

MINUTES
JOINT INTERIM COMMITTEE ON ENERGY
State Capitol, Room 149, Little Rock, Arkansas
Thursday, May 17, 2012

The Joint Interim Committee on Energy met Thursday, May 17, 2012, at 3:00 P.M. in Room 149 of the State Capitol in Little Rock, Arkansas.

Committee members present: Senators Kim Hendren, Co-Chair; and Randy Laverty; Representatives Tiffany Rogers, Co-Chair; David Branscum, Vice-Chair; Jerry R. Brown, Jane English, David Fielding, and Charolette Wagner.

Alternate members present: Representatives Linda Collins-Smith, Kim Hammer, Andrea Lea, Loy Mauch, and Walls McCrary.

Also attending: Representatives Nate Bell and Kelley Linck.

Representative Rogers presided.

CANADA'S ROLE IN NORTH AMERICAN ENERGY SECURITY (HANDOUT 1);
[EXHIBITS E.1 & E.2]

The Honorable Paula Caldwell St-Onge, Consul General of Canada, presented a PowerPoint entitled, "Canada: A Global Energy Leader and Canada-U.S. Energy Relations" [ATTACHMENT 1]. Ms. St-Onge said Canada and the U.S. have the largest bilateral trading relationship in the world. The U.S. exports \$338 billion in goods to Canada; Canada exports \$370 billion in goods to the U.S. Canada is the U.S.'s largest and most secure energy supplier. Natural gas from the country represents about 14% of the total U.S. consumption. Ms. St-Onge said emerging natural gas shale plays in the U.S. would displace that amount, so Canada is diversifying its natural gas market. She noted the country has vast energy endowments and intends to exploit its resources while taking environmental laws, regulations, and respect for communities into consideration. There are three proposed liquid natural gas export projects in Kitimat, British Columbia; and Canada intends to export more natural gas to Asia.

Of Canada's 34 million people, 90% live on the U.S./Canadian border. Energy needs are higher in that area, so Canada integrates its electricity grid in terms of population. The country depends on the electricity trade, mostly hydroelectricity. Canadians consider hydroelectricity a renewable resource and call their energy mix the cleanest in the world. Coal generates 45% of the electricity produced in the U.S.; hydroelectric power produces 6.9%. Canada's cogeneration power plants use coal to generate 18% of their electricity, dramatically reducing their dependency on coal; hydroelectric power generates 57%. In Ontario, coal plants are closing and developers are restarting nuclear power plants, but some provinces are not accepting nuclear power. Ms. St-Onge noted that Canada provides 22% of the uranium used in U.S. nuclear power plants.

With 174 billion barrels, including 169 billion barrels in the oil sands, Canada has the third largest oil reserve in the world. People often refer to the Canadian "oil sands" as "tar sands," but "oil sands" is the correct term. Only 20% of the world's oil reserves are open to the private sector. Canadian oil sands represent 55% of that 20%. She said the remaining 80% is restricted and governments that do not have North America's best interest at heart are the primary owners. Forecasters predict that crude oil production in Canada will increase to 3 million barrels per day (bpd), and the Atlantic Canada Offshore Project will increase that amount to 4 million bpd by the end of the decade. Trucks and rails transport most of the oil from Canada to the U.S. She noted from the environmental and safety perspectives, pipelines are safer, and Canada hopes to build more. The Keystone Pipeline would replace oil imported to the U.S. and Canada from Venezuela.

Integrated companies are important components of the Canada/U.S. trade market, and Spectra Energy is one of the largest natural gas transmission companies in North America. It is 50% Canadian-owned, 50% U.S.-owned. Canadian-based Enbridge Inc. (Enbridge), and Houston-based Enterprise Products Partners, LP (Enterprise),

recently became partners and purchased the Seaway Pipeline. It originally carried oil from Port Arthur, Texas to Cushing, Oklahoma; but Enbridge and Enterprise reversed the flow, and now it carries oil from Cushing to Port Arthur. The companies anticipate approval of another project, the Wrangler Pipeline, which will closely follow the same route. TransCanada applied for a permit to build a pipeline from Cushing to Port Arthur and expect it to be on stream by the end of 2012. The companies intend to relieve the oil glut in Cushing and make the regional oil cheaper.

Ms. St-Onge said companies need regulatory environmental enforcement to demonstrate they can mine and drill resources in the safest possible manner. Open pit mines constitute 20% of Canada's oil reserves; the country is addressing and dealing with environmental issues associated with them. Oil sands contribute about 6.5% of Canada's greenhouse gas (GHG) emissions, equaling about 0.1% of global GHG emissions. Canadian companies that emit large amounts of GHGs recently agreed to an emissions cap. Emitters must meet a reduction target, acquire approved assets, or pay \$15/GHG ton into the Climate Change Initiative (CCI) Fund. The fund's board of directors seeks proposals and awards grants funding environmental research projects. The fund has \$168 million, and the board has awarded four grants. Ms. St-Onge noted that companies consider the CCI a tax on doing business, similar to a cap-and-trade agreement.

In response to a refinery question by Representative Hammer, Ms. St-Onge said there are not many in Canada, because Canadian companies choose to use U.S. refineries. Oil is more volatile in the refined form, so it is easier and safer to ship it in the bitumen form.

Hydraulic fracturing, also known as "fracking", is a 40-year-old technique that still has some unknown factors. Ms. St-Onge noted it is important for companies that use this to be transparent and say they do not have all the answers about the process. Nova Scotia banned the process, but she mentioned fracking is usually very safe. On its website, the Interstate Oil & Gas Compact Commission in Oklahoma City lists every chemical injected into the ground during the fracking process.

There is very little interest in encouraging compressed natural gas (CNG)-fueled private vehicles in Canada. A sparse population creates far distances, which makes private CNG-fueled vehicles unfeasible. She noted that some Canadian cities use CNG for the public transportation/fleet sector.

In response to a question by Representative Hammer, Ms. St. Onge said Canada is working to increase U.S. imports in the areas of agriculture, auto machining parts, and oil and gas equipment. He said Saint-Gobaine is a Bauxite and Fort Smith company that makes products for backfilling natural gas wells. He invited her to visit the Bauxite plant.

CONSIDERATION TO APPROVE APRIL 19, 2012, MEETING MINUTES

[EXHIBIT D]

Senator Lavery made the motion to approve the April 19, 2012, meeting minutes. Representative Branscum seconded the motion, and the motion carried.

With no further business, the meeting adjourned at 4:05 p.m.