

SUMMARY OF TESTIMONY

GOVERNOR FRANK MURKOWSKI ON BEHALF OF THE NATIONAL GOVERNORS ASSOCIATION

COMMITTEE ON ENERGY AND COMMERCE U.S. HOUSE OF REPRESENTATIVES

FEBRUARY 10, 2005

The National Governors Association supports an energy policy that balances production, efficiency and conservation, environmental quality, and a healthy economy. Energy issues must be addressed nationally, while recognizing state and local authority over environmental and land use issues.

Exploration of new energy supplies should include environmentally responsible development of traditional fossil fuel sources and greater reliance on alternative and renewable sources. NGA supports provisions of the bill regarding energy efficiency and renewable energy, and believe that its incentives will help encourage new technologies.

We also support provisions of the oil and gas title that will promote new domestic production through exploration and development, provided that new infrastructure is developed in an environmentally sound manner. We believe that federal land management agencies should have the resources to participate and coordinate with states regarding federal decisions about exploration and production on federal lands. Further, we applaud the bill for its encouragement of clean coal technologies and hydrogen fuel development.

The Governors support the many conservation incentives in the bill and believe that conservation education programs and technology research should be promoted, including grants to states.

We continue to raise concerns about the electricity title. While we support mandatory reliability rules, we again bring to the Committee's attention our long-standing opposition to federal preemption of state authority to select the location of interstate transmission lines. FERC should not, in our view, be granted the power to override state law, even as a so-called "backstop". We think there have been improvements to this provision with the addition of interstate compacts, but we think there is still work to do on its language, and we hope to have an opportunity to offer our suggestions.

Lastly, on behalf of the state of Alaska, I will be making some specific points on ANWR, natural gas hydrates, and the Alaska natural gas pipeline.

**TESTIMONY BEFORE THE COMMITTEE ON ENERGY AND COMMERCE
U.S. HOUSE OF REPRESENTATIVES**

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**GOVERNOR FRANK MURKOWSKI
ON BEHALF OF THE NATIONAL GOVERNORS ASSOCIATION**

Mr. Chairman and members of the Committee on Energy and Commerce, I am Frank Murkowski, Governor of the State of Alaska, and Chairman of the National Governors Association Natural Resources Committee. The bulk of my comments will be on behalf of NGA, however, I will have some Alaska-specific comments at the conclusion of my statement.

I appreciate the opportunity to provide comments to this committee as you consider legislation to create a comprehensive energy policy for the United States. NGA supports an energy policy that balances energy production, efficiency and conservation, environmental quality, and a healthy economy. Our policy maintains that energy issues must be addressed nationally, while still recognizing state and local authority over environmental and land use issues.

We believe that the solution to the need for energy will require increased conservation and energy efficiency as well as exploration of new energy supplies. That exploration should include environmentally responsible development of traditional fossil fuel sources and greater reliance on alternative and renewable sources.

In particular, we think the titles of the Conference agreement dealing with energy efficiency and renewable energy are very positive and will provide incentives for programs that help encourage new techniques and technologies. We support provisions

of the oil and gas title that will promote new domestic production through exploration and development of additional petroleum reserves and encourage effective market-based measures that will support production of natural gas supplies and development of infrastructure in an environmentally sound manner.

We also would like to see a reduction in the impediments that limit natural gas production, however, we are mindful that many states support drilling moratoria off their shores. We believe that federal land management agencies should have the resources available to participate and coordinate with states regarding federal decisions about energy exploration and production on federal lands. And of course, we continue our support for the Alaska natural gas pipeline.

With regard to coal, we believe that the conference report will encourage technologies to utilize coal more cleanly and efficiently. The development and use of hydrogen as a fuel source will be encouraged by the conference report, and we support federal assistance for research and development, as well as demonstration projects.

Some provisions of the electricity title continue to cause concern to Governors. While we strongly support the development of mandatory rules to ensure transmission grid reliability, we continue our long-standing opposition to federal preemption of state authority to choose the location of interstate transmission lines. The Federal Energy Regulatory Commission (FERC) should not be granted the power to override state law, even as a backstop to a state decision to disapprove a project. We have yet to see credible evidence that states have abused their responsibility to balance electricity transmission needs with other important public considerations.

We were encouraged that the conference report recognized the importance of regional solutions by preventing the FERC from overriding a decision by a regional transmission siting agency established by interstate compact, but we think that there is still work to do on this provision, and we hope to have the opportunity to offer our suggestions.

Finally, we would like to extend our support for the many conservation incentives in the conference committee report. We believe that the federal government should promote energy conservation education programs and fund research into conservation technologies. Federal funding of energy conservation programs, including grants to states, should be enhanced. The development of energy efficient technologies, including fuel-efficient engine and vehicle technologies, should be actively promoted. The U.S. Department of Energy should be provided with adequate authority, staffing, and funding to undertake and coordinate conservation activities.

Thank you very much for this opportunity to share NGA's policies with you.

I recognize that certain aspects of oil and gas development are not within the jurisdiction of this Committee. However, I want to make some brief comments concerning three oil and gas issues of interest to Alaska and the Nation:

ANWR

The Coastal Plain of ANWR has been determined to be the most promising unexplored petroleum province in North America, the only area with the potential to discover an "elephant" field like Prudhoe Bay. Thus, the US Geological Survey has estimated that the amount of technically recoverable oil beneath the Coastal Plain ranges between 5.7 billion (95% probability) and 15.9 billion barrels (5% probability) at \$25 per barrel. At \$50 per barrel, all of the known physical reserves would be economic, thereby increasing these estimates significantly. The Coastal Plain may also contain significant deposits of natural gas.

Oil from ANWR represents a secure domestic supply, which could help fulfill US demand for twenty five years or more. Government studies suggest that the Coastal Plain could produce a ten year sustained rate of one million barrels per day.

The development of ANWR would reduce US dependence on unstable foreign sources of crude oil, such as oil from the Middle East and OPEC countries

ANWR oil would reduce the US trade deficit, a large percentage of which is directly attributable to the importation of crude oil, now totaling approximately 60% of daily consumption and rising

Incremental production from the Coastal Plain of ANWR should help reduce price volatility in the US. In this regard, recent supply disruptions affecting Nigeria, Iraq, Norway, and the Gulf of Mexico illustrate how even relatively low levels of production can influence the world price of oil

ANWR development would create hundreds of thousands of American jobs affecting virtually every state by providing a secure supply of petroleum and by creating a demand for goods and services

Oil and gas development in ANWR is not a panacea. Such development should be part of an energy policy which includes the development of alternative fuels, fuel efficiency, conservation, and other measures. However, gasoline and other products refined from crude oil will continue to fuel our transportation system for the foreseeable future

Experience on the North Slope demonstrates that ANWR can be developed in a manner that protects the environment and which provides greater safeguards than exist in other parts of the world:

- Advanced technology such as horizontal drilling, multiple well completions, and smaller drilling pads, ensures that the footprint of development would be less than 2,000 acres (approximately the size of an average farm in South Carolina or the equivalent of one letter on the front page of the New York Times)

- The Coastal Plain of ANWR comprises approximately 1.5 million acres in a National Wildlife Refuge that includes over 19 million acres (the size of South Carolina) of which 8 million acres has been designated by Congress as wilderness and hence would be off limits to any commercial activity
- Oil development is compatible with the protection of wildlife and their habitat. For example, North Slope caribou herds have remained healthy throughout previous oil development. In fact, the Central Arctic caribou herd, which is located in and around Prudhoe Bay, has increased 10 fold in the last 20 years
- For most of the year, the Coastal Plain of ANWR is a frozen, desolate area. Experience demonstrates that seasonal restrictions and other environmental stipulations can be utilized to protect caribou calving (6 weeks in the summer), migratory birds, and fish

Recognizing the employment and economic benefits that would accrue to them, the Inupiat Eskimos of the North Slope generally support oil development in the Coastal Plain. In this regard, most residents of the village of Kaktovik, which is located on the Coastal Plain, have expressed their support for development

For the past 5 years, the administration of President George W. Bush has strongly supported responsible oil development in the Coastal Plain of ANWR in recognition of the economic and national security benefits that would accrue to the nation. The Bush administration has estimated for budgetary purposes that the initial phase of ANWR development would generate \$1.2 billion to the Federal treasury in Fiscal Year 2007.

Responsible oil and gas development in the Coastal Plain is supported by a broad spectrum of groups and organizations, including businesses, labor unions, petroleum users and others. ANWR has become a symbol in the philosophical debate over development versus protection. However, as the preceding indicates, the facts demonstrate that ANWR, with its concomitant benefits, can be developed without significantly impacting the North Slope environment

Natural Gas Hydrates

Methane gas hydrates are a highly concentrated crystalline form of natural gas that occurs in deep ocean basins and in arctic regions. The United States Geologic Survey estimates Alaska's North Slope methane hydrates at 590 trillion cubic feet, with an additional 32,375 trillion cubic feet in the Beaufort and Chukchi Seas.

The location of methane hydrates near proven conventional gas reserves makes the North Slope the premier area for methane hydrate research and future production.

Analysis shows that North Slope gas hydrates should produce at commercial rates. This analysis must be tested through a government-sponsored research program and possibly followed by royalty or tax relief for hydrate development. If successful these tests could substantially extend the life of an Alaska natural gas pipeline project.

Alaska Natural Gas Pipeline

Last October Congress enacted and the President signed into law the Alaska Natural Gas Pipeline Act. This essential legislation cleared the way at the Federal level for processing applications for an Alaska Gas Pipeline and also provided loan guarantees that will reduce the risk of this essential national interest project.

As required by the Act, the Federal Energy Regulatory Commission has moved quickly to put out for public comment proposed open season regulations that will govern access to the Alaska gas pipeline. Yesterday, the FERC issued its final regulations. We welcome that swift action and are reviewing the regulations to ensure that they satisfy the Congressional mandate on access.

As part of the open season rulemaking, the four FERC Commissioners traveled to Anchorage and held a public hearing on the regulations in early December. For the Commission itself to hold a hearing out of Washington DC was unprecedented. The

commitment of the Commission to hear Alaskans on this vital issue was well received and I applaud the Commission for doing so.

The Department of Energy is also beginning to organize its process for hearing interested parties and working out the details of the federal loan guarantees authorized by October's law.

The State of Alaska has been busy doing its part to foster an Alaska Natural Gas Pipeline. A recent state law enables Alaska to provide fiscal certainty on taxes and royalties to a qualifying Alaska gas pipeline. A number of parties have submitted qualified projects. As we speak, the State is engaged in very active fiscal contract negotiations with the three major North Slope producers—Exxon Mobil, BP, and ConocoPhillips—and also with TransCanada. In addition, the State is analyzing the merits of the Alaska Port Authority proposal to transport liquefied natural gas from Alaska to the US West Coast. The State's objective is clear--do what it can to bring a pipeline to fruition at the earliest feasible date. My objective is to submit one or more Stranded Gas Act contracts to the State legislature this session.

As part of these negotiations, the State is prepared to put its money where its mouth is. I have announced that the State is willing to invest its own capital to take a risk position in the pipeline. One way we could do this is to invest in the pipeline itself--take a multi-billion dollar stake. This is an active part of the negotiations.