants, in these various studies, for their commitment, and almost nonstop efforts, in getting this project done, in a very short period of time, and I particularly want to say a special thanks, to the coordinating subcommittee, and the report drafting group.

Fourth, the study's methodology was structured, to respond to the specific areas of request, in the Secretary's letter. Now, the subject matter of this study was quite different, than most NPC studies, in that, much of it is, of course, based on judgment and opinion, rather than hard data, and acknowledged scientific principles. Therefore, the methodology employed was somewhat different than usual study methodology.

The method of addressing the oil and gas industry's role in the national economy relied on contractor support. From the outset, the Committee

felt that the involvement of an independent, third party economic consultant, was necessary, to address the issue of credibility in this area. Charles River Associates was retained, to analyze both the direct and indirect effects of the industry upon our national economy. Charles River performed an reanalysis of national economic input/output tables, assembled statistics on the industry, and considered the role that oil and gas plays, in our economy. An economic review panel assisted them, in working with this, or assisted, in working with this contract.

Now, the study's methodology for identifying issues likely to shape the domestic oil and gas industry, over the next 25 years, also included contractor support. As I mentioned, earlier, our contractor, in this case, Arthur D. Little, engaged about one hundred thought leaders, from both inside and outside the industry, in a series of structured interviews and workshops. The constituencies outside the industry included our customers, consumers, public interest groups, environmental groups, governmental policymakers and regulators, and industry observers.

Arthur D. Little interviewed 45 individuals, typically for over two hours, to elicit their views about the future. A. D. Little also facilitated three

all-day workshops, built on what they found, during this interview process. The interview and workshop findings were then analyzed by the study committee, and its coordinating subcommittee, and then we identified what we thought were the most important issues that will face us.

Developing possible approaches, to resolving these issues, to handling them, was of course the most challenging part of this particular study, and I can assure that you it is a lot easier, to reach a consensus on what the issues are, than it is, to reach a consensus on how to resolve them. This was particularly true, when it was done in a very short and compressed timeframe, and it was also more difficult, because of the diversity, not only of our industry, but of the other outside interest groups, that have stakes in our industry.

With these points in mind, I would like to now briefly review the principal findings and recommendations that are summarized, in the overview section of the draft report, which you have before you.

Our first finding is on the industry's role in the national economy. The oil and gas industry is a significant and crucial component of this domestic economy, and that of course is no surprise to this

group. The industry is large. It employs 1-1/2 million men and women, and it represents between 3 and 5 percent of the U.S. economy, depending upon what particular measure you use. Accordingly, it is, the most recently available data, oil and gas is larger, in total output, than health services and pharmaceuticals. It is larger than the domestic auto industry. It is larger than the total of education and social services, computers and computer services, and iron and steel manufacture, and all of those industries are considered critical to the future of the U.S. economy. Our industry's wages are about 14 percent above the U.S. average, and over 8 percent of our industry's employees are scientists and engineers, compared with the U.S. industry average employment of about 1.4 percent, of these scientists.

Perhaps more importantly, oil and gas are fundamental enablers, for the domestic economy. More oil and gas are consumed, indirectly, via the goods and services that people buy, than through the direct sales of fuel, to individual consumers. Using substitutes for oil and gas is very difficult, in today's economy. Trying to do so before the technology for alternatives cost-competitive is fully developed could well jeopardize the well-being of the nation's citizens, and

the competitiveness of our manufacturing industry. The challenge, in doing this part of the study, was to describe the importance of oil and gas to the economy, in terms that someone not trained in economics or econometrics could understand, and also, to avoid coming across, frankly, as too self-serving.

I recommend Chapter 1, in the Charles River report, which is reproduced in its entirety, in Appendix C. They provide truly a wealth of information, and a very important backdrop for the discussion of issues and resolutions.

Our second finding is on the view of the present and the future. Our industry of course is affected more than ever, by both domestic and international competitive forces, and by growing environmental concerns. We operate in a rapidly-changing, increasingly global, highly competitive landscape. The growing cost of environmental protection is a key factor in this equation. The industry recognizes the need to take appropriate steps, to safeguard the environment, for future generations, but we have to also recognize that this adds cost pressures, and sometimes damages our international competitiveness.

Such forces, and new technology, have

significantly affected the character of the industry. We are in fact as high tech as other industries, carried that often-misused label, such as computers and telecommunications. Our industry is comprised of a highly diverse set of companies, with often differing goals, among its members. This diversity is an asset, because of the flexibility it provides in meeting the changing competitive forces, that face the energy marketplace.

However, for that reason, the oil and gas companies often do not appear as much of a, quote, "industry," as do some other more homogeneous companies, such as automobile manufacturers. Our report includes a view of the oil and gas industry, out over the next 25 years, from a broad range of parties: public interest, environmental organizations, industry observers, et cetera. As might be expected, the views of ~~2,020~~ 2020, foreseen by these diverse groups, covered a very wide spectrum. Many believe that the consumption patterns, and the level of worldwide use, will reflect a continuation of many existing trends, with energy use rising, with a growing population and economic development, around the world. Others foresee a radically different world, with flat or declining fossil fuel use, either forced by environmental

considerations, or made possible by unrecognized technological advances in the production and use of energy.

There was, however, surprisingly broad agreement on the key elements of the outlook for the United States, over the next 25 years. This consensus can be characterized as follows. The United States and the world will still be using large amounts of oil and gas, in 2020, not significantly different from the more than 60 percent share of world energy consumption that these two fuels represent, today.

At the same time, continuing advances in the technology of production and consumption of these fuels will lead to improvement in the efficiency of their use, and in the effective management of their environmental impacts. There is no expectation that the decline in domestic oil production will be reversed. Those steps, important steps, can be taken, to slow that rate of decline. As a result, there is a broad belief that the United States will be increasingly dependent on oil imports.

While U.S. import reliance will continue, and, in all probability, grow, there is a broad ~~of~~ optimism, that, with the development of oil resources, in Russia, other republics of the former Soviet Union,

China, Latin America, and Africa, the United States can and will have access to a diversity of supply sources, that will reduce its vulnerability to this import requirement. And finally, the U.S. natural gas resource base is very substantial, and its development is a means of both limiting dependence on imports, of both oil and gas.

This view of the future, though widely held, is far from certain. The challenge facing the industry and the nation is the establishment, and maintenance, of a business and regulatory environment, that will permit the industry to adapt and evolve, in an increasingly global and competitive marketplace. Chapter 2 of the report provides a further discussion of these views.

Our last finding is on the issues that will most likely shape the industry, over the next 25 years. Our study identified a range of issues, that can be grouped into the four following categories: energy security, industry/government interface issues, environmental concerns, and, finally, the public perception of this industry. The diverse set of thought leaders participating in the study were consistent, in the concerns they expressed. Let me comment on each one of these four, in turn.

Energy security. Stemming from declining U.S. oil production, and increased reliance on imports, energy security is a broad concern. A rational regulatory framework, and reasonable access to the resources of the United States, are of critical importance to the oil and gas exploration and production segment of the industry.

Secondly, on the industry/government interface, maintaining and in fact improving the industry's ability to compete, globally and domestically, will require a more efficient regulatory process, and consistent foreign policy stances, in particular, regulations that better utilize market forces, and trade policies that do not place U.S. firms at competitive disadvantage, would play a powerful and positive part in the future health of the economy.

Third, with respect to the environment, the array of environmental issues, from local environmental quality, to the questions surrounding global climate change, will of course play a very significant role in our future.

And finally, industry image. The industry recognizes that the understanding and opinions of many stakeholders will serve as very important determinants of the rationality of policy, and of future

opportunities, and therefore, we as an industry must address those perceptions.

I highly recommend the expanded discussion of these issues contained in Chapter 3, and in the Arthur D. Little report, which is provided as Appendix D, in your copy. All of the A. D. Little recommendations were not adopted by the NPC report, because either there was not sufficient time to fully address or evaluate them, or because, frankly, there was not a consensus, within the NPC, on these recommendations. However, I would like to take this opportunity to quote a few of the key statements, from the A. D. Little executive summary, and here, I begin the quote.

"Our research shows that the petroleum industry has a rare, historic opportunity, to reposition itself, from the largely defensive and reactive posture of the past quarter-century, into a more positive and proactive, and forward-looking force, in the national and international communities. The industry bears a particular responsibility to take a lead in improving relations with its many stakeholders. It can do so, by communicating, clearly, what it is doing, why it is doing, and how its efforts will benefit stakeholders, and by balancing other constituents' needs, and by building bridges, where

possible. We believe that the nation would benefit from a cooperative team-building spirit, which the industry, the government, environmentalists, and the broad public, and all ~~of the~~ other stakeholders, should strive to create. We further believe that this new spirit will only emerge, if the industry takes a leadership role in defining and articulating a vision that can muster broad-based support."

That is the end of the quote of A. D. Little's findings, which provide, I think, an appropriate introduction to the NPC recommendations on approaches to resolution of these issues. Our report states that, the mission of the U.S. oil and gas industry is to provide reliable and affordable energy supplies, in a manner reflecting shared societal concerns, for environment, health, and safety. The oil and gas industry can most successfully carry out its mission, and realize its value to the nation, in an environment drive by market forces. Balancing this, with the need to meet environmental and other societal goals, and given the inherent uncertainties in the energy future, a more flexible and responsive policy and regulatory framework is required.

The Committee therefore recommends the following action: First, to encourage the responsible

development of domestic resources. Recognizing the likely increase in import reliance, action should be taken to encourage the development of abundant domestic natural gas supplies, to negotiate realistic standards to allow access to the most promising oil resources, and to reassess legislative and regulatory constraints that inhibit the ability of the industry to make a most effective use for these resources.

Secondly, we encourage development of as wide a range as possible of foreign import sources. U.S. policy should seek to avoid reliance on imports, from a limited number of nations.

Next, we recommend the use of sound science, in legislative, regulatory, and judicial processes. Government should use the most up-to-date scientific and risk assessment information that is available. Both the quality of the science, and its communication to decisionmakers, are critical.

Next, we recommend a requirement that cost-benefit analyses be used for regulatory interventions. Government should use cost-benefit analysis, to ensure that decisions are made with the full awareness of the tradeoffs involved.

Next, we would recommend the use of goal-oriented regulatory mechanisms, where regulatory

intervention is appropriate. Government regulatory actions should specify desired outcomes, rather than specifying specific compliance methods.

We also recommend, and encourage, science, economic, and energy education. Our industry should further its efforts in the educational area. We have a strong history of supporting educational programs, yet of course we have to recognize that more could be done. An understanding of the role of energy, in the nation's economy, will contribute to a well-informed public policy.

The effectiveness of the above specific actions depends, generally, on trust, among the stakeholders, and a willingness to work toward common goals. Now, the following two recommendations call for the leaders of both industry, and government, to take the initiative, in improving the process by which issues of importance to the industry and the nation are resolved.

First, speaking to members of industry, we think that we should improve and expand communication with stakeholders outside of our industry boundaries. This improved and expanded communication is intended to provide a basis to resolve more effectively the issues the oil and gas industry will face, in the future.

Enhanced communication must be championed by industry leaders, to be effective, and to show the commitment to real changes in the relationship with these various stakeholders. Effective dialogue will promote resolution of issues, through consideration of the position of all stakeholders, and we think will result in a realistic basis for action.

Second, speaking to government, we would suggest that improving the coordination of policies affecting the oil and gas industry. Policy decisions that affect our industry, are made in many different departments of government, and in various agencies. Improved coordination, across these boundaries, would provide an opportunity to better resolve conflicting policies, with a fuller understanding of energy's role in the economy, and the impact of policy measures on the industry. The coordination might be achieved through a working group of high level government officials, from federal departments and agencies whose operations affect the oil and gas industry. These agencies would include of course EPA, the Department of Energy, the State Department, Defense, Treasury, and the list goes on.

In summary, the Committee believes that the government should continue to improve its approach to

regulation, and its policy interface with the industry. However, we recognize that no industry is likely to succeed, in a free market, unless a broad range of stakeholders see sufficient commonality, between their goals, and those of the industry in question.

One of the real lessons of this study is the realization, that there may be more commonality of goals, between the industry and the stakeholders, than many of us previously thought. These shared goals can serve as a starting point for a more cooperative approach, in addressing future issues. The industry can and should take the initiative to set a new course, in its relations with both government and many stakeholders.

Mr. Chairman, this concludes my review of the draft report, as submitted by the Committee. However, I think you should know that certain members of the Committee, and members of the Council, have submitted suggested changes, for inclusion in the final report. I sent to members of the Council, on July 26th, and I noted that the study's coordinating committee had taken in these comments, and we hope handled them in a way to the satisfaction of those who suggested changes.

We strongly support these recommendations, that are on the table, before each member, and propose

that the Council adopt a series of changes, included in the final report. These changes would include, we agree with certain suggested editorial changes, suggested in the overview, pages 4 and 7. We agree with the comment about actions which increase bureaucracy. This was a matter of great concern to several members, and we added a new paragraph to clearly state that the report is not proposing, and would not propose, new bureaucracies, to implement its recommendations. In fact, we would expect that existing structures, or organizations, should be utilized, unless there is a separate determination of clear and compelling need, that demonstrates the contrary. This paragraph would be added to the overview, page 9, and to Chapter 4, page 4-6.

These changes would be in lieu of a number of suggestions to delete various sentences, in the overview, page 9, and Chapter 4, pages 4-4 and 4-6. The subcommittee feels that including, or retaining, those ~~low~~ sentences, is important, because we think they are essential to other thoughts that are included in the report. New language was added, also, to emphasize a preference for using existing forums, in Chapter 4, page 4-5.

Finally, the subcommittee agreed that

suggested editorial changes to the conclusion section of Chapter 4, page 4-7, and finally, agreed with suggested changes to address actions and positions that go beyond the charter of the Council, in the conclusion section of Chapter, page 4-7. The last sentence, however, would be retained, in that the subcommittee, again, feels that it contains an important, very important, thought.

I believe and hope that these changes are consistent with what our committee's discussions reflected, and I certainly personally endorse them.

Mr. Chairman, this completes my presentation. I believe this report is responsive to the Secretary's request, and I hope it will be of significant value to the Administration, and to Congress, in addressing the issues likely to rise, between now and 2020. I would also, at this time, again, like to thank Marshall Nichols, and the Council staff, for their very considerable help in the preparation of this proposed report, and I now move that the National Petroleum Council adopt the proposed report, subject to the recommended changes, and any final editing that might be done.

CHAIRMAN FULLER: Do I hear a second?

VOICE: Second.

CHAIRMAN FULLER: I would like to ask for comments and discussion, and, if you would, please identify yourself, if you have a comment or a suggestion.

Questions or comments? Yes?

MR. SITTER: Chuck Sitter, Exxon.

CHAIRMAN FULLER: Yes, Chuck?

MR. SITTER: First, I would like to compliment -- Phil subcommittee -- drafting group -- accommodating everybody's views.

The recommendation -- for -- bureaucracy -- make an important point, and there is one issue, in the document where -- we seem to not be in conformance with its recommendation of not supporting new bureaucracy, and we could very easily, without doing violence to the report, delete that sentence -- one sentence, on page 4-4, as far as -- one option -- establishing standards -- is formation of an independent cost-benefit analysis -- and -- reference --

394

(Discussion was held off-microphone.)

CHAIRMAN FULLER: Very well. Phil, would you like to respond to that?

MR. CARROLL: Yes, Mr. Chairman. I think Chuck's observation is sound, that the wording, and the particular choice of words, were made, in an attempt to

make clear that we were not recommending the specific formation of such a body. We offer it up, only as an option or an example. But the important content of the paragraph in which that sentence is included, is that, for cost-benefit analysis to be a realistic and practical method for effecting high regulations, or adopting, there has to be objective standards, which can be agreed to, and developed, with the participation of many stakeholders.

The specific recommendation of the Committee, is, that those standards be set, and, because of the compressed timeframe, we do not form judgments, as to, what is the best methodology of developing or adopting those standards, but simply recognize that they would need and require industry involvement, but also, would require the objective involvement of other parties.

We did toss up a couple of examples. I will not make editorial comment, Chuck, on the particular bodies that were included, as to whether they are good examples of these standard settings. It is just that, those are some mechanisms, and we did not intend to include any specific recommendation, regarding how the standards would be set. We did discuss the matter of a possible deletion of that sentence, through the Committee, and the broad vote, within the Committee,

was to include it, because they thought it was helpful, in explaining their intent, and then, of course, offered it up to the general committee, in a final vote, and the vote was to retain the sentence.

But I appreciate Chuck's comment, and I think that is an important matter. Whenever you talk about trying to resolve these issues, it is very easy to be drawn into wanting to create new structures, and new entities, which generally do not contribute to a solution, but make the problem more difficult. I think the Committee's report should be taken, with that very significant caveat.

CHAIRMAN FULLER: Chuck, do you wish to make any further comments on the matter?

MR. SITTER: No, thank you.

CHAIRMAN FULLER: Anyone else?

MR. ALCORN: -- a couple of points. Independent producers -- Nichols -- committee -- independent producers are really interested in that first recommendation. Let us develop the domestic resource, in every way that we can, use all the things that we can use, to do that. And then, the issue of image, or we have got an image problem, and there may be an opportunity to refocus, and it is the history of this industry -- the bigs and the littles, get together

I am George Alcorn an independent from Houston, and I have been on this committee and I think Phil did a great job and many of us have been involved in this kind of effort, but Phil was always there or Marshall Patricia Godley or Bill White there was all kinds of support

on issues, we would often win. When we are divided on issues, we lose, almost every time. The image issue is something that, I think, we are all together on. It may be an opportunity for this industry to come together, not to form a new organization that would be offensive to some of the industry, but to come together, and figure out a way to put, when I got up, this morning, two spots on the television, one by the milk industry, and one by the chemical industry, very effective 15-second spots. I wish there was a way that this industry could -- come together, bring the amount of money, it might be a $100 million a year, for all I know, but bringing money together that would provide for the stakeholders, as -- this country, to appreciate more the enormous economic value of this industry --

It has been a great industry, for a long time. I hope we can make it better, and I want to thank you, again, and Mr. Fuller, for your support. I appreciate it.

CHAIRMAN FULLER: George, thank you, very much, for your eloquent remarks. We were talking about this, last evening, and I am delighted that you chose to get up and say some things, that I think are very important to all of us.

Are there any further questions or comments

on the issue? Feel free. I think this is, unlike some of our other studies, this is a matter that is going to require some discussion, and I will have a suggestion or two for you, as we go forward. But, before we vote, is there any -- are there any further --

MR. CARROLL: Mr. Chairman, before the vote, I recognize that my cochair has arrived -- I want to say that the contributions of Bill White, in the deliberations and the content of this report, were very considerable. Thank you.

CHAIRMAN FULLER: Bill -- delighted to have you with us, and Bill will have an opportunity to speak with us, later on. Any further comments or questions?

Hearing none, all those in favor, say "Aye."

VOICES: Aye.

CHAIRMAN FULLER: Those opposed?

(No response.)

CHAIRMAN FULLER: Thank you, very much. Phil, I really want to thank you for what I know was a real tour de force, in terms of putting this all together. I think you and your associates, on the government side, NPC staff, and the industry, did a terrific job in putting this together.

What I would like to suggest to us all, is not a matter of decision, right at the moment, but

rather, for something to be discussed, over a period of time. You will receive, all of us who are members of the NPC will receive copies of this study, shortly after Labor Day, and what I would like to propose, is that, you all read and reread, not necessarily all the appendices, but the basic recommendations and background, that Phil has discussed, here. And then, we will ask the members of the NPC to send their comments, about where do we go, from here, as I mentioned, in connection with the R & D report, and one of the concerns that we all should have, about the work that the NPC does, because, what happens, after we are through, and, in this particular arena, I think there is a fair amount of danger, that we will agree that there is great eloquence in what has been said. We will also have some concerns, no doubt, and some disagreements, as the industry often does, in certain of the specifics. But, nevertheless, the idea would be, where should we go, from here, with the ideas that have been expressed, here?

I think George has suggested that there might be the possibility of the industry getting together, not necessarily with a new organization, but rather, find some ways to talk to one another, more effectively than we have in the past, and I would personally like

to offer my office, as chair of the NPC, to receive the comments of all of the members, in terms of, where do we go from here, and to put those all together, and then, to help decide, where do we go, from here?

I think it unlikely that the NPC itself is the appropriate vehicle, for moving forward on some of these recommendations. I think it will take existing organizations, and other methods of communication and coordination, to go forward. So I would like to offer the office of the chairman of the NPC for that purpose, and I will be requesting your comments, and I would just like to know whether that approach seems reasonable to all of you.

Very good. Now, we go on to the next item on the agenda, which is the remarks by the Secretary of Energy, the Honorable Hazel O'Leary, and Hazel, we are delighted to hear from you.

SECRETARY O'LEARY: Thank you, very much.

I do not know how you all are feeling, this morning, but I will share with you, first of all, my very informal response to these two very excellent reports, presented.

I want to start, first of all, by lavishing praise on the chairman, to indicate that I believe, in what we have heard, today, in the two separate reports,

reflects vision, of your leadership, and the leadership of the two cochairs, of Dwayne and Phil, in delivering two very critical documents, this that do provide a path forward, at a time when the nation experiences turbulence, both in its domestic and political, I do mean, with a small "P," encounters, at a time when opportunities, internationally, especially for this industry, which so supports the strategic goals of the nation, are definitely in flux, and we need to pull together, in order for the nation to get ahead.

When I, early on, dared to ask if these studies could be undertaken, my sense was, that there might not have been a dramatic enthusiasm in the group. First of all, the future study, many believed, was a piece that had been done, and redone, and perhaps did not need doing, again. In hearing the remarks, and the summary, of the report, done by the task force chairman, I will tell you, that, it may have been done, before, but it needed doing, the way it has been done, today, to focus on issues, first of all, of public perception, which we all thought we intuited -- now, we know -- and, most importantly, to focus on the requirements for building trust and collaboration, which must first start between the Department of Energy, and the industry, generally. And that is a

hard piece, because there is lots of history, that we could use, to pull us back.

I want to use this as an opportunity to lavish praise on Bill White, who is perhaps the most relaxed-looking person in the room, and I do not know exactly how that happened, but I think I have a few suspicions, that we will talk about, in my concluding remarks, because I believe, Phil, as you have indicated, and you, as well, Larry, and you, too, Wayne, that, without the collaboration from the Department, and its senior representatives, then this work could not have been done.

I want to now focus on the necessary, important, and far-reaching work, also, on the research and development, done by Wayne and his task force, providing almost the backup to support what must be done, first of all, in the public arena, in gaining support for what must come next.

I would like to tell you, both, that I believe we have some things, now ongoing, which make the path forward a lot easier, and I will reflect on that, if you will permit me to come down. In recognizing Bill, I must also recognize our Undersecretary, Charles Curtis, who is here, today. He is the President's nominee to be the Deputy Secretary

of Energy, to replace Bill White, when he leaves on the 11th, which, it strikes me, is this week. If we plan this well, and I think we have, Charlie might be confirmed, on Friday, as Bill is leaving. I will tell you how that extraordinary thing has happened. It has happened, in that, the chairman of the Senate Energy Committee managed, or wanted to, move Charlie's nomination forward, to the full Senate, without a hearing. It is an extraordinary thing that has happened, and I think reflects upon the very fine reputation of one Charles Curtis, who has been working in and about this town, and in industry, for a very long time.

He brings to the post of Deputy Secretary an arduous task, in both learning and mastering, on the national security side of our business, and I think stands well to replace Bill. And I want to say this, about Bill.

There was a time when I would have thought he was irreplaceable. I have a thesis that says, if a truck runs over me, people will look down at the squashed body, and say, "Well, yep. Nice Secretary." And they will step over, and get on.

But we do not do that, with real live people. We do that, when we think about ourselves.

Bill's contribution has been invaluable. He has brought a unique set of skills, with a balance that is political, which has served the Department well, in positioning us, especially with this industry, to begin to see some breakthroughs, at least on the ban on Alaskan imports, and maybe, if we all take a deep breath, and get ready for the second session of the 104th, some progress, even on the royalty holiday, earlier submitted by Bennett Johnston. That leaves a lot of work to be done.

In looking back on Bill's contribution, I will tell you, that there is no one more qualified, in this administration, to move this agenda, both before the economic, the national economic council, and perhaps, more importantly, in the halls of other government agencies.

Having said that, about both these men, I will tell you, I would have preferred to have them, both, for a very long time. Bill looks relaxed because he is wise. He woke up, one morning, and said, "It is time." Charlie and I understand, when our time comes, we will be around for a while. Bill, what I hope to get from you, is, advice back home, when you are sitting and contemplating your new roles, which I know will be varied, but you have made a distinguished

contribution to the work, first of all, of this National Petroleum Council, but to the Department and the Administration, generally.

Now, I want to come down here, and talk about what I think I have heard, and how I believe we are prepared to take the next step, forward, and I may be -- because what I would like to do, with my focus, is, when we get a draft report, that has some action items, very quickly, is draw up the matrix, that tells me, what are the recommendations, how we act on them, who is in charge, what are the things to be done, and when are we going to get them done. And I recognize that I am pushing this group, because you need, now, to deliberate. But the point is, is to tell you, that we are ready to go, and go in ways, that we will take direction from you, some, that I have heard, and I want to talk about.

First of all, as I thought about the formal remarks, and some overheads, so that everybody would know, A, I was awake -- beginning and an end, I would like to start where I started, really, back in February, of 1994, and I think it was in Houston. I drew up that first matrix, at a conference that, I think, Dan Yergen shared, and talked about the fact that oil and gas is a strategic industry, and some of

you who were in the room, and had to hear, might remember that matrix, when I compared, Phil, the ~~oil~~ auto industry, steel, computers, to the oil and gas industry, and came to the same conclusions that have been much more eloquently put forward, in the study that has been briefed to you, today. A number of us, we know where we are and we also know that our goal is to convince others.

Both these reports imply and direct the Department of Energy to pick up what we have heard of recommendations that you will finally tell us you need us to act upon, and I have heard some of those get started, today, as a movement within the strategic framework of the Department of Energy, as it exists, and I use this, to tell you that we have been waiting for you, and we are ready for you. I am never going to get these things straight, so please bear with me.

Starting
~~The same~~, with the strategic plan, which is the effort that we undertook, with Bob Galvin, and some of our friends from the textile industry, way back in early summer of 1993, when some of us looked a lot more relaxed, to today, with the outcomes From ~~for~~ the Galvin task force, which have been referred to, in terms of, first of all, focusing on privatizing, what could be privatized, among the laboratories -- recognizing them

to be the NIPPER, and the other eight mentioned. We hear that. We think we are ready to do it. I will talk a bit, about that. In the Yergin task force study, they really took a look at how we do our R & D work, and focused us on the requirement to develop a more strategic method to do it, which means, of course, no more new bureaucracy, in point of fact, stripping away some of the old bureaucracy, and forging decisionmaking. So we understand that.

It was mentioned that we have models, now existing, especially in our industries for the future, where we really reduced some of the time required to get our work done, but, more importantly, dependent upon the industry, to get it done, and I will talk about the refineries, for the future, which is a piece yet to be developed, but it contemplates two things -- early collaboration with the industry on work to be done, identification of the technologies needed to drive costs down, improve competitiveness, and an agreement that a technology road map should be developed, so that the Department knows how and where to go forward. I think that is the way we ought to take the next steps, from the R & D studies, with a clear understanding that Charlie has already taken his instruction, from the Galvin task force, and now, the

Yergin task force, and it follows his lot -- to organize the Department's review of the management of all of our research and development, so that both short term and long term meets the strategic goals of the industries with which we work, at the Department, but, more importantly, that someone is managing them, from the perspective that asks, not what is being done, in the lab, never, what is being done in ~~the~~ NIPER lab, Argonne, or Sandia, they comprise, as a whole, and looks forward to moving the process, in a much more focused way. That, we can do.

The oil and gas R & D industry needs a -- to all that has gone, before, and leads us to a path forward, in a way that makes sense, and commits us to strip away things, and the same can be said, for the oil and gas future study, which I see to be a piece that you take forward, as an industry, but I believe and understand that we can carry, as well, to the maximum extent that you want us to, but we stand ready to do that. And that means, quite frankly, organizing ourselves, better.

When I got a look at the draft, because Patricia was out of town, doing -- making speeches, I spoke to Kyle, and said two things to him. One, on the recommendation requiring the Department to take some

leadership, so that, policies and positions of this administration that affect the government, are handled in a much more focused and collegial way, because it sounds to me like the new deputy secretary, when he is confirmed, on Friday, and the assistant secretary for fossil energy, have some work to do, in identifying, first of all, colleague to colleague -- this means Patricia's counterparts, and Charlie's counterparts -- to get focused to review this study, and to move the path forward, and decisionmaking, that will help us focus what comes before the national economic council for decisionmaking, in a way that would be quite different from the way we have done it, before, which means, involve them, early. It means to get them in forums, like these, but, more importantly, look at the path forward, and identify four or five areas to be moved out on.

So, with respect to the future study, government coordination of policy, I see the champions, there, being, Patricia, with support from Charlie, and support from me, but very quickly identifying our counterpart, in parts of all of those agencies, and moving them into agreement, about what four or five items, you said, are top, on your agenda, that we had assigned ourselves, to doing, in the short term.

Let me come to, quickly, a couple of things. One, I need to remind you, because we -- we always like to do this, and we are very clear on how our work gets done, here, and the heart and soul of it is science and technology. What will drive this industry, is how well we hear, from you, the technology growth that you need, to move forward, in the next 25 years.

I am committed to doing that. The labs are ready, willing, and able, and I also heard the signal, very loud and clear, that says, "Don't compete with the industry already knows how to do," and, for sure, "Make certain that it is done, at less cost than we have been doing it, in the past!" I have heard both of those signals, today.

Let me run from the other recommendations, before I throw up a few more overheads, and I have to use this board, because we did not do this, on the overheads. On the R & D study, government coordination of policies, I already indicated to you that I think we know how to do that, and we have got the mechanism, now, which is a laboratory review panel, that Charlie has -- set up, not a new structure, but simply a new way of doing business with our labs, where we outline our agendas, and the path forward, and tie our budget into it.

I heard a strong signal, asking for something that we have not done, very successfully, yet, and requires some work with the Congress. That is, to focus both on short-term R & D, to assure that somebody owns it, manages it, gets it done, and deploys it, and the other is, to come up with some mechanism, to ensure that, on our long-term projects, we get commitment for funding, to see a course through. That is a very difficult thing ~~with~~ in the Congress, these years and seasons. We need to think about creative ways to do that. I am prepared to work with you, and I am certainly prepared to work with our committees, on the Hill, to get that done, as well.

Incorporate the R & D studies into our realignment. We hear you. We are going to do that. I think that Patricia would like me to talk about, if I can find the overhead, if I can throw it ~~up~~ out, and try to be more merciful to you. I think I have got it. Here it is.

We are really taking a hard look at how ~~--~~ we manage our industry programs. As some of you -- know, that we tussle with the idea of whether or not we should try and merge our energy efficiency, and alternative energy, and fossil, and nuclear energy programs, so as to get a solid mass, that says, "This

is what we are about. We are really about energy." Well, as you can well imagine, the various stakeholders and constituencies, the idea sort of died, before it ever germinated.

No matter. We came out with a piece, that said, "Look. We need to manage that area of our business, more like a holding company would manage its separate business lines." And so, we have come up with this concept, called the "energy cluster," which will be directed out of Charlie's office, when he is confirmed. The whole idea is, we recognize the trend is to downsize these programs, and to get rid of bureaucracy, to cut costs, to consolidate our energy technology centers, so that we get bigger ~~value~~ bang of the buck, without getting rid of them. And finally, to privatize -- the NIPER now, hold your breath, but don't be too frightened.

This is the guide that is coming out of Galvin. I thought I heard a recommendation, that, to the maximum extent practical, not throwing out the resource, if we can privatize, to reduce costs, then we ought to.

What do we now know about our national laboratories, generally? That they are almost person for person, overhead staff, to technology, and

scientific staff. In the private sector, that is not the case. It is two people who are generating thought and product, to one person, who is providing support.

We have got to get those costs down. ~~Twelve~~ one of the ways we know we can do it, for the short term, is an attempt at privatization, while some of the labs, we will never privatize, because they are too expensive. Nobody can afford to buy them. Their disciplines are too multifunctionary. What we have got to do, there, is, let them learn the lesson, to cut their costs, very much, as Battelle is already doing, in our northwest laboratory.

So we hear you. Let's do it better, and let's manage it, in a more cohesive fashion.

Where am I? I am down to, remove the barriers, with collaboration, with the DOE labs. I hear that to be an internal piece -- the way the Department of Energy and its national laboratories manage themselves, when I have talked about this collaborative, strategic dealing with one another, coming together, in a very formal way, to address decisionmaking, and strategic planning, and technology. And the other thing I hear, is, make certain that the barriers to erect it, outside of the Department and its laboratories, in dealing with you, are removed, as well.

And we will work, some, on that, by reducing the time it takes to reach an agreement, if we decide we want to do a little research and development, as a team. In point of fact, we have reduced the time it takes to ~~cycle~~ sign those bloody documents, by more than 50 percent. I think we can do a better job, yet, and we will do that. But, most importantly, what we need to do, is, be clearly open to people, so that, not only in this room, folks know we are available, but we are available, generally. And we can do some of that, in the work, Phil, that you have suggested, and I think that is a way of getting at it.

Finally, provide continuity. I think I have addressed that. It simply means that you stay on it. People have assignments and -- we deliver what we have committed to deliver. And what does that all amount to? I think it amounts to building trust.

Well, if you are really -- and been watching what is going on, with the Congress, you might ask yourselves, "Well, who is blazes is going to do this, in the coming months?"

Well, let me point this out. I think I have a pen.

In my view, we need to get started, a little faster than my folks had planned to -- Patricia, whoever wrote this

thing, that said, "90 days, we will prepare to fill out this matrix, fully." I do not believe we have the time. We are about to enter the crazy season, in case some of you have not noticed. We will start electioneering, shortly. So what I propose to do, is tell you -- 30 days, so, when you have finished your review, Mr. Chairman, and you are ready to go, we are read y to go, as well. That would be number one.

The second question we would ask ourselves, is, "Well, gee whiz. If it is beyond 90 days, it is into the next year. It is going to be long term, and short term, R & D. Who are we going to deal with? We do not want to create any new bureaucracies, do we?"

Now, let us talk about -- let us talk about the fate of the Department of Energy, because you will hear that. I mean, here you are. We are -- one deputy secretary, holding onto another one, but we have yet to do that, again -- somebody in an unknown agency, called the Department of Energy resolution trust, or whatever it is.

(Laughter.)

SECRETARY O'LEARY: Allow me to do this, for a minute, because I think it is important to do, very quickly. You need to understand that.

We have been working on the issue of managing

the Department, in cost-effective way, for about two years, now. You need to hear, if you have not heard it, before, that we have already bought $5 billion worth of savings to the bottom line, as projected over five years.

When the Congress got a little hungrier, as they should have, for reduced costs, we got a little busier, and we said, "We can do better than the $5 billion. You want a little more, we think we can put $14.1 billion on the table."

You need to hold onto that number, because the task force, and the freshman class of the Congress of the United States, thinks that, by abolishing the Department of Energy, they can save $20 billion, and you need to get focused, for -- what is the difference, between our number, and the $20 billion, and whether or not we should be around?

Here is the freshman task force proposal. It is the abolish piece, with the pieces thrown asunder. What you need to know, is that, the plan for abolishing the Department of Energy includes, over three years, sucking down every program we know about, that supports the industry, and supports R & D, and supports the collaboration that would move us where we want to go. Hold that thought -- because I am going to spend a

little time on it.

Disperse the functions. Energy, abolished in three years. National security work, to the Department of Defense, which not even Bill Perry wants, but, believe me, that it will adversely impact the readiness of the conventional forces, and also believe, included -- the work of certified safety and reliability of the nuclear weapons stockpile, probably ought to belong to the scientists, who know on the job about designing them, and ensuring their safety.

The other proposal is to send the weapons cleanup work -- get this! -- to the Corps of Engineers, who know nothing about weapons cleanup, but is very good at dredging harbors, and doing that kind of work. All this, purporting to save some money, and send the national laboratories off to a sale, by whoever will buy them. We can discuss that, by simply focusing on some of the larger laboratories, such as Los Alamos, but let me give you another figure.

The full complement, of some 29 national laboratories, represents a cost to the American public of $100 billion, in original cost. It probably would have been amplified, with the market value, those facilities might be, today. I cannot imagine who can afford to buy them all, my point being that, we ought

to take this in a lot more orderly fashion.

With this rough (we will disrupt) functions, all the energy work in three years will be gone, at a time when Bob Dole indicated, about four months ago, that he believes our energy future will perhaps our national policy, and adversely impact our national security, over the next 10 to 15 years.

Over here, to the right, is the proposal done by Chairman Walker, of the House Science Committee, which is simply a proposal to merge all of the organizations within government, that have responsibility for science and technology, to what I call the ømega science department, of some 77,000 souls, over 300,000 contractors. If you think managing a hundred, and about thirty-nine, which is what we attempt to do, and the Department of Energy, is tough, try this one on, for size. And, in my mind, it makes no sense, and it makes no sense, in the minds of science advisers to every president of the United States living, save one. The idea, quite simply, this takes mission away from the science, and sets the science to be done, without any support (of mission) -- very difficult, for this interplay, between industry and stakeholders, to --

I want to come to the issues that are

important, to all of you, very quickly. This is, in the first year, what is proposed, for R & D funding, at the Department of Energy. You need to see this, very quickly. 1995, our appropriations were at $130.5 million. This year, the Administration's request is up, at $163.2 million, to accomplish some of the goals that have been outlined here, today.

This is the sad part. I think a 32 percent, with the trajectory, as I have indicated, if the decision is to dismantle the Department of Energy, to axe all this work out, in three years. I do not know that any of us want that, even if you quarrel that you want no Department of Energy, I think that we need ~~to look~~ the work.

Let me go, quickly, to some facts, that are known, that you ought to be able to take out of the room, as well. I need to leave you with this.

Not only are we planning to downsize, in that little circle, we showed you, of the cut program, but you need to see that, when reducing employees, federal employees, as well as contract employees, by 27 percent, by the Fiscal Year 2000. That is a huge hit, for government. I mean, when we first started to talk about it, as Patricia will attest, my colleagues, on Saturday morning, in December, when I said, "You

have got to give me 20 percent," looked at me, like I had lost my mind. Those of you who have done it, to your own businesses, know that, sometimes, it has to be done, and it needs to be done.

Last week, we announced the first course forward, that will give us 37 percent of the reductions, by the end of Fiscal Year 1997, and the one thing I understand about our people, is, they were -- the need to understand who was going to be cut, where they were going to be cut, and what would be offered, by way of support, to help them, as they move out of the Department of Energy.

The same is happening, with our contractor force, and it is happening, much more dramatically, as the Congress -- lops off our budget, but we are getting the work done.

Let me leave you with this picture, very quickly. This is the trajectory we are on, for cost, of the Department of Energy, when I arrived -- with the five-year projection, that we all put together, for the Congress, and the Office of Management and Budget, going well above $21 billion, into Fiscal Year 1998, and the course done, on the red line, is, first of all, the cuts that we have made, and projected, already, and what we intend to do, into 1998. You need to know that

we are serious.

Finally, why should you care about this? You should care about this, for these reasons.

We need to save, first of all, the R & D funding, if you believe it is worthwhile and valuable to the industry. This is Dan Yergin's graphic. What it captures, is, expenditures for energy R & D, since 1978, and you see the high mark, during the time when we knew we had a crisis, because the energy prices shot up, and we thought, "Oh, my God! We got to do something with our energy R & D!" And then, you see what happened, over time, as we got very comfortable. And what you should take away from this, is, the cut in R & D funding, for energy resources, both basic and applied, has been 75 percent, since the year 1978, at a time when we are talking about a competitive universe, and I should have -- another -- chart, overhead, where the Japanese, the Germans, and even the South Koreans, are investing more in their R & D, in support of energy, than we are, as a percentage, or a per capita measure.

and I will leave you with this

Finally, what we all know, ~~in our reading of~~ this, and you have said it, and we have said it, and we cannot say it, enough ways: energy still matters. Some of you, who read the press, might have seen, about three weeks ago, Alan Greenspan testified before the

Senate Banking Committee. And he was testifying, of course, on the egregious wrong, or tilt, on the balance of trade.

And I said, "Well, what do you think it is all about, Mr. Greenspan?"

And he said, "Well, any fool can see, it is oil imports."

I think we have got~~ten beyond~~ that.

What do I leave you with? I leave you with the thought, that the time is ripe, to develop, both the outreach to the community, and education, and the value that this industry provides to the American public, and, perhaps equally as important, to get focused on what the long- and short-term requirements are, for R & D, to boost this industry, so as to boost the American public, and the American ~~Congress~~, and to create jobs for people.

But I leave you with this -- strategic -- to say -- management, I think people really understand that. And all you have to do, is, see how import share, and the projection for the Year 2000, and you can look at the data coming out of the international energy agency, today, that, for the short term, since we are going to use less, at home, but they are going to use more, in Europe, and, for the long term, as has

been indicated, going up, but, more importantly, look at the import costs. I am not telling you this, because you already know, but I am telling you this, because we ought to take this line, each and every one of us, and talk to our community, waiting, George, not ~~omit~~ a minute, to understand that, if anybody is going to pull together that massive fund, so that we can go through the great sort of misty commercials, but we need to get on that, as a group.

I think today is an opportunity to, first of all, renew, reenergize, and commit ourselves to working together. I have got enough fights, and I cannot take any more fights, there on the Hill for us, every day, and you all know that. But I will, with the two fights that have been presented, today, this is an opportunity to come together, and not only move the industry, but to move the American public. I can commit myself to it. I know my colleagues have committed, both those going, and coming, and those of us who staying, we want this partnership, and I think we want to renew it, in a way that is highly energized, and, most importantly, is collaborative, and that says, "We will work together, other than these sporadic meetings, where we come together, to review a product."

These products are valuable. We need to move

them. We need to get a plan forward, and, as for us, as I have said, earlier, we are ready to go. There are going to be some tough issues. I am not fooled about that. I know what you want, and I know what you need. We are going to commit anew to -- get ready for it, get ready to rock and roll. Patricia is here. She is not going anywhere. We will not let her. And I am not going anywhere. There will probably a department to service you, but someone will service you, for the next one year, five months, and some days, we will be here, to service you.

We ~~love~~ like the collaboration. I am highly energized, and ready to go. Thank you, for these extraordinary products.

(Applause.)

CHAIRMAN FULLER: The Secretary has agreed to take any questions from Council members who are here, and I am sure she would be delighted to hear what you would like to ask her. Are there any questions, please, from the audience?

SECRETARY O'LEARY: Don't be too kind to me. I would not know how to take it.

(Discussion was held off-microphone.)

CHAIRMAN FULLER: Oh, yes. Bill.

MR. FISHER: As a matter of fact -- just

noticed that your plans do integrate the oil and gas research activities --

SECRETARY O'LEARY: Yes.

MR. FISHER: -- at -- and do not know, personally, whether that is a good idea, and I think -- could you elaborate, both a little bit on your plan or mechanism to privatize -- how do you plan to go about that?

SECRETARY O'LEARY: I want to tell you, first of all, that we are not quite sure how we are going to go about that. Kyle has agreed to take on an assignment, that I think is important for us all, and going to talk to you about the road ahead.

We can identify, through this look, that we just did, all of our assets. Many facilities that can be privatized, for the short term, beyond those things that are now a part of the legislative proposal that we put on the Hill, about four months ago, what we know, for the NIPPER, is that, we likely cannot get away with no competition. So Kyle's job is to work with venture capitalists, private financiers, and come up with a model that presumes that we can create a competitive atmosphere, without involving ourselves in the competition that the government requires, which, as Bill and many of us know, from contract reform, takes

more than a year. So I think we are looking for something like a limited competition.

I will not fool you. We already know, there were expressions of interest, when we were going through this asset review, any number of firms who would like to buy some of our assets. The key goals are these. One, to understand that we are dealing with the right firm, and to, not only leave the public impression, but go through a process, so that people understand that it has been a fair and open process.

Kyle has the responsibility, on a short timeline. He is on a plane, today. He is coming back, with a plan. I know that he has already identified volunteers, for the short term, who will help us, as we think through how we finance these government sales, because that will be required, for the private sector. What we have to do, on the government side, to send the right signal, so that financing for sale will be available. And I would suspect that he will have a plan ready to roll out, well before the 90 days that we were stuck with, when I first started talking to you.

I am in a hurry. I believe it is important to be in a hurry, because time is short. I mean this, very seriously, having worked in a subcabinet level, in government, before. The crazy season will start, very

shortly, and we need to get our work done, our planning done, and our path forward, so that people can expect us to move. Otherwise, we will get caught up in the whirlwind of what will come, in 1996.

Is that more than you wanted to hear?

MR. FISHER: That is basically it.

SECRETARY O'LEARY: Okay. Thank you.

CHAIRMAN FULLER: Any other questions for the Secretary? Yes --

VOICE: Yes. Your remarks were very, very eloquent, and very positive, today, but what is the government process, that will occur, that will allow the dialogue, between Energy, and environmental, and Interior departments, for example, to have a more positive conclusion than we have seen, in the past.

SECRETARY O'LEARY: Well, I think what we have been, in the past, is, engaged in a process that was far too formal -- and Bill and Patricia can talk about this, at length, when we have time for informal discussion -- and I believe we need to get out of that, and we need to get a clear path forward. It simply means, involving colleagues, doing it, in a very informal way, so as to get work done. It also means, engaging industry, early on, so we are having a group of meetings, where we are collaborating, as opposed to

very formally sitting around the table. We know how to do that. We have done that, quite successfully, in other areas, I would point out to you. We have done that, very successfully, on some of our national security issues. We have done it, most successfully, on some of our trade, international trade, issues, even in a season while we are taking great criticism, for having done it.

But I think we know how to do that. It is to get away from the formal, to bring an agenda to the table, and to have some honest discussion and brokering, to go forward. It means, exactly EPA. It means Interior, in my view. It certainly means Treasury. And, from time to time, it also has to involve State, and others. But it needs to be frequent, and it needs to be collaborative, as opposed to formal.

I think I am finished. Thank you, very much.

(Applause.)

Sec. O'Leary

CHAIRMAN FULLER: Thank you, Mr. Sitter. As Vick has said, we are always interested to hear what you have to say. It is always very clear, and to the point, and we will take you at your word, and you should expect us to cooperate, in the venture that you are setting about to deal with.

I am absolutely delighted that Bill White has been able to join us, and he is on my left, your right, as you can see. Bill has been, I think, a real tower of strength, in the Department of Energy, for his tenure, there. I wrote Bill a note, after I understood that he was heading out, indicating some of the specifics that, where he has been of help to me, both as chairman of the NPC, and also, very frankly, as some items that Amoco is interested in, particularly outside the United States, and he has been a great help to us, and I really appreciate it.

So it gives me great pleasure to introduce, for some short remarks, the deputy secretary, for a few more days.

(Laughter.)

MR. WHITE: Thank you. Sorry that I was a little late.

-- doing something very important to me, meeting my movers.

(Laughter.)

MR. WHITE: They turned out to be late. But I am very honored, by the words of Secretary O'Leary, and I will tell you, it has been a great source of pride, to me, to have participated in the vision that you outlined, and to work with colleagues, like you and

Charlie, these couple of years.

And, hearing those words before this group, is particularly important to me, because, you know, I cannot think of any other group, of citizens, that I have been to, other than these National Petroleum Council meetings, where we have seen so much of the American economy represented, in one room.

The firms that are in this room, and the industry you represent, just think what would happen to the American economy, if they were not there, to make their contributions, tomorrow. And you can say that, about every few gatherings, in this town. So it is a real honor, and, of course, the group assembled, here, is also, and this has been humbling to me, to work and learn with this group, and the people that I have had a pleasure to deal with, as I look over the crowd, most of the companies, individually, for company issues, it has been a particular source of pride to me, because these are world-leading companies. I mean, we are the world leaders, in this industry.

And I want to tell you, as a pretty proud American, there is not that many industries, any more, where America is clear, by laps, the world leader. And that makes me pretty proud, to appear before this group, as well, and I think it is a great source of

pride, for all of you, not only as businesspeople, but as citizens, to have that particular status.

Well, I thought I would just offer a brief remark, or two, a couple of sources of real optimism, that I think have a direct impact on your business. Then I want to express a couple of concerns, that I have, and maybe give you a little challenge, as the Secretary, occasionally, has been known to do, is to challenge your group.

Why I am fundamentally optimistic, in leaving the Federal Government, as one who, frankly, has always been pretty skeptical about some of the work that has been done, in the Federal Government, I am very optimistic, for a couple of reasons.

First, I think this country, on a bipartisan basis, is really turning the corner on deficit spending. And there may be many people for whom this word, "deficit spending," is something abstract, and ethereal. But anybody who pays taxes, corporate income taxes, personal income taxes, and must look at a balance sheet and an income statement, as the people do, in this room, have to realize, the pretty sorry road our country was on, with fault of leadership in both political parties, up until relatively recently, on this matter of deficit spending.

In Fiscal Year 1993, when we came into the Department of Energy, the total amount paid, for interest on the federal deficit, equaled 60 percent of the total receipts of the personal income tax of the United States. That is ridiculous. And of course, since government, this government, or no other government, pays down principal, it means that all those deficits were, were taxation, deferred taxation, with compound interest. That is all it is. And there were projections that were done, by many good economists, of both parties, the CBO, and the OMB, and the Heritage Foundation, and others, showing what the tax burden would be, if the deficits continued at the $300 billion a year range. And, boy, I will tell you, personal income tax, corporate income tax, exploded. And now, we have Congressional leadership, that is committed to eliminating that deficit. We have the leadership of the Republican Party -- in contrast to the view of Don Regan, and some of the others, who thought deficits did not matter -- who agree that deficits matter, and we have the President of United States, over the objections of some in his party, embracing the idea that we need to eliminate the deficit, and we have taken concrete actions to do so.

And I will tell you what. We have done so,

within this Department of Energy. We have done our bit.

In the six years before we got here, from Fiscal Year 1987, to Fiscal Year 1993, let me tell you, what the spending profile is, of the Department of Energy of the United States. The expenditures of the Department of Energy of the United States, in those years, went from $11.6 billion, to $19.3 billion. Fiscal Year 1987, to Fiscal Year 1993. Those are the facts.

And, in the last two years, in the budget submitted, before there was any change in Congress, we brought that amount down by, the annual spending by, almost $2 billion, per year, and are on a trajectory to bring it down, a billion dollars a year, year after year after year, for the next four years, and we are doing it, the old-fashioned way, the way that many of you all have had to do it: through closing facilities, layoffs, and asset sales.

There is no magic to it. And what is particularly important for the vision that the Secretary laid out, is, you all have seen organizations that went through downsizings, and they were ad hoc, more or less, or, "Well, this is going to be the last one, this month," or something like that, or, "Well, we

have got to cut our EMP budget, because oil prices are down, therefore, we have got to downsize," and where the organization did not have a vision of where it was going, with the streamlined organization, the employees were left, demoralized. And the emphasis that she has put on vision, and a strategic plan, that we copied from other turnaround situations, such as Motorola, has been to offer the people within the department, who we rely on, and its laboratories, the visions of where we will be, as a streamlined organization, rather than simply thinking that we are being buffered, by factors that are outside our control. And that is a real contribution, I want to say, that I think the leadership in this department, under the Secretary, has made.

The second trend, I will tell you, that I am pretty optimistic about, is, worldwide, the ideas of capitalism, and throwing off the dead hand of government ownership, are catching on. And we are going to see tremendous prospects for American companies, as we have, today, throughout the world, as we are seeing increased privatization, and, with privatization, comes more capable overseas business partners, comes more access to resources abroad, comes the end of many of the domestic preferences which have

been such an impediment to our service industries.

Now, this is not something that we can take credit for. Frankly, this is a historic trend. No politician, or any thing, body else, it is based on the failure of some of the socialist state-oriented policies, to provide a good standard of living for their people. But we, as Americans, and we, within the Department of Energy, have been trying to help our citizens take advantage of that trend, and, moreover, we have been working with our government counterparts, and I know I have spent maybe a quarter of my time, doing this, to talk to them about how they can privatize, and how they can resemble a modern, market-oriented company, with private ownership and control. Particular successes, on particular pieces of legislation, and particular acts, I can think of, that we participated in, have occurred in such major markets for the companies, in this room, as Russia, Mexico, and Venezuela, and some very specific impacts, there.

Now, I am not, I think those are what makes me fundamentally optimistic. I do have a concern or two. One of those concerns, is just, some of the asault on the idea that government should help provide, and, government, and, for that matter, the private sector, should spend a lot, on R & D, and should make

good investments in R & D.

Let me just mention something about R & D. You know, in this modern, competitive world, in which we are competing with Germany and Japan, and many of these other countries, our resources are our people. I have been on vacation, for the last couple of weeks. There is a fellow, Peter Drukker, that I have talked to, from time to time, who was up there, with me. He gets it, a lot of people. Our resources are our people. And our people's technical know-how is what is important, in this competitive age.

Why the United States of America has done so well, in the post-World War II era, has been because we have had market-oriented, democratic institutions, with some predictability of law, and it is because we have had a technological edge. And that technological edge resulted from the fact that American companies invested more in technological development, and the American government, on some of the basic research that industry would not fund, had always been there. And, unfortunately, we had to be there, and a lot of it was driven by the military expenditures, right? That is why we are number one, in aerospace. That is how we took a jump, on our competitors, in computers. That is how we took a jump, on our competitors, in so many arenas.

But, right now, when squeezed between Medicare, and tax cuts, and everything, Social Security, science and technology can come up on the raw end, if we don't watch out. And if we do shortchange the investment, both in the private sector and the public sector, on R & D, then I am a little concerned about what our competitiveness will be, 40, 50 years from now, and I think we all have to be part of that constituency. I mean, it is not a glorious -- those of you, many, probably most of the people, here, serve on university boards, and you know what is happening, there.

The other concern I have, is this merchandise trade deficit. Now, this is not to say that we ought to be protectionist, but hear me out. One of our heros, Warren Buffett, speaks pretty eloquently about this merchandise trade deficit. You know, Mexico got in trouble, because of its merchandise trade deficit, because it was left vulnerable to changes, in the direct foreign investment that it needed, to offset that merchandise trade deficit. Right?

What do the United States rely on, to offset its chronic merchandise trade deficit? Direct foreign investment.

And what does that mean? That means, that,

our ability to undertake fiscal and monetary policies, free from the dictates of the international financial market, our ability to do so, our independence to run a fiscal and monetary policy, that is independent, to some extent, of the dictates of what foreign investors want, eventually, will be impaired. I am not being alarmist about this. It is just a matter of arithmetic.

Now, maybe it is not a big thing, that the United States, one might say, "Well, a lot of other countries live in this milieu, where they have to, where you have a major currency devaluation, and it is not a big deal." And I will tell you why it is a big deal, and particularly, a big deal, for this particular industry.

And that is, if the dollar no longer is a standard of value, in the world, and is the currency used, as a store in value, then we are in trouble, and if we cannot control our, if we have to have major inflation, or major fiscal expansion, to counter a recession, and that undermines our currency, and our currency, we have no control of our currency, whatsoever, then, the days in which oil prices are set in dollars, will end. And I have already talked to some folks -- in the Persian Gulf, who reflect that

fact. And it has been a great luxury to this country, to have the world's commodity prices, by and large, set in dollars, because it means that our prices are less volatile, because of that.

So, I mention that, and I think, of course, the emphasis that Secretary O'Leary put on imports, and the discussion on imports, in this draft report, is important. That does not mean that we need to be protectionist, but it means that all leaders, in particular, leaders in the business community, ought to be thinking and talking about this merchandise trade deficit, and what is our national strategy to deal with the merchandise trade deficit, in a way that does not, in the long run, leave our currency completely vulnerable?

No industry has more of a stake in that than the oil industry, because of the way the commodity prices are set, and no industry has no participation in that merchandise trade deficit, except the auto and consumer electronics industries, than does the oil industry.

Here is my challenge to you, if I could, and this is rather mundane, compared to the topics that I have just mentioned. We need more people, who have had extensive experience in the private sector, as has

Secretary O'Leary, Charlie Curtis, Pat Godley, and some others. We need -- Reggie Spiller would be a classic example -- we need more people, who have extensive experience in the private sector, as executives, in the energy sector, that come into government. It does not need to be for ten years, it does not need to be five years, it does not need to be as a political appointee, but I will tell you what. If we can work together, to come up with something, where people can rotate in and out, over a couple of years, where we, the ethics lawyers, when I first approached them, about this, "Oh, you cannot have somebody from an oil industry come in here, for a year and a half, and do an internship program."

It is critical, that you, or your colleagues, whether your colleagues be in their thirties, and looking for some experience, whether it be a retired senior executive, consider what they could do, to do their part, within the Federal Government of the United States, because we cannot exist, as a country, in which the private sector views government, basically, as the enemy, and as something alien, and away from them. I mean, government has to be part of us. We pay government, we are its owners, and we also have to make sure that our people participate in government, not

just as voters, but, from time to time, get into government, and get their hands dirty, to see what the issues are all about.

I think this is extremely important, and I will tell you why. It is going to result in much better policy, and, John, when you were asking how, what is the process? You had more people, who are more experienced, in the oil and gas industry, in the EPA, and you had more people, who had been in the milieu of trying to protect our natural heritage, that are in the energy industries, and in the Energy Department. That is the really best way to make it happen, because, then, you change the culture.

And the second challenge, that I want to offer you, is this. As you well know, the number of Americans, American citizens, who have gone into petroleum engineering, petroleum geology, geophysics, over the last about seven years, has plummeted, by over 70 percent, in the major graduate schools, in those areas.

Now, this is not to say that people can mandate that students, kids, anybody else, chooses these, as a profession. Indeed, it cannot.

But I will tell you what. The policies of the companies that are represented in this room, I

think, can have an impact on trying to get those numbers up.

By the way, it is not the case that, the overall enrollments have declined, but not all that much. The international students are now filling those spots, and, because of my religious beliefs, I am not, I do not think that international students are any less worthy of an education, or worth less, in the eyes of our Maker, than our Americans, but it is critical, to our country, to the neighborhoods in which we live, to our kids, that we have Americans trained, in the high tech highways jobs, which this industry has traditionally represented.

I will just give you two examples, of how the companies in this room could contribute to trying to encourage Americans to build on the legacy, to take the legacy that many of you will leave. One is that, there are programs, involving scholarships, and recruitments of kids, that are in high schools, and colleges, throughout the country. These programs can be tremendously effective, if they know that the potential is out there, if they know some of the potential and opportunities that they have, and that is combined with scholarship and mentors. When I was growing up, I did not grow up, in the nicest neighborhood, and I did not

know anybody in the oil business, except for roughnecks, and I think it is important for people who are growing up to see that this is a career model, that they, too, can aspire to, and there is many talented people, out there, who might be able to take advantage of that.

The second thing, that you people, in particular, can do, is, when considering your downsizing, and this process -- will continually occur, over the next decade, I think people need to look, and make sure that the seniority-based rules, retirement and layoff, are not followed, to the extent that we are pulling up our ladders, behind us.

I know this is a real problem, that we are confronting here, in the Department of Energy. I mean, we can do early retirement, and we are doing most of it, by early retirement. But, boy, once you get into those Civil Service rules, that is seniority, okay? And that means that we are losing some of the best young people, and I know this has occurred, within many of the companies in this room, because of where I am from, and I know some of those people. And they were, because they were the lowest on the totem pole. And that is why, at a time when profits of many companies were booming, you had such a deep, deep decline in

enrollment.

Thank you, so much. It has been a pleasure, being with you all.

(Applause.)

CHAIRMAN FULLER: I want to thank you, Bill, for what you have done, on behalf of the citizens of the United States, in serving in what I know is a tough job, and one that has also been a challenge to you, I am sure. And I want to wish you, on behalf of all of us, all of our best, as you head back to the southland, and the private sector. Good luck to you.

MR. WHITE: Thank you, very much.

CHAIRMAN FULLER: We now have a couple of administrative matters to deal with, and I think the first thing I need to do, is, ask John Hall to come up and give the finance report. John, please? It is a good report, by the way --

(Laughter.)

MR. HALL: Thank you, Mr. Chairman, and Madam Secretary. The finance committee met this morning, to review the financial status of the Council. We met with representatives of Ernst and Young, our independent, outside auditors, to review a draft of their audit, for the Calendar Year 1994. Based on this review, I am pleased to report to you, that our

accounting procedures and controls received high marks, and the financial condition of the Council is strong.

You may recall that, last April, Larry Fuller sent us a memorandum on the possible applicability of OBRA 93, lobbying disallowance, to a portion of Council activities. Despite the efforts of Bill White, Frank Burke, and others, and even a Wall Street Journal article, the Internal Revenue Service decided, on July 21, that it had no choice but to consider contributions of time and money, to certain advisory committee activities, as nondeductible, under OBRA 93.

We discussed this matter with Ernst and Young representatives, this morning, and they will work with NPC staff, to provide you, as soon as possible, with the calculated nondeductible portion of your NPC contribution. We think the worst case is, about 25 percent would be nondeductible. However, we believe that it might go as low as 10 percent, and we will be working to try to minimize it.

We then reviewed the 1995 receipts and expenditures, to date, and find that, while member contributions are a little behind last year's pace, the response has been good, and our expenditures, to date, are within our projections.

We then discussed our budget for Calendar

Year 1996. Due to the uncertainty of the size and scope of any new studies that the Secretary might request, we are recommending a 1996 budget in the amount of $2,818,000, and this would provide funds to undertake two new studies, should they be requested, one small one, and one moderate one, in size. This amount is essentially the same as our 1995 budget.

We also discussed the level of member contributions, for 1996, to support this budget, and are recommending that individual member contributions be held, at the same level, as 1995.

Thank you, Mr. Chairman. This completes my report, and I move its acceptance by the Council.

CHAIRMAN FULLER: Is there a second?

VOICE: Second.

CHAIRMAN FULLER: Don't go away, John! Are there any questions of John, particularly on OBRA 93, which I am sure he will be able to handle? I might also say that we have some reserve, in place, so that we can forward, without worrying too much about our future.

Okay. With a motion to second, all those in favor, say "Aye."

VOICES: Aye.

CHAIRMAN FULLER: Those opposed.

(No response.)

CHAIRMAN FULLER: Very good. Now, I have the pleasure of calling on Collis Chandler, to give the Nominating Committee report.

MR. CHANDLER: Thank you, Larry, and Hazel. Good morning.

The National Petroleum Council's Nominating Committee met yesterday to agree on its recommendations for NPC officers, chairs, and members of the Agenda and Appointment Committees, as well as the five at-large members of the NPC Cochairs' Coordinating Committee. On behalf of the Comittee, I am pleased to offer the following nominations:

For NPC Chair, Larry Fuller.

For NPC Vice Chair, Dennis Hendrix.

For the Agenda Committee, we recommend the following as members: Bob Allison, Vic Beghini, Phil Carroll, myself, Ken Derr, Dick Farman, Bob Fri, Frank McPherson, John Miller, Jack Murphy, with Joe Foster serving as the Chair.

For the Appointment Committee, we recommend the following as members: George Alcorn, Bob Campbell, Steve Chesebro', Tom Cruikshank, Al DeCrane, David Dorn, Dino Nicandros, Bobby Parker, Lee Raymond, Irene Wischer, with Leighton Steward chairing the Appointment

Committee.

In addition, we recommend the following "at-large" members of the Cochairs' Coordinating Committee: Wayne Wallen, Keith Bailey, Mike Bowlin, Al DeCrane, and Dan Yergin.

This completes the report of the Nominating Committee, and, on behalf of the Committee, I move that the above slates be elected until the next organizational meeting of the Council. Thank you.

CHAIRMAN FULLER: Is there a second to that motion?

VOICE: Second.

CHAIRMAN FULLER: All those in favor, say "Aye."

VOICES: Aye.

CHAIRMAN FULLER: Those opposed.

(No response.)

CHAIRMAN FULLER: Very good. That brings us to the end of our formal, and, as far as I know, informal agenda. Let me ask, first, before we adjourn, whether there are any matters, further matters, to come before the NPC.

MR. DeCRANE: Larry?

CHAIRMAN FULLER: Yes. Al.

MR. DeCRANE: Larry, I applaud your offering

your office, here, as Chairman of this group, as a rallying point for ideas, how to use this tremendous source document, on future issues affecting the industry, and also, George's comments. What I would like to suggest, here, is that, the Committee members start, before we get the final report, to take this raw material, that we pulled together, and undertake to distribute it to our constituency, that we provide our employees, the million and a half that we have, plus our contractors, jobbers, and so on, with some of the basic information on the importance of this industry to the economy, and to the future of the country. If we are going to deal with the issues that Bill outlined, so successfully, in his remarks to us, and that, the Secretary has pointed out, need to be dealt with, we need an informed constituency to help us, in our own industry. And so, I think we can start on that, in a very informative and informal, but yet, kind of organized way, individually. We do not have to set up a bureaucracy -- to go out, and tell our people what we are all about, and I think that we failed, a little bit, perhaps, to instill the pride in how important this industry is, and we are going to need knowledgeable people, and employees, suppliers, and so on, for some of the issues that are going to discussed,

in the future.

And secondly, maybe this is venturing out, a little bit, but, in the process of the preparation of this report, we brought in other stakeholders, whose remarks, and whose attitudes, and whose influence, are reflected in this document, and I hope that they would have the same respect for it, as we do, having put it together, and presented it to the Secretary, here, today. And I would think that we should ask them, and their organizations, environmental groups, political groups, social groups, consumer groups, to also take the core information, and make it available, because, if we are going to communicate with one another, we kind of need a database to start from. And I think, if they understand a little bit more about this industry, and if they will take the work that they contributed to, and begin to think about it, before we come back and try and meet on some of these issues, we will have advanced, on a short timeframe, that, Hazel pointed out, is really necessary, here, and we ought to go ahead and do that.

So I offer that, as a suggestion to the people, here.

CHAIRMAN FULLER: Very good, Al. Thank you. We will ask the staff to put together a recommendation,

along those lines. There are perhaps some limitations, in terms of practicality, but I think that is a very good idea. We have not, at least, I have not, normally thought of some of our more technical documents as being bestsellers, but, in this particular case, I think you make a very good point.

(Laughter.)

CHAIRMAN FULLER: We should certainly do that.

Any other comments, or matters to come before the house?

Let me announce, then, before we adjourn, that, in about ten minutes, there will be a press conference, here, and, if all of you will leave, the members of the press will please come up to the front, we will hold the press conference, here, on the subject of the two reports that have been presented, here.

There being no further business, I would like to motion to adjourn.

VOICE: Move.

CHAIRMAN FULLER: So moved. Second?

VOICE: Second.

CHAIRMAN FULLER: All in favor? Very good. The meeting is adjourned.

(Whereupon, at 11:10 a.m., the meeting was adjourned.)