

Charles T. Drevna
President
National Petrochemical & Refiners Association
Testimony on “THE NATIONAL PETROLEUM RESERVE ALASKA ACCESS ACT”
June 16, 2011

I. Introduction

Good morning Subcommittee Chairman Lamborn and Ranking Member Holt, Chairman Hastings, Ranking Member Markey and members of the Subcommittee. I’m Charlie Drevna, and I serve as president of NPRA, the National Petrochemical & Refiners Association. Thank you for giving me this opportunity to testify before the Subcommittee on Energy and Mineral Resources of the House Natural Resources Committee in support of The National Petroleum Reserve Alaska Access Act.

My association and the National Petroleum Reserve-Alaska share the same acronym, but are in very different locations. The National Petrochemical & Refiners Association is headquartered in an office building here in Washington that sits on top of a parking garage. The U.S. Geological Survey estimates that the National Petroleum Reserve-Alaska sits on top of more than 2.7 billion barrels of oil and more than 114.3 trillion cubic feet of natural gas. These are tremendous energy resources, and our nation needs to use them to bring tremendous benefits to the American people.

The National Petrochemical & Refiners Association is a trade association representing high-tech American manufacturers of virtually the entire U.S. supply of gasoline, diesel, jet fuel, other fuels and home heating oil, as well as the petrochemicals used as building blocks for thousands of vital products. NPRA members make modern life possible, meet the needs of our nation and local communities, strengthen economic and national security, and provide jobs directly and indirectly for more than 2 million Americans.

I know that in the public mind, the oil industry is a collection of giant companies that do everything – explore and drill for oil, manufacture fuels and petrochemicals, and own gasoline stations where you fill up your car or truck. But that’s a myth, not reality. In fact, the concept of “Big Oil” is a pejorative that inaccurately seeks to homogenize, vilify and discount the tens of thousands of companies and millions of American working men and women affiliated with our nation’s domestic oil industry.

NPRA member companies engage in what we call “downstream” manufacturing activities – we don’t primarily focus on the “upstream” work of getting oil out of the ground or offshore, but rather on turning oil into useful products. Or to paraphrase an old advertising slogan: We don’t produce the oil, we make the oil better. The oil that comes directly out of the wellhead is useless until it’s refined through sophisticated manufacturing processes into a transportation fuel or turned into a petrochemical – and that is the important work carried out by our members.

The National Petroleum Reserve Alaska Access Act deserves to be enacted into law on two levels. First, because it will provide a sure and steady supply of domestic oil to enable refineries and petrochemical manufacturing plants to make the fuel and other vital products needed to serve the millions of Americans living in Alaska, Washington, Oregon, California, Nevada, Arizona and Hawaii. And second, because this important legislation it is just the first of many actions we urge Congress and the administration to take to make more of America's valuable fossil fuels resources available to serve the American people.

II. America is Energy Rich

Before I get into the specifics of the merits of this bill, let me dispel a myth that's been repeated so often that millions of Americans understandably believe it's true. America is not energy poor – we're energy rich. We have more oil, natural gas and other energy resources under our feet and off our shores than just about any country on Earth. And we're finding new – and environmentally safe – ways to bring these energy sources to us all the time. Examples include technology for extracting oil from shale and from oil sands, and technology for bringing vast amounts of natural gas to the surface by using hydraulic fracturing. The problem isn't that we lack energy resources. The problem is that our government is making it extremely hard – if not impossible in some instances – to use them, even with extensive environmental safeguards.

From the Atlantic, to the Gulf of Mexico, to our nation's Pacific Coast... from the Marcellus Shale in Pennsylvania and neighboring states to the Eagle Ford Shale in Texas ... from untapped oil and natural gas fields in the Lower 48 states to Alaska... our nation is blessed with immense and untold energy riches.

Keeping our energy riches locked up and out of reach makes about as much sense as a millionaire keeping all his cash stuffed in a mattress – and then begging for money because he won't give himself access to his own fortune. We need to take advantage of our energy wealth.

III. Utilize NPR-A

Let me focus now on the need for Alaskan crude oil and The National Petroleum Reserve Alaska Access Act. In testimony May 13 this year before the Subcommittee on Energy and Power of the House Committee on Energy and Commerce (a copy of which is being submitted with this testimony), Lynne D. Westfall, executive vice president of Turner Mason & Company, pointed out:

- The region comprised of Alaska, Washington, Oregon, California, Nevada, Arizona and Hawaii was a major exporter of crude oil to the rest of the country in the 1980s. But this region has gradually seen oil production drop. Oil has not been shipped out of the region since 2001.
- These seven states are not connected by pipelines to other parts of the United States and now rely on oil imported from other nations for about 50 percent of their demand.

- “Without continued production in Alaska, the West Coast will grow more dependent on imports from OPEC.”
- Declining oil production in Alaska “will fall below the minimum operating rate for the Trans Alaska pipeline in the early 2030s. The economics of production, however, may cause the cessation of supplies well before that time.”

In fact, we have already seen times in the past few years where the low volume of oil being transported by the 800-mile long Trans Alaska pipeline has threatened to halt pipeline operations, endangering the oil supply to American refiners in the process. The low volume of oil in the pipeline has already slowed the speed at which oil travels through the vital artery, allowing the oil temperature to cool and threatening pipeline malfunctions.

The loss of the Trans Alaska pipeline would cause many problems. Had there been no crude coming from Alaska to the Western states in 2010 they would have imported more than 73 percent of their crude oil, and 71 percent of these imports would have come from OPEC nations.

Mr. Westfall presents many additional compelling statistics in his testimony to clearly establish that people of the West need more oil from Alaska. Those who decry America’s reliance on imported oil and at the same time oppose efforts to bring us more oil from our northernmost state are being logically inconsistent.

Looking in detail at the provisions of the National Petroleum Reserve Alaska Access Act, my association believes this legislation has a number of beneficial provisions that would avoid bureaucratic delays that hold up the process for producing, transporting and delivering American oil to American refiners.

The legislation provides for a streamlined and expedited permitting process to accelerate the leasing, exploration and production activities in the National Petroleum Reserve-Alaska. This permitting process would also speed the building of critical infrastructure needed to transport Alaskan oil to the West Coast market. In addition, the bill calls on the Department of Interior to develop a plan for coordinating future leases and production activities with access to necessary infrastructure.

Our nation needs to ensure that there are minimal constraints to critical energy arteries – roads, bridges and pipelines – that move reliable and secure American energy sources to manufacturers that produce useful American products. Unfortunately, too often multiple government agencies create years of bureaucratic delays in approving a permit for a road, a bridge or other needed infrastructure.

For example, ConocoPhillips, a member of the National Petrochemical & Refiners Association, has a “shovel-ready” project called CD5 in the National Petroleum Reserve-Alaska area that could generate new jobs and investment immediately. CD5 alone represents 400 new jobs per year during at least two years of construction, plus hundreds more support jobs. This project would also generate income for Alaska and the U.S. economy. However, the project has faced permitting delays since 2005.

IV: Use Domestic Energy

Some may be wondering: if we just buy oil, why do the refiners and petrochemical manufacturers that NPRA represents care so much about where the oil comes from? The Gulf of Mexico, the Gulf of Alaska, the Arabian Gulf or wherever – what’s the difference? There are a number of critically important reasons why we want – and why our nation needs – robust domestic oil and natural gas production.

Above all, we want to ensure a continuing supply of domestic oil to refineries and petrochemical manufacturing plants because we want to preserve America’s economic and national security. We share the concern of Democrats, Republicans and independents that our nation has become too reliant on oil from unstable areas of the world that are too often hostile to American interests. We share the concern of all Americans about our high national unemployment rate and the terrible suffering it is causing families around our country. We share the concern of the American people that our nation’s debt and deficit are too high. Producing more energy right here at home can have a big effect on reducing all these problems.

We also – believe it or not – don’t necessarily benefit from high oil prices. Our members are the first customers for crude oil, and can’t manufacture fuels and petrochemicals without oil. In fact, about 70 percent of the cost of gasoline is determined by oil prices set on world commodities markets. Just as a baker doesn’t welcome a rise in flour prices, or a coffee brewer doesn’t welcome increases in the price of coffee beans, we don’t necessarily welcome increases in oil prices. I never try to predict what will happen with fuel prices. But I’ve never heard anyone say that shortages of domestic supply ever put downward pressure on the price of any product.

We’ve seen President Obama and other administration officials meet with officials from Brazil and OPEC nations to encourage oil production abroad and to encourage sales of the foreign oil to the United States. But why not produce more oil and natural gas right here at home to create millions more American jobs beyond the 9.2 million already supported by both the “upstream” and “downstream” petroleum sectors?

Why not keep billions more American dollars right here in our own country, supporting American families and communities, instead of shipping this wealth abroad to buy foreign crude? Why not hold down costs of crude oil by producing more in our own country and relying less on oil shipped from foreign nations thousands of miles away?

Using our own energy resources to a much greater extent would be an enormous economic stimulus to our country, at no cost to American taxpayers. Besides reducing unemployment, it would flood the U.S. Treasury with billions more dollars in taxes and royalty payments from oil companies and the workers they employ. What is the alternative? Growing energy imports that weaken our economy, wipe out American jobs, increase our trade deficit and make us less secure in a dangerous world.

V. Conclusion

The National Petrochemical & Refiners Association is not opposed to non-fossil fuels forms of energy. We want all forms of energy to compete on a level playing field in a free market, and we want to let the best forms of energy win. We understand that no single energy source will meet all of our nation's needs, and that we need an "all of the above" solution to energy challenges.

NPRA is the association that says "yes" to a brighter energy future. We say "yes" to the spirit of innovation and free market competitiveness that led to countless inventions in the past 200 years, transforming America from a frontier nation to the leading nation on our planet. We say "yes" to problem-solving instead of throwing up our hands in surrender. We say "yes" to building prosperity instead of managing scarcity.

The death of the hydrocarbon molecule has been forecast for a very long time, but it will continue providing the American people with reliable, secure, abundant and efficient energy for many decades to come. The members of NPRA and the hard-working men and women we employ are proud to be able to harness this amazing molecule to serve the American people every hour of every day.

The companies that are members of NPRA are often criticized and demonized. But in fact, we're not part of America's energy problems – we're part of the solution to those problems. We believe the path to overcoming the energy challenges America faces begins with a national commitment to using our own God-given resources to serve the interests of our own citizens. Americans haven't achieved success by waiting passively for things to happen to us. We've achieved success by taking control of our destiny. Our parents and grandparents and earlier generations did this, and we and our children and grandchildren can do this as well.

I'm obviously here representing the best interests of the American fuel and petrochemical manufacturers that are members of NPRA. We want to stay in business, serving the American people, employing American workers, paying American taxes, strengthening American communities, being good American citizens. We don't want to see American fuel and petrochemical manufacturing plants and their workers be replaced by foreign competitors – as happened with much of the American textile, appliance, auto and electronics manufacturing industries in the lifetimes of many of us here today.

But if we get to the point where more and more of the oil we rely on comes from abroad, there's no reason why more and more of the gasoline, diesel, jet fuel, petrochemicals and other products we manufacture couldn't be made abroad as well. Bad news for NPRA members? Absolutely. But more importantly, bad news for American consumers, American workers, and the American economy.

We urge approval of The National Petroleum Reserve Alaska Access Act as the first of a series of measures to help bring an end to the bad economic news that's hit our country in the last few years, to give Americans faster and greater access to our nation's valuable natural resources, to generate more revenue for government at all levels, and to begin building a better and brighter future for our nation and the American people.

Testimony

Before

U.S. House of Representatives Committee on Energy and Commerce

Subcommittee on Energy and Power

Draft on the Jobs and Energy Permitting Act of 2011

The Importance of Alaska Crude Production

To the West Coast of the United States

May 13, 2011

9:00 a.m.

2322 Rayburn House Office Building

Washington, D.C.

Submitted by:

Lynn D. Westfall

Executive Vice President

Turner Mason & Company

Dallas, Texas

The Importance of Alaska Crude Production
To the West Coast of the United States
Summary of Testimony

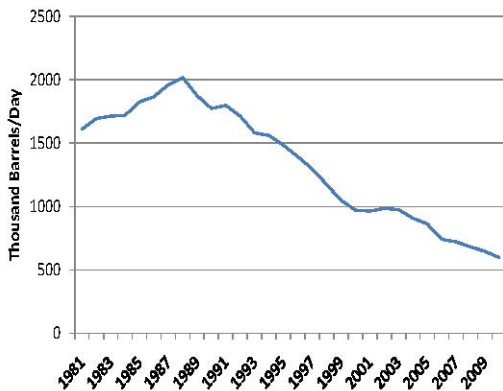
- The West Coast of the United States is an isolated market with no access to crudes produced elsewhere in the country.
- Through most of the 80's and 90's the West Coast had a surplus of crude production and had little dependence on foreign imports
- With the decline in production from Alaska and California, the area now imports about 50% of its crude demand
- Of current imports, about 55% come from OPEC countries, which have supplied over 75% of the growth in imports since 2000
- Growing dependence on imports have raised relative crude prices on the West Coast by approximately \$2.15 per barrel or about 5 cents per gallon
- Without continued production in Alaska, the West Coast will grow more dependent on imports from OPEC

The Importance of Alaska Crude Production To the West Coast of the United States

In terms of crude oil and refined products markets, the West Coast of the United States is comprised of the states of Alaska, Washington, Oregon, California, Nevada, Arizona, and Hawaii, known as PADD 5. This area of the country is unique in its market dynamics and dependence on domestic crude production. Its most distinguishing characteristic is its logistical isolation due to a lack of pipeline capacity into the area from other parts of the country. The West Coast receives no domestic crude from other areas of the United States, as contrasted for instance to the East Coast which receives over 43% of its crude requirements from other parts of the country. Likewise on refined products, the West Coast only receives 17% of its product demand from other areas, whereas a market like the Mid West receives over two-thirds of its needs from pipelines originating primarily on the Gulf Coast. The isolation of the West Coast from other domestic crude sources is understandable given the history of crude production in the area.

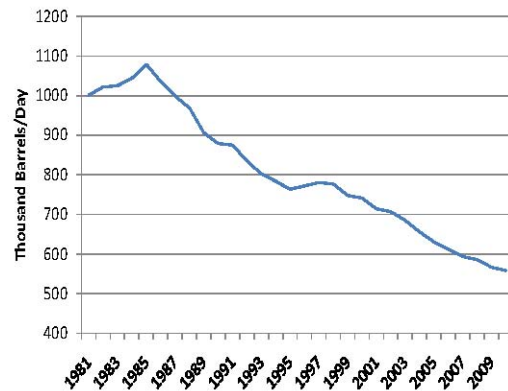
ANS crude production on the West Coast peaked in 1988 at just over 2 million barrels per day and California production peaked in 1985 at slightly more than 1 million barrels per day (see Figures 1 & 2).

Figure 1
Alaska Crude Production



Source: EIA

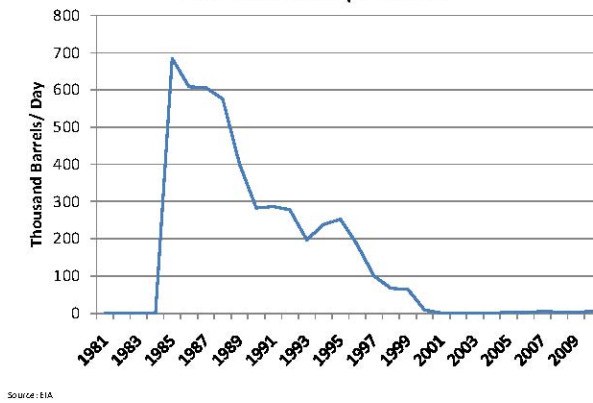
Figure 2
California Crude Production



Source: EIA

With a demand for only 2.5 million barrels per day, the West Coast became a major exporting area for crude to the rest of the country through the 1980's shipping some 600,000 barrels per day at the peak (see Figure 3).

Figure 3
West Coast Crude
Domestic Shipments



During this time, the area only imported less than 10% of its requirements from overseas, 35% of which was for use in the two refineries located in Hawaii, and ANS represented some 84% of the areas crude requirements in 1982 (see Figures 4 & 5).

Figure 4
West Coast Crude Imports

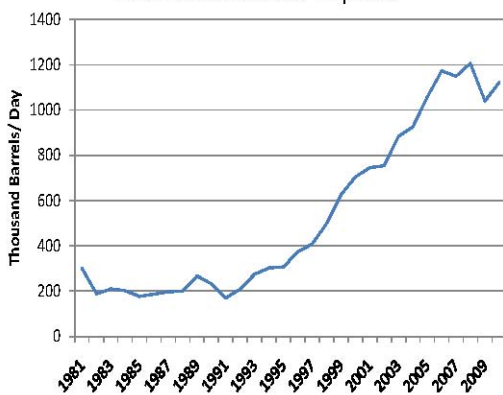
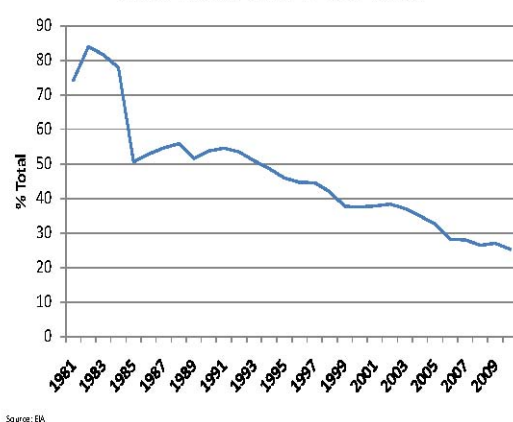
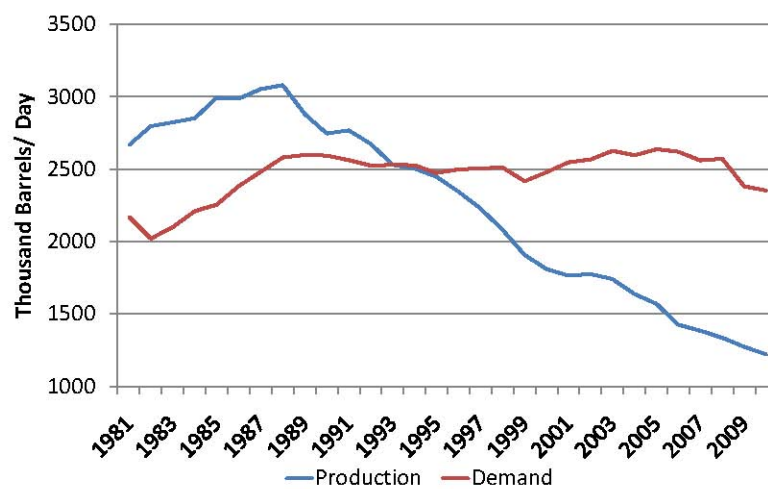


Figure 5
West Coast ANS Crude Runs



By 1993, with production from Alaska and California declining at about 4% per year, domestic supplies of crude fell below refinery demand and the area became a net importer of crude (see Figure 6).

Figure 6
West Coast Crude
Production/Demand

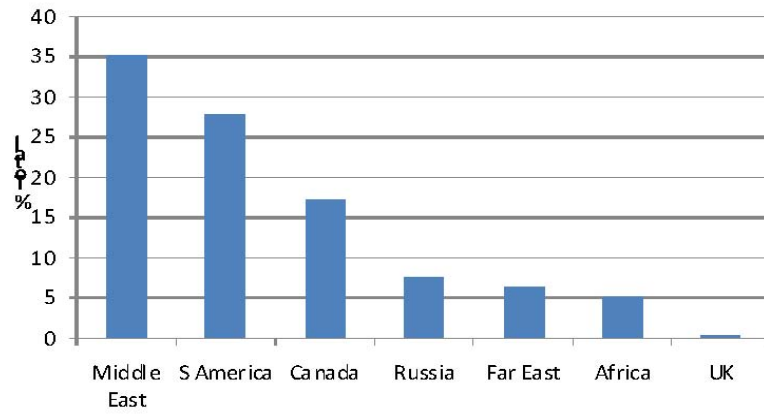


Source: EIA

Exports to the rest of the country fell and by 2001, shipments out of the area ceased altogether. Crude production has continued to decline by about 4% per year so that by 2010, Alaska production has declined to about 600 thousand barrels per day, about 30% of its peak, and California production now stands at about 560 thousand barrels per day, or about 56% of its peak. The West Coast is now heavily dependent on foreign sources for its crude requirements.

Last year, the West Coast imported about 1.1 million barrels per day of crude. This represented almost 48% of its total demand. This number is artificially low, however, since crude demand has fallen due to the effects on gasoline demand of the recent recession. At normal demand levels, the West Coast would have imported over 1.4 million barrels of crude last year or about 53% of its demand. This contrasts to the rest of the country which in 2010 imported over 65% of its needs for crude. The imports into the West Coast have come primarily from the Middle East, South America, and Canada (80%) with 20% coming from other parts of the world (see Figure 7).

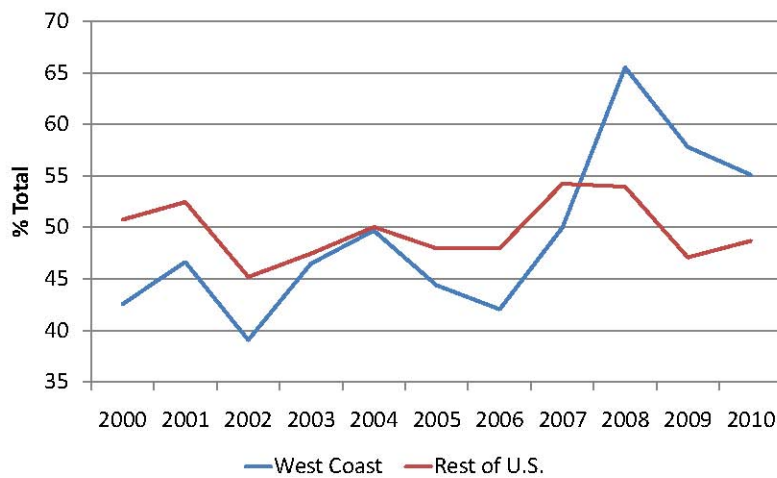
Figure 7
West Coast 2010 Crude Imports



Source: EIA

While the West Coast is not yet as dependent on foreign sources of crude as the rest of the country, it is more dependent on OPEC than the rest of the country as a whole (see Figure 8).

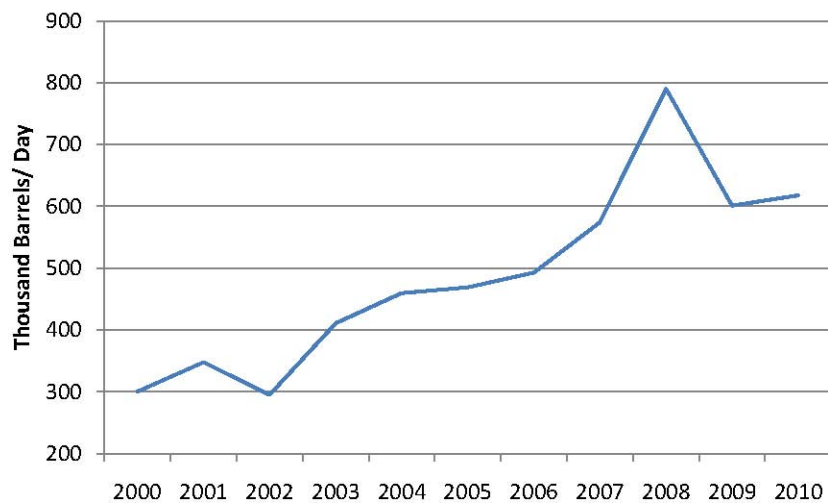
Figure 8
OPEC Crude Imports



Source: EIA

Since 2000, West Coast imports from OPEC countries have more than doubled and these sources have been responsible for over 75% of the growth in imports into the area (see Figure 9).

Figure 9
West Coast OPEC Crude Imports



Source: EIA

This trend would have been even more exaggerated had product demand on the West Coast not been affected by the recession. The obvious conclusion from this historical examination is that as crude production in Alaska has declined, the West Coast has turned more and more to OPEC for its crude oil requirements.

So in the past 30 years, the West Coast has moved from being a large exporter of crude to being a large importer. This has had the predictable outcome of raising relative crude prices in the region. During the early 90's, when crude production on the West Coast was in excess of demand, ANS crude sold for an average of \$2.78/barrel below the price of the benchmark Gulf Coast crude, WTI. As production and exports of ANS fell, however, this differential declined to \$1.75/barrel between 1996 and 2000, and \$2.22/barrel from 2001 to 2005. In more recent history, this differential has averaged only \$0.63/barrel in the last five years (see Figures 10 & 11).

Figure 10
ANS Crude vs WTI Crude Price

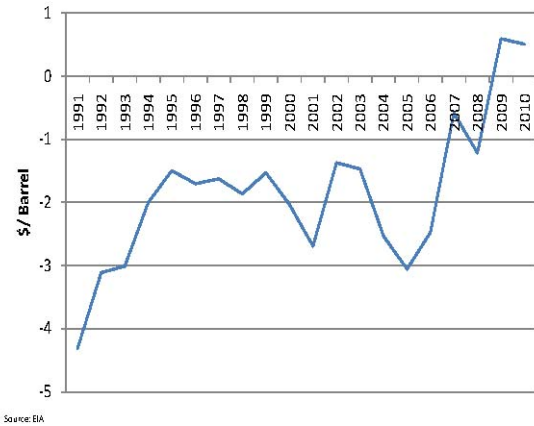
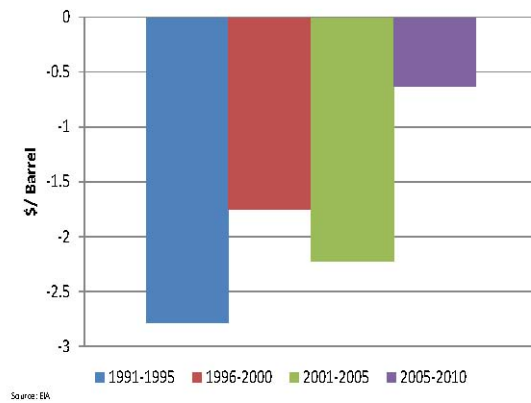


Figure 11
ANS Crude vs WTI Crude Price



The relative increase in price for ANS from \$2.78/ barrel below WTI to \$0.63/barrel below means that ANS has become \$2.15 per barrel more expensive due to production declines on the West Coast. Crude costs, then, have now risen by more than \$1 billion/year from the time of abundant ANS crude production and have contributed approximately 5 cents per gallon to the cost of gasoline in the area. In addition to the increase in cost, replacing domestic crude from Alaska with imports has also lowered the security of supplies to the West Coast. Instead of being able to rely on supplies only days away by ship, imports from areas such as the Middle East now take months to arrive and are not easily adaptable to respond to changes in demand or supply in the area.

At its historic decline rate of 4% per year, production of Alaskan crude will fall below the minimum operating rate for the Trans Alaska Pipeline in the early 2030's. The economics of production, however, may cause the cessation of supplies well before that time. As evidenced from the past, declines in ANS crude will likely be replaced by supplies from OPEC countries, which will make the West Coast the most heavily dependent on OPEC supplies of any area in the U.S. . Had there been no ANS Crude in 2010, the West Coast would have imported over 73% of its crude requirements and 71% of those imports would have come from OPEC. In addition, the 194,000 barrels per day of Canadian imports (17% of the total) into the region in 2010 are in jeopardy of being reduced by the California Low Carbon Fuel Standard (LCFS). Under this regulation, crude produced by mining or enhanced recovery techniques, such as oil sands in Canada, will be penalized with a carbon footprint 20% higher than conventional crudes. Products refined from this crude, then, will make it much more difficult for refiners to reduce their carbon footprints as required. This could divert current Canadian supplies away from the West Coast, making production from Alaska even more critical to supplying the area. The importance of providing abundant, secure supplies of transportation fuels to this part of the country, and the lack of infrastructure into the area from other parts of the U.S., seem to make a compelling case for any actions that can increase domestic supplies on the West Coast.