

**AMERICAN PETROLEUM INSTITUTE (API)**

**BLOGGER CONFERENCE CALL**  
ON EXPLORATION AND PRODUCTION

**MODERATOR:**  
JANE VAN RYAN, API

**FEATURING:**  
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*Transcript by  
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*Bloggers on the call included Doug Lambert from Granite Grok, Joy McCann from Little Miss Attila, Bruce “McQ” McQuain from The QandO Blog, Gail Tverberg from The Oil Drum, Brian Westenhaus from New Energy and Fuel, and Pejman Yousefzadeh from RedState and A Chequer Board of Nights and Days.*

00:13 JANE VAN RYAN: So with all that, I think we can just open this discussion. Who would like to start? Don't be bashful.

00:19 DOUG LAMBERT: I have a question for – is it Dave Mica, M-I-C-A?

00:21 DAVE MICA: That's right. David, uh-huh.

00:22 MS. VAN RYAN: Oh, and by the way, please identify yourself when you ask a question. That will help us when we put the transcript together.

00:28 MR. LAMBERT: Okay. This is Doug from Granite Grok, and again, like the last time I did one of these, I will announce that I am just a blogger and I know nothing about oil or gas other than I am a consumer. That being said, one of the things that I hear in the news, as a news consumer, is that with the announcement of Senator McCain and others being in favor of offshore drilling – we keep hearing in the news that the reason that Governor Crist is so popular is because he is opposed to it in that Floridians oppose drilling off the coast.

Now, my parents live in Florida and I know a lot of their friends. And I am not aware of anybody who is in opposition to that. Do you have any real statistical polling data?

01:16 MR. MICA: Well, it – Doug, it has actually changed. As far as giving you specific polling data, there are polls out there that have shown an increased change significantly. And I will give you a perspective on it. This isn't as factual as you might like, but ever since 2004, when Florida took the direct hit from Hurricanes Charlie and stuff, we had some outages of no fuel available to Floridians. And consumers' attitudes, I believe having been around the industry for several decades now, began to change significantly. And consumers more and more have moved there. And then when they saw what happened in Katrina, and we took a category-five hit right at the heart of the industry, I think Floridians took notice of that. And I began to see even a change in public policy-makers' attitudes toward the idea of increased exploration and development near our coast.

And I think that that has continued and I think that Governor Crist, while he is very, very, very sensitive to Florida's environment, I think that he has seen that shift as well. I don't speak for him and don't know what led to his decision-making process. But I can tell you that attitudinal change from consumers and from organizations throughout the state has been a sea tide of change. Groups like the Florida Chamber of Commerce, the manufacturing group Associated Industries of Florida, consumer groups like the

Consumer Energy Alliance of Florida have approached us in recent years and their attitudes have not only changed, they have become supportive to great magnitudes in trying to get more increased access to exploration and production in Florida.

03:29 MR. LAMBERT: Now, what would be the – I guess, with the change of the federal government, is it something that could happen overnight? Or would there be a series of steps that would have to take place at the state level, as well, in order to see any type of drilling begin?

03:49 MR. MICA: I will start with the Florida perspective of what would have to take. Florida currently has laws in place that prohibit the exploration and development of oil and gas resources in state waters, which in the Gulf of Mexico go out about three leagues or 10 miles. And it would take a legislative change that would be required to happen. However, I had heard a lot of the rhetoric that has been spouted around in the last couple days that I disagree with personally with regards to what could happen if there was, in fact, a major change in some places. And that one place that might really be changed in quick order might be in a geological area south of Panama City about 30 miles called the Destin Dome, like the city, D-E-S-T-I-N D-O-M-E.

And Destin Dome has an interesting oil and gas history. Back in the '80s, that area was leased by the federal government, and Florida – and I am not partisan at all, I am not interested in partisan -- but I will mention that the governor and cabinet, Governor Bob Graham and the cabinet, authorized through the state's participation and their avenues. They had no problem with that moving forward at the time. They did happen to all be Democrats, but that is secondary. That happened and exploration took place down there. And the leaseholder spent over \$100 million looking for oil and gas 30 miles south of Panama City. And they made a very significant discovery. And I can't remember how they quantified the therms and cubic feet of natural gas that was discovered, but they proceeded to not only discover that, but to look at the expanse of that area and developed – had permitted wells all the way up to the point of getting to a production plan before the issue became politicized. And they ultimately had to sell those leases back to the federal government in the '90s.

However, some companies did not sell their leases back. And the only thing that is in the way of going back to those capped wells where we know the gas is, is a letter of agreement between the leaseholder, the state of Florida, and the Minerals Management Service that nothing would take place to 2012. Well, it is my understanding that those parties could change that just with another letter and you could begin to move forward. And that is not an area that would be a frontier area where the seismic information is old and we would need to do imaging and stuff. And it is not an area where we'd have to go through a lease sale and the cumbersome process of exploration.

It is an area where immediately – and I would suspect it in what you would term rather than long numbers of years, months. It might take more than a year or even two because, you know, those [well] walls are old now and might need to be retooled and redrilled and stuff. But I would say if you will in short order, those products could come

online and get into the pipeline system that supplies the United States and the state of Florida, perhaps out of Mobile Bay where it is likely, and was then proposed to be brought ashore to a processing facility. That is a little longwinded, but I think that that area would be a significant area.

And I should also note – you were talking about Floridians not being in favor – or being in favor that the *Panama City News Herald* on Saturday editorialized in favor of looking for and drilling for oil and gas in the Arctic National Wildlife Refuge and right off their coast there in Panama City, where some of our most treasured beaches are. And that is coastal newspaper. It is not just some –

08:34 JOY MCCANN: I'd like to piggyback on that. I have a question about how – and again, I am from the West Coast, so we have exactly the same problem in an area that is driven by tourism, and where tourism is an extremely valuable part of the economy. What are the recent advances in terms of making these – making some of these offshore drilling sites – and I know some of them are out of sight, but the ones that are within sightline of the beaches, how do we camouflage those? Do we have better technologies for making them look like islands? I mean, I know that back in the '70s, we would simply plant them up, so it would be an oil rig with some plants around it – (chuckles) – and some lights. What is the latest thinking about how to create these and make them look like islands and make them not eyesores?

09:32 RICHARD RANGER: Joy, this is Richard Ranger and I worked in Santa Barbara and in Long Beach, California, for Arco back in the '80s and '90s. I think your description sounds an awful lot like the so-called Long Beach THUMS Islands, the artificial islands that are in Long Beach Harbor that have palm trees --

09:52 MS. MCCANN: Got it.

09:53 MR. RANGER: Structures. And those are, of course, within hundreds of yards of the beach at Bluff Park there along Ocean Boulevard in Long Beach. And that design was actually worked out between the California State Lands Commission, the companies developing the field as agents or operators for State Lands and the city. At one point, Arco and a couple of other companies were looking at cladding platforms when Arco was considering and proposing a project in California state waters like Dave described. This would be the waters from the beach out, in California's case, three miles.

In the end, there is not much you can do because you are going to have a derrick. You are going to have facilities. It is going to look like an industrial operation. And we hired consultants, what the different forms of cladding, different materials you could put on the exterior. And at the end of the day, we weren't convinced that we had anything that looked any better than what Santa Barbarans now see with the handful of platforms that are still operating in Santa Barbara Channel. So that was 20 years ago. That project application actually was denied in 1985 – '87, I'm sorry.

So it is probably a question of first impression. It is important to note, though, that the legislation that is currently pending in Congress here is talking about drilling and development 25 miles offshore or more, if I am correct, really beyond the field of vision of people standing on the beach.

11:45 LISA FLAVIN: Joy, this is Lisa Flavin. One other point to note is that nowadays – as Richard noted, that was a couple years ago – nowadays, especially in an area like Florida and the Gulf, where this is proven technology, typically, companies would – could place the structure, the physical structure that is above the water, way beyond the sightline, and then have **tie backs to subsea** completion back closer to shore. So, you know, they could physically move the facility beyond the sightline. And we typically say, like, if you are standing on a beach that your sightline with the horizon, the curvature of the earth might be 12 to 15 miles.

So that doesn't seem unreasonable with the way that technology is nowadays from the industry – that could happen.

12:43 DOUG MORRIS: Yeah, this is Doug Morris. If there has been any technical improvements over the last 20 years, it has been with the subsea completions. I think that – especially the deepwater areas, it has made a lot of these leases economic and it has allowed them to be developed. So, you know, over the next 20 years, I think you are going to get a situation where a lot of this production equipment that is on the surface is probably going to be located on the sea bottom.

13:12 MS. MCCANN: Okay. I have one more question. It is even more frivolous than that. And that is that because of the surfing situation in Camarillo and Santa Barbara, I am wondering whether this is going to affect waves and the surfing industry. Do we know anything about that? I mean, I know it sounds really silly, but it is a big deal here in California.

13:24 MR. RANGER: Talking about having – this is Richard again. You are talking about the existence of structures affecting surf or surf breaks?

13:42 MS. MCCANN: Yeah, I know, I know. It sounds childish, but it is a big deal over here. (Chuckles.) In other words, is it going to affect wave patterns to the degree that that is going to affect the surfing industry?

00:13:57 MR. RANGER: I am not an oceanographer. I have worked with some, but the breaks and the swell patterns are really driven by large oceanographic events. And the fact that you are going to have something, which is really on an oceanic or even a regional coastal scale, very, very small is not likely to change how a surf break occurs. I would think that would be a very low concern. You have more effect by things you actually build sticking out from shore – jetties and such.

00:14:30 MS. MCCANN: All right. Thanks. That is what I thought. I just wanted to make sure.

00:14:34 BRUCE MCQUAIN: Yeah, this is Bruce McQuain. I have got a question or a couple questions. It was mentioned that state water is 10 miles out. We're talking about –

00:14:44 MR. MORRIS: That's in Florida.

00:14:47 MC. MCQUAIN: Yeah. Is that the same all up and down the coast? Or do states define their state waters differently?

00:14:53 MR. MORRIS: It is historical. Texas and Florida is 10. Louisiana is three. California, I believe is three.

00:14:59 ERIK MILITO: Everything else is three.

00:15:00 MR. MCQUAIN: Okay. Now, we are talking – we are also talking about outer continental shelf stuff, which I understand goes out in the U.S. waters 200 miles, is that correct?

00:15:10 MR. MORRIS: More than 200 in some areas.

00:15:13 MR. MCQUAIN: Okay. So when John McCain talks about letting states decide, is he talking about state waters or U.S. waters off of Florida, for instance?

00:15:24 MR. MILITO: This is Erik Milito. He has given states the option to allow them to lease in – to really opt into offshore leasing. He is giving them a say in something that has historically been totally regulated by the federal government.

00:15:43 MR. MCQUAIN: Okay. Now, on top of – let's just say – let's do a quick hypothetical here because end dates are important, I guess. It's costly here, but if ANWR were okayed today, it would take 10 years to bring anything online. If outer continental shelf drilling were okayed today, just ballpark, what are we talking about as far as time to get production online?

00:16:12 MR. MORRIS: Well, I think that depends on what areas you are talking about. Destin Dome obviously might be a little bit quicker. Some areas, you know, deep-water frontier areas might take seven to 10 years, but it is all going to depend on where the resource is located and how close the pipeline – how near it is to the pipelines and everything else.

00:16:37 MR. MCQUAIN: But again, we are probably looking at a decade, somewhere in that area for some of the stuff further out where you have to do all the work?

00:16:44 MR. RANGER: Essentially so. Bruce, this is Richard. Probably two of the big things I would like Andy or Lisa or Doug to come in on this as well is how

much geologic, geophysical knowledge is there, obviously, if you've explored an area or are in an area that has been explored more regularly like the Gulf, although the farther offshore you get, the deeper water you get, you have less. The Atlantic – what were some of the areas off the Atlantic coastal states or Pacific opened up for leasing. Then there would really need to be a new round of geophysical work done using contemporary technology. None has been done really in the present age of technology.

Similarly, probably the other key factor is availability of infrastructure. And again, in the Gulf, you are going to be some distance from existing pipelines and gathering systems. In the Atlantic, you don't have any, so you would have to get permits for that, design, engineer, and construct that. So that would explain why the farther you are from infrastructure, or the more frontier an area you are in, the longer it would take.

17:51 MR. MCQUAIN: Okay, good. That gives me a follow up then. Obviously, given the way we do what we do in the Gulf, a lot of that structure is there. And as you point out, like with the Destin Dome, that may come online fairly quickly. Tell me what you would consider in the offshore to be frontier. Just, you know, off North Carolina, that type thing. Where are we talking frontier?

18:17 MS. FLAVIN: Probably – this is Lisa – probably we are looking at the Atlantic coast. Years ago there were some exploratory wells drilled off North Carolina in a prospect they called Manteo, M-A-N-T-E-O. That was back in the '80s and early '90s. I am sure that data needs to be updated. It is definitely outdated not using 21<sup>st</sup> century technology, at least. Another frontier area would be the eastern Gulf of Mexico or area – I don't know, Dave, what is it, like 200-something miles from Tampa that, sort of that area that if you look at a map of all the leases in the western and central Gulf, you can just see lots of red dots where all the leases are. And then you sort of see a blank spot next to Florida. That is, sort of – we call that a frontier area and that is the eastern Gulf of Mexico.

19:16 MR. MICA: There has been some drilling in those waters, but it is old. Regretfully, mostly dry holes are not commercial quantities in a lot of those areas off of Florida. But again, the data is very old. You would want to update your seismic stuff.

19:33 MR. MCQUAIN: And what about the West Coast?

19:36 MR. MILITO: I think on the West Coast, anything not in the Santa Barbara Channel or not in the area from say, Huntington Beach to Palos Verdes, where there still are some platforms would be considered frontier at this point.

19:54 MR. MCQUAIN: Okay, thanks.

19:57 MR. MICA: This is Dave again. One of the things that would come into consideration with regards to trying to figure the timeframes to bring something online would be the level of interest associated with trying to get it done also. A great deal – a lot of those timeframes aren't just industry-created timeframes associated with equipment

and personnel and things like that. Many of them are regulatory with regards to permits and things like that. So depending on the size of the interest level, of the commitment of our nation, those could impact the timeframes, I think, considerably.

20:38 MR. MCQUAIN: Yeah, that makes sense.

20:40 MS. MCCANN: I'm looking at the – I'm sorry, this is Joy McCann again. I am looking at the map, and I am looking at the Gulf. And it seems to me that according to the figures I am seeing here, that is as potent a possibility as Alaska. How many – what is our largest political obstacle in terms of getting to some of that? I assume that all of the states involved from Texas, all the way to Florida have their own agendas. And that it is a little bit more complicated to try to get that going, but it looks like other than ANWR, that would be our best shot in terms of bringing more online quickly.

21:26 MR. MILITO: Joy, this is Erik. That is where we primarily are operating currently. Is your question getting at the area that is off limits in the Eastern Gulf or are you talking further out past where we are already developing? But right now that is essentially the only place outside the area in Alaska where our industry currently is allowed to operate. And we are producing tremendous quantities of oil and gas out there right now.

21:54 MS. MCCANN: Which is the larger obstacle? Federal restrictions or the states themselves, particularly over there on the eastern side of the Gulf?

22:04 MR. MILITO: Well, when there are restrictions in the OCS, they are put in place by the federal government, but a lot of times, they are driven by state interests. It is either Congress putting something under moratoria or the president putting it off limits for an executive order. And then – (inaudible) – off the Atlantic and Pacific coasts, but with regard to off the coast of Florida, there actually was congressional action taken a couple years ago with the Senate bill 3711 Gulf of Mexico Energy Security Act, which put some of that area off limits. So it would take Congress – and they have taken action to bring it back – make it available again.

22:48 MR. RANGER: And in the case of Alaska, very much the opposition is federal, not state. There is ample evidence to show that Alaska residents very, very strongly support additional development of Alaskan resources. And key sources of opposition come from places like Massachusetts and the Upper Hudson Valley.

23:10 MS. MCCANN: That was my understanding and that it was the other side of the country didn't want ANWR harvested in any way.

23:17 GAIL TVERBERG: This is Gail Tverberg. I was wondering – I – excuse me – emailed you earlier a link to an analysis done by the Energy Information Administration. And they are looking at just the lower 48 states and the outer continental shelf. And they come up with 18 billion barrels of crude oil supposedly being available,

which, you know, is a whole lot less than your 118 billion barrels. And then they point out that this really doesn't come out to much, even out 2030.

Could you kind of explain exactly how your numbers are different from what they are saying?

24:02 MS. VAN RYAN: You are looking at the 18 billion barrel figure that has been put out by EIA, is that correct? Andy, can you address that?

24:10 ANDY RADFORD: Yeah, that is the amount of oil that is off limits on the OCS lower 48. The 118 is the oil that is available on all federal land, so you see the difference there? The 118 billion barrels is all federal lands, onshore and offshore, lower 48 and Alaska. And then the 18 billion that they are talking about is just off limits on the OCS on the lower 48.

24:41 MR. RANGER: And so that sounds like – Gail, this is Richard, and it is good to be talking with you again after meeting you in Wamsutter.

24:48 MS. TVERBERG: Yeah, met out in Wyoming there, yes.

224:50 MR. RANGER: That is right. So that sounds like, well, gee, one response is what is industry's problem if you are quibbling over 18 billion when you have got this much, much larger resource? And then it is important to note that there has been no – functionally no contemporary exploration to help further delineate or update those resource estimates. And they do change with time. They do change with technology. They do change with activity.

It was in the mid-'80s, I think this is correct, Minerals Management Service's estimate for remaining resource potential in the Gulf of Mexico was 6 billion barrels, if I am not mistaken. And it has now been updated to many times that, and I am not looking at the – I have a horrible mind for numbers, as we joked out in Wyoming. Alaska is another example. When Prudhoe Bay was brought online, the expected resource of their reserve – actually reserve calculation was 9 billion barrels, then it shifted to 15 billion barrels. So what we are arguing – these are generally conservative resource estimates that are based partially on geologic projections and involve very little, if any, contemporary seismic data, and next to no drilling. So there seems to be plenty of opportunity for upside. And at least it would seem to be in America's interest to get a better handle on that information and ascertain the value of that resource to make more informed energy decisions.

26:30 MS. TVERBERG: I have a different question, too. One of the objections of people in the peak oil community to drilling usually has something to do with, quote, "saving" this oil for later. You know, we shouldn't drill now. We need to save it for later. If we don't drill now, it will always be there, blah, blah, blah. And what my response has been is right now we have people, we have drilling rigs, we have pipelines. It is going to take us 10 years probably to get the stuff even if we start now. If we wait

another 10 years, we are talking 20 years out. And I am not sure we are going to have people in drilling rigs and pipelines. I mean, there's a lot more chance of, you know, some kind of thing happening so that we don't have all those things in place and it would be really difficult to get the oil. Do you think that my reasoning makes sense?

27:30 MR. RANGER: It absolutely does, Gail. This is Richard again. Today's need is a consequence of our failure to pursue yesterday's long-term opportunity. We've got regimes in the world that are sitting on oil. You know, Saudi Arabia, Vladimir Putin's Russia. That's not an argument that I would feel comfortable making to a guy who operates a pest control business, who's got four vans to drive around and four and a quarter gasoline is, you know, hitting him on the bottom line. It's not an argument I'd like to make to the aviation industry when we're facing three or four airlines that could be going bankrupt.

So, you know, a rational energy policy involves providing for real needs today. You've got towns and communities around the country who are assessing their municipal budgets and wondering how many police patrols they can make because of the cost of fuel. So sitting on it is imprudent. What we need is the market to work. What we need is the opportunity to gain access to explore and produce. And chances are – we can't make any predictions on this, but chances are the marketplace would respond to that to some degree softening price.

28:45 MR. MORRIS: Let me jump on what Richard said. How can you have a rational energy policy without knowing what sort of resources you have? You know, besides just sitting on things and waiting to see what happens is not a good move. There's no end point to that.

29:00 MR. MILITO: And maybe Sara could talk about how, you know, this increasing demand worldwide is really putting us in a situation where you can't ignore supplies.

29:11 SARA BANASZAK: Yeah, well, I mean, we have forecasts for the world energy consumption to rise 55 percent over the next 25 years. So one of the – we're facing, this is different from 20 years ago when we faced a high oil price in early '81 or '79. At that time, the U.S. was the bulk of the world market for oil, but we are not now and we're going to face this competition as we go forward. So these resources that we can add to the supply pool put downward pressure on prices.

And as Richard was talking earlier, actually, technology is in our favor in terms of going out and understanding these resources. We found that we get more reserves added to every year from the technological expansion of what we get from the oil finds, so there is, you know, exactly what happened with crude oil development, as the technology advances, even more comes out of those known fields than we ever imagined was possible. So there's, you know, first a great need to understand what it is there and we should have confidence in the march of our technology and extracting more and more from the places where we are finding oil.

30:18 MR. MICA: I'm going to jump on, too. This is Dave in Florida. I live in a state where we just cut several billion dollars out of our budget just recently in the state legislature and our economy, you know, was really tooled along with tourism, it hit pretty hard. And most Americans, and I know most Floridians, don't realize that like on March 19<sup>th</sup>, the federal government had a couple of lease sales in the Gulf of Mexico off the coast of Florida, just a little further than we typically talk about right now. But they brought into the federal government on March the 20<sup>th</sup> \$3.7 billion and that's just in lease sale bonuses for the right to look for oil and gas.

And that's a huge economic impact to our federal treasury and those kinds of revenues from oil and gas represent the second largest amount of revenues behind the income tax to the federal treasury. And many states are enjoying those kind of revenues, too, as a result of the law that was changed in 2006 where there's a division of 37 ½ percent to states that have this going on off their coast. And I think that's real significant to one of the reasons as to why we should be doing this now.

31:40 MS. MCCANN: This is Joy McCann. I have one more little question to kind of piggyback on that. When we – when the states and the federal government permit and lease land for the purpose of exploration and then don't follow through by allowing this oil to be harvested, does that amount to a bait-and-switch and is this something that maybe the citizens of the state and those of us who pay federal taxes really need to know more about?

32:18 MR. MILITO: Yeah, this is Erik. The courts have actually come down with several decisions on this specific issue and found that when the government does that that they essentially breached a contract and have to pay back to the companies just compensation. So it essentially can be looked at as a bait-and-switch if you're looking at it from that context.

(Phone rings.)

32:50 MS. VAN RYAN: I'm going to insert a couple of questions here that come from yet another blogger and this is an issue we haven't discussed yet. One blogger sent me a question that basically says the big bugaboo about offshore drilling in the past has always been based around the environmental factor of oil spills from offshore rigs, can this issue be addressed? Do you all want to talk about oil spills and where the perception lies and where perhaps the reality lies?

33:18 MR. MORRIS : Well, let me just first state that, you know, I think we have a great environmental record in the offshore industry. There hasn't been a major oil spill in 25 years. I think that's the number from drilling and production operations. If you remember the hurricanes that we had several years ago, great devastation on the offshore industry, there weren't any significant oil spills. You know, we have better procedures, we have better equipment, and again, I think the industry's proud of its environmental record.

(Phone rings.)

33:58 MS. VAN RYAN: I have another question here that says, I have read, not sure where, that oil tankers present a much higher risk for oil spills, can we address this along with the first question?

34:09 MR. RANGER: Shipping generally presents a higher risk. And one of the ironies is that those who would restrict access to U.S. resources for crude oil in effect drive the answer toward bringing more oil here by tanker. Now, in the case of U.S. operations, they are pretty strictly regulated. The crews are very trained. There are regular ship casualty and oil spill drills, there are inspections by the Coast Guard. There's tremendous attention to preparedness for oil spills, particularly along the Pacific coastal states. I've worked in Alaska, California and the state of Washington. Each of them, from a state standpoint, bring their own vigilance to the table.

What can't be assured is the same level of preparedness and the same level of commitment on the part of international shipping. And most of the incidents that have occurred, that have made the news, have involved international shipping. Far less regulation, far less accountability, far less assurance. We've got some great operators out there that are as professional and as committed as any here in the U.S. And then you've got some where the officers speak one language and the enlisted men speak another, the ship's chartered in the Cape Verde Islands and, you know, money moves around in a walnut shells. So tankers, properly regulated, properly manned, using the procedures that we operate under here in the U.S., are quite safe. What we can't say is if that's the same around the world.

36:05 MS. FLAVIN : And to just add another point onto Richard's – I think one of the things that we get frustrated with as an industry because some of us have been offshore, and the first thing when you get off the helicopter and you land on one of these platforms is that you notice, the first thing they'll say to you is safety is number one. The second thing they'll talk to you about is, you know, nothing goes overboard, not even a hard hat, you know, we have to do all sorts of reporting even for just a tiny thing, so, you know, let's just not go there. The companies, the U.S. EPA and the federal agencies along with the state agencies here in this country regulate the industry and it really is one of the most regulated in the world as far as the number of regulations they follow offshore, so as far as the platform are concerned, it's a pretty well-regulated industry.

37:01 MR. RANGER: When I was permitting offshore drilling operations in Alaska in the early '90s, this is then, we were subject to stricter discharge standards because we were fixed facilities operating under EPA and the state of Alaska Department of Environmental Conservation regulations, we were operating under stricter discharge standards than the cruise ships.

37:31 MS. VAN RYAN: Do we have more questions?

37:33 PEJMAN YOUSEFZADEH: Yes, I have a question. This is Pejman Yousefzadeh. I actually have two questions. One, somewhat public relations based, and the other will actually have to do with further energy exploration policies. Jane was kind enough to send an email containing a link to frequently asked questions about the development of already granted leases for drilling and, as everybody is aware, there is a great hue and cry concerning the policy of removing the ban on offshore continental drilling by saying that the oil companies aren't doing enough to make use of the leases they currently have.

Now, Jane has provided some information on pushback. What efforts do all of you – and I'll just throw this out in general – do all of you think you're going to make on the public relations sector to try and point out that there are actually efforts to develop these leases and the issue of developing these leases is somewhat more controversial – somewhat more complicated than a lot of the critics seem to make it out to be?

39:03 MS. FLAVIN: I think – this is Lisa – I think it's going to be tough. I mean, the one thing we've discovered here is that, you know, we're sincere in trying to tell our story about why it takes so long to develop a lease. But I think the frustrating part is we don't have that quick sound bite that we can quickly tell you why and so it takes us maybe another three or four sentences. So, I think we do have a challenge in telling our story and it's frustrating for those in the industry, at least the people I speak with who, you know, work really hard on making sure that their companies are getting every dollar worth of the time and energy they're spending on exploring those leases. So, you know, I think it is an uphill battle for us, somewhat, for the next couple weeks.

39:56 MR. MILITO: This is Erik. I don't mean to be splitting hairs, but we don't look at this as P.R. We look at it as necessary education because a lot of people are obviously ignorant of how our industry actually works and what we have to do is educate the policymakers and the public on what actually happens. And with an issue such as offshore lease inventories, it's complicated. It's not – you just can't tell somebody in a five-word phrase why it happens. You have to really get into nuts and bolts of how our industry works. I can leave that to the rest of the folks here, but it's complicated, it takes time and there's a lot that goes into it. And our companies are in the business of supplying energy and they do exactly that. So it's hard to accuse an industry that is doing that mission and carrying it out in a responsible way, of not doing it. I'll turn it over to the other guys, but it's about education.

40:50 MR. RANGER: Pejman, let me take a whack at that. This is Richard Ranger. As Erik points out, companies in the industry are in the business of producing oil and natural gas and their products for profit. Something that Dave pointed out earlier in the conversation, the companies bid on these leases, they lay down risk capital often, and in many cases, offshore in the tens of millions of dollars. Their share – there's every expectation in the marketplace, every expectation from their shareholders that when they're putting that capital down front-end and then they're continuing to invest new capital at risk in the seismic work which can cost a couple hundred grand a day for offshore seismic program, it can take several months.

Drilling operations, which in the Gulf deep water, can exceed, \$100 (million), \$200 (million), \$300 million of wealth. There's every expectation that at the earliest possible point, those capital dollars invested at risk generate revenues. And that's even more the case for the independent sector of the oil and gas industry and a lot of the integrated majors are API members. But particularly out west where Gail has been, the independents are responsible for drilling some 80 percent of the wells that are drilled out there. And a lot of them are funded by venture capital. So if anyone who knows anything about the expectations of the contemporary marketplace in every other line of business, there is that expectation that you turn investment into returns as quickly as possible. So the idea that companies are sitting on these leases is simply a basket of red herring.

42:34 MR. YOUSEFZADEH: I'm sure it is. I don't intend to imply that I believe that you're just sitting on these leases. My point is that it's being used as a talking point against the current proposals to drill on the outer continental shelf. I can relate to the group a BBC interview that my RedState colleague, Ben Domenech, was involved in which aired I believe last night – or at the very least he sent the audio link out last night to us. And he was paired up against a person from the Center for American Progress who very blithely went on and said the oil companies aren't making use of these leases, they somehow find it more profitable for the oil to remain in the ground, presumably saying that if you restrict supply and the price increases, well, then the coffers of these oil companies increase.

You've explained why that's not the case and I not only accept your explanation, I believed it from the beginning before you said anything. The point of my question was simply to say that a public education campaign is needed.

Just quickly onto my second question, because I don't want to monopolize time. What about proposals concerning drilling for oil shale and other such drilling that we haven't talked about? I know that the oil shale issue has received some attention and that potentially the yield there is higher than it is drilling offshore. Anyone who wants to address that, I'd be delighted to hear it.

44:30 MR. RADFORD: This is Andy Radford. The oil shale technology is still in its infancy. We're still figuring out how to effectively get the oil to be released from the oil shales. We have a number of pilot projects online in the Western states now. And the Bureau of Land Management has begun the process of determining the environmental impact statement that's needed to begin leasing in that area. But that, too, is under moratorium by some senators from Colorado, I believe, have placed some holds on that and are not allowing the lease sale or the leasing process or pre-leasing activities to go forward.

So the – but in order to advance that technology, we're going to need to get out there and do some more R&D work and things like that, so until that moratorium is lifted,

we can't get out there and improve and perfect that technology that we need to get that oil out of the ground.

45:37 MS. TVERBERG: Well, aren't there – this is Gail again – aren't there also some water issues, at least with most of the technologies that are being used for oil shale or looked at right now – that it takes a lot of water in a very arid area?

45:52 MR. RADFORD: That is one of the concerns that we – or one of the things we're trying to overcome, and then some of the newer methods – extraction methods are using different methods that minimize the use of water.

46:06 MS. TVERBERG: Thank you.

46:09 MS. MCCANN: This is Joy McCann. I have a quick question on that.

I'm looking again at your map, and when it says "lower 48 on-shore, 12 billion barrels," I'm assuming that that is primarily from the shale in Utah, Wyoming, Colorado.

46:25 MR. RADFORD: That map you're looking at, I think, is just conventional oil resources; not what we – oil shale would be considered an unconventional resource at this time. That is conventional, technically recoverable oil undiscovered at this time.

46:44 MS. MCCANN: Okay. And where would that be concentrated – when we're talking about the continental United States?

46:51 MR. RANGER: Continental United States? Joy, different basins – obviously you may have heard a lot about the Bakken shale in North Dakota, which by the way is a different – quite different in its makeup and structure than the oil shale; the key difference being Bakken shale has very tiny grains, very tiny spaces between the grains where oil flows if you can stimulate the reservoir, whereas the oil shale shale in Colorado, that – you've got to apply heat to extract the hydrocarbons there. They're very different.

Anyway, there is thought to be oil potential remaining in the mid-continent areas – Arkansas, parts of Texas. There is thought to be some additional oil potential in New Mexico, thought to be some in Montana. Generally speaking, though, the Mountain West in particular is considered more prospective for natural gas, and of course, we're huge consumers of natural gas, as well, so that is an equally valuable resource.

48:01 MR. MORRIS: But that map you are looking at – I think it's just federal lands.

48:04 MR. RANGER: Yes.

48:07 MS. MCCANN: I understand this is probably a little bit simplified. I just wanted to – (inaudible, static) – and speaking of natural gas, by the way, is – I'm just

wondering whether that is something that we need to look at in terms of using it for transportation needs or whether it is so useful right now or just in the uses that we're putting it to at this point. I don't know whether that's something that we need to be looking for – looking at in terms of transport. Does someone have an idea whether that's an efficient avenue?

48:46 MR. MICA: I've got a comment from Florida's perspective. I use this a lot.

According to our Florida Public Service Commission here in the state, currently every day we make about 33 percent of our electricity from natural gas, and just in seven years, in 2014, we're going to be making about 45 percent of our electricity from natural gas. And that growth is – the Public Service Commission says that, that is no matter what we do. And they said that prior to several planned final-phase permitting electric utility plants that were going to be coal that were scrapped by public policy in the state. So the number and the percentage will be even larger, and in my mind, we're going to need an awful lot of natural gas in the state of Florida for our needs for traditional cooling and heating, first and foremost, before we begin any conversation about transportation usage.

50:00 MS. BANASZAK: Joy, this is Sara. To talk a little bit more about the use of natural gas in the transportation sector. One reason why you don't see it more already is that these technologies aren't as competitive for the consumer as oil or liquid petroleum technologies. So I mean the reason we are so dependent on oil for – in our transportation sector is that it happens to be an incredibly efficient way to transport BTUs around so that you can move independently.

You do see natural gas used in transportation, used in buses here in the United States, usually in compressed natural gas, sometimes – (inaudible) – natural gas, and you see that overseas, but on a wide-scale market basis it's not as competitive as oil as a technology.

50:46 MS. MCCANN: Right. Unless they develop electricity, then that obviously means that we can get it through – from any number of sources once we get hybrids and electric cars a little bit more sophisticated, so that makes sense.

51:05 MS. BANASZAK: I think one approach that we take to what technologies work in the future is to let all technologies go in through, you know, development because the marketplace is going to figure out which one is most competitive and works best for the consumer because if I have a technology that is great but costs more, the guy next door is going to – he's got the technology that costs less, then he's going to come forward.

So, I mean, rather than try and produce mandated solutions, it's great when you let the market – you know, everyone research these alternative technologies. Our future

may have a whole suite of technologies – you know, just instead of one. We don't know, we're still waiting for this research to continue.

51:46 MS. MCCANN: Jane, I don't know how we're doing for time. This is Joy; I have one more question, and that has to do with whether the different formulations we use for petroleum products in the different regions and states – to what degree is that hurting us in terms of domestic distribution?

52:09 MS. BANASZAK: Well, certainly it makes it really difficult on the supply side because you can't – you know, it would be great if we could produce just one product for your automobile and know that it worked in every single market in the United States, but refiners are being called upon to produce a variety of different products that go into a variety of different markets, so definitely, you know, the more you're driven by different fuel requirements, it becomes a more complex problem from the supply side.

52:41 MR. LAMBERT: This is Doug again from Granite Grok. Just – maybe this is a little off-base, but one of the things in my interactions with people here locally is we discuss nuclear power. We have Seabrook Station right here in our state and, at one time, it was the cause of us having some of the highest electric rates in the country. And now I'm hearing, albeit not by very many sources, that we're paying among the lowest prices for electricity in the country because of Seabrook.

Now, as an industry, I'm wondering how you view this notion. This is what I say to people, being in the power-plant industry and my regular line of work, that if we were able to construct more nuclear plants and stop burning oil to generate electricity, that the resultant savings of usage in a large scale would be directly reflected to us in our homes, in automobiles for having more supply left over for that. Am I all wet when I say something like that?

53:52 MS. BANASZAK: Well, I wouldn't say you're all wet, but we do use very little oil for power generation in this country, extremely little. Countries that did use oil for power generation have also sought to move away from that. I mean, there was a period of time when China and Japan were even directly burning crude oil to generate power, but it quickly became expensive for them long ago. They've long ago almost reduced their own oil burning for power generation down to much more marginal amounts.

So you see in developing countries where the power sector is unreliable a little bit more reliance on distillate fuels. But that's just, I think, a stage of development to the extent that we can help, you know, a country's gained access to secure reliable power. There are generally immediately motivated to move away from oil.

54:46 MR. MORRIS: So when we talk about bringing nuclear power plants on-line, it's more adding to capacity and perhaps replacing, I guess, from an environmental point of view, then, would be the greatest benefit?

55:01 MR. MILITO: Well, API's position is in the future, because of the increase in global demand for all forms of energy, that we need all forms of energy in order to address all of our energy needs. And nuclear is part of the equation. We're obviously not representative of the nuclear industry here, so it's probably best talking to folks in that industry, but we do need all supplies going into the future.

00:55:22 MS. VAN RYAN: I think that's probably the line that we'll stop with at this point. Everybody here has to run and has another meeting they have to get to. The bottom line is, we do agree that we need all forms of energy, whatever they may be. We need all of the hydrocarbons, all of the molecules, everything we can get.

If you have any other questions, please feel free to send them to me by email – I'll try to get back to you as quickly as I can. And thank you so much. I'll also be sending you links to the audio recording and to the transcript. Keep in touch, everybody. Thank you for joining us.

(Chorus of "Thank you.")

(END)