DEPARTMENT OF ENERGY
NATIONAL PETROLEUM COUNCIL

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In the Matter of: *
*
110TH Meeting of the *
National Petroleum Council *
****

Wednesday,
April 10, 2002

Crystal Ballroom
The St. Regis
923 Sixteenth & K Sts. N.W.
Washington, D.C.

The above-entitled matter came on for hearing, pursuant to notice at 9:00 a.m.

PRESENT:

WILLIAM A. WISE, Chair, NPC

HONORABLE CARL SMITH, Assistant Secretary
For Fossil Energy, U.S. Department of Energy

HONORABLE E. SPENCER ABRAHAM,
Secretary of Energy

ORIGINAL

A G E N D A

P R O C E E D I N G S

(9:06 A.M.)

MR. WISE: Will the 110th Meeting of the National Petroleum Council please come to order?

We welcome all of you, Members of the 2002 and 2003 Council, Honored Guests, Members of the Press and Public.

I think we will have an interesting and worthwhile session today.

The check-in is across the hall and that is going to serve as our official attendance record. So, if there is no objection, I will dispense with calling the roll. And any member or observer for a member who has not checked in please do so before you leave so we will have an accurate record of today's attendance.

I would like to introduce the participants at the head table for the record. At my far right is Mike Smith, Assistant Secretary of Energy for Fossil Energy. Next to Mike is Bobby Shakouls, Vice Chair of the Council. Secretary Abraham will be joining us about 10 o'clock this morning. And on my left is Marshall Nichols, Executive Director of the Council.

First order of business this morning is to hear from the newly sworn in Assistant Secretary for Fossil Energy, Carl Michael Smith. Many of you know

Mike Smith from his private sector life as an independent oil and gas producer in Oklahoma and others may have ~~personally~~ first met Mike during his six years as Governor Keating's Secretary of Energy for the State of Oklahoma. Now, he manages coal, oil, natural gas programs at the federal level, including the Strategic Petroleum Reserves and the two billion dollar Clean Coal Program ~~in~~ and the National Energy Technology Laboratory.

Please welcome Mike Smith.

(Applause.)

PRESENTATION BY MICHAEL SMITH:

MR. SMITH: Mr. Chairman, thank you very much.

I made a ~~n egregious~~ grevious error last night, but it is never too late to make amends. I was a bit nervous during the introductions because I was standing real close to Archie and his new pee shooter. I forgot to introduce my boss, that is never good. So, this morning I want to take the opportunity to introduce Mr. Bob Car~~ter~~d, who is our Undersecretary of Energy. Bob.

(Applause.)

MR. SMITH: I am really pleased you could join us this morning.

Bob is extremely interested in our industry.

He has a background in it. He wants to learn more about it. One of the things he wants to do and I am arranging this as quickly as I can, I saw Lew and Larry and Christine and those of us, and Archie, those of us from Oklahoma, he wants to see the real gas patch. So, I am taking him to Oklahoma, to tour some production facilities and gas storage facilities. And with apologies to all the Longhorns and the Aggies and I know Bill Myler, so at least one fighting Irish in the room, he wants to come to home of real football.

I want to visit with you this morning about really three areas and they interface with what your Council does very well with what I do at Fossil Energy. And the three areas I want to talk about are security, number one. And that is national security and economic security. Number two, access issues for the industry. And then lastly, what I lump together in one general topic is public education. And as I visit about each of these three, one at a time, they all really interrelate.

First of all, security. I think that is something that has really been on everyone's mind since 9-11 for all the obvious reasons. Particularly, in our industry because we are not only the industry that provides our nation with the oil, grease and gas to support our

national defense efforts, we are also the industry that provides the economic security at home that our nation has enjoyed really for 200 years, particularly the last 100 years, when our industry has been so important in the development of our country.

We have over the course of time taken energy for granted. And I think we have done that at our detriment. The President in his National Energy Policy is proposing that we take it for granted no longer. And has made some really, with your help, some tremendous policy recommendations to the people in the United States. And I know Secretary Abraham will visit more about that later, but certainly, it is on everyone's mind.

There are some other things that is on people's mind, particularly in this room, are some statistics that we see that are pretty startling. One that really disturbs me a lot and I can even picture where I was when, the room I was in when I first heard the statistic, and that is by the Year 2010 it is estimated that our nation will ~~now~~ need 30 trillion cubic feet of gas. And we now produce 22 trillion cubic feet, roughly, 22, 23. It is a number that almost at first blush seems unobtainable because you look, you always look at the current situation and we know that

currently, at least over the last several years, since the gas bubble disappeared, we have been producing pretty much flat out around the country on our gas reserves. And then we really have not been adding to reserves at all. We have been drilling in field wells. We have been drawing down reserves faster, but look at the statistics, I think, I saw Mr. Trujillo a moment ago coming in, I think Wyoming is the only state that has really added to the reserves in the last decade and primarily it has been because of coalbed methane and some increased activity in the Rockies.

But, most of the states, the traditional reserve base has been declining. There certainly has been some new great discoveries offshore that we all know about that, but, those, at least the production that has been discovered so far seems to be, seems to have a pretty fast decline rate. So, I guess the question is where is the gas going to come from?

And -- where my office comes in. We do an awful lot working with you, working with the academic community in our industry, working with groups to make sure that oil and gas technology that we develop in our labs, actually gets to the field. And that is one of the main missions of my office. In that same vein, we are looking for including how to get more gas, more oil

and gas out of existing reserves, and of course, same margin of production, we are looking in new unconventional reserves, which quite frankly are pretty exciting. Some of them are a bit out time wise, but I am certainly enthused in my first 60 days in office and seeing what we are doing about the possibility of new technology that is not too far around the corner, which will help us get to that anticipated gas market we visited about.

And then, of course, you can't mention security and Bill mentioned it in the introduction, without talking about the Strategic Petroleum Reserve, which is also under my office's duties to not only fill the reserve as directed by the President, a full 700 million barrels and by the way that fill rate is a bit ahead of schedule. We are pleased with that. But, also maintain that reserve in the event that the President determines that it is needed for the benefit of our country.

The second issue I want to touch on a bit is access. And that is the one we talk about a lot, because if you look at any map, and I will limit it mainly to gas for these comments, but, look at any map of the lower 48 or really North America for that matter, and look at where the gas reserves are. They

are not in the traditional places that we have drilled. They are offshore. They are in the Rockies. They are in areas that are difficult to drill and to transport the gas, quite frankly. There is not a lot of infrastructure in some of those areas, so even if you do find a really nice gas field, it is difficult to get it to market. And then of course the compression and all the gas treatment that has to be involved in ~~bringing~~ moving it to market, and through the system, and the local distribution companies and utilities and such. All of those access issues, if you will, are tied together. And it is not all just on federal land. A lot of it, those access issues are on fee land and on state owned land and people who traditionally have been at bit concerned about our industry and how we, how we lay these lines and how we operate facilities and such. And again, that is where my office comes in to a big degree, because we, again, are involved in technology that helps solve some of those issues and answers some of those questions.

The technology and it is, of course, not all out of Fossil Energy, a lot of it has been out of the private sector, too. But, most of it has been developed in a partnership. Such things as new drilling technology that allows us to drill a whole lot

of wells off of, off of one location now. Which not only lessens the footprint of ~~our~~ that location, but means there are fewer surface disturbances because not as many surface locations are needed to drill to obtain the same amount of production.

.Then new technologies are in finding oil and gas, such as -- much less surface disturbance than conventional ~~size~~ seismic, as you all know. But, all of these things have been developed through technology. And certainly the computer has been a big aid in that. I like to use the term and no one, I don't think has ever really contradicted me, that other than maybe the Aerospace Industry, the Oil and Gas Industry is the most high tech industry in our country.

All of these issues on access sort of go together. There are some tough public policy decisions that we have to, that we have to, I think, solve on some of these and a lot of it is education, is getting the facts to the public. And that leads me really to my third issue. It is a people~~'s~~ issue. It is an education/people issue.

This organization has been in existence since the Truman Administration. We are the 10th Administration to take advantage of your expertise and work with you on policy issues that affect our nation's

energy picture, infrastructure, production and reserves.

I wish that we had started, "we" being the industry, put myself, my old industry hat on, I wish we had started the day this organization was founded to really have a strong public education effort around this country. That is about the time the television age started. It is about the time other commodities started telling their story via the airways. Certainly, the farmers with the, more recently, the eat more beef campaign that literally saved the cattle industry, to all sorts of commodities, plastics, cotton, you name it. We started that effort in Oklahoma and proud to say it has been very successful and it has been a model for a lot of other states and hopefully ~~there~~ it will be a national model as time goes by.

But, certainly as you educate the citizens and what you do is tell those citizens that the oil and gas industry is an integral part of our nation's fabric. It is as important to us as our land, that grows our crops, our water, ~~w~~t what we depend on and our air. It is every bit as important an element to our success as a nation as those items. And you start, quite frankly, interesting young people in our business. We have lost a whole generation of people in

this business. Since the mid '80s, at least the number you always hear and I always think it is higher than that, five hundred thousand people are exited this business. Most of them never to return. They have gone ~~over~~ on to other places. And not only that, their children have lost interest in this business. I am alarmed by it. I am alarmed by the lack of energy education, basic energy education in our schools, energy education to the public and of course, young people, who are willing to pursue the earth sciences as a career. Who is going to replace you? There are many in this room that are third and fourth generation owners of their companies. The ones I am aware, it is not everyone, but a lot of the ones I am aware of in Oklahoma, their children are not interested in the business. They are interested in something else. They go, it happens occasionally, it seems to be of epidemic proportion.

Every now and then, though, there is a bright spot. About the time I am a bit down, something always picks me up and it happened a couple of weeks ago. I was in Golden, Colorado, the home of the Colorado School of Mines. I have never been there before. It is a beautiful campus, many of you have, what a sharp bunch of young people who are in the

Petroleum Engineering School, the School of Mechanical Engineering, and other disciplines that they have there at Colorado Mines, and it just sort of reminds you that, yes, there are some youngsters out there who are pursuing it. There just aren't enough of them.

And we are doing a great job, we always have of exporting our technology. And we need to continue to do that, because of all the issues I mentioned earlier about the new things we are doing with technology, certainly are environmentally friendly and protect the environment. All of this new technology has an environmental component, every bit of it helps protect the environment. And that technology that we are exporting, helps the world's gas and oil industry protect the environment around the world. Many of you last night met the Ambassador from Vietnam and the first thing he visited with me about when he learned I was from Oklahoma, is the fact that the University of Oklahoma has 51 of his students in the Undergraduate program in Petroleum Engineering at the University of Oklahoma. It has been a program, I was aware, it has been a program that, that we have developed with Petro Vietnam, Vietnam National Oil Company, to train a lot of their youngsters. But, I have no idea, but I would imagine the vast majority of those young people, that

once they obtain their degrees, will return to their native land and get into the business in the Far East rather than here. Some certainly will stay. But, I guess the point is is that energy education needs a real emphasis. And that is, is one of my pet projects and certainly will be one of my projects as I venture into the new responsibilities I have assumed.

In closing, I just want to thank all of you for the time and commitment that you have given to this organization. It is extremely important. It is important to the Secretary as you know and it is personally very important to me, because of the duties that I perform on behalf of the Secretary and the people of this country. I need your help. I need the help of this organization in formulating what we do on a day to day basis on how this technology that we are developing can get applied in a most effective manner. I need your ideas. I need for you to tell me collectively, of course, through your deliberative process as a body, but also individually. What you think we can do a little bit different or how we can do things a bit better. The timing couldn't be better. I am in the middle of a top to bottom review of my office as directed by the Secretary, which is due July 1 and it is not only an interesting exercise, it is a timely

exercise and it has, it is giving me the opportunity to take a look at everything we do, take a picture of what our mission has been and how we are functioning, how we are fulfilling that mission, and make some changes if necessary.

But, I certainly want to tell you and make the offer with all ~~certainty~~ sincerity, that my staff, many of you of whom you have worked with, Nancy Johnson, for one, I don't know if Nancy is here this morning, but, several of them on my staff, who you have worked with, you certainly know how to contact them, please continue to use my staff. And I am wanting to get directly involved with your activities. And really look forward to working with you in the future.

Bill, thanks a lot. Should I take a question or two?

MR. WISE: I was going to suggest that, would you be willing to do that?

MR. SMITH: Okay. Christine Hansen will answer the tough ones, so. Anyone?

Gosh, this is easy.

MR. WISE: I will ask a question about education.

MR. SMITH: Okay. Sure.

MR. WISE: We talked last night about how

difficult it is for this industry to come together in a single message and I know that you have had some success in the State of Oklahoma. And do you have any suggestions for us as to how we can go forward and try to raise the level of acceptance in recognition on the part of the public in general, of how important this industry is to the success of the continuing lifestyle of this country?

MR. SMITH: Sure. I would, I would make a couple of suggestions. One of them is what you can do individually. All of you are very well respected in your individual communities. You have opportunities to visit with your local officials, your state officials, your civic clubs, Lions, Rotary, whatever, take every opportunity to talk about your industry at home. You would be surprised in whether it is Baton Rouge or Casper or, or Oklahoma City, or Mesquite, Michigan or wherever, how few people in your hometown understand what you do. And it is really not their fault. They just have not been educated. And it is a simple thing as making you, yourself available and your staff available for speaking engagements, op-ed pieces in the newspaper, working for your state trade associations. Almost every major oil and gas producing state has a very active trade association, get involved, because

all of them have some sort of public education effort going.

Collectively as a group, I would, I would suggest that you work with other groups and many of you are members of some of these other groups who can get together and pattern some sort of public education effort. There are some, Oklahoma is not the only example, Illinois has a voluntary checkoff program for public education. Ohio has one. Texas almost had one. Our friends from Texas, I am hoping that this next session you will be able to get yours enacted. But, take a look at some of these ideas and see what works. Several of you in this room have been, Lew Ward and Jerry Jordan and others, Larry Nichols, I am going to leave some names out, but several of you have been very active in trying to establish a National Energy Education Program. I think it is long overdue. I think it is never too late to start. But, I would get together and perhaps a work group of some sort to look at some ideas, look at what some other people are doing and there are some foundations that are doing great work. The Interstate Oil and Gas Compact Commission has a very strong public outreach program, working with the states. I would look at all of these groups and see what might fit and how you might be assistance to

some of those efforts and maybe lead some of those efforts.

Yes, sir, Archie?

MR. DUNHAM: My question regarding your (inaudible)

MR. SMITH: I can plead total ignorance on that one. I really, I am unfamiliar.

MR. DUNHAM: (inaudible)

MR. SMITH: I am really unfamiliar with it.

Yes, sir?

MR. CARD: (Inaudible)

MR. SMITH: LNG is that the, you all need to speak up a bit, I am, this air conditioning is kind of loud.

I think LNG has a real future. Certainly, stranded gas is a huge issue around the world. And we are working through my office on some interesting LNG projects. And I, I am optimist about LNG. Again, it is one of those things that are driven by the laws of supply and demand. But, I think it is something that technology can really aid, some of the issues there. But, I certainly think it has a future. I know Mr. Card had a comment about the leak, did you, Bob?

MR. CARD: Yeah, let me clear, nothing leaked from the power plant. I believe you are talking,

Archie, about the First Energy Bessie Davis Plant. On a certain type of reactor design, there have been a number of concerns about connections with the pressure vessel head, and they started with cracked nozzles that were showing up about a year ago or so. Part of the outstanding safety record of the nuclear power industry is they have developed a lot more detection systems for picking these things up early and when they did a routine maintenance at this plant, they discovered some corrosion inside the head. The upshot is that many utilities are already ordering new heads for the previously identified problems affects not all the reactor designs in the country, but if, on further inspection, this became a more urgent issue, then you could see several more plants coming off line. And we monitor this because you can actually see gas price spikes happen when you take a thousand megawatts off line, it is going to get replaced by gas over the short term and peaking.

So, we are pretty concerned about it. We don't have any reason to be panicky yet. But, if we ended up with a gas supply problem, this, of course, would be a major additional concern to worry about.

We don't have any concerns about safety of nuclear power. I just want to make that clear. That

we think the industry and the NRC are well on top of the issue. To answer your question, Archie.

MR. SMITH: Thank you.

Yes, sir?

AUDIENCE: Following up on your point of access, I know Secretary Norton -- last night (inaudible) what could -- you to further advance the access issue because I think one of the issues (inaudible) --

MR. SMITH: Working very closely with the Department of Interior and -- We have had several meetings with Undersecretary Card, and at his level and with other assistant secretaries at my level. Deputy Secretary ~~Glouse~~ Griles (ph) was there last night and both Secretary Morton and the Deputy ~~Assistant~~ Secretary are very interested in working with us and other agencies, in fact, to have jurisdiction to see if we cannot come together and work out some of these issues that are vital to us, vital to the country. And, of course, with, as I mentioned, the technology side of the equation, I think, has not been given as much publicity or notoriety, if you will, on how it has solved a lot of the environmental questions that have occurred over the last 10 years. Not all, but a lot. And we are working toward that resolution, and certainly working with those other industries, other agencies, excuse me,

has been very helpful and will continue.

Bill, thank you.

MR. WISE: Okay. Thank you very much, Mike.

(Applause.)

MR. WISE: We are going to divert a little from the agenda for some logistical reasons and in turn to the Memorial Resolution part of the agenda. It is a sad part of the agenda and it marks the passing of a distinguished Council member, Danny Conklin. And first, but, first I would like to say a few words in remembrance of Charlie Murphy, founder of Murphy Oil Company, who passed away last month. Charlie served as chairman of the Council from '79 to '81. He was an active member for over 20 years until his retirement in 1985. He will be remembered as a great leader and a spokesman for our industry.

Danny Conklin served as a member of the Council for the last 13 years, and we have got John Miller up here to present a memorial resolution in Danny's honor.

MR. MILLER: Thank you, Bill.

The Members of the National Petroleum Council were deeply saddened by the death of their distinguished colleague, Danny Conklin on October 31, 2001. Danny was born in ~~Shadow~~ Shattuck, Oklahoma, grew up

in Canadian -- Texas and graduated from Oklahoma State University. He founded PhilCon Development and Exploration Expiration Production Company in 1960 with his partner, Harry Phillips. Danny held leadership positions with many industry organizations, including the Independent Petroleum Association of America, the Natural Gas Supply Association and the Panhandle Producers and Royalty Owners Association. He was also appointed to the Interstate Oil and Gas Compact Commission by the Governor of Texas. At the time of his death, he chaired the U.S. Oil and Gas Association.

In addition to his petroleum related activities, Danny worked on behalf of many civic organizations in Amarillo and nationally.

Danny Conklin was a member of the National Petroleum Council for 13 years. During his membership, Danny involved himself in the work of numerous study committees and served on the Council's nominating committee.

Therefore, with sincere admiration for his achievements, and contributions to the industry and the Council, and with a great sense of loss, be it resolved on this 10th day of April 2002, that the deepest sympathy of the members of the National Petroleum Council be extended to his widow, Carolyn and to his

family.

It is further resolved that this resolution be entered upon the permanent records of the Council and that an appropriate copy thereof be delivered to his family as a remembrance of the Council's esteem and deep appreciation.

In closing, I would like to just tell you a little bit about Danny as a person. Those of you that knew him, remember that he was a big, strong, hearty oilman's oilman. He had a great sense of humor and a huge laugh. He was stricken with a severe illness some years ago and was at death's door, actually medically given up on. The doctor suggested they even unhook him and his wife, Carolyn said, if you do there will be two funerals, yours and Danny's. So, they stayed in there for a number of weeks and she went in to see Danny one morning and he blinked his eyes and said, "What is for breakfast?" And he recovered. He had some problems. He had to be on dialysis and one thing another, and he came back and as it says in here, he was chairing the U.S. Oil, Gas Association at his death.

He had been to the IPAA meeting in Houston just the weekend before. Went back to Amarillo, then went that morning of October 31 to the hospital for his

dialysis. Now, Carolyn in an excellent seamstress, and they have been talking about a Halloween event at the hospital. So, she took a tee shirt and took a cut out of Superman and put it on that tee shirt and fixed it up very fancy, and Danny goes to the hospital for dialysis and of course, when he takes his shirt off, they all think what a wonderful thing and they enjoyed his participation. He went from there, directly to the airport, flew to Houston. He and Carolyn got in a car and started for the city and on the way he was hit with a severe heart attack and died. Of course, they pulled off the side of the road, called the emergency medical service and they came out and in their haste, they quickly opened his shirt and there is Superman. Carolyn told me the story and between tears and laughing, but I thought what a thing, because Danny truly believed that to be absent from the body was to be present with the Lord. And I think God and Danny had a big smile and they are probably having one right now.

Thank you.

(Applause.)

MR. WISE: Ladies and Gentlemen, I propose that we signify our adoption of this resolution and mark the passing of these fine gentlemen by rising for

a moment silent reflection and prayer.

(Whereupon, a moment of silence was taken.)

MR. WISE: Okay. Thank you.

Let's move on with the agenda, and go back to the reports of the Administrative Committees. Listening to Mike's remarks a few moments ago about natural gas and all of that the Fossil Energy Office is doing, it is appropriate to address at this time our first administrative matter this morning, which is to hear from the Agenda Committee. In the packets ~~that~~ at each member's place is a copy of the letter I received from Secretary Abraham dated March 13, requesting the Council's advise on Natural Gas Markets. As required by the Council's Articles of Organization, I referred ~~to~~ this request to the Agenda Committee for its review. Larry Nichols chairs this Agenda Committee, even though ~~he~~ it did in absentia last night, and we told him it was the best committee meeting he had ever run.

Larry, will you come up and give a report from the Committee.

PRESENTATION BY LARRY NICHOLS:

MR. NICHOLS: I was circling Washington at the time trying my best to get here.

As many of you in this room know, during the last decade, the NPC has conducted two studies on

natural gas. One in 1992 and the last one in 1999. That first report was entitled "Potential For Natural Gas in the United States." And the 1999 report was entitled "Meeting the Challenges of the Nation's Growing Natural Gas Demand."

That last report, the 1999 report, has proven to be one of the most widely used and widely distributed reports that the NPC has ever issued.

Secretary Abraham is now requesting the Council to expand on that 1999 report in light of all that has occurred in the energy markets in the last few years. While that report is only a few years old, obviously a lot has happened since then. The Secretary specifically is asking us to address the implications of new supplies, new technologies, new perceptions of risk and all the other evolving market conditions that have affected ~~the~~ gas demand, supply and deliverability. Such things as price volatility, fuel switching, and particularly, the long term outlook for the sustainability of natural gas supplies.

In particular, the Secretary has requested advice on and I quote "Actions that can be taken by industry and Government to increase the productivity and efficiency of ~~North~~ American natural gas markets and to ensure adequate and reliable supplies of energy

for consumers."

As Bill said, the Secretary's letter is in your packet.

The Agenda Committee met yesterday, an exceptionally well run meeting, to review this request. Our committee feels that the subject is of great importance. As the Secretary notes, gas supply is increasingly critical to our nation. I am pleased to report that the Agenda Committee has unanimously recommends this request is proper and advisable and that a committee should be formed expeditiously to prepare a report for the full Council's consideration.

Mr. Chairman, this concludes the report of the Agenda Committee. And on its members' behalf, I move that it be adopted by this Council. Thank you.

MR. WISE: I think there probably has never been a more critically or a more critical time for a reevaluation of the potential for the natural gas industry and what kind of role it is going to play and for all the reasons we have been talking about this morning, and wild card such as the continued reliability of the base load nuclear generation facilities that we were just talking about a minute ago, and the stress that the industry has been under

in, in developing additional supply and looking at that 30 Tcf's market, everybody in this room understands there is a lot of wood to chop to get there and a lot of issues.

So, I think it is a very appropriate time for this study to be undertaken by the Council. We have a motion. Do I have a second? Second. All right, are there any questions or comments for the Agenda Committee?

(Pause.)

MR. WISE: Hearing none, all those in favor please say aye.

(Whereupon, a chorus of ayes were heard.)

MR. WISE: Any opposed? Okay. The report is adopted.

Thanks again, Larry, for addressing this matter and the next thing to be done is that I will begin immediately as the Chairman of the Council to select a committee of Council members to prepare a response for our consideration. And it is a very important study, so anybody, any members of the Council that wish to participate in this effort, please get in touch with Marshall and we will go forward to put together a recommendation to the Secretary of Energy, Council members to populate various pieces of this study going

forward.

Okay. Next I would like to turn to the Council's finances. As you know Archie Dunham has been quite busy lately and is called upon to take on many responsibilities, one which he has accepted is stepping into ~~the~~ to chair ~~of~~ the recent meetings of the NPC Finance Committee. We very much appreciate that help and Archie, will you now present the Committee report.

PRESENTATION BY ARCHIE DUNHAM

MR. DUNHAM: Thank you, Mr. Chairman.

The Finance Committee met on February 19 to review the Year 2001 financial statements and to make recommendations for the 2002 budget.

Our review of the 2001 financial statements show the financial condition of the Council to be strong. And that we will end the year with a budget surplus.

This surplus combined with an excellent contribution response from the membership resulted in the Council's ~~continuous~~ agency funding reduced less than we anticipated.

The Committee reviewed and approved an engagement letter from Johnson Lambert and Company to serve as the Council's outside auditors for the Calendar Year 2001 financial statements. The

Council's previous auditors, ~~Urbson~~ Ernst & Young sold that portion of their practice dealing with non profit organizations to Johnson Lambert, which specializes in non profit organizations. Both ~~Urbson~~ Ernst & and Young and the Finance Committee believe the Council's interest will be well served with the appointment of Johnson Lambert and Company as our auditor.

The Committee also reviewed and recommends that the Council approve a 2002 budget of 3.01 million dollars. This budget was prepared in anticipation of the natural gas study that you just approved and is virtually the same as the budget that you approved in 2001.

Finally, the Committee looked at member contributions to support the budget. And given that the budget is essentially unchanged, we recommend holding individual member contributions to the 2001 level.

Thank you, Mr. Chairman. This completes the report of the Finance Committee and on their behalf, I move that it be adopted by the Council membership.

MR. WISE: Thank you. We have a motion to adopt the report of the Finance Committee. Do I have a second? I have a second. Are there any questions or comments for the Finance Committee? Hearing none, all

those in favor please say aye.

(Whereupon, a chorus of ayes was heard.)

MR. WISE: Any opposed? Okay.

Next committee to report is the Nominating Committee. Our articles of Organization define the first in a calendar year as the Council's organizational meeting. It is at this time that we elect officers and members of our standing committees. To help us with this, we turn to our final committee report this morning, which is from the Nominating Committee. Ray Hunt chairs that committee. Would you please make the recommendations of the committee?

PRESENTATION BY RAY HUNT:

MR. HUNT: Thank you, Mr. Chairman.

The Nominating Committee met this morning. We had a very contentious meeting. Not really. We did meet this morning to charge our responsibilities to propose to the membership our recommendations for the officers for the coming year, the chairs and the members of the Agenda and the Appointment Committees, and the five at large members who will serve on the co chair's coordinating committee. And Mr. Chairman, I would like to put this into one motion. We would propose that for the coming year, the chair of the NPC be Bill Wise, the vice chair be Bobby Shakouls. For

the Agenda Committee, we recommend Bob Allison, Joe Foster, Bob ~~Pry~~ Fri, Ray Hunt, John Miller, Jim ~~Moover~~ Mulva, Lee Raymond, Dick Terry, Chuck Watson, Dan ~~Ergun~~ Vergin, with Larry Nichols serving as the chair. And for the Appointment Committee we recommend George Alcorn, Don Cash, Bob ~~Cotell~~ Catell, Clarence ~~Cesalott~~ Cazalot, Luke Corbett, Claiborne ~~Dinner~~ Deming, Tommy ~~Monroe~~ Munro, Bobby Parker, ~~Lou~~ Lew Ward, Mike Wiley and Bob Palmer serving as the chair.

For the five at large positions on the co-chairs' coordinating committee, we would recommend Bill Greehey, Dave ~~Wiley~~ O'Reilly, Mark Pappa, Dick Prior, and ~~Deemer~~ Diemer True Crew.

Mr. Chairman, I would like to put that in the form of a motion.

MR. WISE: We have a motion. Are there any other questions for Ray on the Nominating Committee actions? Do we have a second to the motion? Okay. Any other discussion? Hearing none, all in favor please say aye.

(Whereupon, a chorus of ayes was heard.)

MR. WISE: Any opposed? Thank you.

And on behalf of Bobby and myself and all the Committee members, we appreciate your continuing support and I think there is a lot of important things to be done. And we have a good group of people lined up

to get them done.

I am told by Marshall, that the Secretary of Energy is in his car. He is on his way. We are a little bit ahead of when he is going to be here, but not much. He should be here momentarily. I would suggest that we just take a breather here, just sort of stand up and stay in the room so we are not scattered all over the hotel when the Secretary arrives. And he should be here shortly.

I could tell you a few jokes, maybe do a soft shoe. Bobby can tell us about his golf game, but --

(Tape change)

MR. WISE: Okay. Now, we are at the most important part of our business meeting. We are going to get the opportunity to hear from Secretary of Energy, Spencer Abraham, who has just joined us. The Secretary spoke to us at our last meeting and has become well known to us all during his first year as Secretary of Energy.

Mr. Secretary, we have at this point in the meeting, done a number of things, which I think are important. Number one, I think is importance is that we have as a Council adopted the recommended study that you have asked the Council to entertain. We had unanimous vote of the Agenda Committee last night in

favor of going forward with the study. The Council, this morning, has unanimously supported that recommendation. I will now, as Chair of the Council, go forward to set up a committee and will structure with the individual members that and I think we will probably have a lot of interest on the part of the membership to participate in this study, and send to you as soon as possible a structure for the study with members of the committee to go forward. And thank you for your, for giving us the opportunity to do that study.

Secondly, we had comments from Mike Smith this morning and some Q&A afterwards. Mike shared with us all the things that Fossil Energy Office was doing in the area of security, security of supply, also access and helping the industry access the areas of the country that are prospective. Very important. And also education and how we as an industry can go forward to make an enhancement to the image, frankly, of our industry and how, and make the person on the street understand how important this industry is to the qualify of life and the lifestyle in America. And we are working and we are very happy to have the cooperation of the Office of Fossil Energy to help us moving forward in all three areas.

The Council adopted a budget. We have allocated a budget for the coming year of over two million dollars, which will include necessary funds to conduct the study on natural gas that you have asked us to conduct.

We then elected some of our standing committees. And that is the business to this moment. And at this time, I would like to ask all of you to help me welcome the Secretary of Energy.

(Applause.)

PRESENTATION BY SECRETARY ABRAHAM:

SECRETARY ABRAHAM: Thank you very much. Thank you. And to the group, thank you all for your very nice welcome and it was great to spend some time last night at our event and it was good to get to know some people a little bit better and to meet the new members of this group. And I want to thank everybody who has now joined Council in this new session. And thank especially those who have been contributing for such a long time, starting with our Chairman, Bill Wise. We appreciate, Bill, very much your leadership and want to thank you for the job you are doing.

And I also want to pay special tribute, I don't know quite have the same kind of gift to bestow on Archie Dunham that the rest of you did, but, I do

want to say, Archie, that I am very grateful. When you are a new member of the cabinet and particularly in this job and especially against the back drop of the challenges which we have confronted in the energy arena, it is great to have in this position as the co-chair of NPC with the Secretary, a person who brought the leadership that you did. And I am glad to say everybody that Archie promised me last night he was not fading away but going to remain very active, which we appreciate as well.

It has been a very busy 12, 14 months really now, I guess, since I took the job and I have been very, very appreciative of the help this group has given. I also have been very grateful to some of the people at the Department of Energy, who help make the progress which we have achieved occur. I just want to single out a couple of folks. First, I know Mike Smith has been a very active part of this meeting. My only regret is that Mike was not confirmed earlier than he was, his confirmation was available for the Senate's consideration back in October, but he didn't actually get confirmed until early this year. So, we haven't had the benefit of his leadership for as long as I would have liked, but, in the very brief period that Mike has been on the job, I know a lot of you already

had the opportunity to work with him and I sure have appreciated, Mike, your leadership qualities and thank you for leaving your role in Oklahoma to join us.

In the period before Mike's arrival, we did, however, have some very able assistance. I am not sure if Bob Kripowitz is here, usually is around these meetings and I know he was with us last night. But, Bob is the acting assistant Secretary for Fossil Energy. Did a great job of helping us to get through that period. And once he was finally confirmed, my Undersecretary Bob Card, who is here today, has just done a terrific job. I don't know how many of you have had a chance to work with Bob yet, but he has got a pretty wide portfolio that includes, not just oversight of Fossil Energy, but virtually all of our science programs, science labs that are not part of our National Nuclear Security Administration. So, it is a big lab program that he oversees, the Environmental Management Program of the Department. Bob brings a wealth of talent from the private sector, firsthand knowledge of how to make things work and he has done a great job. So, Bob, I want to pay special thanks to you today.

I know that about a third of this Council's membership has changed since we have last met and I

would like to just, as I said, thank those who have just joined as well as those of you who are continuing your service. Given the challenges we have had, the energy arena over the last year or so, I particularly appreciate the willingness of people to continue to serve in this role. It has been a hardship duty to some extent. I took this job and several of you who I knew said, you know, remember that the way your job works is whenever energy prices, gasoline prices go up, the consumers blame you, when they go down it is the market working. But, when they go down, everybody in this room blames you. So, it is not always the most enjoyable role. But, as we have seen even in recent days, you know, the volatility of things, the changes that can occur overnight really are pretty significant. And one of the things that perhaps more than anything else has become clear to people is that these energy issues have to be a top priority for Government policy makers in the future. And frankly, by lending your valuable time to the important work of advising us in the Federal Government on energy issues, you are making a very direct contribution to our continued economic growth and prosperity. So I thank you.

The first time we met at least that I spoke to this group, was last June, which was, of course,

well before the transforming events of September 11. None of us, of course, are ever going to look at the world around us in quite the same way again. And the issues we discussed then, interestingly, the President's National Energy Policy, which had just been announced as well as your report on Critical Infrastructure Protection, are even more relevant today than they were at that time or ever before.

The need to face up to and overcome the challenges of energy security is an urgent national priority. The President believes that very strongly. I believe it strongly and I know most of you share that view. This group knew before September 11 that we needed to improve critical energy infrastructure protection, particularly cyber security. When we last met, of course, the NPC had just submitted the report, which had been put together on that subject. And if anybody ever doubted the importance of the National Petroleum Council's contribution to understanding and improving our nation's energy system, the production of that infrastructure report at that time, I think, removed all doubt. It demonstrated a farsightedness that we have come to appreciate, especially in my office.

The response of the industry, however, I

think post September 11 to infrastructure protection has been even more impressive. Well, the report focused largely on cyber security, many of the recommendations applied to the oil and gas physical infrastructure and now serve as the foundation for a number of initiatives which have been taken up both by industry as well as by us at the Department of Energy.

Probably the most striking work being done is in the development of industry specific security guidelines by patrolling the natural gas and the electricity sectors. These uniform standards, which are the first of their kind, incorporate vulnerability as well as risk management assessments, response and recovery planning as well as information assurance. This Department is working in a very similar aggressive fashion in the wake of the terrorists' attacks. In November of last year we created the Office of Energy Assurance, and we integrated its mission into the Department's Emergency Operations. And that integration continues.

The Department and the Federal Government have unique capabilities to offer and we have begun an intensive effort to make those capabilities available through training, exercises as well as staff assistance. Our Department has carried this message to

the Energy Sector in a variety of ways. We have now visited 40 sites, 40 states, rather, to date, to identify specific energy assurance needs and to help establish plans to support each state. We have assessed the country's critical energy assets to provide a baseline analysis of energy infrastructure security. And we are working cooperatively with industry and our interagency partners to help develop national security standards. We have also improved the process for identifying and sharing technologies to help protect the nation's critical infrastructure. And finally, we are conducting training support and outreach programs for industry as well as state emergency preparedness and response personnel.

One of the interesting things I have noticed, particularly of course since September 11, is that what had been in our Department for pretty much a decade or so of declining almost morale in many of our lab areas in the complex, of course, turned around immediately because suddenly throughout the Government people recognized that the talent, the expertise, the technologies to combat what we view now as the future threats that we must be prepared for, to a large extent reside right in the laboratories of the Department of Energy. And so we have been very proud of the fact

that not just the Office of Homeland Security but also state energy and emergency preparedness offices have been in touch with us and we have been able to reach out and be able to assign some of our technology and expertise to meeting the challenges people have identified all over the country. It is very reassuring. I think it is also an encouraging sign that we really are ahead of the game. And we intend to continue to be so.

One of the things that, General John Gordon, who heads our National Nuclear Security Administration and Undersecretary Card and I have been particular struck by is the extent to which we already had so many capabilities either already completed or on track to be able to bring, assets to bring to our challenges since September 11. One of which, in fact, computer modeling system, which we have at our Sandia Labs out in New Mexico, which allows us literally to estimate and quickly calibrate exactly what the implications are of any reduction in any part of our energy infrastructure, with the ramifications, the rippling effect of that might be through the entire country. It is a tremendously valuable tool and it is one I know that Tom Ridge has been taking advantage of.

But, the Critical Infrastructure Report that

this group did, really help make our rapid progress over those last six months possible. Because there is no higher priority than the protection of our country from our enemies. And so, I wanted to just first today thank of all of you for the important contribution which NPC make to our Energy Security and through it to our National Security.

Passage of the President's National Energy Policy will ensure that our energy security is in existence for decades to come. Vice President Dick Cheney's words when he presented the Energy Policy to the President nearly a year ago are exactly right still today. "We must erote modernized conversation, modernize our infrastructure, increase our energy supplies, including renewable, accelerate the protections and improvement of our environment and increase our energy security."

At our meeting last June, I devoted most of my remarks to a survey of the components of the National Energy Policy, which included 105 specific recommendations for action. Twenty of the recommendations required congressional action, 85 could be implemented administratively by federal agencies. The President wasted no time in ordering action on the items that fell within his purview. And either the

House or the Senate has now approved nearly all of the legislative recommendations in the National Energy Policy, in most cases, by wide margins. We can say today, in fact, that we have moved ahead on over three quarters of the National Energy Policy's 105 recommendations. I will have more to say a little late about crucial elements of the policy that require further Senate action.

But, first, I just wanted to give you a progress report on the Department of Energy's actions with respect to some of those recommendations by highlighting a few of the areas of great importance and interest.

Let me begin with coal. The bedrock fuel for electricity generation. Coal fuels as you know, 50 percent of all American electricity generation, 12 states depend on it to supply over 80 percent of their electricity demand. Clean coal technology as a result will be the key to continuing coal's invaluable contribution to meeting the nation's energy, economic and environmental goals. And under the National Energy Policy the President directed our Department to invest two billion dollars to fund research in clean coal technologies. Our clean coal power initiative will actually result in investment of over four billion

dollars because half will come from the Department and half will be matched from industry over the next 10 years for research, development and implementation of projects that will reduce emissions of mercury, nocks, socks and find particular and new existing power plants that will develop low cost, super clean coal power plants with efficiencies 50 percent higher than today's average. And it will ultimately develop low costs, zero emission power plants with efficiencies double those of current facilities.

Last month a 330 million dollar solicitation went out from the Department, which is the first installation in this two billion dollar investment and this clean coal initiative is well on its way under Mike Smith's able leadership. Our ultimate goal is the 21st Century energy system that using a variety of energy resources from clean coal to biomass, natural gas to nuclear, to produce plentiful supplies of electricity and zero net emissions. Those emissions include obviously carbon gases and carbon sequestration. The capture and storage of recycling of carbon gases is a key element in the Administration's plan to develop and use advanced technologies to reduce the buildup of greenhouse gases. I am happy to say, in fact, that it is the fastest growing program in our

Fossil Energy Budget.

This year we will begin field tests of the first carbon sequestration projects. They will provide the first real life data on the relative value of various proposals for storing carbon gases. For example, in the Fiscal Year '02 budget we will begin the first full scale project to sequester CO2 in the unmineable coal seams, along with the first full scale monitoring and verification of CO2 injection into a depleting oil reservoir. Next year we will move promising concepts from the laboratory stage of research to the final stage of testing.

Brownouts and blackouts in California last year reminded all Americans that energy should not be taken for granted. The system that supplies us with the power that makes modern life possible, of course, must be constantly maintained, improved and expanded. In California's case, something called "Path 15" or the Path 15 bottleneck was restricting power flows from Southern California to the Northern part of the state, which caused not only high prices, but also lower reliability in blackouts. Those of you from that part of the country are well aware of it. And we were struck when we first came into office by the fact that at least some of those rolling blackouts were not a

function of an inadequate statewide supply of electricity, but an incapacity to transmit the electricity throughout the state. Although public officials had known about Path 15 for years, they had not action to relieve that constraint. The President ended that inaction. We acted under the National Energy Plan to direct our Department specifically to order the completion of planning for a transmission expansion that would eliminate the bottleneck. We got to work. By mid summer, 13 companies had expressed interest in contributing to the expansion of that, of that transmission grid. A few months later, the Pacific Gas and Electric Company and six other parties reached agreement on a plan to end Path 15 with a 300 million dollar transmission expansion. When that project is completed, we will take a major step to alleviating future challenges in that region.

But, it does highlight what I think will be another one of our long term energy challenges in this country and that is the state of our energy, critical energy and broadly defined energy infrastructure. One of the things which we are about to release a nationwide grid study of our transmission grid. And what we recognize is that over the next year, there will be a dramatic increase in the demand for

electricity. But, our electricity grid system is not really set up to meet that demand. Much of it is old and much of it was built at a time when a single local power plant basically provided service to a community. It wasn't meant to handle the long distance kinds of transmission that we have today.

Another challenge we face is the onerous permitting process for new or expanded energy projects in the United States. It has become a very serious burden. It is often an unmoveable obstacle to needed projects that will help guarantee our future energy supply. Again, under the Energy Policy the President announced last year, we were called to action. The President ordered the creation of an interagency task force under the direction of the Council on Environmental Quality. Its job is to rationalize permitting for energy production in an environmentally sound manner by directing federal agencies to expedite permits for energy related projects. The goal is not to influence the outcome of a permitting process, but rather to ensure that timely decisions are made. And one of the things I heard last year as I recall at our meeting, was concern about the bureaucratic log jams which were prohibiting projects that clearly capable of being permitted from moving forward, simply because

federal agencies couldn't get their job done in a timely way. Streamlining that permitting process is an obvious and commonsense in an essential step toward getting new energy capacity on line as quickly as possible. And needless to say, as responsibly as possible and we are moving ahead now to get that done.

Internationally we are also improving our energy security by identifying working to develop energy opportunities around the world. Here our work again is in line with approximately three dozens of the directives from the National Energy Plan. Two thirds of which called for the Department of Energy to take action. We are now working in virtually every corner of the globe to encourage new cooperative trade arrangements and new resources. Let me talk about a couple of the ones that I have been involved in.

Next month the United States will host the first meeting of the GA Energy Administrators in many years. I will be chairing the meeting along with our partners from Canada and we will take this opportunity to share ideas and develop opportunity for increased international cooperation and energy development.

We also launched with Canada and Mexico, the North American Energy Working Group, which is reviewing ways to further integrate the North American Energy

Market and make it more effective.

We are putting our Western Hemisphere Energy Initiative to work with our other partners in the rest of the Americas. We along with our Hemispheric partners are intent on creating opportunities for new investment and the development of new energy resources here in the Western Hemisphere.

Finally, as a number of you know, I had the pleasure last fall of traveling to Russia for the opening of the New Caspin Pipeline. And while there I had the opportunity to meet with a number of our counterparts in Russia, as well as other former Soviet States, all of whom, as you know, are very interested in developing and expanding their vast energy resources. I see tremendous prospects in that region.

Each of these initiatives, discussions and cooperative efforts are aimed at fulfilling just one part of our National Energy Plan that I talked about last year, the diversification of our international sources of supply.

We are also pushing forward another project that is much in the news these days, and that will have an important effect as well on America's energy future. Yucca Mountain. Under the National Energy Plan, the President directed our Department to use the best

science to provide a deep geological repository for nuclear waste. Because without one we will not be able to maintain our existing nuclear plants and build the new plants we need to maintain and increase nuclear power's contribution to our energy mix. If we are to ensure dependable, reliable and environmentally sound energy supply for the future, we simply cannot take extremely efficient, environmentally benign and critically important existing power sources off line. And frankly, without Yucca Mountain, that is essentially what we would be doing to nuclear power. As you know, today nuclear power provides 20 percent of the nation's electricity, no airborne pollution or greenhouse gases and now gives us one of the cheapest forms of power generation which we have. Securing these benefits requires finding a permanent, safe and secured site for nuclear waste. And Yucca Mountain is that place.

As you probably know, opponents of nuclear power have been painting the safest, cleanest and most efficient power source on earth as a nightmarish danger for 50 years now. Today four billion dollars and 24 years of scientific study later, critics of Yucca Mountain, some of whom I suspect are the same people who opposed nuclear power in general, are painting the

safest, remotest, deepest storage site of its kind on earth as a nightmarish danger as well. Folks, we need Yucca Mountain. The American people understand the need and we are working hard to get it. It would not be too much to say that our balanced energy portfolio in no small measure depends on it. As I said, we have spent 20 years and four billion dollars performing about as much research you possibly could on the issues of the safety and suitability of this site. I have studied that research in great detail, and I am convinced that based on sound science, this project should go forward. And the President has concurred, the recommendation was made. Yesterday, the Governor of Nevada exercised his right under Statute to veto that decision and now the choice is before Congress. We look forward to having a spirited, I am sure, debate over the next few weeks on this topic. But, in my judgement, it is very clear that we must move ahead.

The programs and the projects I have mentioned are all essential components of the long term energy policy which America needs. But, we need not just some of the components, we need all of them. And to get them, the Senate must pass comprehensive energy legislation now and Congress must override Nevada's veto of Yucca Mountain. The Senate Bill must

encompass the three elements of conservation, alternative energy and production that are integral to the Administration's plan. On conservation, the Administration has proposed and Congress is now considering a three billion dollar tax credit for the purchase of high ridden hydrogen fuel sell vehicles. We urge the Congress to include this important proposal as part of a comprehensive energy package. We need legislation that will permit the United States to produce more oil here at home and to reduce our dependence on foreign sources of supply.

When did we ever have more dramatic proof than this week. Unfortunately, the domestic production component of the legislation, which is pending in the Senate is altogether insufficient. Most importantly in that respect, it does not include any provision for Alar as you know. The obvious remedy to over reliance on imports is more domestic production and that certainly must include Alar. People in this room are the experts, so I don't have to go into all the detail on the technology that will make it possible to explore for and produce oil in Alar with minimal effects on the environment and major benefits for our national energy picture. We need Alar, and the American people understand that need.

The American people, I think, also know that we are too dependent on foreign oil. And they know that the most promising means of reducing that dependence is to open up ~~Alar~~ ANWR to environmentally responsible exploration and production. So, let me take this opportunity to once again repeat our call for the inclusion of a responsible ~~Alar~~ ANWR component in the Senate Energy Bill. ~~Alar~~ ANWR, as you know, has the potential to produce over a million barrels of oil a day from perhaps to 10 billion barrels of recoverable reserves without any significant adverse effect on the environment.

Here is one way to measure its potential impact. At a time when Iraq is calling for an OPEC embargo on oil sales to America and has announced at a 30 day halt of its own oil sales, Alar ANWR production could replace more than 35 years of Iraq oil exports. Money -- should remind us again of how our economy and national security are vulnerable to decisions made by foreign governments. That is why it is crucial that the Senate pass a comprehensive energy bill and send it to conference.

I believe we have a responsibility to the American people to address these challenges head on and so next month, you know, will mark the one year

anniversary of the announcement of the President's National Energy Policy. The House of Representatives, to its credit, did its part by promptly passing National Energy Policy legislation that included a provision for Alar last August. The Senate could and should have acted last year and it is not even acted this year. Hence, it must act now. We should have action on the National Energy Policy in the Senate this month and so I urge you to make sure you keep in touch with your legislators, your senators, to register your support for moving forward at this critical time.

I think I have covered just about everything except natural gas, and I have been saving that for last. The NPC produced two excellent studies on natural gas in the '90s. The last one in 1999 on meeting natural gas demand through 2010. And natural gas is, if anything, even more important today. We need even more information about every aspect of natural gas demand, supply and delivery for the next 25 years. That is why I asked the NPC last month to consider producing a new report on natural gas in the United States in the 21st Century. I understand and of course, Bill reported on your decision to approve that request and I want to say thank you, Bill, again, appreciate it very much. This is a huge and very

complicated subject and our Department will benefit from the advice that that report will provide. Natural gas is the fuel of choice at this time in history. You reported in 1999 that natural gas accounted for 25 percent of our energy portfolio, that virtually everyone of 250 announced new electricity generation projects would be fired by natural gas. And that the demand for natural gas could increase from 22 TCF of natural gas to 31 trillion, about 40 percent increase by the year 2010.

Natural gas is coming to occupy the central place in America's energy planning for the future as you know, and so if we going to succeed, we need more information on the workings of the energy markets so that we can take the steps necessary to prevent disruptive price volatility. We need to know what should be done to ensure adequate, reliable supplies of natural gas for a growing economy and an energy hungry consumer world.

We need more information on the potential of new technologies, on pipeline storage and capacity and on traditional as well as new sources of supply, such as arctic gas and the increased use of LNG.

In order to answer those questions, and many more, I don't have the time to list them al here, but

to do it, you also have to analyze the potential future contributions to our energy system of clean coal, nuclear and other energy sources as well. Your report will serve not just as an update on past natural gas studies, but as a valuable addition to the data that will inform our entire National Energy Policy.

I would like to conclude this morning by just thanking the Council, once again, for all your hard work and the valuable advice you have given us, not just during the last year, but over the years. My colleagues and I in the Department have the greatest respect for the ability of the members of this Council to perform every day the miracle that American people have come to take for granted, providing dependable, reliable and environmentally sound energy. I don't think that always gets properly appreciated, but today I would like to conclude on the behalf of the American people by saying to all of you, thank you for your service. It has been a pleasure to be with you.

(Applause.)

MR. WISE: Thank you, Mr. Secretary.

The Secretary has graciously agreed to take some questions from our members. Have we got some questions? Christine?

MS. HANSEN: Mr. Secretary, realistically,

what do you think is going to happen in the Senate hearings?

SECRETARY ABRAHAM: Well, every day things seem to change. I have been, you know, it is sort of funny, I served in the Senate for six years and then for the most part last year was immersed in the work at the Department, but, in the last couple of months, I have been back meeting almost every day, today because of this meeting I am not up there, but with my former colleagues and now I have had vividly brought back to me both the best and the worst memories of my days in the Senate, but, the worse being the unpredictability of action. Because it is hard to say. It appears that the bill won't finish this week as we had hoped, but probably will make some more progress.

Let me just say this, I think the Energy Bill that was brought to the floor was not a very good piece of legislation. I think the work that has been done so far to modify it, primarily amendments brought by members who really, from the Energy Committee, really understand these issues and because it didn't go through committee, it didn't have this kind of attention, have improved it a lot. I think the electricity title has been improved substantially. I think some of the other components as well. There are a

few more major areas that have to be addressed. Obviously, I think everybody knows that the ~~Alar~~ ANWR debate ~~is the~~ is probably the one remaining long debate that is ahead. I don't know what the implications of the last few days will be. It is clearly going to be, I believe there is more than that there is a majority in favor of going ahead with ~~Alar~~ ANWR, but the procedure that has been set up requires 60 votes just to have an up or down vote. I think that is very unfortunate. As I said in a press conference at the Senate yesterday, at this time in the face of the challenges which we confront in the recent developments from Saddam Hussein's announcement to the strikes in Venezuela, it just seems to me the American people are owed a straight up and down vote, to know really where their legislators are on this issue, not procedural log jams. And so, I hope the Senate in response to these developments will let that vote occur, but it is still unclear.

I do think that the legislation won't finish this week. It looks like it may carry over and then it will probably carry over two weeks, because I believe they are going to deal something out next week on the budget. So, we are still optimistic, and we are working very hard. We appreciate the support the

people in this room have been providing to encourage passage of legislation. Our Administration's goal is to get a bill through the Senate so that we can take the House bill, which we think is a pretty good piece of legislation and the Senate bill and hopefully come up with a final Senate/House agreement that helps moves us ahead toward energy security goals, which we have established.

MR. WISE: Archie?

MR. DUNHAM: Could you give us your assessment of the situation in Venezuela?

SECRETARY ABRAHAM: I have not had any new information this morning, so, primarily, I guess I would have to, you know, give you nothing more than you or I could have read in the paper today. We are obviously watching it very closely. I know the strikes were extended another day and that, I am not sure, you know, what the next, what the news of the day is. In fact, one of the things I will be doing when I leave here is to try to talk to some people about that. You know, we look at the Venezuela situation, obviously, in the context of global production. We know that there is two and a half million barrels a day at least, as the kind of range that the current level of production has been. And so, we are very closely monitoring. One

of the things I have asked our Energy Information Administration to do is to start producing on a daily basis the kind of outlooks that we typically have done either on a weekly basis or bi weekly basis, so that we can provide everybody with as much up to date information as we are able to obtain. But, I don't have any new information ~~so~~ today.

Scott Sewell [Question regarding the status of Yucca Mountain]

UNIDENTIFIED SPEAKER: Mr. Secretary, you touched on Yucca and the situation, given the studies that have taken place and the amount of research in the years, I think a lot of people, you know, we heard you this morning, some talk about the oil and gas -- the substitute for lack of the impacts of Yucca if that is not likely -- what is the alternative to Yucca and is there any, given the fact that we don't have the access that we need now, how are we going to compensate for the difference in the loss of this?

SECRETARY ABRAHAM: Well, the issue, and I will divide it into two categories.

The first challenge, which I had in making a recommendation was to determine, the overriding issue, was the safety and security of moving ahead with this. I studied all of the documents, the comments that have been held at countless hearings over the years, the suitability studies. And concluded that without

question we can meet the standard. Let me just put this in context so as this debate moves ahead, you all will understand exactly what the Department of Energy was required to do by statute before a recommendation could be made.

We were asked to determine and that is ~~with~~ what your four billion dollars of research money was spent on, to determine whether or not both for the next 300 years, during which time Yucca Mountain would be built, waste would be stored and that storage would be monitored, whether or not we can meet one of the most stringent safety standards in terms of radiation exposure in the area around that mountain, possible. We then were asked to determine whether after we seal Yucca Mountain in about 300 years, by the way that is three decades longer than we have had a country, whether or not 10,000 years from that date, we could also project and determine to the satisfaction of the EPA and the Nuclear Regulatory Commission that we could likewise protect the inhabitancy ~~ty~~ of an area about 11 miles around that mountain, 18 kilometers.

Now just to put that in perspective, the radiation level we had to hit was a level that is about the same amount you or I would get today if we made two cross country airplane flights. We have to be able to

demonstrate that 10,000 years from now, people living within 18 kilometers of Yucca Mountain will not be on an annual basis exposed to more radiation from any leakage than would be the case if they simply made two airplane flights from Las Vegas to New York and back.

Now, not only did we have to determine that based on whether or not there would be water seepage from the top of the mountain, a thousand feet down into these underground secured areas, where impenetrable ~~casts~~ casks surrounded by ~~tritium~~ titanium would be stored and then, by the way, the water would have to leak radiation, another 800 feet into an underground aquifer. We not only had to determine that, we had to determine whether that protection would still exist if volcanic activity occurred, if earthquakes occurred, or if a new ice age formed in the Western Unites States, covered the area with ice and then the water melted. When I visited the mountain I was curious because I saw little alcove ~~of~~ about 60 feet above the level at which we would have the storage and they were pouring huge quantities of water in that alcove and I said, what is that, well, we are trying to simulate a reactment of the ice age and the melting of the ice. And it hadn't moved 60 feet, let alone a thousand feet. And remember Yucca Mountain is located directly next to Death Valley, so the

rainfall there is kind, you know, scant. But, equally scanter are the number of people who live within 18 kilometers of the mountain, I might say.

But, we have done all of that. We have tested against even future human intrusion as if 10,000 years from now, somebody would begin drilling for oil at the top of this mountain and penetrate down and hit one of these casts. So, we have tried everything. And I am absolutely convinced that the safety side of this, that the standard can and will be met.

The other issue in my mind was national interest. Was there sufficiently compelling national interest to move ahead? And there is on a variety of fronts. On an energy security front as I alluded to in my remarks, 20 percent of our current electricity supply obviously is generated by nuclear power. If we can't, ~~if we can't~~ dispose of the waste that is now mounting at various sites, 131 sites around this country in 39 states, most of it in temporary storage facilities, very close to large populations and major waterways, if we can't deal with that, then the nuclear energy component will obviously be affected.

There are other national interests as well. There is the interest of national security. Without Yucca Mountain we simply cannot continue the current

Tape 3 Begins

pathway by which we handle the Naval Nuclear Reactor Program's waste. Without Yucca Mountain, we have a major environmental challenge in this country as this waste piles up in existing facilities.

And finally, as I have said, without Yucca Mountain, I think from a Homeland Security point of view, we someday could face a great challenge. You know, the people who are opponents have been raising the spectre that somehow or another the transporting of this waste poses a threat. The fact is we have transported waste not only in this country but in Europe equal in magnitude to what would be transported to Yucca Mountain over the last 30 years without one harmful emission of radiation. We do it all the time. We know how to do it safely. But, moreover, there has been a sort of conjecture that perhaps somehow terrorists, in fact, the Governor of Nevada yesterday on TV said that somehow or another terrorists would have a better chance at a moving target than they would at the current location of the waste in these temporary, stationary targets above ground. Now, why somebody would wait 10 years if they had this capacity and then try to figure out which box car out of thousands we were secretly moving the waste, instead of simply targeting the existing well known facilities is

unclear to me. But, we believe storing the waste in a centralized readily protectable location in the middle of the desert next to an Air Force Base, makes a lot more sense. And as I tell people, at the end of the day, here is the real question. If at the beginning of the nuclear age, President Truman and the Government had decided right at the start of the use of nuclear energy to store the waste a thousand feet underground in the middle of nowhere, would we today all consider the idea of uprooting the waste and moving it to a 131 above-ground sites all over the country near major population centers? I think not.

So, ~~that is the,~~ that is really the case. And the fact is that for energy security reasons, for environmental reasons, for national security reasons, for Homeland Security reasons, compelling I concluded that the national interest can only be served if we move ahead with this, given that we can establish based on sound science, its absolute safety. So, we are going to work hard to do it.

(Change of tape.)

Robin West UN~~IDENTIFIED SPEAKER~~: How does the situation in Iraq (inaudible) affect our short term and long term energy security?

SECRETARY ABRAHAM: ~~Well, I think most~~ I would think the question was how ~~does the situation in Iraq~~

affect our short and long term energy security? Obviously, the action, the announcement yesterday was, I thought, reassuringly responded to by the other members of OPEC or others in leadership of OPEC and the comments that they have made, confirming what they had said for a long time about the fact that they would not let oil be used as a political weapon. And I think we recognize that for the most part the oil producers have as much need for and interest in continuing the system of being able to sell their assets to generate revenues as we and other consumer countries do in having available an energy source. The one thing that I think does come into play, obviously, is the recognition as I said in my remarks that there are factors beyond America's control that can have dramatic impact on the supply of oil, that can cause disruptions in that supply, which has obviously a direct impact on price and the economy. And one of the things we are obviously interested in as I announced earlier this week, as the President also has commented on, is, you know, is trying to make sure that we are not as much at the mercy of decisions made someplace else. I think if anything, the strongest possible rationale for moving ahead and passing energy legislation this week, that provides us the ability to go forward with ANWR and to

move at a comprehensive basis. But, we will be monitoring it very closely, obviously as events unfold.

MR. WISE: We have one more question from Secretary Mosbacher, can you take one more question?

SECRETARY ABRAHAM: From him, always, sure, Bob.

MR. MOSBACHER: Mr. Secretary, in your contacts with -- do you see any (inaudible)

SECRETARY ABRAHAM: Well, I think that, obviously, they are anxious to, you know, to have further development and their legislative challenges are ones I can't really speculate on any more than anybody else. I, in fact, have a call to return to Mr. ~~Martins~~ Hartens this morning. He and I have been trying to reach each other in the last day or so, and I know that probably he will be giving me an update at that time.

One of the, so it is a little hard to give you a timetable, but I think it is definitely there is interest in doing this as a top energy priority, whether in the role of foreign investment remains obviously in the legislation and it is an issue they need to work out because there is a lot of historical factors involved.

The one thing that I did allude to in my remarks, though, Bob, and that I am very optimistic

about is this North American Energy Working Group which Canada, Mexico and the United States have joined together on. It was one of the centerpieces of the President's campaign platform and certainly one of the top priorities in our energy plan. And we met for the first time last March in Mexico City and got that going and since have had some very productive meetings at various levels. What we are trying to do is identify ways that we can cooperatively improve the commerce between all of our countries, where the areas, well, for instance, we have had a lot of challenges, as I mentioned, on the permitting side. One of the things I discovered, in fact, when I got to the job, was that permits that had been, our Department has international permit responsibilities, that a number had been backlogged for more than a year, where there was no obstacle on a substantive basis for going ahead. It was clearly in the interest of the United States and Mexico to go ahead, but the bureaucracy had ~~ground~~ ground to a halt. So, we are looking at ways to try to improve some of those kinds of things as well. But, we are all very optimistic about some of the progress we are going to make there. And Herb ~~Dallywall~~ Dhaliwal who is the new Energy Minister up in Canada. He just took that job and a very able guy. He and I have worked together

when I was in the Senate on other issues. And I am really happy to have a chance to work with him again. And I think and he and Minister Martins in Mexico and, and we will be able to really build on what we have already done.

So, we are optimistic, although it is a little hard to predict where their legislative solutions will be and we hope that they will be in a way that is good for both the United States and Mexico. I think they can be.

Well, thank you all. It is good to be with you again. Thanks for what you do.

(Applause.)

MR. WISE: Ladies and Gentlemen, that brings us to the end of our formal agenda for this Council meeting.

Does any Council member have any other matters that should be raised at this time?

Are there any non members that wish to be recognized?

Seeing none, hearing none, I will declare this meeting adjourned. And thank you very much for your participation.

(Applause.)

(Whereupon, at 10:44 a.m., the meeting was

concluded.)

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