

NATIONAL PETROLEUM COUNCIL

113TH MEETING OF THE NATIONAL PETROLEUM COUNCIL

Crystal Ballroom
The St. Regis
923 Sixteenth and K Streets, Northwest
Washington, D.C.

Tuesday, June 22, 2004
9:00 a.m.

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P R O C E E D I N G S

9:05 a.m.

Call to Order and Introductory Remarks

Bobby S. Shackouls, NPC Chair

CHAIRMAN SHACKOULS: Will the 113th meeting of the National Petroleum Council please come to order. This is an organizational meeting and the first meeting of the newly appointed Council for 2004 to 2005.

Welcome to all of you, members of the Council, honored guests, and members of the press and public. We have what we hope will be an interesting and worthwhile session scheduled for you today.

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

Now I would like to introduce to you, and for the record, the participants at the head table. On my far left is Mark Maddox, acting assistant secretary for fossil fuels. Next to Mark is Congressman Joe Barton, chairman of the House Committee on Energy and Commerce.

1 On my far right is Marshall Nichols, who is executive
2 director of the Council. Next to him is Chairman Pat
3 Wood of the Federal Energy Regulatory Commission. Next
4 to Pat is Lee Raymond, who is the Council's vice chair,
5 and then Secretary Abraham will be joining us shortly.

6 In what is a departure from typical NPC
7 meetings, we are including leaders of the legislative
8 and regulatory communities to add their insights on
9 energy issues in general, and natural gas in
10 particular. First on our agenda this morning will be
11 chairman of the House Committee on Energy and Commerce,
12 Joe Barton.

13 Chairman Barton is on a tight schedule, so
14 I'm not going to present a full update and review of
15 the NPC Natural Gas Study that we had planned as the
16 context for today's meeting. A copy of the
17 presentation slides for that study is in your folder
18 for your review at your convenience.

19 I do want to make a couple of comments from
20 the first few slides, however, before turning the
21 podium over to the chairman. Last September, the
22 Council presented Secretary Abraham with the results of
23 18 months of work by some of the best minds in
24 industry and government.

25 We observed that, in the past three years,

1 the U.S. has transitioned into a world of tighter
2 balance of supply and demand of natural gas. The
3 result has been higher natural gas prices and a lot
4 more volatility. This has been brought about in no
5 small way by conflicting policies at multiple levels of
6 government that favor gas use over other fuels, while
7 hindering efforts to enhance available supplies, and
8 placing increasing restrictions on the ability of
9 consumers to respond.

10 The Council's advice to the secretary was
11 based on the belief that the market will work, that
12 suppliers and consumers will respond. We believe that
13 the status quo is simply not sustainable. Our basic
14 scenarios assume actions beyond the status quo,
15 specifically arctic pipelines will be built,
16 substantial LNG will be imported, a significant
17 response in lower 48 production will occur, energy
18 efficiency will increase, and additional renewable coal
19 and possibly nuclear power generation will be built,
20 all with no degradation to the nation's environmental
21 quality. Environmental quality at current levels is a
22 given in the Council's recommendations.

23 Those recommendations, let me briefly
24 encompass them for you. They include improved demand,
25 flexibility, and efficiency; increased diversity of

1 supply; sustain and enhance our infrastructure; and
2 promote efficient markets.

3 These are not options. They're not choices.

4 All of them must be pursued. If implemented, this
5 will lead to stronger economic growth, higher
6 employment, and a healthier industry for North America.

7 All indications since last September have underscored
8 the importance of these recommendations and the urgency
9 to act.

10 It is now my distinct honor to introduce our
11 first guest, Congressman Joe Barton. Congressman
12 Barton has represented the 6th District of Texas since
13 being elected in 1984, and was recently elected
14 chairman of the House Committee on Energy and Commerce.

15 He is deeply involved in the efforts to pass a
16 comprehensive national energy policy. His committee
17 has jurisdiction over a majority of the nation's energy
18 and clean air issues.

19 Please join me in welcoming Congressman Joe
20 Barton.

21 Remarks of the Honorable Joe Barton

22 THE HONORABLE MR. BARTON: Well, thank you.
23 It is a delight to be here. I have to take a point of
24 personal privilege before I give my very brief remarks
25 on the issues before us, to thank Robert Anderson,

1 who's in the audience. I saw him walk in back there.
2 I was a White House fellow in 1982, working for the
3 secretary of Energy, James K. Edwards, and decided that
4 I wanted to become a real Texan and get into the oil
5 and gas business.

6 And AARCO Oil and Gas in Dallas, Texas, hired
7 me, almost sight unseen. And I wasn't interviewed at
8 the Robert O. Anderson level, but almost. So he was
9 very gracious. And I see a few other ex-AARCO-ites out
10 here in the audience, but I want to thank Mr. Anderson
11 for all he's done for the country over the years in
12 helping to provide energy resources to our great
13 nation.

14 I'm going to speak briefly this morning on
15 natural gas, but I really want to give a little bit
16 broader perspective because it's not often that we get
17 such a distinguished group together at one time here in
18 Washington, D.C.

19 The first point I want to make, and I have
20 not been asked to make this by the Bush administration,
21 but I think it's important for people like myself to
22 make this point. I think we are doing the right thing
23 in Iraq. I think we need to create some sort of a
24 stable democracy in that country. I think it's in the
25 United States' best interest to do so, and I think over

1 time, once the country is stabilized and they have a
2 functioning government, the energy resources of Iraq
3 are going to be used and developed in a cost-efficient,
4 market approach that will bring benefits to the United
5 States of America.

6 The second point I want to make, something
7 amazing happened on the House floor last week. As part
8 of what we call our Energy Week, we actually passed a
9 refinery bill. That has not been done, probably, in 20
10 years, and we put up a bill that we called the Refinery
11 Revitalization Act of 2004, where an applicant would go
12 in and petition the Department of Energy to have a
13 particular geographic area called a refinery
14 revitalization zone.

15 It's very similar to the old enterprise zone
16 concept. In order to be designated, you would have to
17 have a refinery that had been closed, was in an area
18 that had unemployment 20 percent above the national
19 average or in an area that had had mass layoffs.

20 If you got such a designation, DOE would
21 serve to be the point agency on consolidating and
22 reviewing all the various environmental regulations.
23 We wouldn't waive any regulations, but we would give a
24 date certain for a decision on those various
25 regulations, and you might actually begin to refurbish

1 and reopen some of the refineries here in the United
2 States.

3 We've lost 53 percent of our refineries by
4 number and about 10 percent of our refinery capacity in
5 the last 20 years, and as a result, we're beginning to
6 import a substantial amount of refined products. And
7 as you folks know better than anybody, you can store
8 crude oil forever but you can't store refined products
9 forever.

10 And it's estimated that we're going to need
11 substantial refinery capacity. We expect gasoline
12 demand to be considerably higher, up to 16-, 17 million
13 barrels a day in the next 10 to 15 years, and we just
14 don't have the capacity to do that.

15 So we got 33 Democrats to vote with us last
16 week, and I think that is very good news. The bill
17 that passed the House obviously has to pass the Senate.

18 That's problematic for a number of reasons, but I am
19 going to work to make that happen if not this year,
20 next year.

21 The other thing that we're going to try to do
22 -- we didn't bring the bill up last week, but we're
23 going to try to do it in the next month or so -- is
24 another vote on ANWR, straight up and down. It's
25 ludicrous to me that we have a potential oil field in

1 Alaska that probably is one of the largest in the
2 world.

3 DOE's mid-case estimates are over 10 billion
4 barrels, about 1 million barrels a day production, and
5 we're not utilizing it. If President Clinton hadn't
6 vetoed that in 1995, we would be producing probably a
7 million barrels a day from ANWR, so we're going to work
8 on that.

9 Now let me get to the issue that you're
10 focusing on, and that's natural gas. We have an energy
11 bill that the House has passed twice. The Senate has
12 yet to bring it up for a vote. It does have funding
13 for the Alaska natural gas pipeline in the bill. It
14 does have some incentives for LNG terminals.

15 I know we have Chairman Wood here. He's
16 probably going to speak about some recent FERC
17 decisions that say that the FERC has the right to be
18 the permitting agency for LNG facilities. That's
19 something that we need to clarify with federal
20 legislation, and I'm certainly willing to do that in
21 the House.

22 We obviously need to maximize our natural gas
23 production. A number of you have facilities in my
24 district that utilize natural gas to produce
25 electricity, and as we all know, when you're paying \$6

1 or \$7 in MCF, it's fairly expensive to turn that into
2 electricity. So we need to do something to take some
3 of the pressure off of natural gas.

4 I think we ought to utilize more of our coal
5 resources, clean coal technology. We also need to
6 incentivize more our research into hydrogen and issues
7 like that, but for the short term, obviously, we're
8 going to be very, very dependent on natural gas for
9 electricity generation.

10 And you know, if we can get some support in
11 what we call the other body, the Senate, there's always
12 a chance that we might yet allow a little more drilling
13 for natural gas in the lower 48 and off some of the
14 coasts. I think over time we have to do that if we're
15 going to maintain our natural gas production. It's
16 getting harder and harder to maintain the existing
17 production. Again, you folks know more than I do about
18 that.

19 Last, let me speak very briefly on the
20 Senate. The House has twice passed the Comprehensive
21 Conference Report. The Senate has yet to be able to
22 get 60 votes to even allow it to come up for a vote. I
23 think that is a travesty of the legislative process. I
24 don't think the founding fathers meant cloture votes to
25 be an excuse for policy votes.

1 The problem is that the U.S. Senate wants to
2 bring up the energy bill and vote it down on whatever
3 reasonable grounds they differ with the policy of the
4 Conference Report, but to refuse to bring it up and
5 even give it a substantive vote, given that every
6 energy index we have the price is at or near all-time
7 highs, I think is just a disservice to the American
8 people.

9 The alleged reason that they're not bringing
10 the bill up is because of a controversy over something
11 called the MTBE. MTBE is an oxygenate fuel additive
12 that's added to gasoline to make it burn cleaner so
13 that the gasoline in that particular non-attainment
14 area will comply with the Clean Air Act.

15 It was required by law in the 1991 Clean Air
16 Act amendments for 2 percent by weight of oxygen.
17 There were two ways to do it: ethanol, which comes
18 from corn primarily, and MTBE, which comes from natural
19 gas. MTBE got about 80 percent of the market because
20 it costs less and there were no subsidies, and you
21 could put it in at the refinery and take the product
22 all the way through to retail.

23 Because MTBE doesn't smell good when it
24 interacts with water, if you have an underground
25 storage tank that leaks, sometimes some of the gasoline

1 leaks out of that tank, the MTBE in the gasoline smells
2 when it interacts with water.

3 And for a lot of different reasons, a lot of
4 states have decided they don't want to use MTBE, which
5 is their prerogative.

6 What the Conference Report does on MTBE is
7 simply say that it has what's called a safe harbor
8 limited liability protection for a defective product.
9 That means that you cannot sue the manufacturer or the
10 distributor of the MTBE simply because it's MTBE. You
11 can sue them if the tank leaks, you can sue them if
12 it's used negligently, you can sue them for any number
13 of reasons, but you can't sue them simply because it's
14 MTBE, just like you can't sue somebody because that
15 particular cloth seat is made out of a combination of
16 cotton and some synthetic fabric.

17 So that's the limited liability safe harbor
18 provision that allegedly is holding up the entire
19 conference report in the Senate. I've had a number of
20 meetings with Senator Menechee (ph) and other senators
21 in the last several weeks. The president had a meeting
22 with Senator Frist and Speaker Hastrop (ph) last week,
23 and we're trying to find a way to break the log jam on
24 that particular issue in that particular bill and bring
25 it up for a vote.

1 I predict that if we can get the Conference
2 Report up for a vote that it will pass. We've passed
3 it twice in the House with votes approximately 60
4 percent of the House. Last week, the vote was, I
5 think, 244 to 178. So we obviously have the votes for
6 it, and I think the votes are there in the Senate, too.

7 I'm going to stop with that. I can take some
8 questions now, or I can wait and let the other speakers
9 speak and then hopefully take a few questions before I
10 have to leave, however you want to do it.

11 CHAIRMAN SHACKOULS: Thank you, Congressman
12 Barton. I appreciate you agreeing to take questions.

13 Do we have any questions from any of the
14 members or anybody in the audience?

15 (No response)

16 THE HONORABLE MR. BARTON: I want to thank
17 Spencer Abraham. He's not here yet, but he was
18 supposed to be the first speaker and he allowed me to
19 speak first because I have a hearing I'm chairing at
20 10:00 in the House. So when Secretary Abraham comes,
21 thank him for allowing me.

22 And it's okay every now and then to smile and
23 act like everybody's awake.

24 (Laughter)

25 THE HONORABLE MR. BARTON: I know this is

1 important stuff here, but it's okay to acknowledge that
2 we're doing something. Thank you all for letting me
3 come by.

4 (Applause)

5 CHAIRMAN SHACKOULS: Congressman Barton's
6 going to go ahead. He's got some other matters to
7 attend to this morning.

8 Thank you very much, Congressman, for your
9 remarks and for your efforts to help this nation deal
10 with its energy issues.

11 We're a little bit ahead of schedule, so
12 we're going to flip things around a little bit and take
13 care of some of the administrative matters before
14 Secretary Abraham arrives. So if you'll excuse me and
15 let me get to that part of the meeting.

16 Reports of NPC Administrative Committees

17 Report of the Finance Committee

18 Bobby S. Shackouls, NPC Chair

19 CHAIRMAN SHACKOULS: Okay. The first of the
20 administrative matters concerns NPC finances. Last
21 February, we reported to you the Finance Committee's
22 recommendation for calendar year 2004. The budget for
23 2004 is in the amount of \$3,182,000. By letter ballot,
24 the membership approved this budget, along with the
25 recommendation that individual member contributions

1 will be held at the 2003 level, which is about \$3.2
2 million.

3 While this level is significantly higher than
4 2002, it is necessary to support 2004 operations as the
5 Council's contingency funds were depleted during the
6 Gas Study, and we'll talk a little bit more about the
7 Gas Study after the secretary speaks.

8 Requests for 2004 contributions will go out
9 shortly. Later in the summer, you will receive a
10 questionnaire from the Finance Committee for their use
11 in updating the individual member contribution formulas
12 and for calculating 2005 member contributions.

13 The Finance Committee will also consider the
14 matter of the contingency fund, whether to rebuild and,
15 if so, to what level.

16 The next administrative matter is a report
17 from the Nominating Committee. Ray Hunt, chair of the
18 Nominating Committee, will now present the committee's
19 recommendations.

20 Ray.

21 Report of the Nominating Committee

22 Ray L. Hunt

23 MR. HUNT: Thank you, Bobby.

24 This being the first meeting of the calendar
25 year of the National Petroleum Council, this is

1 considered our organizational meeting, and the
2 committee had five responsibilities to discharge this
3 morning when it met. That is the committee's
4 recommendation for chair, vice chair, the chair and
5 members of the Agenda Committee, the chair and members
6 of the Appointment Committee, and five at-large members
7 of the Co-Chairs Coordinating Committee.

8 And I'd suggest this one motion, Mr.
9 Chairman, if that's all right. The committee views
10 were unanimous to nominate Bobby Shackouls for a second
11 year as the chairman of the NPC, to nominate Lee
12 Raymond for a second year as vice chairman of the NPC.

13 For the Agenda Committee, we would nominate
14 the following: Bob Catell, Jill Foster, Bob Fri, Ray
15 Hunt, Rich Kinder, John Miller, Jim Mulva, Dave
16 O'Reilly, Mike Wiley, Dan Yergin, with Larry Nichols
17 serving as the chair.

18 For the Appointment Committee, we would
19 recommend and nominate George Alcorn, Victor Burk,
20 Clarence Cazalot, Luke Corbett, Claiborne Deming, Tommy
21 Munro, Bobby Parker, Bob Rose, Lou Ward, Mike Warren,
22 with Bob Palmer serving as the chair.

23 And for the five at-large members of the Co-
24 Chairs Coordinating Committee we would nominate
25 Clarence Cazalot, Claiborne Deming, Frank Heintz, Gary

1 Neale, and Ross Pillari.

2 Mr. Chairman, on behalf of the committee,
3 that is our recommendation.

4 CHAIRMAN SHACKOULS: Thank you, Ray.

5 We have a motion to adopt the report of the
6 Nominating Committee. Do I have a second?

7 PARTICIPANT: Second.

8 CHAIRMAN SHACKOULS: Thank you.

9 Are there any further nominations from the
10 floor?

11 (No response)

12 CHAIRMAN SHACKOULS: All those in favor,
13 please say "aye."

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

15 CHAIRMAN SHACKOULS: Opposed, "nay."

16 (No response)

17 CHAIRMAN SHACKOULS: The report is adopted.
18 Thank you very much. Thanks, Ray.

19 Now what?

20 (Laughter)

21 CHAIRMAN SHACKOULS: We're going so fast,
22 we're way ahead of schedule.

23 Do you want to let Chairman Wood go first,
24 since the secretary's not here?

25 PARTICIPANT: The secretary's due at any

1 moment.

2 CHAIRMAN SHACKOULS: Okay. Well, I could sit
3 here and, you know, gab a while, but I won't do that.
4 I know you all are very busy.

5 Okay. Hang on just a second.

6 We're going to flip this around and let
7 Chairman Wood go now, since Secretary Abraham is not
8 here quite yet.

9 I would like to introduce Pat Wood, who is
10 chairman of the Federal Energy Regulatory Commission,
11 the independent regulator of the nation's wholesale
12 electrical power industry, pipelines, and hydroelectric
13 facilities. The commission is at the center of most of
14 the country's natural gas issues, including those
15 surrounding the important and growing LNG industry, as
16 you heard from Chairman Barton. Prior to his
17 chairmanship, Pat served on the Public Utility
18 Commission of Texas.

19 And so I would like to ask you to join me in
20 welcoming Chairman Pat Wood.

21 (Applause)

22 Remarks of the Honorable Patrick H. Wood, III

23 THE HONORABLE MR. WOOD: Well, my goodness.
24 A lot of my former bosses are here. When I heard Joe
25 Barton mention Mr. Anderson, I wanted to also come out

1 as an AARCO alumni as well.

2 One of his lieutenants at the time was a
3 gentleman from Texas A & M named Paul Rabisees (ph).
4 Paul was head of AARCO International. And I walked up
5 to him at an alumni event -- I had two senior years at
6 A & M -- my second senior year at A & M and put my
7 resume in his hand and asked for a job. His secretary
8 called me about two weeks later and said, "Can you
9 report in two weeks to head off to Jakarta, Indonesia?"

10 My mom and dad didn't even know where it was.

11 I basically described it as halfway between the
12 Thornbirds and the "King and I," and we got --

13 (Laughter)

14 THE HONORABLE MR. WOOD: I got the job, and
15 it was great.

16 My other boss, of course, Jerry Langdon was a
17 member of the Council. I know he's not here today, but
18 he was involved in the report. I worked for Jerry
19 earlier in life. After I worked for Jerry, I worked
20 for Barry Williamson, who is a brand new member of the
21 Council and is here today.

22 So my pedigree is in this room, folks. If
23 you like what you hear, thank these guys. If you
24 don't, take it up with them as well.

25 But I think you will like what you hear

1 because, at FERC, we're kind of the front line to try
2 to implement a lot of the activities that were pointed
3 out as issues and recommendations in the National
4 Petroleum Council's report that came out last fall.

5 I'd like to go through, kind of in punch list
6 format, the items that you all recommended in the NPC
7 report that we do at the FERC to help move this agenda
8 along and get the natural gas truck back on the track.

9 And so I'd like to kind of step through those as we
10 go.

11 In order to sustain and enhance natural gas
12 infrastructure, TND infrastructure, you at the NPC
13 recommended that we complete major permit reviews of
14 major infrastructure pipeline projects in less than one
15 year. Since that time, we've demonstrated that we can
16 certificate major green field pipeline projects within
17 one year when the developer uses our pre-filing
18 process.

19 This is a collaborative process that starts
20 on the front end which is something we pioneered in the
21 hydroelectric industry. The pre-filing process that we
22 used in Cheyenne Plains Gas Pipeline Company and
23 Colorado Interstate Gas Company, when they filed
24 applications for new interstate projects taking gas out
25 of the Rockies in Colorado, Wyoming, and Kansas in May

1 of 2003. They later amended this project in November
2 2003 to expand it.

3 Staff issued a final environmental impact
4 statement on both projects in February of this year,
5 and the commission issued a final order for this
6 significant pipeline expansion in the Rockies in March
7 of '04, just 10 months from the date of application.

8 Now, don't get me wrong, we like that, but
9 we'd like to see a lot more pipelines coming in. The
10 flow of pipeline approvals has actually slowed down a
11 bit in the past couple years, I think, for all the
12 reasons we know, but I just want to let you know we're
13 here and ready to move the approvals, where
14 appropriate, as expeditiously as possible, like you
15 recommended.

16 You also recommended that we address barriers
17 to long-term firm contracting. One of the things that
18 we've done is to remove a barrier to this sort of
19 contracting by eliminating the five-year term matching
20 cap in pipeline right of first refusal mechanisms.

21 Now, that's kind of a lot of verbiage, but
22 what it basically means is that existing customers with
23 firm transportation contracts of one year or more that
24 wish to retain their capacity must match the rate and
25 length of service term of a competing bid for service.

1 Now, we had previously limited competing bids
2 to five years. Courts remanded that to us, saying
3 there was no support for that.

4 This past practice ended up resulting in
5 shorter terms of service, because no one went longer
6 than five years, and this actually did act, as we heard
7 from a number of folks, as a barrier to long-term
8 contracting. That was eliminated in October of '02 and
9 is now being reflected in all the pipeline tariffs
10 shortly thereafter.

11 Also, in February of this year, we proposed a
12 rule to require interstate natural gas pipeline
13 companies to follow standardized procedures in
14 determining creditworthiness for their shippers.
15 Unfortunately, that's been a downside of the falling
16 economy, as the reduction in the quality of credit.

17 But in order to foster a more uniform and
18 standardized approach toward creditworthiness, which
19 was kind of all over the map, actually, and still is,
20 our proposed rule, which has not been adopted as a
21 final rule yet, addresses a wide range of
22 creditworthiness issues to attempt to standardize
23 those, including collateral requirements for service on
24 both existing and incremental facilities, which is a
25 big part of the payment for expansion.

1 You also recommended that we allow operators
2 to configure transportation and storage infrastructure
3 and related tariff services to meet the changing market
4 demand profiles. Since that time, we've allowed
5 market-based rates for storage and for various
6 transportation services -- not a tremendous amount, but
7 a lot more for storage than for transport -- and we
8 have permitted pipelines to implement new and
9 innovative services to manage imbalances and to
10 increase the deliverability of storage gas, all within
11 the confines of the Natural Gas Act's prohibition
12 against undue discrimination.

13 And, finally, in the infrastructure area, you
14 recommended that we improve the transparency of price
15 reporting. We have held several public meetings in
16 coordination with the Commodities Futures Trading
17 Commission and with state regulators to better
18 understand the status of price reporting, which is now
19 being done through not the government but through
20 private enterprise in both the gas and electric
21 industries.

22 As a result of these, we endeavored to
23 determine what our best response to these issues would
24 be, and so we codified that response a year ago, last
25 summer, in July of '03 in a policy statement to codify

1 better reporting practices across the industry, not
2 replacing the current form of price reporting, but
3 requiring, quite frankly, that the minimum standards
4 for that price reporting to be used in a FERC tariff,
5 and then perhaps in commercial practice, be lifted
6 above the standards that were being employed in price
7 reporting up to that point.

8 Our staff has sent out two voluntary surveys
9 to actually ascertain compliance with reporting both by
10 the companies sending in the data and by the companies
11 collecting the data. I proposed a report; I put out a
12 sample report that will actually be taken up this
13 Friday. The full commission is presiding over a
14 follow-up meeting, a technical conference, all day at
15 our commission offices in Friday of this week.

16 In the second area of increasing supply
17 diversity, you recommended that we process LNG
18 applications within a year by coordinating with other
19 agencies in reviewing applications. We've executed an
20 interagency agreement with U.S. Department of
21 Transportation, Office of Pipeline Safety, and the U.S.
22 Coast Guard for safety and security review of
23 waterfront LNG facilities in order to assure a seamless
24 review of the issues which arise in approving LNG
25 import facilities.

1 Additionally, our staff also issued a report
2 on the study undertaken by ABS Consulting to evaluate
3 the funnel radiation and flammable vapor hazards
4 created by an unconfined LNG spill on water. This
5 information will be used, and is being used, to assist
6 in the evaluation of proposed LNG terminals across the
7 country, and in the assessment of potential
8 consequences from an accident, perhaps inflicted by a
9 malevolent party, on one of the tankers delivering LNG
10 to these facilities.

11 In addition, the Council recommended that we
12 process LNG applications within a year by providing
13 sufficient resources on our end to meet the permitting
14 requirements. And since that time, we've taken our LNG
15 staff from four to 14, in addition to the outside
16 contractor help that we use to assist us in preparing
17 environmental documentation.

18 As you may know or may have heard, we have 13
19 applications before the commission today for LNG plants
20 all around the country. There are an additional few
21 permits that have been filed with the Maritime
22 Administration. We call those the Coast Guard permits,
23 but they're technically given by another branch of the
24 government, but they're in the offshore regions.

25 There are, in addition to that, some LNG

1 facilities that have been seeking permit authority in
2 both Mexico and in Canada. As you know, we're a
3 continental market in this wonderful product called
4 natural gas, and our relations with the neighboring
5 countries are very close on these issues, as we seek to
6 learn from each other as well as help each other in
7 dealing with what is quite frankly a very large amount
8 of significant applications being filed at basically
9 the same time.

10 In addition to the 13 we have and to the
11 probably half dozen or so that are being considered in
12 Canada and Mexico, there are probably another 20 that
13 have been discussed or at least been proposed by
14 different companies, including some in this room,
15 around the continent. Those are, quite frankly -- but
16 from a staffing point of view, I hope they come in on a
17 little trickle basis. We're taxed right now, and we
18 have had to dramatically expand our LNG program.

19 I'm proud of the quality of people, quite
20 frankly, we've been able to attract to the commission
21 to do public service in these years when it's really
22 needed to deal with these thoughtfully but deal with
23 them efficiently and effectively and deal with them
24 right.

25 So we created a stand-alone LNG Engineering

1 Branch in our Office of Energy Projects to address not
2 only the permanent applications but the ongoing safety
3 evaluation and review of the LNG facilities that exist
4 in the country.

5 We do have the four large existing import
6 terminals here in the east in Lake Charles, Louisiana,
7 in Alba Island, Georgia; Cove Point, Maryland; and
8 Everett, Massachusetts, as well as the one in Puerto
9 Rico. We also have about 115 or so onshore LNG
10 terminals that are used for peak storage, predominantly
11 in areas where regular underground storage is not
12 available. So we have safety and ongoing review of
13 those every two years, or more often for some of the
14 bigger ones. That program is pretty significant in
15 maintaining the public safety aspects of this important
16 facility.

17 So we not only, again, review the -- but we
18 look at the cryogenic design of LNG terminals, the
19 consequence analysis, the hazard modeling to work with
20 such things as evacuation plans and remediation plans
21 and fire protection plans, and continuous inspection of
22 all these facilities is really just the soup-and-nuts
23 part of what we do.

24 The Council also recommended that, in order
25 to process LNG applications within a year and increase

1 natural gas supply, we update natural gas
2 interchangeability standards. Now, this is certainly
3 predicated by the anticipated presence of a lot more,
4 usually richer, gas coming from abroad from LNG and
5 mixing that in with the pipeline gas that exists from
6 domestic production.

7 We held a public conference just in February
8 of this year on natural gas interchangeability, as you
9 all recommended, and the gas quality issues that pop up
10 from all this, with the specific goal of facilitating
11 increased LNG imports. Knowing that this is coming,
12 it's probably not wise to push it off to '07, when
13 these facilities are going online, but to start
14 addressing this question now.

15 We've learned that there were a number of
16 industry-led efforts, including the Natural Gas Council
17 and the North American Energy Standards Board, NAESB,
18 to address the technical and scientific issues
19 surrounding interchangeability. We asked these folks
20 to make policy recommendations to the commission.
21 They're undergoing those efforts, actually, as we
22 speak. We monitor those, and we look forward to
23 reviewing their recommendations.

24 However, in the meantime, we have business
25 going forward, applications and complaints being filed

1 with the commission, and so, in an order just last
2 Thursday, we ordered Florida Gas Transmission to revise
3 its tariff and to incorporate provisions that allow for
4 the introduction of regasified LNG into its Florida
5 system. We were not able to wait for the completion of
6 the industry-led efforts or for the development of
7 generic standards because we have a pending complaint
8 by a live company against another company before us.

9 Given the number of LNG projects that have
10 been proposed to bring gas from vaporization facilities
11 in the Bahamas to the peninsula of Florida for
12 integration into the backbone system there of Florida
13 Gas, we needed to move forward so that LNG developers
14 in that part of the world know what the ground rules
15 will be when the gas comes online.

16 So all these efforts have already borne fruit
17 in terms of meeting the one-year time frame. In just
18 about March of '03, Freeport LNG Development filed an
19 application for authorization to construct and
20 authorize an LNG import facility in Freeport, Texas.
21 Staff issued a final environmental impact statement in
22 May of '04, and we issued the order granting the
23 certificate Friday at 7 p.m. They wanted it, they got
24 it.

25 That was just 15 months from start to finish,

1 and I think we can actually be shorter than that on the
2 next one. The first one through is always the hardest.

3 That was without the benefit of the pre-
4 filing process, which, again, scopes these
5 environmental and landowner and safety issues in
6 advance, and has proven, in compliance and in hydro
7 licenses, to be a very efficient way of getting a lot
8 of the kind of core issues that tend to slow down an
9 application dealt with in a proper and legal way up
10 front.

11 With the industry's cooperation in using this
12 process, I do think we'll be able to meet the
13 recommended one-year deadline for future projects.

14 I should add, just as a personal note, you
15 know, a lot of the big news stories have focused on, I
16 think, the two or three coastal communities on the
17 continent that have been less than enthusiastic about
18 LNG and have, either through voting or through, you
19 know, what have you, created a lot of news about not
20 wanting LNG in their neighborhood.

21 But I should remind that none of these
22 projects in fact were in pre-filing -- I'm talking
23 about the Harpswell, the Mobile Bay, and the Humboldt,
24 California, proposals for LNG -- that none of these had
25 even entered the FERC pre-filing process. When the

1 pre-filing process kicks in, we have some structured
2 outreach requirements on behalf of the company and the
3 commission to reach out to the community, to explain
4 the larger issues -- as your report does so
5 beautifully, and we've quoted from it often -- about
6 the need for natural gas for the country.

7 I'm convinced that when local communities
8 understand the needs that our country has for this
9 environmentally benign and very efficient fuel, that we
10 have a lot of infrastructure already to support its
11 use, that I think they understand it in a very
12 different light than just another large corporation
13 coming in to build a plant alongside the coast here. I
14 do think people are public-spirited in our country
15 still, and I do think that the outreach that is a
16 necessary part of our pre-filing process is very
17 helpful.

18 The 13 applications that are filed before us
19 are either in formal final stages or middle stages of
20 review, or have begun this pre-filing process. So I
21 would encourage you, as you approach the nay-sayers or
22 the fear-mongers on LNG, to remind them that there have
23 been three communities that have pushed back from it
24 without the benefit of a full education about the
25 issues related to LNG, the pros and cons, and that

1 we've got 13 that are moving forward in a relatively
2 straightforward manner.

3 Not all of them are easy. In fact, none of
4 them are really easy, but these are big, significant
5 pieces of infrastructure, and there will always be
6 issues. But that's what folks like me are paid to do,
7 is to make sure those issues get mitigated as much as
8 possible or resolved. If we have to ultimately say no
9 to one, we'll do that. But I think our guidance is to
10 approve things that are in the public interest, and
11 that's what we do.

12 Finally, to improve demand flexibility and
13 efficiency, in the demand prong of your NPC report you
14 recommended that we improve the efficiency of gas
15 consumption by resolving the North American wholesale
16 power market structure. In that regard, we have moved
17 forward on a region-by-region basis, working with
18 individual, independent system operators and regional
19 transmission organizations to develop functioning
20 markets in each region of the country.

21 We have facilitated the filing of a
22 comprehensive tariff and market design proposal in the
23 Midwest Independent System Operator, which is the
24 nation's first RTO, covering about 14 states through
25 the middle of the country.

1 We've also cleared away, just this last week,
2 the most significant impediment to allow the nation's
3 largest electric utility, American Electric Power, AEP,
4 to fulfill its commitment to join an RTO, which in this
5 case is the PJM, which is actually keeping our lights
6 on here in Washington, the grid operator for this
7 region of the country.

8 We've reapproved California's design to get
9 its market back out of the trench that it was in as a
10 result of the energy crisis in 2000, and approved their
11 plan to create an independent and implement a day-ahead
12 energy market in order to help stabilize their energy
13 markets and get, really, a beach hold in the west back
14 on track.

15 We've also planned a proposal granting the
16 Southwest Power Pool, which is in the south central
17 part of the country, between Texas and Nebraska, over
18 to Missouri and New Mexico, status that will increase
19 the independence and operation of its transmission
20 system and will lead to improved transmission planning
21 and efficient investment in new transmission in that
22 important part of the country.

23 We've also approved New England's proposal
24 for a regional transmission organization to build on
25 their historic ISO New England structure. In addition

1 to that, of course, we have the New England ISO, and we
2 have close relationships with a similar power market
3 designed in Canada, in Ontario. Canada's largest
4 province has also adopted this standardized market
5 design approach in Canada.

6 So I expect over the coming months we will
7 have significant activity in the rest of the eastern
8 United States to develop and complete the transition to
9 standardized wholesale markets, again with regional
10 variations. But I think those are important steps that
11 have long been needed.

12 The commission began its efforts to support
13 RTOs back in late 1999, and it's taken, unfortunately,
14 this long to get to a point where we've got some
15 rational view of what the nation's wholesale power
16 market structure will look like. But we're there.

17 That market structure will also be governed
18 by market behavioral rules designed to prevent market
19 abuse. We adopted those since the NPC report came out.

20 We've provided rules that establish standards of
21 conduct between affiliated providers of both regulated
22 and unregulated services when they're in the same
23 company.

24 We adopted new market power screens to assess
25 generation market power to ensure that nobody can

1 corner the market in a given region of the electric
2 power grid, and we modified measures to mitigate market
3 power wherever it's found.

4 Finally, we adopted new quarterly financial
5 requirements to strengthen the effort and provide
6 transparency to the operations of both regulated
7 companies and all industry. We've used this effort to
8 evaluate emerging trends, business conditions, and
9 financial issues affecting regulating companies by
10 providing more timely and transparent financial
11 information.

12 You also asked that we provide industrial
13 cogeneration facilities with access to the market. We
14 promulgated a rule in that regard establishing
15 standardized agreements and procedures for
16 interconnecting electric generators to the electric
17 transmission grid. That had not been standardized
18 before and, quite frankly, was a utility-by-utility
19 patchwork across the country. That has been
20 standardized.

21 The goal of that is to provide generators
22 with greater access to the market outside of their
23 attached customer, that cogens generally want to have
24 the ability to sell excess power into the market.

25 And finally, the Council recommended that we

1 -- electric relicensing process so that that part of
2 the energy equation is better understood. We
3 promulgated, again, last year a new and more efficient
4 licensing process called the Integrated Licensing
5 Process, which coordinates the efforts of the
6 commission with those of all the other federal agencies
7 that do hydroelectric oversight.

8 We have a lot of responsibilities there that
9 are, honestly, a little different from that that we
10 have on the LNG and on the pipeline side, and so we
11 created a process that would attempt to basically
12 reduce the cost and reduce the timeline of getting
13 those very lengthy processes of getting new
14 hydroelectric power on the grid.

15 With the Council's fine, respected, and
16 thorough report last year, we at the Commission had
17 basically a high-quality punch list to follow, and
18 that's just how we've treated it. The unique
19 contribution of your efforts cannot be understated, and
20 on behalf of my colleagues and our staff at the
21 commission, I want to thank you for your leadership
22 effort that gave us a very concrete set of goals that I
23 hope you will conclude that we have done our best to
24 achieve, and will continue to do so.

25 Thanks for including me on the lineup today,

1 and I look forward to any questions later on.

2 (Applause)

3 CHAIRMAN SHACKOULS: Thank you.

4 Mr. Wood has agreed to take questions, if
5 there are any, from members of the Council. Are there
6 any questions for Chairman Wood?

7 (No response)

8 CHAIRMAN SHACKOULS: Thank you again, Pat,
9 for your insightful comments. Very, very instructive.
10 I've got find my place again here.

11 Our next order of business this morning is to
12 hear from the secretary of Energy. As I mentioned
13 earlier, we rearranged this morning's agenda, and I
14 want to thank the secretary for graciously changing his
15 schedule to accommodate Congressman Barton. So thank
16 you, Mr. Secretary.

17 Spencer Abraham became the nation's tenth
18 secretary of Energy on January 20th, 2001. He leads a
19 cabinet department with a \$23 billion budget and over
20 100,000 federal and contractor employees. Under
21 Secretary Abraham's leadership, the Department of
22 Energy has pursued an ambitious agenda that strengthens
23 America's energy and national security.

24 Two years ago, you raised a question about
25 natural gas markets and asked the Council's advice,

1 which we discussed earlier. I wish to express the
2 Council's appreciation to you and to DOE for acting on
3 NPC's reports and recommendations. The Department has
4 been an advocate by setting up meetings with high-level
5 executive branch policy-makers, agreeing to requests
6 for congressional briefings, and pressing for action by
7 other relevant agencies.

8 A year ago, you raised concerns about natural
9 gas storage and asked the Council to organize a natural
10 gas summit to elevate the issue in a national dialogue.

11 With these as well as other key areas of national
12 energy policy, you continue to provide important
13 leadership.

14 Mr. Secretary, we're honored to have you with
15 us this morning, and we look forward to your comments.

16 Please join me in welcoming Secretary
17 Abraham.

18 (Applause)

19 Remarks of the Honorable E. Spencer Abraham, Secretary

20 THE HONORABLE MR. ABRAHAM: Thank you. Thank
21 you very much, and I want to thank everybody here.
22 It's great to be back with all of the members of the
23 National Petroleum Council.

24 Let me again thank you for your labors,
25 producing the Comprehensive Report on Natural Gas

1 Policy which you presented last September that Bobby
2 just mentioned. I think that report has gone a long
3 way toward convincing the American public, not to
4 mention policy-makers here in Washington, that a
5 comprehensive, balanced approach to greater energy
6 efficiency and new sources of natural gas are
7 absolutely necessary to address one of the most
8 important and pressing energy challenges we face.

9 In February of this year, the federal
10 government began a detailed review of over 60
11 recommendations which were made by the NPC in that
12 report. My department is currently in the process of
13 moving forward and working with other agencies to
14 implement many of those recommendations.

15 On behalf of the president and all of us in
16 the administration, let me again just say how much we
17 value your counsel and thank you for that effort, and
18 thank you for the other efforts that this organization
19 has participated in over the last couple of years.

20 Bobby mentioned the Natural Gas Summit last
21 summer. The quick turnaround will be made on a
22 decision in the meeting that was the equivalent of this
23 one last year to get together quickly thereafter and
24 address that summer challenge.

25 I think that, in the last couple of years,

1 not that there was ever any doubt about it, but that,
2 clearly, the NPC has demonstrated why it's of such
3 great value to us, to our country, to our public policy
4 development. So thank you again for those efforts.

5 I know we've got a lot on the agenda here
6 today, so I'm not going to speak for too long this
7 morning, but I did want to offer several observations
8 on current energy matters.

9 The first of these observations is that,
10 three and a half years into this administration, I
11 think we can all agree that the president was correct
12 in foreseeing the energy challenges which beset our
13 nation and the challenges which we must address to
14 ensure the long-term economic and energy security the
15 American people deserve.

16 In 2001, he said the demand is rising and
17 would continue to rise and that we must take steps to
18 meet that growing demand, most notably by increasing
19 domestic production of energy and by encouraging energy
20 efficiency and conservation. The president said that
21 supplies were being limited by the current regulatory
22 regime and that we must update the energy regulatory
23 structure to deal with 21st century realities.

24 He also said that the nation's energy
25 infrastructure, our network of pipelines and

1 refineries, generators and transmission lines, is
2 antiquated and must be updated to deal with an ever-
3 expanding economy.

4 If we did not make fundamental changes to the
5 way we produce and use energy, he warned back then, we
6 would see our markets racked by instability, energy
7 prices plagued by volatility, and the nation's energy
8 and economic future marked by uncertainty, grave
9 uncertainty.

10 As you will recall, the president was
11 immediately criticized back at that time by people who
12 claimed we were exaggerating the nature of the problem.

13 We were accused of creating a false sense of impending
14 crisis and unnecessarily raising the specter of
15 significant energy problems in order, they said, to
16 justify our energy plan's recommendations.

17 Yet now, three years later, virtually all of
18 the things which the president warned about have in one
19 form or another taken place. Not surprisingly, some of
20 the people who criticized the president back then for
21 sounding the trumpet too loudly and for raising what
22 they implied were exaggerated concerns, are now the
23 most vocal critics, saying we haven't done enough.

24 What the president rightly saw was that the
25 health of the American economy in 15, 25, or even 50

1 years would have a lot to do with how the United States
2 dealt with its long-term structural energy challenges
3 today. So he stepped up and took action, offering the
4 nation the first comprehensive national energy policy
5 in many years.

6 The national energy policy which we
7 introduced, as you know, contained a number of very
8 specific policy recommendations aimed at shoring up our
9 sagging energy infrastructure, encouraging conservation
10 and energy efficiency, diversifying our fuel mix,
11 increasing domestic production, building stronger
12 international partnerships, and much more.

13 Many of these recommendations could be
14 implemented through executive branch action, and we are
15 doing exactly that. We've been doing that for the last
16 three and a half years, and I think we are helping
17 position the United States for a more secure and stable
18 energy future, which leads me to my second observation:
19 more needs to be done.

20 We need Congress to pass a comprehensive
21 energy bill. A number of the president's
22 recommendations require a legislative action for them
23 to be enacted, so we have been working, as you know,
24 with members of both parties on Capitol Hill to pass a
25 bill that would encourage large-scale domestic

1 petroleum production, for example in the Arctic
2 National Wildlife Refuge, a bill that would address
3 building a natural gas pipeline from Alaska to the
4 lower 48 states, a bill that would update the nation's
5 20th century electricity transmission system to
6 accommodate demands to the 21st century, and many other
7 components. That legislation is needed even more today
8 than when we first issued the president's plan three
9 years ago.

10 Some of those who have fought our efforts in
11 Congress have cited any number of questionable reasons
12 for their opposition. Perhaps the most dubious of
13 these has been the opposition to opening a small
14 section of the Arctic National Wildlife Refuge for oil
15 exploration.

16 One of the arguments they have put forward is
17 that there's not enough oil in ANWR to make any
18 difference, but I think the people in this room know
19 that is not the case. According to estimates by the
20 United States Geological Survey, ANWR holds somewhere
21 between 5.7 and 16 billion barrels of recoverable
22 reserves, with a mean estimate of 10.4 billion barrels,
23 and that assumes the use of drilling technology which
24 is now nearly a decade old.

25 Only ANWR's critics think that's not a lot of

1 oil. To use one measure, it is equal to almost 19
2 years' worth of imports from Saudi Arabia.

3 Interestingly, the opponents of ANWR are
4 frequently the same individuals who today are demanding
5 that we empty the Strategic Petroleum Reserve, or at
6 least stop filling it, so that this oil can be used to
7 try to reduce gasoline prices.

8 Let's take a minute to sort this out. The
9 people who say ANWR doesn't contain enough oil to
10 matter also say that diverting 100,000 barrels a day
11 from the Strategic Petroleum Reserve would have an
12 enormous effect on gas prices. Well, if ANWR were
13 opened up and we decided to only produce 100,000
14 barrels a day, which is the amount of the SPRO fill
15 that we're going and didn't go to the full potential of
16 ANWR, we could pump 100,000 barrels of oil a day from
17 ANWR for at least 156 years-- that's based on the most
18 conservative estimate -- and perhaps as many as 438
19 years based on the upper bounds of ANWR's potential.

20 When confronted with statistics like these,
21 ANWR's opponents often change course, saying, well,
22 it's going to take a long time to get that oil out, so
23 it can't help us today. Let me put that in perspective
24 as well.

25 The people making this claim are by and large

1 the same folks who pressed President Clinton in 1995 to
2 veto legislation that would have opened ANWR to
3 exploration. If President Clinton had not vetoed that
4 bill, then at this moment ANWR would be producing up to
5 1 million barrels of oil per day. Right now, the West
6 Coast of the United States, the area where Alaskan oil
7 goes, today the West Coast imports 877,000 barrels of
8 oil a day. So I think there can be little question
9 that opening ANWR could make a significant difference.

10 Let me say one other thing about that 1
11 million barrels of oil per day. Right now, there is a
12 plan being considered in the Senate -- you've probably
13 seen it -- to release 1 million barrels a day for 30
14 days from the Strategic Petroleum Reserve of an action
15 of extending the release to 60 days. It's being
16 proposed in order to reduce gasoline prices. I think
17 it has something like 25 cosponsors.

18 Now, you tell me what makes better sense: 1
19 million barrels a day for 30 to 60 days, at the risk of
20 our national security no less, or 1 million barrels of
21 oil a day every day for 20 years. The simple fact is
22 that we need the Congress to act to pass an energy
23 bill, and we need ANWR.

24 My third observation concerns the Strategic
25 Petroleum Reserve. Abandoning our stated goal of

1 filling the Strategic Petroleum Reserve is wrong from
2 an economic point of view and it is wrong from a
3 national security point of view as well.

4 President Bush gave the order shortly after
5 September 11th to fill the reserve as one way to
6 strengthen American national security. He has been
7 very clear that the reserve is in place in case of
8 major disruptions of energy supplies to the United
9 States which could arise from a variety of events,
10 including natural disasters, industrial accidents, and
11 of course terrorist attacks.

12 We face a tough and determined enemy in the
13 war on terror, and filling the Strategic Petroleum
14 Reserve to its 700 million barrel capacity can only
15 serve to strengthen our position in that war.

16 Moreover, we have adopted a plan for
17 transparently filling the reserve by a predictable
18 amount over a certain length of time in order to impact
19 markets as little as possible. For these reasons, the
20 calls to suspend filling the reserve in order to bring
21 down gas prices or to empty the reserve just don't make
22 sense.

23 Don't take my word for it. The Energy
24 Information Administration estimates that the impact on
25 gas prices of filling the reserve is negligible,

1 perhaps two or three cents per gallon at most. To my
2 mind, imperiling national security for the sake of
3 minimal reduction in price would be nothing short of
4 irresponsible.

5 Simply put, the reserve is for the long-term
6 protection of the American people, not to cut the price
7 of gas by two cents. I have little doubt that if we
8 had originally called it the National Security
9 Petroleum Reserve rather than the Strategic Petroleum
10 Reserve, there would be much less grandstanding about
11 the need to release its stocks every time the price of
12 gasoline goes up, but we didn't.

13 Having said all that, I want to underscore
14 another point. The reserve will not be used to
15 manipulate prices. It will not be used for politics,
16 but it absolutely will be used if we need to use it.

17 There seem to be some people, including some
18 of the so-called market analysts and media experts, who
19 apparently think that because we say we won't use the
20 reserve to affect gas prices, we won't ever use it at
21 all, so let me make this clear. We remain confident
22 that basic supply security exists. At the same time,
23 there should be no question the United States and the
24 other countries with similar strategic reserves remain
25 prepared to act and to use those reserves if

1 circumstances warrant.

2 So I hope those who are building a risk
3 premium into their market analysis will also factor
4 into their analysis that we are both prepared and
5 determined to use our reserve to offset any terrorist-
6 related or other significant disruption in supply.

7 The fourth observation I want to make this
8 morning has to do with the realities of today's energy
9 marketplace. Lately, there has been much concern,
10 appropriate concern, over gas prices. However, not
11 withstanding the media's fixation on negative energy
12 news, there actually have been a number of positive
13 developments of late that haven't received the
14 attention I think they should. I'd like to emphasize a
15 few of those today.

16 One is the heartening recent news that the
17 world's major oil producers have acknowledged prices
18 are too high and they need to do something about it,
19 and that they are doing something about it. Production
20 today is nearly 5 million more barrels per day over
21 this time last year, and more production is expected to
22 be added in July and in August.

23 Moreover, Saudi Energy Minister Naimi (ph)
24 has said and told me directly that his country is
25 prepared to fill orders up to 10.5 million barrels per

1 day at this time. I think this is welcome news.

2 A second positive development is that, not
3 withstanding the tremendous increase in demand we're
4 seeing in the United States as well as around the
5 world, our inventories are 38.6 million barrels higher
6 than they were a year ago.

7 Third, the price of gasoline is finally
8 moving downward. Today we saw prices drop for the
9 third straight week.

10 I have to confess to being a bit disappointed
11 by the media's reaction to this new. After seeing
12 weeks of headlines about prices hiking, spiking,
13 climbing, and skyrocketing, too often accompanied, by
14 the way, with pictures of myself --

15 (Laughter)

16 THE HONORABLE MR. ABRAHAM: -- I'd been kind
17 of looking forward to seeing a little good news in the
18 business press. So I was mystified last week when the
19 price of gas fell below \$2 to see USA Today's headline
20 report, quote, "Market Might Siphon Gas Prices Below \$2
21 a Gallon." I'm still trying to figure out exactly what
22 the thrust of that was.

23 All I know is this: since I've been the
24 secretary of Energy, whenever the price goes up, my
25 picture's in the paper and I get blamed. Whenever the

1 price goes down, it's always the market is finally
2 working. So hopefully, the market will continue to
3 work and move prices in that direction.

4 At the same time, I think we all know that
5 the world petroleum market is a complicated thing.
6 There are many different factors that go into
7 determining the price of gasoline at the pump, factors
8 above and beyond who happens to be in the White House
9 or who the Energy secretary may be.

10 And there are a number of complex variables
11 worldwide creating the tight supply and demand
12 conditions which are fueling the run-up in price of gas
13 which we have witnessed in recent months. These
14 include the rapid economic growth occurring in China,
15 India, and elsewhere in the developing world, the
16 healthy American economy, developments in world
17 currency markets, civil unrest in countries like
18 Nigeria and Venezuela, the threat of international
19 terrorism, and so on.

20 And as I think most of you here today know,
21 there is insufficient or outdated pipeline and refinery
22 capacity here at home that plays a role. This latter
23 point is especially troubling. There is no question
24 that one of the significant energy challenges we face
25 is sufficient refining capacity.

1 The United States has not seen a new refinery
2 built since 1976. More recently, even refinery
3 expansion has been slow. People have rightly asked why
4 this is the case and how it affects prices. In some
5 instances, they have pointed the finger at refinery
6 operators. In some instances, they have pointed the
7 finger at government.

8 And for all of the finger-pointing, the
9 situation still could get worse. The EIA projects U.S.
10 gasoline demand to increase by 43 percent, and diesel
11 by 48 percent, by the year 2025. EIA also projects
12 that the United States will need 28 million barrels of
13 oil per day to meet our demand in 2025, while the
14 projected refinery capacity is 21 million barrels a
15 day. The American people need to know how we are going
16 to address these challenges.

17 So today I want to take the opportunity of
18 our meeting to formally request that the NPC undertake
19 an updated study of American refinery capacity. I'd
20 like you to identify the nation's future demand for
21 refinery products, our domestic capacity to meet future
22 needs, the barriers to meeting future demand, and the
23 capital factors that will drive supply growth.

24 Finally, I'd ask you to broadly examine how
25 worldwide capacity will impact U.S. access to products.

1 Such a study, I think, will give further understanding
2 to the complexities of the ever-changing oil and gas
3 markets and will really help us to address this
4 challenge head-on.

5 I'd also like to ask you to undertake a study
6 of issues related to the nation's inventory levels.
7 It's obvious that inventory levels are one of the
8 things the market watches very closely, and they play a
9 key role in setting prices. So the question which I
10 have is, are the parameters that are now used still
11 appropriate?

12 I want the NPC to apply its expertise to
13 examining the question of what appropriate inventory
14 levels should be in this new era. We've been using a
15 lower operational inventory level of 270 million
16 barrels for a number of years now, but is that a number
17 which accurately reflects the realities of the
18 marketplace in 2004, or should it be updated.

19 At the end of the day, our goal is to provide
20 a figure that best serves and provides stability for
21 the global petroleum market. Does the 270 LOI do that.

22 I think we would all agree that the answers
23 to these questions are needed sooner rather than later.

24 If there's one thing the market needs, it's
25 accurately, timely, up-to-date information.

1 That's why I recently instructed the EIA to
2 implement a new monthly survey to collect natural gas
3 production information that will provide natural gas
4 numbers in 60 days rather than the usual 120. It's
5 also why the United States has signed onto the Joint
6 Oil Data Initiative, an international effort to improve
7 the availability and timeliness of international oil
8 market data. It's also why we have been working
9 cooperatively with Canada and Mexico and the North
10 American Working Group to improve energy data sharing.

11 I'm requesting that you complete these
12 studies by September 30th. I understand that this is a
13 tight time frame, but it's my hope that this
14 information can still be put to use by the end of this
15 year in a way that will help bring greater long-term
16 stability to petroleum markets and a greater degree of
17 certainty to American consumers.

18 I know that both of these requests will
19 entail a significant amount of work, and so, in
20 advance, I'd just like to thank all of you for taking a
21 look at these challenges, as we did last year with
22 natural gas.

23 In the meantime, I just want to make sure
24 that everybody here understands that our administration
25 will continue to monitor developments affecting the

1 prices of gasoline and other products. We will
2 continue to respond to local incidents that may produce
3 regional spikes, working with industry and state and
4 local governments on a case-by-case basis.

5 We will continue to advocate energy
6 efficiency and conservation measures. We will continue
7 our discussions with OPEC and non-OPEC producers about
8 actions that they can take to support a growing world
9 economy. We will continue to be vigilant to ensure
10 that consumers are protected.

11 Finally, we will continue to work with
12 Congress to pass comprehensive energy legislation to
13 help provide for America's energy and economic
14 security.

15 Ladies and gentlemen, the National Petroleum
16 Council's value and merit, as I alluded to earlier,
17 has, I think, been clearly proven over the last couple
18 of years. The work that you have done in support of
19 the various projects we've had, especially with respect
20 to the natural gas projects, has been invaluable. The
21 degree to which the people of this organization have
22 taken extra time to keep us on track to try to address
23 some of these challenges has been unprecedented.

24 So, in closing today, let me just echo what I
25 know Pat feels, and others of us who work with all of

1 you and benefit from your efforts, how much we
2 appreciate it. I know the president appreciates it,
3 the vice president, and all of us in the
4 administration.

5 This is extra time that people in this room
6 could be devoting to their own companies, to their own
7 projects, to the work they do, or to their families.
8 So the fact that you take the time that you do, that
9 you put this extra effort in on behalf of the American
10 public, is deeply, deeply admired by all of us who have
11 the opportunity to work with you.

12 So thank you for what you have done, and
13 thanks for taking a look at these new assignments. We
14 very much hope that in the months ahead we can continue
15 the tremendous success we've had working together.
16 Thank you very much.

17 (Applause)

18 Update on the NPC Natural Gas Study and Vote on
19 Publication of Task Group Volumes

20 Bobby S. Shackouls, NPC Chair

21 CHAIRMAN SHACKOULS: Thank you, Mr.

22 Secretary, for your remarks. We will work with your
23 staff to further define the scope of the refinery and
24 inventory level studies that you've requested, and we
25 will endeavor to comply with your very ambitious time

1 schedule. Once the request has been finalized, we will
2 immediately refer it to the Agenda Committee for
3 immediate action.

4 As we've heard from Chairman Barton, from
5 Secretary Abraham, and Chairman Wood, natural gas
6 issues remain a critical part of our nation's energy
7 policy discussions. I believe that the findings and
8 recommendations of the NPC Natural Gas Study remain
9 very valid today.

10 Unfortunately, we're tracking closely along
11 the projections of the study's reactive path case, not
12 the lower price environment of the recommended balanced
13 future case. In fact, with many of the policy changes
14 assumed in the reactive path not having been
15 implemented, we may be facing the more undesirable
16 outlook associated with the status quo.

17 Bottom line: our work and recent market
18 conditions persuade us that the secretary's request on
19 the natural gas study could not have been more relevant
20 or timely. Moreover, as policy-makers at all levels of
21 government seek reliable information to help them
22 address energy issues. The study, in our view, could
23 not have been more timely.

24 I remind you that you have a set of slides in
25 your folders this morning that provides an overview of

1 the studies, findings, and recommendations. As we
2 discussed earlier, we concluded that there had been a
3 fundamental tightening of the supply and demand
4 situation, and recommended a set of policy initiatives,
5 all of which were necessary to reach a balanced future.

6 Now I want to turn to an update on the
7 extensive follow-up activities that have occurred since
8 the report was approved by the Council last September
9 and that are continuing as we speak.

10 This report has proven to be one of the most
11 popular and useful reports that this Council has ever
12 issued. Interest in the report remains quite high, and
13 follow-up activities have been numerous. The report
14 has also been used by a number of individual companies
15 and trade associations in their advocacy work.

16 This has not been a report that has sat on
17 the shelf and collected dust. To date, almost 100
18 presentations have been made on the study's findings
19 and recommendations by study leaders and participants.

20 Among the slides is a graphic on these presentations
21 which gives you a sense of the breadth and depth of
22 interest in the NPC gas study.

23 These sessions have ranged from one hour to
24 all day in length, and have been before groups as small
25 as two or three people, to as many as 1000. Several

1 have also been Web-cast. Important among these
2 briefings have been the requests by federal and state
3 legislative, executive, and regulatory bodies. In
4 addition, presentations have been made to Canadian and
5 Mexican officials, to industrial, power, and other
6 consumers, and to all sectors of the natural gas
7 industry.

8 Having made several of these presentations, I
9 can confirm this high level of interest in the study.
10 It captures the essence of the natural gas challenges
11 and opportunities that we face. The NPC study is
12 increasingly relevant and core to many initiatives and
13 actions, ranging from federal legislation to federal
14 administrative and regulatory actions, to state
15 initiatives such as those led by the National
16 Association of Regulatory Utility Commissioners.

17 It also can serve as a basis of understanding
18 and debate for advocates of both supply and demand
19 sides, such as the Natural Gas Council and the
20 Coalition for Affordable Natural Gas.

21 For your information, approximately 2200
22 copies of Volume I, the Summary Report, have been
23 distributed. Recipients include the executive branch
24 departments and agencies, congressional committees with
25 jurisdiction over energy matters, state and local

1 governments, the press, industry, and many other
2 interested parties. In addition, about 14,000
3 electronic copies have been downloaded from the
4 Council's web site.

5 Volume II, the Integrated Report, which
6 provides further supporting data and analyses, was
7 finalized and printed in February. Over 800 copies of
8 Volume II have been distributed, and nearly 2000
9 electronic copies have been downloaded.

10 The three task group report volumes will be
11 the final portion of the printed documentation of the
12 study. Last month, the membership was notified that
13 these volumes were nearly ready for publication and
14 were being posted on the NPS website for review.

15 The preface section of the draft volumes
16 clearly notes that the detailed data and analyses
17 contained in these volumes form the basis of Volumes I
18 and II, and are published with the Council's approval
19 but not necessarily all of its content.

20 As agreed last fall, we will vote today on
21 the publication of these task group reports and the
22 computer modeling CDs as part of the study process
23 documentation. We're not voting or endorsing approving
24 all of the statements and conclusions contained in
25 these background documents.

1 Accordingly, on behalf of the Committee on
2 Natural Gas, I move the approval of the publication of
3 these three task group volumes and the two data CDs as
4 part of the final study documentation.

5 Do I have a second?

6 PARTICIPANT: Second.

7 CHAIRMAN SHACKOULS: Any discussion,
8 questions, or comments?

9 (No response)

10 CHAIRMAN SHACKOULS: All those in favor,
11 please say "aye."

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

13 CHAIRMAN SHACKOULS: Opposed, "nay."

14 (No response)

15 CHAIRMAN SHACKOULS: Did I hear a nay?

16 Sorry.

17 The report is hereby adopted. The Council
18 approves the publication of these volumes. Copies will
19 be sent to members when they are printed later this
20 summer.

21 In closing these discussions on natural gas,
22 I should note that, while much has been initiated
23 toward meeting the nation's future demands for gas,
24 much remains to be done. The administration and
25 Congress must act to implement needed administrative,

1 regulatory, and legislative changes that you've heard
2 today.

3 Industry, too, must step up to the challenge
4 of supplying the growing volumes that the marketplace
5 is demanding.

6 Now, we've flipped the agenda all around. I
7 think we've taken care of all the administrative
8 matters. Is that right, Marshall?

9 So that ends the formal agenda for the
10 Council meeting. Does any Council member have any
11 other matter that they would like to raise at this
12 time?

13 (No response)

14 CHAIRMAN SHACKOULS: Does any non-member wish
15 to be recognized?

16 (No response)

17 CHAIRMAN SHACKOULS: There being no further
18 business, do I have a motion for adjournment?

19 PARTICIPANT: So moved.

20 CHAIRMAN SHACKOULS: A second?

21 PARTICIPANT: Second.

22 CHAIRMAN SHACKOULS: All in favor, please say
23 "aye."

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

25 CHAIRMAN SHACKOULS: Opposed?

1 (No response)

2 CHAIRMAN SHACKOULS: Thank you. The 113th
3 meeting of the National Petroleum Council is hereby
4 adjourned. Thank you very much.

5 (Whereupon, at 10:20 a.m., the proceedings
6 were concluded.)

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