

Remarks by Peter Lehner

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Introduction

Thank you for that kind introduction and for inviting me to this conference. It's an honor to be part of a Baker Institute event. This organization's ground-breaking research and policy analysis are helping illuminate some of our nation's most complex issues, such as the one we are discussing today -- energy development.

And it's fitting we have gathered here in Texas to discuss America's energy future. Texas has led the nation in oil development. And now, in a development very relevant to my remarks today, Texas also produces more wind power than any other state. A few months ago, Austin became the largest city in the country to rely entirely on clean energy to power all of its facilities. Not to be outdone, the city of Houston purchases an even larger amount of renewable energy. Congratulations.

Today we have been asked to explore what the event organizers have called, "the vast endowment of natural resources" in North American energy markets. And while those natural resources include tremendous supplies of wind, solar, geothermal and other renewable energy, the focus today is on fossil fuels.

It's a real honor for me to share this opening with John Deutch, one of this country's foremost energy experts. He was nice enough to send around an outline of his talk and it looks like his main points and mine

will in large part overlap. Given my respect for him, I take great confidence in that.

My three points would emphasize the need to address the climate change implications of all this oil and gas, the reality that the public is turning against fracking very quickly, and that it's up to the industry now whether the development of more oil and gas resources will remain everywhere a battle or whether this new-found oil and gas can be seen to benefit all Americans.

In many circles, the apparent abundance of fossil fuels means an affordable engine for economic growth and a cornerstone for energy security and nothing more. After all, we all use, need and benefit from affordable energy and most would rather it come from domestic sources. However, as I see it, this supply brings with it questions of responsibility as well.

Extracting these fuels from the Earth routinely creates challenging consequences for our communities, our health, our water, our air, and our wild landscapes.

And even if we could figure out how to reduce all the negative impacts from producing coal, petroleum and natural gas, our planet—our one and only planet—simply cannot absorb the results of burning it all.

I'm sure that here, away from the rhetoric of Washington and in this room filled with smart, evidence-driven people, there is no doubt about the reality of climate change. Or the fact that carbon pollution, largely from the burning of fossil fuels, is causing it. I understand it's politically unpopular for some to admit this.

But surely, you all know the truth: we are altering our planet in profound and destructive ways. The change has already begun.

- We are already experiencing more extreme weather: last year America got hit by 14 weather events that each created more than 1 billion dollars in damages—an all-time record.
- Shifting weather patterns are already affecting agriculture: Here in Texas, the droughts and fires of the past year have left farmers and ranchers with 5.2 billion dollars in losses.
- And rising temperatures are already endangering our health: heat waves kill more Americans than any other type of natural disaster and insects carrying infectious disease are spreading.
- Similarly, coastal cities like New York and Boston, and areas like Galveston Bay are already working to figure out how to keep sewers flowing and prevent excess flooding with sea level rise.

America is paying the price of climate change. This is not an opinion. This is not an ideology. It is scientific fact. And it is an economic reality.

Embrace Climate Policy

This climate reality carries two implications for the newly available oil and gas. First, it is long past time for the oil and gas industry to acknowledge the climate challenge and embrace climate policy.

Take the natural gas context for example. We must have public policies in place to ensure that natural gas will be used to supplant rather than supplement coal use. When burned, natural gas emits about half the carbon dioxide of coal. And power plants fueled by natural gas emit none of the mercury and acid rain pollution produced by coal-burning power plants and can be used in conjunction with intermittent renewable energy. Indeed, these critical facts are why many see an expanded role for natural gas in our energy mix – assuming the industry can clean up its act.

But without an overarching climate policy to reduce carbon dioxide pollution and full implementation of the Clean Air Act rules, gas may not be used to best advantage to reduce the carbon intensity of our energy. A simple switch from coal to gas will not take us where we need to go to meet the climate change challenge.

So my message to those in the industry and their allies is that if you really want this gas to be good for America and not just for your profits, you must take another critical step and acknowledge the reality of climate change and accept limits on carbon dioxide pollution.

Instead of fighting the future, it's time for energy companies to help build it.

Come to the table and negotiate over carbon limits. We may not see eye-to-eye, but we have to engage in the conversation.

Use your engineering prowess to explore the possibilities of carbon capture and sequestration and enhanced oil recovery with the best environmental standards.

And start living up to the PR. Many companies have glossy ad campaigns about how green and sustainable they are. It's time to make those slogans a reality and become full-fledged energy companies that innovate in renewables as well as oil and gas and invest equally in both.

If energy companies like those based here can't bring America into the 21st century with clean and renewable energy, then China or other countries will. Some in Congress want to cede that market to China. America has never done that. We've led every technological revolution over the last 100 years and we should lead this one. But this can only happen with the industry's help.

Use It Wisely: Efficiency

The second key implication of taking climate change seriously is that we must use this oil and gas efficiently. Even if less polluting than coal, burning gas still emits carbon dioxide and the strong consensus of virtually all the world's scientists is that we must reduce our carbon dioxide pollution.

One of the cheapest, fastest, and cleanest ways to reduce carbon pollution is to enhance efficiency.

The danger of all this newly available oil and gas is that it could weaken efforts to use it carefully and efficiently. If there is plenty of it, why worry? Why not drive wasteful cars and trucks? Why worry about a leaky home or office building? Heck, leave the lights on all the time. The answer, of course, is that even if there is lots of domestic oil and gas, it still pollutes. It still alters our climate. It still causes air pollution. Industry needs to be a force for using fossil fuels carefully, not profligately.

I realize energy companies want to sell as much energy as they possibly can. It's your product, and you don't want demand to shrink.

But what's best for the customers – for the power companies, home owners, farmers, and other Americans? Answer – efficiency helps then; waste does not. After years of advocacy by NRDC and others, many electric utilities have now embraced energy efficiency. Many manufacturers have too. For example, refrigerators now run better, cost less (adjusted for inflation), and use only a quarter as much electricity as they did in the '70s. Consumers save money and power companies have been able to defer hugely expensive new generation investments.

In this economy, saving money matters a lot to Americans. Especially at the gas pump. We are about to enter into the annual spring spike in gas prices. Sixty percent of Americans believe adopting a standard of 60 miles per gallon for cars is the most important things we can do to address high gas prices.

If the oil industry promotes fuel efficiency – or at least does not support the efforts to derail the progress we've recently made, you look like an ally for American drivers. And any offset in demand here will be made up for in Asian markets. But if the industry gets in the way of new CAFE standards, you look like profiteers.

And if you support policies to promote efficiency in the transportation and electricity sectors, you will be job creators. According to a recent study, more efficient cars will add 150,000 jobs to the auto industry.

Similarly, according to an analysis by McKinsey & Company, capturing all cost-effective energy efficiency opportunities would lower our national energy bill by 1.2 trillion dollars and create nearly 1 million new jobs.

Think how many contractors we could put to work if we decided to make every home, office, and factory as efficient as possible. New York City is doing this right now: they expect to create 17,000 jobs.

Yet you read the papers. Sensible, consensus-based efforts to stop waste in our lighting, buildings, and vehicles are under attack. If this oil and gas is to truly help America, the industry must use its clout to help stop wasting it and help resist these rollback efforts.

Oil and Gas Extraction

Now let's shift from talking about how we USE this oil and gas to how we GET it.

We have arrived at an historic moment. Our country is debating our energy future. A century ago, the gusher at Spindletop offered the promise of a fundamental change in our energy mix. Many see shale gas and oil as offering another such change.

But today's excitement about oil and gas production comes in at a time not only of climate change, but also of ever increasing alternatives, from biofuels from waste and electric cars to wind farms and concentrated solar.

And these news finds come in the wake of a series of industry missteps—the Gulf of Mexico, Nigeria, Ecuador, and contaminated water and air in communities across America—that have cast a dim light on the industry for a generation of Americans.

Right now, many areas where oil and gas drilling expands become battle grounds. And the public backlash against irresponsible industry practices grows stronger.

Until the industry has an uncompromising reputation for doing it right, for admitting and correcting mistakes when they are made, for accepting oversight by impartial observers and being willing to be held accountable, for putting people ahead of profits, they will have a fight on their hands every time.

If you are here from the petroleum industry and remember only one thing from this talk, I hope it is this: It's up to you.

Grounds for Suspicion

Industry leaders may all think they have a pretty good track record in oil and gas extraction. They may say that the Deepwater Horizon, the Yellowstone and Kalamazoo River pipeline spills, and Dimock, Pennsylvania are aberrations. But that's not what America thinks. Consider this:

Is it unreasonable for the public to be suspicious when oil and gas drillers won't tell them what is in the fracking fluid? That only makes people assume companies are hiding something. "If it isn't poisonous, why won't you tell us?"

Is it unreasonable for citizens to worry when oil and gas extraction has an exemption from the Safe Drinking Water Act, and other crucial federal environmental laws that virtually no other industry enjoys?

Is it unreasonable for parents to worry when they see neighbors who become ill after nearby drilling operations commence, or when doctors order them to move away?

Is it unreasonable for communities to worry when states have to admit that they have only a few staff members, who often lack the training and expertise to oversee complex drilling operations, to monitor what could be thousands of new wells? And to be concerned when rural areas are transformed without their consent or any real debate into industrial areas with thousands of trucks, lights, noise, and dirty air and water?

And is it unreasonable for neighbors to be concerned when companies fight every effort to investigate complaints and compensate citizens for polluted air, destroyed property, or poisoned drinking water? Or when companies take advantage of impoverished areas and entice people to sign leases later viewed as unfair.

Or how about when damage is done and there is no money to compensate the injured parties? I imagine that most people here who work in the industry work with larger companies, but a lot of drilling is done by small outfits that have few assets to satisfy damage claims and even big companies often operate through small, poorly capitalized shells. Right now, bond and insurance requirements – where they exist – are simply not enough to ensure full satisfaction.

These worries are not the work of some anti-progress environmentalists. This is not the result of outside interference. What we are seeing is a groundswell of concern, coming up from the bottom and crossing political lines and ideologies. What industry really needs to hear is that it has lost the support of the people. It's not that the support was taken

from them; it's that their behavior has caused sensible normal people around the country to lose faith in them.

Even people who want to support the industry have lost faith. As one man from Bartonville, Texas said, "I'm not an activist, an alarmist, a Democrat, environmentalist or anything like that. I'm just a person who isn't able to manage the health of my family because of all this drilling."

Is this the reputation you want?

Resisting efforts to develop safeguards

And it is not only what IS happening, but also what is NOT happening that causes concern. Can you really blame people for being suspicious when every effort by civic leaders, government, or the environmental community to reach agreements with the industry to develop reasonable best practices that could offer confidence and faith in safe production of tight gas have stalled out?

For example, offers led by leaders such as former Senator Tim Wirth or the federal government to sit down and pull together safeguards that are reasonable from the industry's perspective and the citizens' perspective have lead nowhere.

Senator Wirth tried to appeal to common sense, and to the bottom line. He is a strong believer in natural gas. But he said that "instead of trying to suggest that the public concerns are not real, or are trivial and can be ignored," industry leaders need to come together around a reasonable code of conduct. Wirth also warned that the millions of dollars spent branding gas as a clean fuel "will go up in smoke if the industry resists

regulation and lets its worst performers define the fuel.” But nothing happened.

The Secretary of Energy’s subcommittee on shale gas, commissioned by the President himself, which John chaired, tried to do the same thing. The final report, released this November, was the product of six months’ engagement with stakeholders, and it presented consensus-based recommendations for industry and government. But so far these recommendations have led to no real action.

Every effort by government to develop adequate standards is limping ahead slowly, hampered by lack of funding and joint effort. Instead of trying to eliminate or eviscerate environmental agencies, if industry wants to move forward without constant battles, it should be doing whatever it can to help these efforts to a successful conclusion. Stop stalling them or trying to ram special treatment through Congress instead of engaging in honest debate.

Similar frustrations prompted me to resign from the National Petroleum Council recently. Secretary Chu invited me to join the council. I appreciated the opportunity to serve, and NRDC staff put a lot of time onto the process. The council’s recent report took small steps toward acknowledging the value of government oversight, but it offered few recommendations for how to overcome industry resistance to such oversight. Even more alarming was the council’s refusal to acknowledge the profound threat of climate change. In the end, it was yet another invitation to delay. And every month that goes by without adequate safeguards in place, the public’s confidence is further eroded.

Do It Right

Surely the oil and gas industry is capable of better. And if fossil fuel companies want to exploit new finds without public distrust and legal battles, they have to come to the table.

Hal Harvey, former president of the Energy Foundation and an astute observer of the field, said it well in a recent editorial in the Los Angeles Times. I'm sure you all saw it already. He said:

“On the face of it, natural gas looks terrific. The United States — and many other countries — have abundant domestic supplies. The cost, per delivered unit of energy, is about a third of that of oil. It is cheap and fast to build power plants fueled by natural gas. And when burned, it emits only half as much carbon as coal. So what's not to like?

“Well, [he continued] things are not so simple. Under the best conditions, we may enjoy those benefits, but under more adverse conditions, gas can be a worse generator of greenhouse gas than coal, can wreak massive local environmental destruction and can undermine energy efficiency and renewable energy. And without a strong set of policies to guide natural gas development, the worst case is far more likely.”

Hal laid out five rules for acceptable development of the natural gas:

1. Don't allow leaky systems
2. Use gas to phase out coal
3. Have sound well drilling and casing standards;
4. Don't pollute the landscape with contaminated water
5. And drill only where it is sensible—meaning not where it would harm communities or sensitive ecosystems.

These rules are quite similar to the rules NRDC and other groups have proposed for the responsible development of this resource in new areas.

They are guided by some basic principles: First, do no harm. Second, stay out of areas where the risks exceed the rewards and in any area, be responsible. Follow best practices, but also accept government oversight. Don't think you really can police yourself.

It's not just gas fracking. We see the same situation where doubts harden into resistance in the opposition to the Keystone XL pipeline, where Republican leaders in Nebraska joined NRDC and many others in saying no to a serious threat to clean water.

The fact is, despite the stalemate in Washington, people of all political persuasions, whether Democrats, Republicans or Tea Party members, care about safe drinking water and protecting their homes and land.

If Americans are going to allow drill pads into their communities, they have to trust that companies support and are following strict safety guidelines and are governed by enforceable laws. While industry watchdogs are a step forward, the reality is that the public knows that industry's job is to look out for industry and it is only the government that is there to protect them. We need qualified and empowered inspectors and investigators to ensure the rules are followed. Games need referees; our streets need cops; our risky operations need government oversight.

I would say to the industry that they still may be able to earn that trust. Recall, and try not to follow, the example of the nuclear industry which

thoroughly lost the public's confidence, leading to a stoppage of new building. But every day that goes by, it gets harder. And whatever climate benefits there may be in natural gas will be lost as every new well becomes a fight.

Conclusion

Let me end by saying that I think we can all agree on the type of world we hope to create for our children. One in which they can live healthy, prosperous lives. One in which they can visit and find solace in the natural world. One in which they can have a job that gives them dignity and a fair living.

I think we can all agree that if we want to build this future for our children, we have to stop wasting our resources today. We need to stop the carbon pollution and shift to clean energy that never runs out.

And we can also agree that, given political and economic realities today, we are not going to make this transition to renewable energy overnight. It will take time.

But the question is whether we are all working for this transition or slowing it down and obstructing it. Today I have laid out ideas for how the oil and gas industry could become partners in building a more secure and sustainable energy foundation for America. Now it is time for industry leaders to decide whether they will join in that endeavor or whether we'll leave the clean energy to others such as China or Germany and just fight here in the US about dirty energy. The choice is theirs.

Thank you.