

UNITED STATES OF AMERICA

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DEPARTMENT OF ENERGY

+ + + + +

NATIONAL PETROLEUM COUNCIL

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MEETING

+ + + + +

WEDNESDAY,
JUNE 6, 2001

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The meeting came to order at 9:00 a.m., in Salon I of the Ballroom of the Ritz Carlton Hotel, 1150 22nd Street, N.W., Washington, D.C., Archie W. Dunham, Chair, National Petroleum Council, presiding.

PRESENT:

ARCHIE DUNHAM, Chair, National Petroleum Council
DAVID J. LESAR, Chair, NPC Committee on Critical
Infrastructure Protection
MARSHALL W. NICHOLS, Executive Director,
National Petroleum Council
HON. E. SPENCER ABRAHAM, Secretary of Energy
KYLE McSLARROW, Chief of Staff, U.S. Department
of Energy
ROBERT S. KRIPOWICZ, Acting Assistant Secretary
of Fossil Energy
PAUL KELLY, Sr. Vice President, Rowan
Companies, Inc.
CHUCK DOMINY, Chair, Coordinating Subcommittee,
CIP
JOE FOSTER, Non-Executive Chairman, Newfield
Exploration Co.

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P-R-O-C-E-E-D-I-N-G-S

(8:58 a.m.)

CHAIRMAN DUNHAM: Good morning.

ALL: Good morning.

CHAIRMAN DUNHAM: Welcome to the 109th meeting of the National Petroleum Council. I really appreciate your willingness to serve in this advisory capacity to the Secretary of Energy, and also to our nation and industry.

We have what I hope will be an interesting and a very worthwhile session scheduled this morning. And the check-in across the hall will serve as our official attendance record. And so if there's no objection, I will dispense with the calling of the roll.

Before I introduce the head table, I would like to relay the regrets of our Vice Chair, Bill Weis, for not being here this morning. Bill's mother is very seriously ill, and so he's there with her this morning, and our prayers go out to Bill and his family during this time.

Now I would like to formally introduce for the record the participants at the head table. On my far left is Marshall Nichols, Executive Director of the Council. Next to Marshall is the Chair of the NPC

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1 Committee on Critical Infrastructure Protection, Dave
2 Lesar.

3 On my far right is Bob Kripowicz, Acting
4 Assistant Secretary for Fossil Energy. Next to Bob is
5 Kyle McSlarrow, Chief of Staff of the Secretary of
6 Energy. And then on my immediate right, of course, is
7 Spencer Abraham, Secretary of Energy.

8 Our first order of business this morning
9 is to hear from our new Secretary of Energy, Spence
10 Abraham. And as most of you know, prior to being
11 sworn in as the tenth Secretary of Energy in January,
12 Secretary Abraham served in the Senate representing
13 the State of Michigan.

14 Mr. Secretary, most of us in this room
15 have seen numerous energy secretaries, and most of
16 them have been very effective. A few have been global
17 embarrassments. But nearly every one I've visited
18 with --

19 (Laughter.)

20 Don't ask me which ones.

21 (Laughter.)

22 Because you all know. But nearly every
23 one that I've visited with since your confirmation,
24 both in the United States and globally, are impressed
25 with your performance in a very tough job, your

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1. willingness to learn our industry, and also for your
2. leadership in helping us solve the nation's energy
3. problems.

4. So we are honored to have you with us this
5. morning. We look forward to your comments. Please
6. join me in welcoming Secretary of Energy, Spence
7. Abraham.

8. (Applause.)

9. SECRETARY ABRAHAM: Archie, thank you very
10. much. I appreciate your setting the bar so low.

11. (Laughter.)

12. I can't help but feel comfortable that I
13. can meet the standard you've just outlined, and at
14. least be no worse than an international embarrassment.

15. (Laughter.)

16. But I won't speculate as to who did well
17. and who didn't. I just look forward to working with
18. the Council to try to make some progress on a variety
19. of challenges which we have before us.

20. And as Archie indicated, we've got some
21. folks from our team here today. Bob Kripowicz, who I
22. think most of you probably have known for some time
23. and worked with, and who I've really appreciated -- in
24. his Acting Director role for our Fossil Energy
25. Programs, appreciated very much his counsel and

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1 assistance during my first two months in the job.

2 I hope you'll all get to know Kyle
3 McSlarrow, who is Chief of Staff at the Department
4 now, who has brought a tremendous background in both
5 energy as well as government to this job, and works
6 very closely with me, which means that whenever you
7 have issues that constitute serious, virtually
8 unsolvable problems, I hope you'll take them to Kyle
9 and reserve opportunities for ribbon cuttings and
10 great accomplishments for your meetings with me.

11 But in any event --

12 (Laughter.)

13 -- please do stay in touch with us through
14 Bob, through Kyle, through others. We're still in the
15 process of putting the Department together in terms of
16 personnel. As you're all aware, the process of
17 confirmation, particularly when a cabinet is just
18 starting up, requires some time to meet the various
19 standards of selection processes that go on to meet
20 the various challenges, really, in terms of
21 confirmation that include security checks and other
22 sorts of things.

23 But I'm happy; in our Department we now
24 have sworn in our energy problems --

25 (Laughter.)

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1 -- challenges.

2 I thank the advanced team for having --

3 (Laughter.)

4 You can still hear me out there, right?

5 (Laughter.)

6 You're still -- I've had a variety of
7 audiences try to, you know, sort of discreetly leave
8 during my speeches before. But this is probably the
9 most overt attempt I've ever --

10 (Laughter.)

11 Archie said this is kind of -- this is the
12 first taste of a rolling blackout in the east
13 hemisphere.

14 (Laughter.)

15 But in any event, I just -- I do want to
16 express right off the right my interest in working
17 closely with the Council. And, fortunately, as I
18 noted last night when I stopped by for the events that
19 quite a few of the members are people I've had the
20 chance to work with, either in Michigan or in my role
21 in the U.S. Senate, or given the brief period of time
22 since I assumed office, and so I'm confident we can
23 have the kind of strong relationship and productive
24 relationship that the Council is intended to produce.

25 And I think a quick examination of some of

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1 the accomplishments already in previous work done by
2 this organization is pretty clear evidence of the
3 important role that you play.

4 I'm especially interested today in
5 reviewing the results of the study on critical
6 infrastructure. Infrastructure protection will be a
7 key priority in DOE, so I'm sure the action plan that
8 will be provided today will provide a significant road
9 map for addressing some of these challenges.

10 We have already attempted to begin
11 addressing some infrastructure issues in the four
12 months that we've been installed, particularly in
13 areas like cyber security, where we have already in
14 the budget resolution that we've presented to the
15 Congress proposed a very substantial 43 percent
16 increase in cyber security expenditures in this next
17 budget period, because we recognize that the
18 challenges in these areas are growing ones.

19 I also would note that the Council's past
20 studies have had a major impact. I think your look at
21 America's natural gas supply found some 40 percent was
22 virtually out of bounds to development in federal land
23 areas in Wyoming and Colorado. That was I think a
24 clear warning.

25 By the year 2020, we'll consume some 50

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1 percent more natural gas than we do today. And so
2 with that increasing domestic supply, the gap has to
3 be filled otherwise by foreign import.

4 Interestingly, the Department of Energy
5 followed up on the NPC natural gas study, and I can
6 announce today that our findings show that some
7 68 percent, not 40 percent, of the Rocky Mountain
8 region considered is now closed to development or
9 under major access restrictions. And as I'll discuss
10 later, we've taken steps in our national energy plan
11 to try to address this problem in an environmentally
12 responsible manner.

13 So let me turn now to the issue dominating
14 headlines and of central concern to all American
15 families -- our national energy policy. Over the
16 course of the last several weeks I've had the chance
17 to visit the last refinery built in the United States,
18 and that was over 25 years ago. In fact, I was there,
19 as I told several of you yesterday, in Garyville,
20 Louisiana. And I've also had the chance to visit the
21 first nuclear powerplant to be relicensed for the next
22 20 years.

23 These facilities help us define America's
24 energy challenges. Both the refinery in Garyville and
25 the nuclear plant not too far from here in Calvert

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1. Cliffs, Maryland, have superb environmental records.
2. They performed an absolutely essential function. They
3. run at virtually peak capacity. They operate safely,
4. and they are good citizens in their local community.

5. Our refinery capacity, however, is
6. seriously strained. We need more Garyvilles. Our
7. demand for electricity is soaring, but our interest in
8. adding to the supply has for too long been missing in
9. action. We need more Calvert Cliffs.

10. The consequences are clear for everyone to
11. see. We have an energy supply crisis. It is serious.
12. It's not going to cure itself. And it's going to
13. affect every single family in this country. It's
14. going to cause dramatic changes in lifestyles if
15. unaddressed, and it's going to get much worse if we
16. don't act now to meet the challenge.

17. Let me also make something quite clear.
18. There are no quick fixes to our energy supply crisis.
19. Our energy problems were years in the making, and they
20. will take years to overcome. But in many ways this
21. crisis, like every other crisis the country has ever
22. faced, is going to be a test of our willingness to
23. make tough decisions, to stick with our decisions, and
24. to take responsibility for our actions.

25. We use an enormous amount of energy in

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1 this nation, and yet we are too often reluctant to do
2 the things that need to be done in order to maintain
3 a secure supply of energy. Everyone likes power, but
4 no one likes power generation or delivery. Everybody
5 says they are for conservation.

6 But, unfortunately, no one likes high
7 prices. Not a surprise. You can't have it both ways.
8 And yet we are told that there's an easy and rather
9 uncomplicated way out. When prices soar, apply price
10 caps. When demand exceeds supply, beg OPEC for more
11 oil. When energy supplies drop, claim that
12 conservation and the promise of renewable power, all
13 by themselves, can save the day.

14 The simple course of action will be
15 popular in the short run until the lights really do go
16 out, and then we will need a solution. Our judgment
17 is that we should not wait until the kind of crisis
18 that now grips California works its way eastward and
19 engulfs the entire United States.

20 That's why the President's national energy
21 plan offers us a way to address our energy challenges.
22 His approach is long term, it's balanced, and it is
23 comprehensive. It touches on every aspect of our
24 problem from environmental protection to new sources
25 in the Caspian Sea, from conservation to nuclear

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1 energy.

2 So what I'd like to do today is just spend
3 a few minutes reviewing some of the challenges we see
4 on the horizon, and then I'd like to look a little bit
5 at some of the things we have specifically outlined in
6 the energy plan to try to address them.

7 As you all remember, 22 summers ago a
8 national survey of service stations by the American
9 Automobile Association found that over half were shut
10 down on Saturday, June 23rd, and that 70 percent had
11 their gas pumps shut off on the subsequent Sunday.

12 So on the first weekend of summer in 1979
13 there was simply little gasoline to be found in
14 America at any price. At the same time, independent
15 truckers were staging strikes to protest fuel
16 shortages, snarling traffic and adding to the sense of
17 crisis.

18 Fortunately, today's energy crisis has not
19 resulted in national shortages or gas lines or worker
20 strikes. But it is a deeply serious problem in its
21 own way as the one our nation was facing 25 years ago.
22 Scarcity is not a problem.

23 Few now live under the illusion which was
24 popular in the past that we're running out of natural
25 resources, nor is the nation confronted with the same

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1 kind of international political environment of a
2 perilous cold war on the one hand and a prolonged
3 hostage crisis on the other.

4 But consider what the data is telling us
5 about America's energy future. In the next 20 years,
6 we expect overall United States energy consumption to
7 increase by 30 percent. We expect oil demand to
8 increase by one-third. We expect consumption of
9 natural gas to increase by 62 percent. We expect
10 electricity demand to increase by 45 percent.

11 We now produce 39 percent less oil than we
12 did in 1970, and yet 40 percent of our domestic gas
13 resources are, as you well know, off limits or subject
14 to restrictions that make it virtually impossible to
15 develop.

16 Hydroelectric power generation is expected
17 to fall sharply over the next 20 years. There has
18 been no nuclear power permit granted since 1979, and
19 there are many people who want to see coal, which now
20 supplies over half our electricity, go the way of
21 whale oil.

22 Our energy supply network is also in
23 trouble. Thirty-seven U.S. refineries have closed
24 since 1992, and, as I said, yesterday I visited the
25 last one which was built 25 years ago. An aging power

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1 grid prevents power-rich regions of the nation from
2 selling power to areas that need it the most.

3 America now consumes about 98 quads of
4 energy a year. That's all energy forms. If we assume
5 normal economic growth and continued significant
6 improvements in efficiency, we will consume 127 quads
7 by the year 2020. This means over the next 20 years
8 we're looking at a gap of some 30 quads of energy
9 after we make all expected efficiency gains to keep
10 our homes warm and our factories running.

11 In other words, efficiency helps. It
12 plays a big part. Indeed, our projections are that
13 without gains in conservation we would need about 175
14 quads in 20 years. But we still have to generate an
15 additional 25 percent more energy supply over the next
16 two decades to make up the final difference.

17 Under current policies, because we've had
18 relatively flat and stable lines of supply in the last
19 decade, imports would be our primary option for
20 filling that gap. But I suspect that few Americans
21 wish us to become even more energy dependent.
22 Alternatively, we could attempt to fill the gap by
23 drastically cutting our consumption of energy on top
24 of the major conservation savings we already foresee.

25 But are Americans really prepared for

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1. steep taxes on gasoline and electricity, CAFE
2 standards high enough to virtually ban SUVs from the
3 highway, or the moving of our energy-intensive
4 businesses and jobs offshore? I doubt that.

5 That's why the President has set a
6 difference course for America. It's a course that's
7 balanced and comprehensive. Our national energy plan
8 balances concerns for environmental protection with
9 our need to increase domestic supplies of energy. It
10 balances the need to look to the future and to new
11 sources of energy with today's pressing requirements
12 for additional power.

13 It balances the need for an increased
14 focus on conservation, with greater attention to
15 enhancing our own domestic supplies. And, finally,
16 the President's plan looks to a balanced source of
17 supply, from wind to nuclear, from coal to solar,
18 because we believe that diversity of supply is the
19 best way to ensure energy security.

20 So let me now turn to some of the more
21 specific components of the plan. First, there is
22 conservation. You know, some critics actually
23 attacked this plan before it was even written on the
24 theory that it would not pay enough attention to
25 conservation.

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1 But energy efficiency not only stands
2 alone as a central feature in our pursuit of energy
3 security, it is an idea woven into every facet of our
4 strategy. Few people know it, but we are already the
5 world's most efficient users of energy. Since 1973,
6 the United States economy has grown five times faster
7 than energy use, and we are determined to build on
8 that impressive record.

9 We'll consider higher appliance standards
10 and expanding the scope of that program to include
11 appliances not yet covered. We recommend energy
12 efficiency based tax credits for purchases of new
13 hybrid fuel cell vehicles. The plan helps working
14 families save energy and money by doubling funding for
15 a weatherization assistance program.

16 Combined heat and power technologies have
17 great potential for increasing efficiency and reducing
18 emissions. By itself, one plant can reduce the annual
19 emissions of nitrogen oxide by over 600,000 tons. We
20 back more chip programs by shortening their
21 depreciation life or providing an investment tax
22 credit.

23 Conservation, therefore, is a central part
24 of the plan, and there are many other proposals in the
25 conservation area in addition to the ones I've

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1 mentioned. But as I said at the outset, on its own
2 it's not enough to make up the difference between the
3 expected rise in energy demand over the next 20 years
4 and the current projections with respect to the growth
5 of energy supply.

6 So the President's plan also looks to
7 increasing domestic supply from diverse sources of
8 energy. Just consider this. With electricity demand
9 expected to jump 45 percent over the next 20 years, we
10 are looking at the need for between 1,300 and 1,900
11 new powerplants in this country. That amounts to
12 somewhere between 60 and 90 new plants per year, which
13 works out to obviously more than one new plant per
14 week. And yet the last time we added that much power
15 in a single year was 1985.

16 Even if we meet the construction challenge
17 with all the permits required, the transmission lines
18 to be conducted, and the frequent local political
19 opposition, virtually all of these new plants would be
20 fired by natural gas unless we change course.

21 Now, we believe that natural gas has many
22 advantages, but we also believe it's kind of risky to
23 rely on just one fuel. We believe it would endanger
24 national security by leaving us defenseless against
25 foreign supply disruptions, because obviously import

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1 levels would rise, and we believe it would almost
2 certainly trigger very tight markets with resultant
3 price spikes.

4 That's why the President's plan is a
5 balanced approach that seeks the security that comes
6 from a diverse source of energy supply. So we'll
7 strengthen all available sources. Hydro power must
8 remain a key electricity source, so we propose
9 streamlining the current cumbersome process and very
10 costly relicensing process that at least in one case
11 took 23 years to complete.

12 Coal supplies half of our nation's
13 electricity but presents environmental challenges.
14 Through our clean coal technology initiatives we're
15 going to invest \$2 billion over the next 10 years to
16 help make coal a cleaner burning fuel. Just as
17 urgent, we need to add some regulatory certainty to
18 coal-fired electricity generation.

19 So our energy plan recommends a clear set
20 of policies related to coal that are more easily
21 applied to business decisions. Natural gas, as I
22 noted earlier, will be an increasingly crucial part of
23 our energy mix.

24 Our plan calls for a review of public
25 lands restrictions with full public consultation to

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1 explore impediments to environmentally sound recovery
2 of natural gas reserves. Thanks for the NPC study, we
3 have a better idea of the scope of the impediments.

4 Nuclear energy provides 20 percent of our
5 electricity, and, as we know, is the cleanest form of
6 major power generation known in the world today. In
7 fact, if we had to rely on fossil fuels for the 20
8 percent of electricity now provided by nuclear energy,
9 it would be the same as adding the emissions of 94
10 million automobiles to America's highways.

11 We believe expanding nuclear energy makes
12 sense. To do that, however, we need to overcome some
13 old thinking about nuclear power. Some people's image
14 of nuclear energy has been frozen in time for 22 years
15 by the accident at Three Mile Island.

16 We make no mistake about this. Three Mile
17 Island was a serious accident, and everyone from
18 industry to government has learned from it. But to
19 look at nuclear power today as if nothing has changed
20 since 1979 would be the same as looking at the
21 communications industry and ignoring the development
22 of the cell phone or the internet.

23 Technology in the nuclear industry has
24 raced ahead, too. Current reactors have been
25 upgraded. They've become safer and more reliable.

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1. And improved designs just over the horizon, like the
2 gas-cooled pebble bed reactor, are even safer than
3 today's reactors.

4 Nuclear energy is already a staple around
5 the world, as you know, with France, for example,
6 generating some 80 percent of its electricity from
7 nuclear power. Japan, Israel, and other nations are
8 also moving ahead with new plants.

9 As I mentioned at the beginning of my
10 speech, I recently visited the first nuclear plant to
11 be relicensed for the next 20 years in Calvert Cliffs,
12 Maryland. It's an example of how consolidation of
13 this industry fostered a huge boost in safety and
14 efficiency. Calvert Cliffs runs at 98 percent
15 efficiency, up from 70 percent in the years gone by.

16 In the past, plants had only homegrown
17 talent available for highly-skilled operator jobs.
18 With consolidation, all plants take advantage of the
19 best talent available around the country. Technology
20 and fundamental changes in this industry, most of
21 which have gone unrecognized, have transformed nuclear
22 power generation.

23 We take account of these changes in our
24 energy plan in a variety of recommendations designed
25 to maintain and expand nuclear power generation.

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1 First among them is our expressed commitment to
2 safety. We encourage the relicensing of plants like
3 Calvert Cliffs that meet the highest safety standards,
4 and we support applications for licensing new advanced
5 technology nuclear reactors.

6 The Environmental Protection Agency, in
7 consultation with DOE, will look at the potential for
8 nuclear energy to improve air quality. We recommended
9 more money for safety enforcement. We support
10 legislation, ensuring that decommissioning funds are
11 not taxed as part of the transaction, thus removing
12 additional roadblocks to further consolidation of the
13 industry. And we support extending the Price-Anderson
14 Act to ensure speedy compensation in the case of
15 access.

16 But no progress, obviously, can be made on
17 nuclear power until we solve the challenge of a
18 permanent waste disposal site. The President's energy
19 plan requires that the best science and the most
20 rigorous process be employed to settle on a long-term
21 disposal site.

22 And, clearly, one of the challenges I face
23 as the Secretary of Energy and that our Department
24 will face is to both complete the site
25 characterization science work that's been going on for

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1 some time and to fully evaluate it and to make a
2 recommendation to the President at the earliest
3 practicable time, so that we, in fact, can move
4 forward with this process.

5 Along with traditional sources of energy
6 we also have to harness the power of renewable energy,
7 so we recommend extending and broadening tax
8 incentives for wind as well as biomass generation, and
9 we have proposed new tax credits for using solar
10 generation.

11 Our plan pays special attention to the
12 significant promise of next generation energy, such as
13 hydrogen and fusion. There is great potential here
14 for moving us some day in the future forward in these
15 new areas, and we look forward to working together
16 with this group and others to explore those
17 opportunities as well as to invest in the research and
18 development called for.

19 Along with ensuring that we meet the
20 growing demand for electricity, we've also got to meet
21 the growing demand for oil. Back in 1973 at the
22 height of the oil crisis, as you know, America
23 imported about 36 percent of its oil from abroad.
24 Today we import about 54 percent.

25 And that figure is not going to drop. In

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1 fact, it is likely to rise. But that doesn't mean we
2 shouldn't do everything we can to boost our domestic
3 supply. Here again, technology has forged ahead and
4 changed the exploration industry as much as it has
5 changed everything else.

6 I don't have to tell anybody in this group
7 about the developments with respect to drilling
8 technologies and other sorts of geological survey
9 technology that have taken place in the last 25 years.
10 The marriage of oil exploration with cutting edge
11 technology means fewer rigs, fewer roads, fewer
12 pipelines, and more success.

13 And drilling operations, as you're aware,
14 that once took 65 acres in the 1970s need only 10
15 acres today. So anyone who believes that our plans to
16 expand domestic production of oil and natural gas
17 presents a threat to the environment simply hasn't
18 kept up with the time.

19 Along with the challenge of boosting
20 domestic supply we must continue to work with foreign
21 suppliers like OPEC, but we must look at this question
22 realistically. OPEC has demonstrated that they will
23 act in their own self-interest. Therefore, it's clear
24 to me that America should make decisions about oil
25 based on our self-interest.

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1 So along with a continued honest dialogue
2 with OPEC, we need to concentrate on getting our
3 energy house in order. This means finding new
4 international energy sources. It means enhancing
5 energy production here at home. It means a
6 straightforward dialogue with OPEC, but it does not
7 mean basically going around the world begging for oil.
8 That is a course which this administration will not
9 follow.

10 There are countless sources of energy
11 around the world, from the Caspian Sea to Asia to
12 Africa, and within our own hemisphere. And our energy
13 plan understands the global scope of energy and seeks
14 wide-ranging, diplomatic efforts to increase energy
15 supply around the world.

16 But even if we can find supply, moving
17 energy to market requires a delivery system. Ours is
18 out of date and in need of repair. Infrastructure
19 improvement is the third key element in our energy
20 plan. America is going to need an additional 38,000
21 miles of transmission pipeline and about 263,000 miles
22 of distribution line just to bring natural gas to
23 homes and to businesses.

24 Today's system is stressed. We need a new
25 pipeline to deliver natural gas from Alaska to the

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1. rest of the nation, and we need to improve pipeline
2 safety. Each of these issues is addressed in our
3 plan.

4 We also need greater refinery capacity, as
5 I mentioned. I yesterday visited the last refinery
6 built in America 25 years ago. Such limited refinery
7 capacity is one of the major causes of gasoline price
8 spikes in the Midwest and elsewhere in the last few
9 summers. Unless we take action, that problem will
10 simply continue.

11 Our plan recommends streamlining
12 permitting and providing greater regulatory certainty
13 to give the industry confidence to expand. But our
14 infrastructure challenges don't stop there. Our
15 electricity grid needs to move from one designed to
16 meet regional energy needs to one able to send power
17 from coast to coast.

18 One of the reasons for blackouts in
19 Northern California is simply an inability to get
20 power from Southern California to the north. And,
21 indeed, because power couldn't move into the state
22 from areas of the country that had a surplus.

23 Our plan calls for an end to such
24 bottlenecks by creating an electricity superhighway,
25 one where power can move from coast to coast as freely

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1 as the family automobile.

2 So one of the major responsibilities my
3 department has under the plan is to be -- to draft and
4 to work to seek passage of legislation that can bring
5 us closer to creating a true interstate highway system
6 for electricity, and, most importantly, to break down
7 some of the bottlenecks that today impede our capacity
8 to deal with electricity crises and that, in fact, in
9 many instances have diminished our capacity to have a
10 competitive market with respect to electricity.

11 Too often an electricity producer can only
12 look to the relatively small region in which they
13 operate as a market for power. That's bad for
14 consumers who are denied choice. We need to bring
15 more sellers into these regional markets, which are
16 now largely isolated. That would drive down prices by
17 creating competition and consumer choice.

18 An electricity highway with all the stop
19 signs gone will have another advantage, too. It will
20 help us to transcend one of the major obstacles in
21 America to building energy security -- the so-called
22 not in my backyard syndrome, known as NIMBY.

23 Americans love energy. They just hate
24 energy production. So it's become an effort worthy of
25 the Manhattan Project to site a new powerplant or

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1 build a transmission line in some parts of the
2 country. Earlier this year, for example, plans to
3 build a 550-megawatt gas-fired generator in a suburb
4 of Los Angeles were scrapped after residents voted two
5 to one against the project -- this year.

6 The local mayor added a much-needed dose
7 of reason and maturity to the debate, I might add, by
8 staging a hunger strike in opposition to the project
9 during the days leading up to the election.

10 And yet there are communities in this
11 country, some of them quite isolated, that welcome
12 power generation, including nuclear power generation,
13 and would readily add new plants to their economic
14 base if they could only reach beyond their isolation
15 to find a large market for electricity.

16 Today that's not possible, but a truly
17 national energy grid provides these communities with
18 the broad base of customers they need to create their
19 own hubs of power. And at the same time it moves
20 beyond NIMBY to IMBY, communities that say to
21 powerplants, "Yes, in my backyard."

22 So we believe our energy policy that looks
23 to modernizing our complex energy delivery systems,
24 that enhances energy efficiency and increases domestic
25 production of all sources of energy, as well as

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1 looking ahead to the next generation of energy fuels,
2 is the kind of comprehensive and balanced approach
3 America is looking for.

4 And I would just say in summary that I do
5 know, as I look out on this audience, there are a lot
6 of people here who have been waiting for America to
7 put together a national energy plan with executive
8 leadership and support at the White House, so that the
9 country would have a steady course to follow into its
10 energy future.

11 We have tried to do that with this plan,
12 and I very much look forward to taking your questions
13 on it. But also I hope in the days ahead to engage
14 all of you and urge you to become engaged in this
15 discussion. There are a lot of different viewpoints
16 on energy policy, and no single viewpoint ultimately
17 prevails, because in America that's the way we do
18 business -- through discussion and dialogue and
19 debate.

20 But I believe, just based on the few
21 months I've been in this office, that there really
22 needs to be a significant focus on these energy
23 issues. For too long they have not been on the front
24 burners of America's public policy discussions.

25 A lot of people aren't as familiar as the

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1 people in this audience with some of the issues and
2 the considerations that will go into energy policy
3 decisionmaking, and so you have a unique opportunity,
4 as well as I think responsibility, to help to make
5 sure that this discussion takes place in the kind of
6 fashion, the thoughtful fashion, that we need for us
7 to forge the kinds of decisions that will allow us to
8 implement this plan in a fashion that really does make
9 sure that America meets its energy challenges over the
10 next 20 years in a fashion that guarantees that it's
11 a successful completion of the project which the
12 President has begun.

13 In closing, let me just thank you for your
14 work and commitment to the Council. I'm very proud to
15 be part of the role here and look forward over the
16 course of my tenure in this job to having a close,
17 ongoing relationship.

18 I was joking a little earlier in my
19 comments about my Chief of Staff Kyle and I. But we
20 do welcome your input and advice and counsel when
21 you're in Washington for these meetings, look forward
22 to continuing to have the opportunity to meet together
23 and to benefit from the work that's done by the
24 Council, as well as to suggest some topics for the
25 future that would be of help to us as we forge ahead

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1. in a variety of different ways to meet the energy
2 crisis we now confront.

3 Your help is indispensable, and I'm
4 appreciative for it. Thank you very much.

5 (Applause.)

6 CHAIRMAN DUNHAM: Thank you, Mr.
7 Secretary, for that outstanding presentation. I think
8 maybe we're going to have to raise the bar a little.

9 (Laughter.)

10 But the Secretary has graciously agreed to
11 take your questions, and so we appreciate your doing
12 that, Mr. Secretary.

13 So the floor is now open for questions for
14 the Secretary.

15 Bobby Parker?

16 MR. PARKER: Mr. Secretary, you identified
17 imports as being very important. You identified the
18 Caspian as being very important, probably the largest
19 new supply in the world today. We're there. We need
20 a better relationship with Khazakstan which controls
21 both production and distribution.

22 I was wondering if your office or the
23 State Department which is related to that, it is very
24 important to our future. I was wondering if you'd
25 comment on that.

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1 SECRETARY ABRAHAM: Well, what I can say
2 is two things. First of all, I had the opportunity to
3 meet with my counterpart in Khazakstan just a few days
4 ago when he was in Washington, and so we've opened up
5 I think a very fruitful dialogue on a personal level.

6 And the State Department, as well as our
7 Department, the Department of Commerce, have been
8 through our energy plan, as you know, charged with the
9 responsibility for trying to foster the possible
10 developments of a variety of Caspian-based energy
11 initiatives.

12 And so we look very optimistically, as I
13 implied in my remarks, towards diversifying our
14 international sources. And I would just say that with
15 respect specifically to Khazakstan that I felt our
16 meetings here in Washington were very profitable ones.

17 MR. FOSTER: How does the Democratic
18 control of the Senate affect your plan to get the
19 energy policy implemented?

20 SECRETARY ABRAHAM: Well, I would say,
21 first of all, the plan that we have produced has about
22 105 separate recommendations in it. About 20 percent
23 of those relate to legislative initiatives. About 80
24 percent or so are things which for the most part can
25 be done by executive action, either in the White House

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1 or in various departments of government.

2 And in our department, where about half of
3 those directives and recommendations have been
4 initiated, we're moving forward to put them into
5 action as soon as possible.

6 With regard to those that remain on the
7 legislative calendar, or which would get there, I had
8 the chance -- our staff at least had the opportunity
9 to sort of sit down and compare the components of our
10 plan with the components of plans that have been
11 offered both by Senator Bingaman, the new Chairman of
12 the Energy Committee, and Senator Murkowski, the
13 ranking Republican.

14 And we found, I think, that there were 30
15 elements in common between things that were in our
16 plan and each of the bills that they have introduced
17 already this year. So there's a lot of common ground
18 I think to begin with. And I think the Energy
19 Committee, if you just look at the membership, is
20 comprised of a number of people on both sides of the
21 aisle who have a real interest in and commitment to
22 moving this country forward in a very positive way on
23 energy issues.

24 So I feel that, notwithstanding the change
25 of party control of the Senate overall, that within

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1 the energy set of issues there's a lot of common
2 ground. We will intend to build on those. We
3 certainly expect, of course, to continue to take a lot
4 of the legislative work to the House side, where
5 Congressman Tauzin and I work closely together. We
6 expect to see some of the legislation begin on that
7 side as well.

8 And so how things may shape at some, you
9 know, later point in terms of conference committees,
10 and so on, is a little hard to project. But I think
11 notwithstanding Senate control there is a lot of
12 issues that begin with commitment from both Senator
13 Bingaman, Senator Murkowski, and the President, that
14 should, in my judgment, yield positive results.

15 AUDIENCE MEMBER: Should the President
16 grant California's request for an oxygen waiver for
17 the performance of gasoline?

18 SECRETARY ABRAHAM: That's a decision that
19 the Environmental Protection Agency is working on.
20 It's kind of outside of our Department's purview.

21 AUDIENCE MEMBER: Should it be granted?

22 SECRETARY ABRAHAM: I leave that to people
23 who have that portfolio.

24 Yes, sir.

25 MR. WYLEY: Mr. Secretary, a followup to

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1 Joe's question. There has been some speculation, and
2 that's all it is, that because of the broad-based
3 nature of the energy plan that the President has put
4 forward that during the negotiations, particularly now
5 with a Democratic Senate, that some of this may be
6 foregone. In other words, it's not -- it may be
7 negotiated away and/or unclear.

8 Just how solid are the components of the
9 plan, in your mind? And will you stay the course in
10 a broad-based energy plan?

11 SECRETARY ABRAHAM: Well, I think you all
12 know the President's commitment to moving forward on
13 this. It's, in my view, as strong as his commitment
14 to move ahead with initiatives in education and on
15 taxes. And, again, I think there's a lot of common
16 ground to begin with.

17 Now, remember, the way the Senate rules
18 work, as I all too clearly remember from the last six
19 years, once a bill is on the floor, whatever the bill
20 might be, it's subject to amendment and there's no
21 germaneness requirement, which means that you can
22 bring -- if somebody says, "Well, we're not going to
23 bring a bill on ANWAR to the Senate floor," that
24 doesn't preclude ANWAR from being attached as an
25 amendment. So the debate can happen.

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1. Now, where the votes are, that hasn't
2 changed. The same 100 bodies are in the Senate. They
3 may have a different floor configuration, but they're
4 the same people with the same viewpoints, I think.

5 And, of course, it doesn't preclude
6 something that is passed on the House side from then
7 becoming an issue in conference. So I think that most
8 of these issues, one way or the other, are going to be
9 brought to consideration. I can't project today how
10 every single vote will go, but we feel that there can
11 be a full hearing of this.

12 And I think the American people will
13 demand it. My personal assessment of the public's
14 attitudes about the Senate, from six years'
15 experience, was that the American people, my
16 constituents in Michigan, expected the party in the
17 majority not to prevent things from being debated but
18 to make sure that the issues the public felt strongly
19 about did get a chance for debate.

20 And energy issues are ones the American
21 people want to see government take action on. And so
22 I think you're going to see these issues in the Senate
23 as well as the House have their day of debate, and
24 we'll see where -- I mean, I can't project where
25 they'll go, but I don't think they will be prevented

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1 from discussion.

2 MR. SIMMONS: One of the important
3 distinctions, I believe, in the Bingaman plan from
4 Murkowski's is on Lease Sale 181 and chopping off the
5 shallow water shelf portion which gets close to the
6 coast in Florida. How serious do you think this is?
7 Because that's the only realistic short-term natural
8 gas supply.

9 SECRETARY ABRAHAM: Well, obviously, the
10 Department of Interior, you know, will make that
11 decision from the standpoint of the administration.
12 I can't project at this point where an energy bill
13 might end up on trying to take some sort of
14 legislative course to redefine boundaries.

15 So it's a little -- I'm not trying to be
16 coy. I just don't know whether that particular
17 component of a bill would -- how far that would
18 continue to be part of a legislation, if you think
19 through -- all the way through a conference with the
20 House, where presumably you'd have members with pretty
21 strong views that were different from that on the --
22 as conferees. I just mention it.

23 John?

24 MR. MILLER: I think you have touched on
25 a very vital thing -- that is, the national energy

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1 plan. And you can sense the deep interest by this
2 group in that plan.

3 Unfortunately, looking backward, we
4 started to try to develop an energy plan 30 years ago,
5 and we have not achieved one yet. And I think you
6 sense the questions that are coming, that we have a
7 great concern over whether or not we're going to get
8 anything now.

9 And I guess the question to you is: what
10 can be done now that hasn't been done in the past,
11 either through the Council or through the industry or
12 politically, to really achieve an energy plan? How do
13 we get the American public aware of the real problem
14 and get the political process in the background, so
15 that something meaningful can be achieved?

16 SECRETARY ABRAHAM: Well, first, John, the
17 fact of the matter is is, as I said, 80 --
18 approximately 80 of the recommendations in this plan
19 are ones that the administration will initiate and can
20 execute on its own. In my Department, about half of
21 those fall, and we've already begun moving ahead to
22 implement those which are within our power to
23 implement.

24 I think the President's action with
25 respect to calling upon agencies to expedite the

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1 permitting process, as an initial directive, his call
2 to all of the agencies to begin taking into account
3 basically energy impact of their rules, regulations,
4 and actions, has begun already. These are things that
5 have not transpired.

6 Can I tell you with certainty that every
7 one of the 105 recommendations, including those that
8 require legislative, will pass into law in the next 12
9 months? Probably that won't happen. But I think a
10 lot will for the reasons I've said, because I think
11 Americans are demanding this action, people who are
12 frustrated by what they perceive to be inattentiveness
13 in recent years to energy issues.

14 But I did say at the end of my remarks
15 that the people in this room have a vital role to
16 play, and that's a role of helping really, in the
17 process of this discussion, to make sure that all
18 Americans are better informed about energy issues.

19 When I testified at my confirmation
20 hearing, Senator Gordon Smith of Oregon made a very,
21 I thought, amusing but poignant statement when he
22 said, you know, in his state he encountered -- he said
23 a lot of people believe that electricity comes from
24 the wall, that gasoline comes from, you know, the
25 service station.

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(Laughter.)

They think of energy in terms of the sort of delivery point instead of all of the steps that are required along the process to be able to deliver it. And the lack of understanding of the risks involved in that -- that process, of the impediments that now have been over a long period of time placed in the way of that delivery, has to be I think better understood.

One of the things I have said in other remarks is this. You know, over the last 20 years in this country we've had plentiful and reasonably affordable supplies of energy. That has translated in a certain kind of way into a public opinion that I mentioned in my remarks of people who -- in this country who very much like energy, and to be able to use energy, but don't particularly like the source.

The reason for that is that during the last 20 years when there has been a plentiful, affordable supply, opposition to virtually every energy form has developed. Coal obviously had emission problems. Nuclear energy has safety problems. Even the renewables have come under assault. Hydro-power kills fish. Windmills kill birds.

And so there is sort of an opposition to

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1 every form of energy that has influenced and shaped
2 public opinion. And I'm not saying it has always been
3 in a misinforming way, but perhaps because only one
4 side of the issue has been heard it has distorted the
5 way the public views the process of energy production
6 and supply.

7 And I think people on the Council and in
8 other roles who have expertise really need to share it
9 at this time for public support for the plan's
10 components to develop, because as people recognize the
11 connection between supply shortages and higher prices,
12 and perhaps understand which policies have played a
13 role in diminishing supply, then I think that may
14 shape the viewpoints of Americans a little bit
15 differently on some of the components of the plan.

16 Certainly, one of the reasons I'm -- one
17 of the reasons I went to Garyville, Louisiana,
18 yesterday was to highlight the fact that we haven't
19 built a new refinery in 25 years. Something most
20 Americans, including this American, didn't know until
21 just a few months ago.

22 One of the reasons that we went up -- I
23 went up last week to Yonkers, New York, was to visit
24 a transmission bottleneck point that precludes,
25 because of the limited amount of transmission

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1 capability at that point, it basically precludes a
2 significant amount of electricity to be imported into
3 the city of New York.

4 So that if there are -- and New York,
5 fortunately, isn't in a situation like California this
6 summer, but they're in a situation that's -- where
7 they are just a little better than the margin, but
8 they can't do anything about it from external sources.

9 One of the most frustrating things to me
10 in the job so far was when I went down to the
11 International Energy Ministers meeting in Mexico City
12 in March and met with Mexico's electricity and energy
13 ministers and found that they were willing to try to
14 increase the amount of electricity they could supply
15 to California from their facilities in Baja, only to
16 discover that on the American side of the border, due
17 to transmission limitations, the maximum amount of
18 megawattage we can take from the border to San Diego
19 is 408 megawatt.

20 As I indicated in my speech, because of
21 transmission limitations within the State of
22 California, the so-called Path-15 problem, part of the
23 rolling blackout problem is that there isn't enough
24 capacity just to move things within the state.

25 And I don't think a lot of folks

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1 understand some of these critical ingredients in the
2 challenges we face. So I think we can do a lot of
3 things with respect to the plan through executive
4 action. I think we can pass a significant amount of
5 legislation.

6 What I hope everybody will take some
7 comfort in is the fact that we do have a plan. We
8 didn't take a year or two to develop it. We took
9 basically 90 days. It was put together in a very
10 intense timeframe with principals being the
11 participants, not a lot of staff, but senior-level
12 cabinet members and the Vice President sharing it.

13 And so we are now no longer just sort of
14 debating abstractly. We really do have a set of
15 recommendations, which I think if implemented will
16 address most of these challenges. But we do need
17 help, obviously, to make sure that the discussion is
18 one that's balanced.

19 And what I would say is if you see
20 something in an editorial that you regard as being in
21 need of response, I hope people in this room will
22 write a response that offers a different perspective
23 or a fuller perspective.

24 We have time for one question -- one more
25 -- so -- if there is one more. And if there's not --

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1 yes, Jim.

2 MR. EMMISON: Mr. Secretary, would you
3 talk a little more about what the administration
4 intends to do with respect to some sort of multi-
5 country energy policy?

6 SECRETARY ABRAHAM: Glad to. One of the
7 President's campaign proposals was that in addition to
8 our hemispheric energy initiative we add a separate
9 more or less trilateral component to our hemispheric
10 policy, where we would work with our neighbors in
11 Canada and Mexico on a North American energy
12 framework.

13 And so I've had the opportunity in the
14 last couple of months to have separate meetings with
15 both Ralph Goodale and with Ernesto Martins, as well
16 as a trilateral meeting in Mexico City, where the
17 three of us met with our staffs to talk about fleshing
18 this out and moving forward. And we're all I think in
19 agreement that there are a set of issues common to us
20 in North America that can be very profitably addressed
21 if we begin to work on them together.

22 Our goal is not to form a North American
23 energy policy per se, but it is to try to identify
24 some of the common issues and challenges that we face,
25 and to see if there aren't ways, through collaborative

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1 efforts, that we can address them.

2 And we've already got a working group
3 trying to identify what would be a set of agenda items
4 for a more formal meeting sometime this year. I think
5 we're hoping to have that -- that working group
6 meeting take place in the next month or so, and then
7 go from there.

8 So we look to this as a real profitable
9 opportunity to address some of these issues, whether
10 it's international transmission issues which we find
11 sometimes need to be expedited, or other things with
12 respect to international trade issues on energy
13 between the three countries.

14 Secretary Evans will be part of the
15 process on the trade side and will be working on it
16 with respect to some of the permitting issues. So
17 we're looking at other -- and we expect there will be
18 more. I mean, obviously, because of the
19 interconnectivity of the grids, and because of other
20 common interests, there are a lot of opportunities.
21 There's a great interest, as everyone knows, in Mexico
22 in terms of reforms of their system. And so as that
23 process moves forward, it may bring additional issues
24 into the framework.

25 But we feel that it's a very important

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1 component of our international approach. And as I
2 said, in meetings that were -- this hemispheric energy
3 meeting in Mexico City, while some might expect the
4 United States to, in terms of its international energy
5 policy, either exclusively look to its relationships
6 in the Middle East or exclusively look towards its old
7 alliances in Europe, this administration -- and I
8 think the President's initial meetings with Prime
9 Ministers Chretien and with President Fox reflect a
10 desire to place our hemispheric energy activities on
11 an equal status with those that we will initiate in
12 other parts of the world. And we hope to do that,
13 especially within North America.

14 Thank you all.

15 (Applause.)

16 CHAIRMAN DUNHAM: Thank you, Mr.
17 Secretary, for those generous remarks. And we're
18 especially thankful that you agreed to take questions
19 this morning.

20 We will now consider the final report from
21 the NPC Committee on Critical Infrastructure
22 Protection. And I especially want to thank Dave Lesar
23 for chairing this important committee. The original
24 chair, who was the previous Chairman of Halliburton,
25 decided that the NPC assignment was too difficult.

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1 (Laughter.)

2 So he elected to become Vice President of
3 the United States.

4 (Laughter.)

5 So, Dave, we appreciate your willingness
6 to do this, and the floor is all yours.

7 MR. LESAR: Well, I guess now you know the
8 reason that Dick Cheney left Halliburton.

9 (Laughter.)

10 Thank you, Archie, and I'm very pleased
11 this morning to present the final report that was
12 prepared for consideration by the committee and
13 subcommittee. In the interest of time this morning,
14 I want to give only a brief introduction and then have
15 Chuck Dominy, who is the chairman of the subcommittee,
16 go over the group's findings and recommendations.

17 Let me just go back a bit and start with
18 a brief reminder of the charge that the Council got
19 and accepted from the Secretary of Energy in 1999.
20 The Secretary, at that point, asked the National
21 Petroleum Council to, and I quote, "To review the
22 potential vulnerabilities of the oil and gas
23 industries to attack both physical and cyber, and to
24 advise him on policies and practices that industry and
25 government, separately and in partnership, should

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1 adopt to protect or recover from such attacks."

2 Also, at the Secretary's request, the
3 Council agreed to serve as the sector coordinator for
4 the oil and gas industry during the course of this
5 study. We were very fortunate to have an excellent
6 group of both industry and government experts in the
7 oil and gas sector as part of this group and were a
8 great team.

9 And I know many of those members are in a
10 meeting today, and I want to thank them on behalf of
11 the NPC.

12 As to the study's conclusion and bottom
13 line, it's very simple: our infrastructures are very
14 vulnerable to attack, particularly cyber attack, and
15 there is a very strong business case for industry
16 action in this area.

17 While our industry today does a very good
18 job in protecting and safeguarding our physical
19 assets, we are becoming increasingly dependent on
20 electronic systems. Those systems improve our
21 operating efficiencies in the way we run our
22 businesses every day, but they also introduce new
23 risks.

24 Today we see threats that have greatly
25 increased in this global, interconnected e-economy in

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1 which we're operating today. We face threats ranging
2 from simple human error to organized electronic
3 attacks on our businesses.

4 Today's existing processes and laws are
5 very inadequate to deal with the changes and the
6 threats that we see in our businesses today,
7 especially as we have more dependence on electronic
8 systems.

9 Critical infrastructure protection
10 thinking needs to be adopted as part of their
11 foundation and acting in the best interest of each of
12 our individual companies and in the industry as a
13 whole. It's clearly in our self-interest to implement
14 the steps in the study for identifying and reducing
15 our infrastructure vulnerabilities. These threats are
16 real, and the recommendations and the solutions I
17 believe are very cost-effective.

18 I hope that you will be joining us, and
19 your organizations will join us, in the formation of
20 an industry-run -- and I emphasize an industry-run --
21 oil and gas information-sharing and analysis center.
22 You'll be hearing more about this from Chuck in a
23 couple of minutes.

24 So, Chuck, why don't you come up and give
25 us an overview of the findings and recommendations of

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1 this fine team.

2 MR. DOMINY: Thank you, Dave.

3 Mr. Secretary, Chairman Dunham, and NPC
4 colleagues, it's been pleasure the last 18 months to
5 chair this subcommittee. But I have to tell you, Dr.
6 Paul Scholinge -- please stand up -- from DOE has been
7 my government co-chair and been very valuable. So
8 we've got a public-private partnership already, and we
9 thank you for that.

10 I'm pleased to be able to share some of
11 our findings and recommendations. Initially, we had
12 a study outline, which you see on this chart. Those
13 are the topics we went down. We felt like if we did
14 due diligence on each of those, wrung out all the best
15 thoughts on that, that we'd answer the mail, and that
16 sort of was our blueprint and our focus.

17 So let me share some thoughts, then, on
18 our industry's ability to survive in what we call "the
19 new economy." When we look at ourselves we see an
20 industry that has changed dramatically over the last
21 10 years. The footprint looks the same, but what's
22 key is the fact that there's been an irreversible move
23 to automated control systems and electronic
24 transactions.

25 The globalization of the industry is

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1. profound with increased foreign partnerships.
2. Interdependencies with other infrastructures are much
3. more acute. Environmental mandates and restrictions
4. have increased, as has our dependency on foreign
5. imports.

6. There has been a convergence, if you will,
7. of the energy enterprise between providers, marketers,
8. and systems. We've undergone mergers, alliances, and
9. joint ventures, and that has sort of blurred the lines
10. between traditional oil, natural gas, power, and
11. pipeline companies.

12. Information has become universally and
13. instantaneously available. This has led to a new
14. challenge for our industry, and that's the challenge
15. of information assurance as a condition of doing
16. business in today's world.

17. So with that new business environment
18. there comes vulnerability. And then you look at that
19. list -- we sort of prioritized the vulnerabilities as
20. we saw them as a team. And the key point is that that
21. top bullet -- information technology and
22. telecommunications -- a disruption there in any of the
23. critical infrastructures is something that shuts you
24. down, and we've got to be sensitive to that and
25. integrate that into our planning. And that kind of

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1 guided much of our study.

2 The integration of information technology
3 and telecommunications in the business is creating
4 some interdependencies that we have to be sensitive
5 to. And these interdependencies are difficult to
6 analyze and difficult to understand, and that's
7 another area where we've got to put additional work.

8 Now, political and regulatory uncertainty
9 prevails. It makes it difficult to make long-term
10 strategic decisions. And when you look
11 internationally there's a lack of consistent business
12 and financial rules, legal frameworks, and
13 international recourse. Makes it tough to do business
14 globally.

15 So out of that comes a focus on risk
16 management, if you will, and in the new economy cyber
17 risks add to the complexity of being able to do your
18 own internal risk management. This interconnectedness
19 and this dependency is the new model, and so our risk
20 management approaches have to be upgraded.

21 We've got to focus on the cyber dimension.
22 We've got to be able to share vulnerabilities and
23 threat information across our industry. We've got to
24 develop some technical standards and business best
25 practices that bring us right up to the state of the

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1 art. And we've got to take a look at insurance.
2 There's a role for insurance options for the impact on
3 cyber attacks or their disruptions.

4 Now we, as a group, felt that the Y2K
5 model, year 2000 effort, was a good model. It was
6 multinational and involved government, involved
7 private sector. And when you're looking for a
8 blueprint on how to work together as a team, we felt
9 that the Y2K Act was a very, very special example.

10 Now, response and recovery planning plays
11 a major role in mitigating business risks. And we
12 concluded that cyber response and recovery processes
13 are not as mature as what we've been able to do
14 looking at our physical infrastructure over time.

15 So we recommend that some major
16 enhancements needs to be made there, focus on data
17 backup policies and procedures, focus on automation
18 control systems design redundancy. Think about
19 protection of cyber systems that operate your most
20 critical infrastructures.

21 We've got to look at the inconsistency in
22 how nations legally address cyber issues. There's a
23 lack of an international cyber security standard. And
24 when you, as a company, take a look at these issues
25 you've got to include all of your stakeholders,

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1 business partners, suppliers, customers, reps from
2 local and state governments. And when you do response
3 and recovery tests, integrate all of those pieces into
4 the whole.

5 Now, there's a role for federal government
6 in all of this in our judgement, and they think -- we
7 think it's important to help clarify response and
8 recovery roles within this vast array of federal,
9 state, and local enterprises. And this includes FEMA,
10 which has a very vital role.

11 We think we need to -- the government can
12 help improve industry's awareness of what the
13 government's capabilities to assist in response and
14 recovery are. And, importantly, we think government
15 can assist in understanding the interdependencies that
16 are critical to all of the infrastructures, and maybe
17 do some R&D role modeling in that area.

18 Now, the next subject is a very pertinent
19 one, and that's information sharing. Our analysis and
20 studies show that early warning of incidence of new
21 vulnerabilities affecting information technology and
22 telecommunications is vital to protecting your
23 critical infrastructure. So we've concluded that we
24 in our industry need an information sharing and
25 analysis capability.

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1 Now, many companies do not have adequate
2 IT security staff. Many of our smaller companies have
3 none. Yet you'll find that many of these smaller
4 companies are doing contract work for the
5 multinationals and others, and they have access to
6 your information systems.

7 So companies throughout the
8 infrastructure, therefore, are not receiving all of
9 the vulnerability information that might be available.
10 A well-structured information-sharing and analysis
11 center governed to support us can help solve that
12 problem, and we think it should have the following
13 kinds of capabilities -- access to the broadest range
14 of threat vulnerability, data from a global
15 perspective, ability to prioritize it and meet just
16 our needs, handle a high volume of information, and be
17 able to provide a single repository with total
18 ownership and retention by industry.

19 And there are some examples of that out
20 there, and I'll talk about that more a little later.

21 Now, legal and regulatory issues are
22 important. There must be an absolute guarantee that
23 sensitive or proprietary information is protected. We
24 have to work through the implications of sharing with
25 foreign affiliates. Some of that will make sense;

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1. some will not. We've got to have clarifications on
2. antitrust laws. Liability from participation must be
3. addressed, as well as the potential liability for not
4. being involved.

5. Freedom of Information Act issues are very
6. pertinent, and they have got to be absolutely resolved
7. before we can go forward in any kind of interface with
8. the government.

9. In the area of a sector coordinator, it
10. was the conclusion of our group that the governing
11. body of an information-sharing and analysis center
12. would be a logical entity to be the interface point
13. for a sector coordinator. And, Mr. Secretary, that
14. will be our fundamental recommendation.

15. We think that there is clearly a role for
16. government in research and development, and we think
17. it would best be focused on that highly-sophisticated
18. issue of interdependencies, the effective cascading
19. impacts from blackouts, shutdowns, disruptions, what
20. happens at a regional, national, or international
21. level. That kind of analysis I think can be done well
22. by your DOE labs, and we make a recommendation that
23. way.

24. So in summary of our recommendations, you
25. can see that we think, as an industry, we ourselves

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1 can become more sophisticated in our vulnerability
2 assessments and get that cyber dimension into our
3 traditional risk models. That we can push industry
4 and government for global IT management processes.

5 There's a good example out there, and
6 that's that ISO called the Standard for Information
7 Security Management, an example of where we ought to
8 be going -- improve response and recovery plans, stand
9 up an ISAC, designate that ISAC governing body as our
10 sector coordinator, and, of course, we encourage
11 government to keep critical infrastructure protection
12 as an important issue.

13 And I'll close with one implementing point
14 about standing up an ISAC. We believe it should be
15 modeled after the one created by the banking and
16 finance industry. That model provided for management
17 by an industry-only board, not-for-profit limited
18 liability corporate structure, information collection
19 by a separate service provider. It provided alerts
20 and solutions prioritized and tailored to the
21 individual members' needs.

22 And we, the ISAC, the industry, would
23 retain ownership of all of your pertinent data. You
24 could be anonymous in your participation, in the
25 transfer of your information, and it would be a low-

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1 cost and efficient operation.

2 So that's a goal, that's a challenge,
3 that's the recommendation, and, Dave, I'll leave it to
4 you.

5 MR. LESAR: Thank you, Chuck. That was a
6 nice overview of what is a very complex subject and a
7 series of very fine recommendations.

8 I want to reiterate what I said earlier,
9 and I think what Chuck highlighted, that the study
10 does lay out a very compelling case and a very good
11 business case for strong action by industry. The
12 threats are real, and I think the solutions that are
13 outlined in this study are very cost effective.

14 So, therefore, Mr. Chairman, that
15 completes our recommendation, and I believe that the
16 report is responsive to the Secretary's request, and
17 I move that the National Petroleum Council adopt the
18 proposal subject to final editing.

19 CHAIRMAN DUNHAM: Thank you, Dave and
20 Chuck.

21 We have a motion to adopt the report of
22 the Committee on Critical Infrastructure Protection,
23 subject to final editing. Do I have a second?

24 AUDIENCE MEMBER: Second.

25 CHAIRMAN DUNHAM: Thank you. Are there

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1 any Council members with questions or comments for
2 Dave or General Dominy on the proposed final report?
3 Hearing none, all in favor indicate by saying aye.

4 (Chorus of ayes.)

5 Any opposed?

6 (No verbal response.)

7 Thank you. The report is adopted.

8 Thank you again, Dave, and your committee,
9 Chuck, the subcommittee, and the many, many volunteers
10 who helped complete this work. I think you've
11 prepared an excellent report, and I'm confident that
12 the Secretary and the Department will find it
13 extremely useful.

14 Mr. Secretary, I hope you'll find the
15 report helpful. As Dave said, perhaps the most
16 significant recommendation in the report is directed
17 to the industry, and we need to implement and actively
18 participate in a secure information-sharing mechanism.

19 I followed the work of the Infrastructure
20 Committee for several months and have committed myself
21 and Conoco to champion the formation of the oil and
22 gas industry information-sharing and analysis
23 committee. And in anticipation of today's vote, we
24 have already obtained the agreement of 11 companies to
25 join us in establishing an initial board that will

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1 move this concept forward. And these companies are
2 BP, Duke Energy, El Paso, Enron, Exxon Mobil,
3 Halliburton, Peoples Energy, Phillips, Questar, Shell,
4 Texaco, and Conoco.

5 And later today representatives of these
6 companies will have their first meeting. And others,
7 if you wish to join, participate, please contact Bobby
8 Gillum from Conoco, who I've asked to chair this
9 initial group, or Chuck Dominy.

10 And Chuck will chair the first
11 infrastructure meeting this morning in Salon II, which
12 commences at 11:30.

13 And also, assuming no objection from the
14 membership, I've asked the NPC staff to be available
15 to assist this group for the next 90 days as it
16 transitions into a self-supporting entity.

17 Mr. Secretary, I trust this meets your
18 expectations from our sector in the protection of our
19 nation's critical infrastructure. Thank you.

20 Next on the agenda we have a briefing on
21 the followup activities to the NPC's 1999 natural gas
22 report. This three-volume report was completed in
23 December of 1999 and has proven to be one of the most
24 popular and useful reports the Council has ever
25 issued.

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1. Interest in the report remains quite high,
2 and follow-on activities have been numerous. This has
3 not been a report that has set on the shelf and
4 collected dust.

5 Thank you again, Mr. Secretary.

6 SECRETARY ABRAHAM: Thank you all.

7 (Applause.)

8 The Council should be very proud of its
9 work, and, therefore, I thought you would be
10 interested in hearing a brief overview of how the
11 report is being used. Over 3,000 copies of the report
12 have been distributed by NPC, DOE, and various Council
13 members and their companies.

14 The recipients include the executive
15 branch departments and agencies, congressional
16 committees with jurisdiction over industry matters,
17 state and local governments, the press, industry, and
18 many other interested parties.

19 The summary volume is available on the
20 internet and has been downloaded approximately 30,000
21 times from NPC's website alone. There continues to be
22 significant interest by the press with numerous
23 articles written. The NPC access map in particular
24 has been widely duplicated and is used in the
25 administration's natural energy policy report, as I'm

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1 sure you've seen.

2 Of equal importance, key study
3 participants have given at least 30 presentations to
4 very diverse audiences ranging from industry
5 associations to the Senate Committee on Energy and
6 Natural Resources. The report has also been used by
7 a number of individual companies and trade
8 associations in their advocacy work.

9 I wish to express the Council's
10 appreciation to the Department of Energy for acting on
11 the NPC report's recommendations.

12 The Department has been an advocate by
13 setting up meetings with high-level executive branch
14 policymakers in this and the previous administration,
15 agreeing to request congressional testimony, pressing
16 for interagency actions, particularly on access
17 issues, and hosting a workshop to review the report's
18 milestones.

19 I am pleased to note that some of the
20 report's key policy recommendations have been adopted
21 in government policy reports and in various proposed
22 legislation. We heard from the Secretary earlier
23 regarding the recommendations in the administration's
24 natural energy policy report.

25 In addition, the Interior Department's OCS

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1 Policy Committee issued a report last week that is
2 supportive of examining new offshore areas. And
3 several bills have been introduced in Congress that
4 reference the NPC report and include some of its
5 primary recommendations.

6 I would now like to call on Bob Kripowicz,
7 DOE's Acting Assistant Secretary for Fossil Energy,
8 and Paul Kelly, Senior Vice President of Rowan
9 Companies. Bob served as the government's co-chair
10 and Paul as a key member of the NPC Studies
11 Coordinating Subcommittee, and both have been very
12 involved in the numerous followup activities.

13 I've asked them to elaborate on what has
14 occurred since the report's completion, with a focus
15 on three areas of particular interest -- the DOE
16 workshop, the OCS Policy Committee report, and the
17 ongoing project to inventory the resources and
18 regulations in the Rockies, and we hope ultimately all
19 federal lands.

20 Bob?

21 MR. KRIPOWICZ: Thank you, Mr. Chairman.

22 Having served as the co-chair of the
23 Council's 1999 natural gas study, I'm happy to share
24 and to report on two followup activities. I would
25 note that the Council's report was widely distributed

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1 within the Department itself, and we had it on our
2 website and had approximately the same kind of
3 experience that the NPC did on people looking at it.

4 I would also like to point out that a copy
5 of my remarks or slides, and Paul Kelly's, are in your
6 package. And there's more detailed information behind
7 it on the workshop and other activities.

8 The next chart shows the structure of what
9 was reviewed in the study. Earlier this year when
10 prices of natural gas were over \$10 a million BTU, and
11 the demand was up and supply seemed uncertain, there
12 were a lot of people who were questioning whether the
13 report's findings and recommendations were still
14 valid.

15 So we decided to have a workshop in March
16 to examine the report and to go over the items in the
17 structure and the critical factors and recommendations
18 of the report.

19 So with the assistance of the Council, we
20 held a workshop on March 5th and 6th, with industry
21 and government representatives -- approximately 60
22 people -- and Paul Kelly and I chaired the workshop.
23 And this included a lot of people who were involved in
24 the original study, so we had a lot of corporate
25 background and memory with regard to the study.

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1 The agenda focused on these key
2 assumptions that were used in the 1999 study, and some
3 of them are indicated red where we spent a
4 considerable period of time talking about the more
5 robust economy than was anticipated in the NPC study,
6 higher than expected increases in natural gas for
7 electric generation, large natural gas -- a lag in
8 natural gas production despite increases in drilling,
9 some changes in public policy with regard to access
10 during that period of time, and the still significant
11 need for new pipeline capacity.

12 The next chart shows that the study itself
13 showed a substantial increase over a period of time to
14 a minimum of 28 TCF by the year 2010. But our looking
15 at the actual demand data in 1999-2000 showed that
16 demand was actually increasing faster than what was in
17 the base case of the study, and in 2000 the demand was
18 half a trillion cubic feet higher than the NPC
19 assumptions.

20 What were the factors behind that? Well,
21 clearly, the GDP grew over that period of time at a
22 much faster rate, almost twice as fast as it was
23 included in the -- it was assumed in the NPC study.
24 And electric generation, another factor in demand,
25 grew probably 30 percent faster than was projected in

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1. the study.

2 And I would point out that the demand grew
3 even though in 2000 many people switched fuels. Many
4 people in some industries switched fuels because of
5 the higher prices during that period of time. So we
6 had a substantial increase in demand over what was
7 projected.

8 Back when we were putting this together,
9 prices had already well gone beyond what was projected
10 in the NPC study. And as we all know, they went over
11 \$10 a million BTU later nationally, and considerably
12 higher in California. What this said to us was that
13 there was a problem in supply. Supply did not
14 increase to meet the demand factor.

15 Now, it's not a question that industry
16 didn't try. We saw -- we also examined the data in
17 drilling, and it showed a tremendous increase in
18 drilling in response to demand and to the increased
19 prices. But basically production over this period of
20 time did not respond as expected in the NPC report,
21 and that was pretty much across the board except for
22 some increase in unconventional gas.

23 So demand was basically met from two
24 sources, one from what normally would have gone into
25 storage, and, secondly, from a large increase in

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1 imports from Canada. So after two days of looking
2 through this, we came to a conclusion about the report
3 that actually the critical factors that the report
4 addressed were still valid, and there was probably
5 greater urgency for some of the actions that had been
6 specified in the report than we had seen before.

7 The general trend in demand, for example,
8 was more than correct. Demand was actually growing
9 faster than we had expected. So the critical factors,
10 almost all of which address supply, became even more
11 important, and we had considerable discussion about
12 these factors. Access is one in particular that I'll
13 go into a little bit more.

14 Now, during these two days, we also came
15 up with a lot of questions that were unanswered,
16 questions about depletion and questions about electric
17 generation capacity, alternate sources such as LNG or
18 an Alaska pipeline, things that bear further looking
19 at. And some of those things you will find reflected
20 in the proposed suggested National Petroleum Council
21 future studies that you all have a copy of, and some
22 of those things will be included in future studies.

23 Finally, the workshop came up with some
24 conclusions about actions that were needed, and I
25 think probably if you listen to the Secretary closely

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1 you will find out that almost all of these actions
2 that the workshop recommended are in the national
3 energy policy.

4 People went from this meeting and
5 testified to Congress. Some of us went over and
6 briefed the Vice President's task force. We provided
7 copies of the recommendations through the chain in the
8 Department of Energy and also to the Vice President's
9 office, and it's clear that a lot of these
10 recommendations were rolled right into the national
11 energy policy.

12 So the report is being used. The workshop
13 confirmed that its conclusions were valid, and it
14 helped define the national energy policy. So I think
15 you can say that this is a living document, and we
16 should revisit it, as I promised to do, from time to
17 time to make sure that those -- that the conclusions
18 in the report remain valid over a period of time.

19 And some of the questions that arose in
20 this two-day workshop, you know, will probably be
21 reflected in future NPC studies.

22 Now I'd like to go into my second brief
23 overview, and that has to do with the study that
24 Secretary Abraham announced this morning as being
25 completed -- an analysis of restrictions on access for

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1 natural gas resources underlying federal lands in the
2 greater Green River Basin in Wyoming and Colorado.

3 A CD of the report, including all of its
4 maps, will be available outside, and there's a press
5 release covering -- a summary of the report will also
6 be available outside after the meeting.

7 Next slide, please.

8 The study was conducted actually as a
9 response, again, to the NPC's 1999 gas study. The
10 Council conducted an assessment as part of that study
11 examining stipulations on -- restrictions on the use
12 of natural gas resources in the Rocky Mountains, and
13 extrapolated based on some raw data that approximately
14 40 percent of the resource was off limits.

15 And the NPC recommended that the
16 government continue this kind of a study throughout
17 the whole Rocky Mountain region, and so we at DOE
18 said, "Yes, we think that's a good idea, and we'll
19 implement that recommendation." And so we started a
20 seven-month study on natural gas resources and access
21 restrictions in the greater Green River Basin. We
22 chose -- with the intention of finishing up the Rocky
23 Mountain areas eventually.

24 The greater Green River Basin was chosen
25 because it has by far the largest amount of

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1 undiscovered natural gas in the region. While we
2 provided the funding and much of the technical
3 expertise, we also worked in cooperation, as we did in
4 the original study, with BLM and the U.S. Forest
5 Service. And these agencies provided their full
6 cooperation and they supplied data and interpretations
7 of the data and reviewed the final report.

8 Now, this study was actually underway when
9 Congress passed the reauthorization of the Energy
10 Policy and Conservation Act, and that Act included a
11 provision requiring the Department of the Interior, in
12 consultation with us and the Department of
13 Agriculture, to conduct an inventory of oil and gas
14 resources on federal lands in the entire United
15 States, and look at the restrictions on access to
16 those resources.

17 And the importance of this effort was
18 reaffirmed by the national energy policy, which says
19 not only do this study but expedite the study.
20 Currently, an interagency group led by BLM is moving
21 forward on the expanded study. The next basins we'll
22 do after this one are the Yuenta and Pience Basins of
23 Utah and Colorado.

24 Those basins will be done and funded by
25 DOE in fiscal year 2001, and then beginning next year

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1. the funding for the interagency effort will be from
2 BLM.

3 There's a hierarchy of stipulations and
4 land use designation categories that are explained in
5 detail in the report. Most of the stipulations are
6 made for environmental reasons, and mainly for the
7 protection of wildlife. There are some surface use
8 restrictions having to do with stream lands and
9 cultural resources, but they are mainly environmental
10 and mainly geared toward wildlife.

11 On some of these parcels the stipulations
12 overlap. In other words, there is more than one kind
13 of stipulation, so we aggregated those stipulations to
14 determine what the cumulative effect was. There are
15 also some categories where access is completely closed
16 and leasing is not available, including some that are
17 statutory and some that are administrative, and I'll
18 talk about that in more detail later on.

19 The next slide shows all of the parcels in
20 the study area that are either closed to development
21 or available for leasing with restrictions. The full
22 color map which goes into this in complete detail is
23 on display in the lobby that you can look at and also
24 is available on the CD.

25 We took this map and superimposed it on

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1 the map of the natural gas resources to determine the
2 amount of resource that is restricted, and that's
3 shown on the next map. The darker colors show where
4 more of the restricted resource lies, and it's -- you
5 can see it's in the northwestern portion of the study
6 area, and in an arc through the Rust Belt down into
7 Colorado.

8 Summary of the results -- we found that
9 actually 68 percent of the natural gas resource in the
10 study area is estimated to be either off limits or
11 significantly restricted, and the other 32 percent is
12 available on standard lease terms. Of course, the
13 standard lease terms also have environmental
14 requirements.

15 Of that 68 percent, 30 percent of it is
16 completely closed to development, and 38 percent has
17 restricted areas. Now, remember, as I mentioned the
18 NPC report pilot study showed -- estimated that this
19 number was 40 percent. So in this particular basin
20 the restrictions are considerably higher.

21 Interestingly, the resource that's closed
22 to development, the 30 percent, only about one percent
23 of that is closed because of statutory withdrawals
24 such as parks and wilderness areas. And the rest are
25 administrative withdrawals, such as those in forest

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1 plans and BLM plans, or areas set aside for
2 consideration as possible wilderness area.

3 And that's a very important thing to
4 remember, because the vast majority of this is set
5 aside administratively, so that it does not take
6 congressional action to change those designations if
7 that's desirable.

8 But the study does show that there could
9 be actually a more -- access could be a much more
10 serious problem in the Rocky Mountain area than we had
11 estimated in the original NPC study.

12 So, finally, I mentioned earlier that
13 Congress had mandated an inventory for the whole
14 country, and that the national -- and that the
15 administration's national energy strategy had
16 recommended that this inventory be expedited.

17 This final slide shows the text of the
18 recommendation, and it basically says that.

19 Now, I want to emphasize that we think
20 this is a very important effort, but we also think
21 that the NPC can take full credit for initiating this
22 effort through the 1999 study.

23 Now, I want to leave you with the
24 assurance that we'll be working closely with Interior
25 and Agriculture to conduct the inventory and develop

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1 the information that's needed for decisions that will
2 affect the oil and gas supply.

3 All of the information that I mentioned,
4 before I close, is also on our website, which is
5 www.fossil.energy.gov -- fairly simple.

6 And I'd like to thank you for your
7 attention to these two efforts that have followed on
8 to the NPC study. And with that, I'd like to turn the
9 podium over to Paul Kelly, who will tell you about the
10 activities of the OCS Policy Committee.

11 MR. KELLY: Thank you, Bob.

12 Mr. Chairman, members of the Council, as
13 the industry co-chair of the gas workshop that Bob
14 talked about, I wanted to thank your companies for
15 volunteering personnel to participate in the workshop.

16 We had over 55 of the best and brightest
17 who know an awful lot about the natural gas industry,
18 and we had an excellent representation from both
19 industry and government in that workshop. And I
20 wanted to reiterate what Bob said, that we all agreed
21 that it would be a good idea to try to put together a
22 similar group periodically to check the milestones of
23 the report, because the whole question of rising
24 natural gas demand is so critical.

25 I wanted to tell you about another

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1 development that related in many ways to fallout from
2 the NPC gas study, and that's the OCS Policy Committee
3 recommendations to the Secretary of Interior.

4 The Outer Continental Shelf Policy
5 Committee is an independent advisory committee chartered
6 under the Federal Advisory Committee Act to give the
7 Secretary of Interior advice on the implementation and
8 management of the OCS Lands Act. And in many ways it
9 parallels what is done here at NPC in terms of giving
10 advice to the Secretary of Energy.

11 In October of the year 2000, the committee
12 established a natural gas committee to independently
13 review and evaluate information on natural gas, and
14 then make an assessment of the contribution that the
15 OCS can make to increasing supply to meet demand.

16 As you can see here, the subcommittee
17 members are all appointed by the Secretary of
18 Interior, and the full committee itself has
19 representatives of all the coastal states, plus a
20 mixture of industry representatives, representatives
21 of the environmental community and such other
22 organizations as fishing.

23 Here the subcommittee members who were
24 appointed are shown here as a very diverse group with
25 representation from Alaska, Louisiana, Delaware, North

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1 Carolina, New Jersey, Rhode Island, and then, as you
2 can see, two industry representatives that served on
3 the subcommittee.

4 The recommendations that were considered
5 by the Policy Committee at its meeting on May 24th
6 were preceded by our mailing to all of the members of
7 the full committee -- a report that gave a lot of
8 background data. The OCS Policy Committee started
9 looking at the whole question of natural gas about two
10 years ago, about the time that we started the NPC gas
11 study.

12 There was a developing sense at MMS that
13 the OCS could be more critical in meeting demand for
14 gas that was obviously occurring at a faster rate than
15 we thought before. And during a two-year period we
16 repeatedly had panels meeting with the committee to
17 discuss natural gas.

18 And, in fact, the day that this
19 subcommittee was appointed by the OCS Policy Committee
20 a panel on natural gas was organized at the meeting
21 that included two of the representatives of the data
22 integration and writing team who worked on the NPC
23 report.

24 So we had cross communication going on all
25 the time that this subcommittee worked, and, indeed,

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1 they asked us for copies of the report and background
2 data. They also looked at the energy information
3 studies and GRI studies as well as some of their own
4 internal sources.

5 Now, after considerable debate over a two-
6 year period at the meeting, the following
7 recommendations were agreed to be transmitted to the
8 Secretary of Interior. First, that the OCS should be
9 viewed as a significant source for increased supply to
10 meet national demand for the long term.

11 Secondly, congressional funding to the MMS
12 and other critical agencies, such as Fish and Wildlife
13 Service, National Marine Fisheries Service, DOE, and
14 EPA, should be assured to allow staff to accomplish
15 the work necessary to increase production of gas. And
16 we were aiming here at some of the critical roadblocks
17 that we've seen occur with respect to OCS, such as
18 problems with the Coastal Zone Management Act and EPA
19 and coordination among these federal agencies.

20 Third, the committee is recommending that
21 following the success of the deep water royalty relief
22 program for the off-shore MMS should develop economic
23 incentives to encourage new drilling for natural gas
24 in an environmentally sound manner in deep formations,
25 subsalt formations, and deep water. And that these

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1 incentives should be considered for both new leases
2 and existing leases.

3 As you're aware, in the March lease sale
4 for the central Gulf of Mexico, Sale 178, there were
5 incentives included for the first time for deep gas
6 drilling on the shelf for wells drilled in excess of
7 15,000 feet of water in less than 200 meters in -- to
8 a total depth of 15,000 feet in waters less than 200
9 meters deep.

10 Fourth, the MMS, in cooperation with
11 industry, should increase natural gas production in an
12 environmentally sound manner from existing OCS leases.

13 Next, the Policy Committee supports the
14 existing five-year leasing plan, and that plan does
15 include Sale 181 in the eastern Gulf of Mexico
16 scheduled for this coming December.

17 Sixth, the committee encourages
18 congressional funding for additional education and
19 outreach regarding the leasing program. I think the
20 Secretary touched on that a little while ago.

21 Seventh, we call for greater input from
22 local communities and mitigation of social, cultural,
23 and economic impacts, and comparative assessments of
24 environmental risk between the offshore and onshore
25 production where onshore reserves exist in the same

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1 area as offshore reserves.

2 Now, we had a representative on the
3 subcommittee, Mayor George Ahmagoak from -- who is the
4 mayor of the North Slope Borough, and he made this
5 point forcefully. And, as you know, there is some
6 sensitivity on the North Slope about which resources
7 should be developed first, the on shore or the off
8 shore.

9 As far as the first statement is
10 concerned, we all agreed that greater import from
11 local communities is a principle that should apply not
12 only in Alaska but elsewhere throughout the OCS.

13 The eighth recommendation is that MMS,
14 partnering with DOE, should expand cooperative
15 research with other agencies and industry seeking
16 technical solution to the leading edge issues such as
17 seismic imaging of subsalt areas and drilling in deep
18 formations. Of course, one of the conclusions of the
19 NPC '99 report is that if we're going to meet rising
20 demand we're going to have to drill deeper.

21 MMS, in cooperation with DOE, should
22 encourage international cooperation in the development
23 of gas hydrates in an environmentally sound manner,
24 with a goal of a pilot program in place within 10
25 years. As you know, these potential resources are

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1 enormous, but they're long term, but the subcommittee
2 felt that in the interest of meeting future demand
3 it's time to start doing some work on this whole
4 subject.

5 Number 10, a gas pipeline from Alaska to
6 the lower 48 states would favorably encourage an
7 increase in natural gas production by creating
8 favorable economics for federal OCS production in
9 Alaska. There has been a lot of attention given to
10 the prospect of a new pipeline from Alaska, most of it
11 focused on the potential of existing gas reserves on
12 the North Slope.

13 Our subcommittee also thought that it
14 might make a difference in the future in terms of the
15 economics of prospects in the Beaufort Sea, and
16 potentially other offshore Alaska areas that could
17 potentially increase leasing and activity there over
18 the long term.

19 Getting toward the end here, the eleventh
20 recommendation was to develop information and enhance
21 an informed public debate on whether or not there are
22 grounds for support for a limited lifting of moratoria
23 in existing moratoria areas. MMS, in consultation
24 with industry and affected states, should identify the
25 topic -- five top geologic plays in the moratoria

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1. areas, and, if possible, the most prospective areas
2 for natural gas in the plays that industry would like
3 to explore if allowed.

4 Now, this is -- OCS Policy Committee
5 meetings are normally very low key without any media
6 attention. But this is the recommendation that really
7 brought a lot of publicity to this meeting.

8 And some of the headlines read, "Bush
9 Considering Lifting of Moratoria," "Secretary of
10 Energy Considering Lifting of Moratoria," but those
11 were all incorrect. What this was was an effort on
12 the part of kind of an outside, impartial group to
13 look at the whole process of OCS leasing in the
14 natural gas and energy crisis we're facing in this
15 country and try to come up with an idea to change the
16 process.

17 So the subcommittee and the full committee
18 in the recommendation encourages congressional funding
19 to MMS for the acquisition of seismic data to assist
20 in narrowing down prospective areas. It's important
21 that these data be non-proprietary, which would be the
22 case if acquired exclusively by MMS.

23 Two, encourage congressional funding for
24 environmental and social human impact studies for
25 broad-based or specific to the five prospective

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1 geological plays.

2 Next, establish a site-specific
3 stakeholder consultation process that would permit a
4 sharing of information and discussion of concerns
5 regarding the pilot areas.

6 The only thing I would add to this is that
7 when this recommendation was made everyone asked,
8 "Well, name the five plays." We really didn't try to
9 name five plays. During the subcommittee
10 deliberations there was discussion purely on as an
11 example basis of the North Atlantic, in view of the
12 developments that have occurred on the Scotian Shelf,
13 with the Sable offshore gas project, and then the
14 recently very encouraging discovery by Pan-Canadian of
15 Deep Vanuk just south of Sable.

16 And by the way, when Bob mentioned that
17 the half-TCF shortfall in production was met largely
18 by Canadian imports as well as by withdrawals from
19 storage, most of those Canadian imports came from the
20 Maritimes and Northeast Pipeline from Nova Scotia
21 coming down into New England about a year earlier than
22 planned.

23 And there is some speculation among
24 geologists that some of those trends could extend down
25 off the North Atlantic. So the subcommittee felt like

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1 this was an example of a prospect that might be looked
2 at again, but only after discussion with the local
3 states and with local input to see if there might be
4 a way for a limited lifting of the moratoria.

5 I think the committee feels like we have
6 a gridlock in offshore areas outside the central and
7 western Gulf of Mexico, and the committee was simply
8 trying to come up with a process where a reasonable
9 approach might be taken to see if in some of these
10 areas there could be a limited lifting of those
11 moratoria areas.

12 Now, finally, although the committee
13 recognized that these items were not within the
14 purview of MMS, the committee recommended that a
15 national energy policy should consider continuing to
16 expand and develop the national pipeline
17 infrastructure, looking at corridor access,
18 environmental safety and regulatory issues and
19 capacity, encouraging dual fuel capacity for new
20 electricity generating plants, encouraging the review
21 by the administration of cost-effective tax incentives
22 to increase the production of natural gas.

23 And, finally, encouraging conservation and
24 increasing efficiency in the use of natural gas as a
25 part of the national energy portfolio.

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1 So I think you will find that most of
2 these things are consistent with both the NPC gas
3 study and with what we've seen in the new national
4 energy plan.

5 I think that concludes my remarks, Mr.
6 Chairman.

7 CHAIRMAN DUNHAM: Okay. Thank you, Bob
8 and Paul.

9 Are there any questions or comments on
10 their reports?

11 I want to recognize several companies that
12 contributed significantly to the leadership and
13 conduct of the study and contributed the people that
14 have carried the load on the followup activities, and
15 these include Burlington Resources, El Paso, Rowan
16 Company, Simmons International, and Texaco.

17 In closing this discussion, I should note
18 that while much has been initiated toward meeting the
19 nation's future demands for natural gas, obviously
20 much remains to be done. The administration and
21 Congress must act to implement needed administrative,
22 regulatory, and legislative changes, and industry must
23 accept the challenges of supplying the growing volumes
24 that the marketplace is demanding.

25 As noted earlier, the Secretary may

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1 request the Council's continued assistance through a
2 supplemental study addressing Frontier or other new
3 gas suppliers from Alaska, Canada, the Atlantic and
4 Pacific OCS, Mexico, and LNG -- areas that did not
5 receive much attention in the 1999 study.

6 This leads me to the next administrative
7 item which is the Cochairs' Coordinating Committee.
8 As you know, this group monitors the allocation of NPC
9 resources and works with the Secretary and his staff
10 to identify issues on which the advice of the Council
11 would be particularly useful to the Secretary.

12 In April, at my request, Bill Wise, along
13 with Bobby Shackouls, Matt Simmons, and Dan Yergin,
14 met with Secretary Abraham to introduce him to the
15 Council. At the end of that meeting, the Secretary
16 charged Bob Kripowicz to review the national energy
17 policy and canvas DOE and other agency staff for a
18 list of candidate issues.

19 Now, the list is diverse and includes many
20 challenging questions on environmental and energy
21 conservation, international relations, and fuel
22 switching in the electric power and industry markets.
23 A copy of DOE's preliminary list has been sent to the
24 Cochairs' Coordinating Committee, and copy is among
25 the handouts you received this morning.

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1. I encourage you to review the list, and
2 please provide the committee, call Marshall, call me,
3 or anyone on the committee, with any suggestions for
4 additions or comments or areas of priority or emphasis
5 that you think we need to look at.

6 The Secretary and I hope to finalize the
7 list during the next 30 to 60 days, to determine where
8 the Council can be most helpful to him and the
9 administration. So your input will be very important
10 to that process.

11 Next I would like to turn to the Council's
12 finances. And Ken Lay, the Finance Committee's chair,
13 is out of the country, and so I'll make his brief
14 report.

15 The Finance Committee met this morning to
16 review the financial status of the Council.
17 Representatives of Ernst & Young, our independent
18 outside auditor, were at the meeting to review their
19 audit report for calendar year 2000. And based on
20 this review, I'm pleased to report that Ernst & Young
21 gave us a clean bill of health. Our accounting
22 procedures and controls received high marks, and the
23 financial condition of the Council is strong.

24 We also reviewed calendar year 2001
25 expenditures. With the critical infrastructure

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1 protection study coming to an end, we are within the
2 \$2.9 million budget you approved early this year. In
3 fact, we're projecting a small budget surplus,
4 depending, of course, on the timing, the scope, of
5 Secretary Abraham's request for new Council studies.

6 And given this uncertainty, the Finance
7 Committee has deferred until later in the year any
8 decision on the year 2002 budget.

9 And, finally, we looked at member
10 contributions, and the committee is pleased to report
11 that in a period of less than 90 days the Council has
12 received over 85 percent of the funds requested. In
13 the next few days we will be following up with those
14 of you who may have misplaced your contributions
15 request.

16 (Laughter.)

17 I really don't want to have to send you
18 another letter.

19 (Laughter.)

20 So please look in your in box, and if you
21 haven't mailed in your dues please do so quickly.

22 There are no items in the Finance
23 Committee report that require a vote by the Council,
24 but I would be happy to respond to any questions.

25 Thank you.

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1 Our final committee report this morning is
2 from the Nominating Committee, and Ray Hunt, Chairman
3 of the Nominating Committee, is out of the country.
4 And Joe Foster will now present the committee's
5 recommendations.

6 MR. FOSTER: The NPC's Nominating
7 Committee has agreed on its recommendations for NPC
8 officers, chairs, and members of the Agenda and
9 Appointment Committees of the Council, as well as the
10 five at-large members of the NPC Cochairs'
11 Coordinating Committee.

12 And on behalf of that committee, and on
13 behalf of Ray Hunt, I am pleased to offer the
14 following nominations: National Petroleum Council
15 Chair, Bill Wise; National Petroleum Council Vice
16 Chair, Bobby Shackouls.

17 For the Agenda Committee, we recommend the
18 following members: Bob Allison, Joe Foster, Bob Fri,
19 Ray Hunt, John Miller, Jim Mulva, Lee Raymond, Dick
20 Terry, Chuck Watson, Dan Yergin, with Larry Nichols
21 serving as the chair of that committee.

22 For the Appointment Committee, we
23 recommend the following as members: George Alcorn,
24 Dave Biegler, Bob Catell, Luke Corbett, Hector
25 Cuellar, Claiborne Deming, Tommy Munro, Dave O'Reilly,

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1 Lew Ward, with Bob Palmer serving as Chair.

2 In addition, we recommend the following as
3 the at-large members of the Cochairs' Coordinating
4 Committee: Claiborne Deming, John Hess, Mark Papa,
5 Matt Simmons, and Hank True.

6 So this completes the report of the
7 Nominating Committee and, on its behalf, I move
8 approval -- I move that the above be elected until the
9 next organizational meeting of the Council.

10 Thank you very much.

11 CHAIRMAN DUNHAM: Thank you, Joe.

12 I have a motion to adopt the report of the
13 Nominating Committee. Do I have a second?

14 AUDIENCE MEMBER: Second.

15 CHAIRMAN DUNHAM: Thank you. Are there
16 any further nominations from the floor? All in favor,
17 please indicate by saying aye.

18 (Chorus of ayes.)

19 Any opposed, no.

20 (No verbal response.)

21 The report is adopted.

22 I think it's at this time that I say it's
23 been a great pleasure for me to serve as your
24 Chairman, and I thank you for your active
25 participation and all of your support. And I'm sure

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1 that Bill and Bobby will do a fantastic job during the
2 next couple of years.

3 Ladies and gentlemen, this brings us to
4 the end of our formal agenda for the Council meeting.
5 Does any Council member have any other matter to raise
6 at this time? Does any non-member wish to be
7 recognized?

8 Before we adjourn, let me announce that
9 press questions will be addressed after adjournment,
10 beginning in about five minutes. I would ask that
11 members of the press come to the podium after the
12 meeting adjourns.

13 There being no further business, do I have
14 a motion for adjournment?

15 AUDIENCE MEMBER: So moved.

16 CHAIRMAN DUNHAM: And a second?

17 AUDIENCE MEMBER: Second.

18 CHAIRMAN DUNHAM: All in favor, indicate
19 by saying aye.

20 (Chorus of ayes.)

21 The 109th meeting of the National
22 Petroleum Council is hereby adjourned. Thank you for
23 your participation.

24 (Whereupon, at 10:46 a.m., the proceedings
25 in the foregoing matter were adjourned.)

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CERTIFICATE

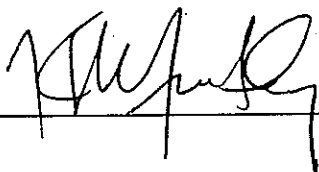
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matter of: Meeting

Before: U.S. Department of Energy
National Petroleum Council

Date: June 6, 2001

Place: Washington, DC

represents the full and complete proceedings of the
aforementioned matter, as reported and reduced to
typewriting.


A handwritten signature in dark ink, appearing to be "J. H. [unclear]", is written over a horizontal line.