THE AMERICAN ENERGY INITIATIVE, PART 8: DISCUSSION DRAFT OF H.R. ————, THE NORTH AMERICAN MADE ENERGY SECURITY ACT OF 2011

HEARING

BEFORE THE

SUBCOMMITTEE ON ENERGY AND POWER

OF THE

COMMITTEE ON ENERGY AND COMMERCE

HOUSE OF REPRESENTATIVES

ONE HUNDRED TWELFTH CONGRESS

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C O N T E N T S

WITNESSES

SUBMITTED MATERIAL

[1] Mr. Thompson was unable to attend the hearing.

THE AMERICAN ENERGY INITIATIVE, PART 8: DISCUSSION DRAFT OF H.R. ————————, THE NORTH AMERICAN MADE ENERGY SECURITY ACT OF 2011

MONDAY, MAY 23, 2011

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON ENERGY AND POWER,
COMMITTEE ON ENERGY AND COMMERCE,
Washington, DC.

The subcommittee met, pursuant to call, at 3:09 p.m., in room 2123, Rayburn House Office Building, Hon. Ed Whitfield (chairman of the subcommittee) presiding.

Present: Representatives Whitfield, Walden, Terry, Scalise, McKinley, Gardner, Rush, Green, and Waxman (ex officio).

Staff Present: Michael Beckerman, Deputy Staff Director; Jim Barnette, General Counsel; Mike Bloomquist, Deputy General Counsel; Dave McCarthy, Chief Counsel, Environment/Economy; Maryam Brown, Chief Counsel, Energy and Power; Ben Lieberman, Counsel, Energy and Power; Jeff Mortier, Professional Staff Member; Charlotte Baker, Press Secretary; Andrew Powaleny, Press Assistant; Sean Bonyun, Deputy Communications Director; Allison Busbee, Legislative Clerk; Anita Bradley, Senior Policy Advisor to Chairman Emeritus; Cory Hicks, Policy Coordinator, Energy and Power; Ray Baum, Senior Policy Advisor/Director of Coalitions; Aaron Cutler, Deputy Policy Director; Garrett Golding, Professional Staff Member, Energy; Carly McWilliams, Legislative Clerk; Alexandra Teitz, Minority Senior Counsel, Environment and Energy; Greg Dotson, Minority Energy and Environment Staff Director; Caitlin Haberman, Minority Policy Analyst.

OPENING STATEMENT OF HON. ED WHITFIELD, A REPRESENTATIVE IN CONGRESS FROM THE COMMONWEALTH OF KENTUCKY

Mr. WHITFIELD. I would like to call this hearing to order. This is the American Energy Initiative hearing, and we have had eight hearings on the subject of the American Energy Initiative. We have examined many of the challenges and opportunities confronting America's producers and consumers of energy. I want to thank all of our witnesses today. We look forward to your testimony.

There is not any question that we have many issues facing our country, and none more important than energy, both on the transportation side and the production of electricity side, because the cost of energy goes a long way in determining how competitive we

are in the global marketplace and creating jobs in America, these jobs are being created in other countries.

The Obama administration, and particularly President Obama, has done a tremendous job when he is out there speaking about how he wants to support energy. He talks about speeding up the permit process; he talks about more drilling; he talks about the impact of regulations on jobs. And all of us agree with his statements, but the reality is that his administration, the Department, seem to be taking the exact opposite tact of what he is talking about. For example, there has been an air permit related to drilling off the coast of Alaska, it has been sitting there for 5 or 6 years and has not been issued yet.

More and more regulations are coming out being proposed by EPA relating to coal, for example, the utility MACT, which is going to cost an additional $10 billion a year to produce energy. And that does not include the air transport rule which would raise it up to $14 billion a year. So it is one thing to say you want to produce more energy, it is something else when your administration is taking the exact opposite tact. And that is certainly true in the subject of our hearing today, which is the discussion draft of the North American Made Energy Security Act of 2011 which has been introduced by Mr. Lee Terry. That application to obtain a presidential permit was applied for over 3 years ago, and we are still waiting on it. So at this time I am going to recognize the gentleman, Mr. Terry, to talk about his legislation.

[The prepared statement of Mr. Whitfield follows:]

Opening Statement of the Honorable Ed Whitfield

"The American Energy Initiative – Day 8"

Subcommittee on Energy and Power

May 23, 2011

Today is the eighth day in our American Energy Initiative hearing. Over the past several weeks, we have examined many challenges and opportunities confronting America's producers and consumers of energy.

Recent world events have demonstrated how sensitive the price of oil – and by extension the price of gasoline – is to political upheaval in countries thousands of miles from our shores. This was in fact another hearing topic in January of this year. Our economy is vulnerable to these price and supply shocks without increased production from safe and secure regions of the world.

Through our survey of energy issues the past few months, a common thread has emerged in the vast resource potential the North American continent holds. A great example of this is the Athabasca oil sands of northern Alberta, where up to 1.7 trillion barrels of oil in place are estimated to reside.

While conventional oil reserves have declined significantly over the past two decades, advancements in oil sands production technology have allowed Canada's producers to steadily increase production to levels never thought possible.

The United States has greatly benefitted from this development. While the phrase "foreign oil" might sound pejorative to many, foreign oil from Canada is foreign oil we can gladly continue accepting. Our two countries have shared economic and national security interests. We enjoy a highly valuable trading relationship. And with political turmoil in the Middle East and North Africa sending oil markets into panic, we should be thankful a stable and friendly country with which we share a border is continuing to produce oil at higher and higher rates.

Current pipeline capacity will simply not allow for the projected increases in oil sands production. To help maximize this resource's potential, TransCanada has proposed building a massive extension of its Keystone pipeline system to bring 700,000 additional barrels of oil per day into American refineries. Once the Keystone XL expansion is completed, over 1.29 million barrels of North American oil will pass through the Keystone system every day.

According to the U.S. Department of Energy, this pipeline will "essentially eliminate" our Middle East oil imports. An independent analysis by the Perryman Group, a consulting firm in Texas, estimates upwards of 20,000 jobs will be created in the construction of the pipeline alone. Keystone XL should be one of the many obvious energy solutions that will decrease imports

from dangerous parts of the world, lower the price of gasoline, and create jobs here in the U.S. But the Obama administration has made this solution increasingly difficult to achieve.

TransCanada first applied for the Presidential Permit required to construct its pipeline nearly three years ago. It has since endured a convoluted and extended process with the State Department that has provided little certainty for the future of this project. In a time of oil hovering at $100 due to geopolitical unrest, high unemployment, and $4 gasoline, a pipeline that can eliminate our Middle East imports and create tens of thousands of jobs should be a top priority for any administration. Unfortunately this has not been the case.

The essential nature of the Keystone XL pipeline cannot be more clear. In order to make sure the Obama administration sees it that way as well, a discussion draft circulated by our colleague from Nebraska, Lee Terry, is the topic of today's hearing.

With that, I yield the balance of my time to Mr. Terry to further describe his legislation.

OPENING STATEMENT OF HON. LEE TERRY, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEBRASKA

Mr. TERRY. Well, thank you, Mr. Chairman. I appreciate your assistance and counsel on the North American Made Energy Security Act. Simply stated, this Act is to put a time date on the administration to accomplish its review and issue their order. As you mentioned, it has been with the State Department for 3 years, there has been an environmental impact study, and at the request of many Nebraskans, request for a second one that has been completed and sent to the State Department.

So at this point in time, we think all of the information has already been provided to the appropriate parties. And its time that we have a decision. So the North American Made Energy Security Act, or NAMES, simply sets the date of November 1st for the administration for the President, by Presidential executive order, to issue his yes or no approval of this pipeline. Once he signs that, then the legal parameters fall in place for each State to have to deal with, including the my State of Nebraska. So this is rather a simple bill, that just says let's move on with this.

Now the impact of this is important to the United States. Obviously, the oil sands are an important product for our independence from OPEC oil, it is a major source of fuel for us. So the issue is to get those oil sands to refineries across the Nation. The small independent ones in the Midwest, whether it is Kansas, Oklahoma or the bigger ones in southern Texas, which is the end of this pipeline, that will help our constituents when they go to the pump if we have more of that source and refined here domestically. It will create jobs in every State it goes through, including Nebraska, good, high paying union jobs.

So I want to thank the chairman for assisting and counseling. I want to thank Mr. Ross and Mr. Green for making this a bipartisan bill, and the others on this committee that have joined me in this process. And by the way, Mr. Chairman, we will file this bill when we go vote this afternoon. I yield back.

Mr. WHITFIELD. I thank you, Mr. Terry. At this time I recognize the gentleman from Illinois, Mr. Rush, for 5 minutes, opening statement.

OPENING STATEMENT OF HON. BOBBY L. RUSH, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ILLINOIS

Mr. RUSH. I want to thank you, Mr. Chairman. And I want to thank all of our guests for being here today. Today we are holding a hearing on the North American Made Energy Security Act of 2011, which would require the Secretary of Energy to coordinate all of the Federal agencies in charge of issuing a final decision on the Keystone XL pipeline in an expeditious manner.

On the surface, this proposal seems reasonable enough, requiring the Obama administration to quickly come to a decision on whether it would grant approval for the Keystone XL pipeline, which would bring additional Canadian crude oil into U.S. Markets and help replace the supply of oil that we import from the Middle East and from other overseas countries.

If this issue was really that simple, then it wouldn't take an act of Congress, Mr. Chairman, to make it happen. And we wouldn't

be here today holding a hearing on this bill in this committee at this time.

Mr. Chairman, today our whole judgment on whether or not I can support this bill because there are some important issues that deserve greater examination, and I am pleased that we are holding this hearing in order to bring some of these issues to light.

This bill would force the administration to issue the presidential permit for the pipeline within 30 days of the final environmental impact statement, and no later than November 1st, 2011. This arbitrary time line will reduce the allotted time that Federal agents will have to determine the national interests in deciding this proposal by almost two-thirds, while also reducing or eliminating the 30-day public comment period. And I, for one, have some very serious concerns about this. I believe public input is a vital and necessary part of the determination process, especially for local communities that were mostly affected by the decision to move forward. I also look forward to learning more about the environmental impact of importing crude oil from western Canadian oil sands and how this would affect greenhouse gas emissions.

However, Mr. Chairman, my biggest concern I have today is what type of impact this pipeline will have on oil prices for my very own constituents in Chicago, in Illinois, and in the Midwest in general. According to the AAA's fuel gauge report, Mr. Chairman, in Chicago, we are already paying the highest average gas prices in the Nation at $4.37, which is well above the national average.

Mr. Chairman, I might add that yesterday I filled the tank up and it was 5.15 that I had to pay. I have here APR dated January 25th, when TransCanada Corporation responsible for the Keystone pipeline stated they expected oil prices in the Midwest to rise if this pipeline is approved. In fact, I also have part of the TransCanada assessment, as well as the transcript before the Canadian Energy Board, the NEB, in which TransCanada testified that the Keystone pipeline would drive up the price of crude for many Midwestern States, including Illinois, Indiana, Iowa, Kansas, Kentucky, Michigan, Minnesota, Missouri, Nebraska, the Dakotas, Ohio, Oklahoma, Tennessee and Wisconsin.

TransCanada representatives are on the record saying that Keystone XL would address what they term an oversupply midwest market, which they believe has resulted in price discounting for Canadian heavy crude oil. Building this pipeline would divert supply from the Midwest to the Gulf Coast. And I quote, Mr. Chairman, the resulting increase in the price of heavy crude is estimated to provide an increase and annual revenue to the Canadian-producing industry in 2013 of 2 billion to 3.9 billion U.S. dollars.

Now, Mr. Chairman, as fond as I am of our friends in the north, I would much rather keep that 2 to 3.9 billion dollars in the pockets of our constituents in the Midwest rather than giving it to our close friends, our deeply held friends in Canada. I look forward to this hearing, Mr. Chairman, and I yield back the balance of my time.

Mr. WHITFIELD. Thank you. Mr. Upton is not here this afternoon. Is there any one on our side that would like to claim his 5 minutes? I recognize the gentleman from Oregon, Mr. Walden.

OPENING STATEMENT OF HON. GREG WALDEN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF OREGON

Mr. WALDEN. Thank you very much, Mr. Chairman. I can take a minute or 2 here of the time just to say, look, we have got a heck of a problem in this country with access to enough affordable oil and gas. And it seems it me that if we can build the trans Alaska pipeline in a matter of a couple of years as a result of an act of Congress to expedite its construction, and produce and bring to the lower 48 through Valdez, incredible amounts of oil, we should be doing this as well working with our best trading partner in the world, Canada, to get this done. It would create jobs in the United States Canada. It will bring 700,000 barrels per day of crude oil to the United States. For the life of me, I can't understand how adding to supply by some economist drives up cost. I always thought it was the other way around. You add supply and you drive down cost. I still am a firm believer in that value of economics.

And so, if we are going to ever get more energy independent in the United States for a transportation fleet, while we worked on other forms of energy for transportation, we still need more oil and gas. We still need the ability to access America's great reserves and those of our neighbors, and do so in the most efficient way possible, that is why I support this legislation because I think this will help out.

With that, Mr. Chairman, I don't know if there are others on our side that I could yield to. Mr. Scalise, for as much time as he may consume.

OPENING STATEMENT OF HON. STEVE SCALISE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Mr. SCALISE. Mr. Chairman, I appreciate the ability for us to hear the testimony from our panelists. I am looking forward to hearing it. I know as we have been promoting ideas to lower gas prices and create jobs, the sad reality is it is this administration's policies that have been running thousands of energy jobs out of our country and leading to dramatically higher prices for energy. It was the President himself who said just 2 years ago that he would prefer a gradual adjustment to near $4-a-gallon gasoline. That was the President's comments. I am sad to say the President has gotten his wish, because we are near or at $4-a-gallon gasoline.

It was his own Energy Secretary who sat before our committee just a couple weeks ago, couldn't even articulate an answer to Congressman Gardner's question about what is the President's plan to lower gas prices. The Secretary of Energy. The President's Secretary said somehow we have to figure out how to boost the price of gasoline to the levels in Europe. Again they are getting their wish, but they are doing it at the expense of families all across this country who are paying dramatically higher for gas prices today, more than double what the price was when President Obama took office. So we have seen an assault on American energy by this administration, and it is coming at a steep, Obama premium, as I call it, at the pump, and people are fed up with it. And I am glad that at least this House Republican Congress has taken action to re-

verse that trend to say, let's become more energy secure, and, of course, in Canada, our biggest trading partner for oil, our biggest importer of oil.

Frankly, I want to see us completely eliminate our dependence on Middle Eastern oil. And we can do that if we increase production here at home and work with our partner in Canada to instead of having their energy go to places like China to keep that here. And this pipeline represents billions of dollars of investments, up to $13 billion, I am reading the testimony from one of our panelists today, $13 billion of prime investment associated with the Keystone pipeline, not to mention thousands more high-paying jobs that will occur in America if we do this.

So we reduce or dependency on Middle Eastern oil, we create more jobs here at home, and we lower the price of gasoline because we are increasing the supply, and then futures markets will recognize once you untap that potential, you will lower the price. And again, maybe the President won't be happy with that, because the President's comments are very clear. The President said in 2008 he would prefer a gradual adjustment to near $4-a-gallon gasoline. Well, guess what, the price of gasoline back then when he made those comments was less than $2 a gallon. So while the President is getting his wish on raising gas prices and the wish of his Energy Secretary, Americans are fed up with the premium that we are paying at the pump. And we can do something about it, and here is one good example where we are create great jobs here at home and reduce our dependence on Middle Eastern oil at the same time. I hope the administration doesn't continue to promote failed policies that are costing us jobs and leading to higher prices at the pump, and I yield back.

Mr. WHITFIELD. Thank you. At this time, I recognize the gentleman from California, Mr. Waxman, for 5 minutes.

OPENING STATEMENT OF HON. HENRY A. WAXMAN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Mr. WAXMAN. Thank you, Mr. Chairman. Today we are holding a hearing on legislation to short-circuit an ongoing decision-making process and pressure the Department of State into approving a massive new oil pipeline called Keystone XL, which would carry a sludge made from tar sands through the middle of America. This project would raise gas prices, endanger water supplies and increase carbon emissions. What is good for oil companies is not always good for America. That is especially true of this proposal.

True energy security means reducing our oil dependence and moving to cleaner, safer, domestic energy. That is not tar sands. Canadian producers must burn vast quantities of natural gas to extract tar sand sludge, and then use a lot more energy to process it into something approximating conventional crude.

On a life-cycle basis, tar sands may emit almost 40 percent more carbon pollution than conventional fuel. That is why this project is such a big step backwards environmentally. Some will say we have to make tradeoffs and sacrifice our air quality for lower gas prices, but with this project, we would be sacrificing our air quality for higher gas prices. And you don't have to take my word for it. That

is what TransCanada told the Canadian government in its official permit application.

TransCanada said that the pipeline will address oversupplies of crude in the Midwest which produce "price discounting." Reducing those supplies by moving crude to the Gulf means higher prices for Canadian crude producers, and higher gas prices for Midwestern consumers. As a result, TransCanada stated that the pipeline would rise prices for Canadian tar sands by $2 to $4 in 2013. In my view, this makes Keystone XL a lose-lose proposition for America.

There is an ongoing process at the State Department for evaluating the pros and cons of the pipeline. The administration has not come down one way or the other, so it is interesting that they are being criticized, even if they haven't done anything. That process should be allowed to pride. But that is not what the legislation we are considering does. It takes the extraordinary step of interfering in the ongoing State Department review. And it pressures the State Department to approve the project on an expedited time frame. Congress should not be playing this role. The State Department should evaluate the proposal on its merits, not be ramrodded by Congress into approving a boondoggle for the oil industry.

One question that has arisen about the project is how it would affect Koch Industries, a largely private-held oil company run by the Koch brothers. According to press accounts, Koch would be one of the big winners if the pipeline is approved. My staff contacted Koch last week to learn more about its investments in tar sands. Other oil companies, such as ConocoPhillips and Shell, have been willing to discuss their interest in developing tar sands, but Koch refused to answer basic questions. The company's representative told my staff that Koch is not an investor in the Keystone XL pipeline, and has not taken a public position on the project, but the representatives would not discuss whether Koch would export oil from Canada through the new pipeline, whether Koch holds tar sands leases, or whether Koch has plans to produce oil from tar sands.

I think these are legitimate questions. Koch is a large political donor, and major backer of the Tea Party. Members and the public are entitled to know whether the company would be a prime beneficiary of this legislation.

Last week, I wrote to Chairman Upton and Chairman Whitfield to seek their assistance in getting answers. Today I learn that they will not make any inquiries. If their objection is that Koch should not be singled out by the committee, I have no objection to asking other companies about their interest in tar sands.

What I do object is to protecting Koch from legitimate scrutiny. This—and I will continue to discuss this with the chairman. This pipeline, and the legislation that supports it, will enable the oil companies to charge American consumers more for their gasoline while increasing carbon pollution and endangering precious water supplies. We know who will lose. We also need to find out who will benefit. Thank you, Mr. Chairman.

Mr. WHITFIELD. Thank you. And once again, welcome the witnesses today, we have one panel of witnesses and we do look forward to your testimony. We have with us Mr. Dan McFadyen, who

is chairman of the Alberta Energy Resources Conservation Board. We have Mr. James Burkhard, who is managing director of Global Oil, IHS Cambridge Energy Research Associates. We have Mr. Alex Pourbaix, President, Energy and Oil Pipelines, TransCanada. We have Mr. Jeremy Symons, senior vice president, conservation and education, National Wildlife Federation. We have Mr. Murray Smith, president of the Murray Smith & Associates. And we have Mr. Stephen Kelly, who is assistant general president of the United Association of Plumbers and Pipefitters. All of you will be recognized for 5 minutes for your opening statements, following which we will be asking you questions.

STATEMENTS OF DAN MCFADYEN, CHAIRMAN, ENERGY RESOURCES CONSERVATION BOARD OF ALBERTA; JAMES BURKHARD, MANAGING DIRECTOR, GLOBAL OIL, IHS CAMBRIDGE ENERGY RESEARCH ASSOCIATES; ALEX POURBAIX, PRESIDENT, ENERGY AND OIL PIPELINES, TRANSCANADA; JEREMY SYMONS, SENIOR VICE PRESIDENT, CONSERVATION AND EDUCATION, NATIONAL WILDLIFE FEDERATION; MURRAY SMITH, PRESIDENT, MURRAY SMITH & ASSOCIATES; STEPHEN KELLY, ASSISTANT GENERAL PRESIDENT, UNITED ASSOCIATION OF PLUMBERS AND PIPEFITTERS

Mr. WHITFIELD. I would note that there is a little instrument on the table there that has red and yellow and green lights. When it gets to red, we would appreciate it if you would think about concluding your remarks at that point. So Mr. McFadyen, we will recognize you for your opening statement. And be sure and turn your microphone on.

STATEMENT OF HON. DAN McFADYEN

Mr. MCFADYEN. Mr. Chairman and members of the committee, good afternoon. Thank you for the invitation to speak to you about Alberta's comprehensive regulatory regime with respect to oil sands development. Alberta's oil sands are being developed under a rigorous and transparent regulatory framework that is based on the application of sound science and continuous improvement.

Our integrated and comprehensive regulatory regime is founded on stringent legislation regulation that takes into account environmental, social and economic impacts, as well resource conservation and technical excellence. Or, to put it another way, the regulatory regime is designed to ensure oil sands are developed in the public interest.

Implementing this regulatory regime is the responsibility of three regulatory agencies: The Energy Resources Conservation Board, the Alberta Department of Environment, and the Alberta Department of Sustainable Resource Development.

ERCB is arm's length, a quasi-judicial independent decisionmaker established through legislation 73 years ago by the Alberta government. The government of Alberta created the ERCB to ensure that the discovery, development and delivery of Alberta's energy resources takes place in a manner that is fair, responsible and in the public interest.

The ERCB directly administers seven provincial acts to ensure that all aspects of oil and gas development are carried out in a re-

sponsible manner. The Board is responsible for setting down detailed regulatory requirements through regulations and directives.

We have a budget of $175 million annually, and about 900 staff working in 13 locations across Alberta. About one-third of our staff members are licensed professionals, including engineers, geologists and environmental scientists. About 100 of our staff in our office is in Calgary and Ft. McMurray are focused strictly on the oil sands.

With bitumen reserves at 170 billion barrels, we have responsibility to ensure the oil sands are developed in sustainable way.

Every oil sands project is subjected to regulatory scrutiny throughout its lifecycle, from authorization and operational compliance to end-of-life closure. No oil sands project in Alberta may proceed without an approval from ERCB. On every application we examine, we look at three criteria to determine if a project is in public interest: Environmental protection, societal impacts and economic impacts.

On particularly complex or contentious projects, a formal hearing by an ERCB board panel may be established. The hearings allow for those that may be directly and adversely affected by a development to present evidence related to their concerns and cross-examine the project proponent before a board panel. Some applications for oil sands mining development result in a joint federal and provincial review.

A formal decision is issued but sets additional conditions that must be met in addition to the rigorous requirements set out in our legislation, regulation and directives.

As noted in my introduction, our regulatory regime is not static. It is based on continuous learning and continuous improvement. I would like to highlight two important advances we have made in oil sands regulation over the last 2 years. In 2009, we released Directive 73 aimed at formalizing our oil sands inspection process. Directive 73 consolidated ERCB regulatory requirements and expectations that operators of oil sands, mining and processing plant operations must follow, as well setting out the expectations of ERCB field inspections. This directive has greatly improved our industry's ability to ensure compliance with our regulatory requirements. Last year, our Ft. McMurray field staff conducted about 120 detailed mine inspections, we also conducted more than 10,000 inspection of in situ facilities over the last 4 years.

The second major advance I would like to speak about involves tailings management. Every oil sands mine requires a tailings pond of one kind or another. Over the past decade, it became apparent we needed tighter regulations to hold industry accountable for improving tailings management performance. So on February 2009, we released Directive 74. It set out performance-based requirements for companies to reduce the amount of fine particles in tailings and place larger particles in areas where they can be returned to a solid surface more quickly.

The ERCB has now approved plans for all eight mining projects. We estimate directive as a result commitment to some $4 billion in new technology, infrastructure and upgrades detailing management facilities to meet the directive. One of the unforeseen outcomes of the directive was the emergence of an industry consortium

on research. Seven oil sands companies have signed a groundbreaking agreement to share their knowledge and resources to find joint solutions to close and reclaim tailings ponds.

Our regulatory partners are also committed to continuous improvement. As part of its adaptive management approach, the government of Alberta has implemented the land use framework to bring about accumulative effects management system across Alberta. The lower Athabasca regional plant, or LARP, specifically focuses on where oil sands development occurs. To guide future decisions about oil sands development, LARP will establish social, economic and environmental outcomes, and set limits and thresholds for regulated and non-regulated activities. This is an innovative approach to management, that will ensure Albertans' values are upheld regarding resource development and the environment.

The end of the day, the goal of all the work of ERCB and our regulatory partners to ensure that our regulatory system is comprehensive, fully integrated, responsive, utilizes strong results based on science, and is continually improving. We are working to create a legacy for future generations and a stable and environmentally responsible energy source. Thank you, Mr. Chairman.

Mr. WHITFIELD. Thank you, Mr. McFadyen.

[The prepared statement of Mr. McFadyen follows:]

WRITTEN STATEMENT

PRESENTATION TO HOUSE ENERGY AND COMMERCE
COMMITTEE
SUBCOMMITTEE ON ENERGY AND POWER

DAN MCFADYEN, CHAIRMAN
ENERGY RESOURCES CONSERVATION BOARD OF ALBERTA

May 23, 2011

Alberta's Regulatory Regime for Oil Sands Development

SUMMARY OF MAJOR POINTS

- Alberta's regulatory regime is comprehensive and transparent, with stringent legislation and regulations designed to ensure development proceeds in the public interest.

- Every oil sands project is subjected to regulatory scrutiny throughout its life cycle, from authorization and operational compliance to end-of-life closure.

- On every application we examine, we look at three criteria to determine if a project is in the public interest:
    - Environmental protection including cumulative effects
    - Societal impacts
    - Economic impacts

- Our regulatory framework is founded on sound science and continuous improvement. Two recent regulatory advances are:

  - ERCB *Directive 73* – a new inspection directive to improve compliance with regulatory requirements, and

  -ERCB *Directive 74* – a new directive aimed at significant improvement in tailings management.

OVERVIEW

Mr. Chairman and Members of the Subcommittee - good afternoon and thank you for the invitation to speak to you about Alberta's comprehensive regulatory regime with respect to oil sands development.

Alberta's oil sands are being developed under a rigorous and transparent regulatory framework that is based on the application of sound science and continuous improvement. Our integrated and comprehensive regulatory regime is founded on stringent legislation and regulations that take into account environmental, social and economic impacts as well as resource conservation and technical excellence. Or, to put it another way, the regulatory regime is designed to ensure the oil sands are developed in the public interest.

Implementing this regulatory regime is the responsibility of three regulatory agencies: the Energy Resources Conservation Board (ERCB), the Alberta Department of Environment (AENV) and the Alberta Department of Sustainable Resource Development (SRD).

The ERCB

The ERCB is arm's length, a quasi-judicial, independent decision maker established through legislation 73 years ago by the Alberta Government. The Government of Alberta created the ERCB - to ensure that the discovery, development and delivery of Alberta's energy resources takes place in a manner that is fair, responsible and in the public interest.

The ERCB is governed by a Board of 9 members. These members are appointed by the provincial Cabinet based on their technical competencies for an initial 5 year term renewable for a second term of 5 years. The ERCB directly administers 7 provincial acts which ensure that all aspects of oil and gas development are carried out in a responsible manner. An appendix to this testimony lists the statutes.

The Board is responsible for setting down detailed regulatory requirements through regulations and directives. When we speak of oil sands regulation, the *Oil Sands Conservation Act* and Regulations are critical. An appendix to this testimony lists the Regulations and Directives pertinent to oil sands development.

No oil and gas development is allowed to proceed in Alberta without a license from the ERCB.

We have a budget of about $175 million and about 900 staff working in 13 locations across Alberta. About one-third of our staff members are licensed professionals, including engineers, geologists and environmental scientists.

About 100 of our staff located in our offices in Calgary and Fort McMurray are focused strictly on the oil sands.

THE OIL SANDS RESOURCE

With bitumen reserves of 170 billion barrels, we have a responsibility to ensure that the oil sands are developed in a sustainable way.

Of our bitumen reserves, 34 billion barrels are recoverable via surface mining methods and then processed in facilities where the bitumen is extracted. The bitumen can be either "upgraded" or mixed with other liquids such as "dilbit" or "synbit" and transported to market.

The remaining 136 billion barrels are accessible via in situ recovery. The most widely used of these is steam-assisted gravity drainage (SAGD). In situ development disturbs only about 10 to 15 per cent as much land as a similarly-sized mining operation and has no tailings ponds.

Production from in situ bitumen projects in Alberta is projected to surpass mining production by 2015.

The ERCB currently regulates 61 in situ facilities and eight surface mines. Collectively these projects are currently producing 1.6 million bbls/day or 589 million bbls/yr of raw crude bitumen.

ALBERTA'S REGULATORY FRAMEWORK

Every oil sands project is subjected to regulatory scrutiny throughout its life cycle, from authorization and operational compliance to end-of-life closure.

No oil sands project in Alberta may proceed without an approval from the ERCB.

- A project application containing all required material, including a thorough environmental impact assessment
- A complete review by expert ERCB staff, and
- Consultation with external stakeholders.

On every application we examine, we look at three criteria to determine if a project is in the public interest:

- Environmental protection
- Societal impacts
- Economic impacts

On particularly complex or contentious projects, a formal hearing by an ERCB Board Panel may be needed. These hearings allow those that may be "directly and adversely affected" by a development to present evidence related to their concerns and cross-examine the project proponent before a Board Panel. Some applications for oil sands mining developments result in a joint federal and provincial review.

A formal decision is then issued which sets additional conditions that must be met in addition to the rigorous requirements set out in our legislation, regulation and directives. In many cases, we may put additional conditions on an approval that will put limits on water use, limit a project area, or mandate different uses of technology to mitigate impacts.

As a primer on the rigor behind our regulatory process, I would direct you to the case study "Big Reserves, Big Responsibility". It provides a close look at the ERCB process which led to the approval of Suncor's North Steepbank Mine Extension and Voyageur Upgrader in 2006.

The project took six years from the company's original announcement to our regulatory approval, and included a full public hearing and full opportunity for input from stakeholders.

If ERCB approval is granted, other government authorities including Alberta Environment and Alberta Sustainable Resource Development will require additional permits to ensure protection of the environment, water, fish, wildlife and forests.

But as noted in my introduction, our regulatory regime is not static; it is based on continuous learning and continuous improvement. I would like to highlight two important advances we have made in oil sands regulation over the last two years.

DIRECTIVE 73 – INSPECTIONS

In 2009, we released *Directive 73* aimed at formalizing our oil sands inspection process.

Directive 73 consolidated ERCB regulatory requirements and expectations that operators of oil sands mining and processing plant operations must follow, as well as setting out the expectations of ERCB field inspectors. This Directive has greatly improved our and industry's ability to ensure compliance with our regulatory requirements.

Last year our Fort McMurray field staff conducted about 120 detailed inspections; that's a four-fold increase since 2007. These inspections can take up to a week to complete and are often undertaken in conjunction with our regulatory partners at AENV and SRD.

We have also conducted more than 10,000 inspections of in situ facilities over the last four years.

This close scrutiny is paying off. In 2009 (we are still calculating our compliance rates for last year), industry compliance with major ERCB regulations increased to the record level of 98.6 per cent. We also posted a record-low pipeline failure rate of 1.7 per 1,000 kilometres of

pipeline. Every single compliance violation and ERCB enforcement action is listed on our website so it is accessible to the public and industry.

And when companies did not meet our stringent regulatory requirements, we took action. In 2009, the ERCB suspended 127 energy facilities, pipelines, and operations that did not meet our stringent regulatory requirements.

TAILINGS MANAGEMENT AND *DIRECTIVE 74*

The second major advance I would like to speak about involves tailings management. Every oil sands mine requires a tailings pond of one kind or another to hold water used in the extraction process. Tailings are waste from oil sands surface mining and are composed of water, sands, silt, clay and residual bitumen. While coarse solids settle rapidly, fine solids remain in suspension for years.

Over the past decade, it became apparent we needed tighter regulations to hold industry accountable for improving tailings management performance, with enforceable dates for returning ponds to a solid surface. So, in February 2009 we released *Directive 74*.

It sets out performance-based requirements for companies to reduce the amount of fine particles in tailings, and place larger particles in areas where they can be returned to a solid surface more quickly. It also requires companies to specify dates for construction, use and closure of tailings ponds that must be met or companies will face enforcement by the ERCB.

The ERCB has now approved plans for all eight mining projects that are either in operation, in construction or at the pre-construction phase. We estimate that the Directive has resulted in a commitment to some $4 billion in new technology, infrastructure and upgrades to tailings management facilities to meet the Directive. We are now working to ensure that the companies are complying with the Directive and making upgrades on schedule.

One of the unforeseen outcomes of the Directive was the emergence of an industry consortium on research – seven oil sands companies have signed a groundbreaking agreement to share their knowledge and resources to find joint solutions to close and reclaim tailings ponds. For example - Suncor's new technology will enable them to operate five fewer tailings ponds and use less space to store fluid tailings than the company originally applied for.

ADVANCES BY REGULATORY PARTNERS

Our regulatory partners are also committed to continuous improvement.

As part of its adaptive management approach, the Government of Alberta has implemented the Land-Use Framework to bring about a cumulative effects management system across Alberta. The Lower Athabasca Regional Plan (LARP) specifically focuses on where oil sands development occurs. To guide future decisions about oil sands development, LARP will

establish social, economic and environmental outcomes, and set limits and thresholds for regulated and non-regulated activities.

With agreed-upon triggers, all parties will work collaboratively to ensure that activities in the area do not cumulatively surpass the carrying capacity of the region. This is an innovative approach to management that will ensure Albertans' values are upheld regarding resource development and the environment.

CONCLUSION

At the end of the day, the goal of all the work of the ERCB and our regulatory partners is to ensure that our regulatory system is:

- comprehensive
- fully integrated
- responsive
- utilizing strong results based on science
- and that is continually improving.

This will enable us to regulate this vital resource in a manner that is fair, responsible and in the public interest. We are working to create a legacy for future generations and a stable and environmentally-responsible energy source. Albertans deserve no less. Our stakeholders deserve no less. Thank you.

APPENDIX 1

STATUTES ADMINISTERED BY THE ERCB

COAL CONSERVATION ACT

ENERGY RESOURCES CONSERVATION ACT

GAS RESOURCES PRESERVATION ACT

OIL AND GAS CONSERVATION ACT

OIL SANDS CONSERVATION ACT

PIPELINE ACT

TURNER VALLEY UNIT OPERATIONS ACT

APPENDIX 2

REGULATIONS AND DIRECTIVES PERTAINING TO OIL SANDS REGULATION

Acts and Regulations pertaining to the ERCB and oil sands developments in Alberta:

Energy Resources Conservation Act

Oil and Gas Conservation Act

Oil Sands Conservation Act

Oil Sands Conservation Regulations

Oil and Gas Conservation Regulations

Directives issued by the ERCB pertaining to the development and/or operations of an oil sands operation:

Directive 019 Compliance Assurance (Revised edition: September 1, 2010: Effective November 1, 2010)

Directive 020 Well Abandonment (Latest release: July 1, 2010)

Directive 023 Guidelines Respecting an Application for a Commercial Crude Bitumen Recovery and Upgrading Project (Latest release: September 1991)

Directive 038 Noise Control (Latest release: February 16, 2007)

Directive 042 Measurement, Accounting, and Reporting Plan (MARP) Requirement for Thermal Bitumen Schemes (Latest release: September 6, 2006)

Directive 050 Drilling Waste Management (Latest release: October 1996; Invitation for Comment: September 10, 2007)

Directive 051 Injection and Disposal Wells - Well Classifications, Completions, Logging, and Testing Requirements (Latest release: March 1994)

Directive 054 Performance Presentations, Auditing, and Surveillance of In Situ Oil Sands Schemes (Released: October 15, 2007)

Directive 055 Storage Requirements for the Upstream Petroleum Industry (Latest release: December 2001)

Directive 056 Energy Development Applications and Schedules (Revised edition June 16, 2008, republished November 24, 2009 including Directive 056 errata dated November 24, 2009)

Directive 058 Oilfield Waste Management Requirements for the Upstream Petroleum Industry (Latest release: November 1996 addendum added December 23, 2008)

Directive 059 Well Drilling and Completion Data Filing Requirements (Latest release: July 24, 2007)

Directive 060 Upstream Petroleum Industry Flaring, Incinerating, and Venting (Latest release: November 16, 2006)

Directive 065 Resources Applications for Oil and Gas Reservoirs (Revised edition: August 9, 2010)

Directive 066 Requirements and Procedures for Pipelines (Latest release: December 2005)

Directive 073 Requirements for Inspection and Compliance of Oil Sands Mining and Processing Plant Operations in the Oil Sands Mining Area (Released: December 17, 2008)

Directive 074 Tailings Performance Criteria and Requirements for Oil Sands Mining Schemes (Released: February 3, 2009)

Directive 078 Regulatory Application Process for Modifications to Commercial In Situ Oil Sands Projects (Released: December 3, 2010)

Information Letters (IL's) issued by the ERCB pertaining to the development and/or operations of an oil sands operation:

IL 81-30: Experimental Schemes Involving a Large Array of Wells and Close Well Spacing

IL 82-11: Preservation of Archaeological, Palaeontological, and Historical Resources: Policy Update

IL 84-06: Mined Oil Sands Bitumen Processing Technology

IL 84-07: Declaration of Oil Sands Areas to Facilitate Orderly Leasing and Stable Regulation

IL 84-11: Approval, Monitoring, and Control of Sulphur Storage Sites

IL 85-12: Oil Sands Primary Production: Well Spacing Primary Recovery Scheme Approvals

IL 89-05: Water Recycle Guidelines and Water Use Information Reporting for In Situ Oil Sands Facilities in Alberta

IL 90-21: Oil and Gas Development - Rumsey Block

IL 92-11: Experimental Schemes - Release of Information

IL 93-04: Policy for the Logging of Horizontal Wells

IL 93-09: Oil and Gas Developments Eastern Slopes (Southern Portion)

IL 94-19: Dam Safety Accord

IL 94-22: Operating Guidelines for Industrial Activity in Caribou Range - NW Alberta

IL 96-07: EUB AEP Memorandum of Understanding on the Regulation of Oil ands Developments

IL 97-02: Well Spacing Lease Boundary Setbacks - Oil Sands Area Development

IL 98-01: Memorandum of Understanding Between AEP and the EUB Regarding Coordination of Release Notification Requirements and Subsequent Regulatory Response

IL 2002-01: Principles for Minimizing Surface Disturbance in Native Prairie & Parkland Areas

IL 2001-03: Management of Drilling Wastes Associated with Advanced Gel Chemical Systems

Mr. WHITFIELD. Now, Mr. Burkhard, you are recognized for 5 minutes.

STATEMENT OF JAMES BURKHARD

Mr. BURKHARD. Thank you, Chairman Whitfield and other members of the subcommittee, for the opportunity to discuss today the role of Canadian oil supply in the U.S. market. Libya, before the civil war, exported about 1.2 million barrels per day. And since the civil war, exports obviously have halted. The price of crude oil is up about $19 barrels per barrel, on average, since the civil war. That translates into a gasoline price increase of about 45 cents per gallon.

The amount of oil we get from the oil sands, the United States imports from Canada in oil sands is equivalent to the amount of oil that Libya exported before the civil war, just to provide some context.

Today is obviously a very timely opportunity to discuss this issue, the impact of high prices on the economy, and the American people is creating a deep concern, a potentially momentous change in the Middle East, and we are still seeing rising demand, in some cases, very strong demand growth in emerging markets for oil.

But in the realm of U.S. energy security, one of the biggest achievements in the past decade has been the growing role of Canadian oil supply in the U.S. market. And it is connected by land-based pipelines, not water-borne imports.

Last year in 2010, we imported about 2 million barrels per day of Canadian crude oil. That made Canada the number one foreign source for oil by far. That is about 22 percent of U.S. crude oil imports last year were from Canada up 15 percent just a decade earlier.

What has been driving this growth? It is the growth in the Canada oil sands, which is a mega resource that is right next door to the U.S.

Without the oil sands, we would be faced with a tighter oil market and higher prices. The oil sands are also relatively new, at least in the context of the oil industry. In the 1970s, there were no imports of oil sands. But by 2010 the oil sands alone were equivalent to what we imported from our number two sources supply, Mexico. The oil sands are poised to become the largest single source of American oil, at least from foreign sources, in the very near future.

This story, the oil sands story is part of a broader relationship with Canada. Trade, jobs, energy, oil in particular, are part of the interconnected pillars of the U.S. and Canadian relationship. Last year saw $525 billion in trade between the two countries.

Canada's the largest export market for the United States. Very dense network of trade and investment between the two countries. And trade with Canada is what 8 million jobs depend on in the United States. The multibillion-dollar Keystone XL project is also among the largest project in this country that could start construction in short order.

The oil sands, the Canadian oil sands could play an even bigger role in the U.S. market, which would benefit consumers. Pipeline

infrastructure in this country needs to catch up with trends in oil supply growth. The growth out of Canada has been strong, it could continue to be strong. We are also seeing strong supply growth in the northern Midwest, North Dakota and Montana.

Oil production in that area, namely the Bakken formation could double over the next 5 to 6 years. Some of that oil would also find its way in the Keystone XL pipeline if it is approved.

So the Canadian oil sands could play a bigger role, but they lack greater access to the market, which is currently depriving the broader U.S. market with oil that is available from both Canada and the United States.

The more flexible robust supply system would be better able to handle shifts in supply and demand. It would not result in higher gasoline prices, certainly not in the Midwest. The more supply there is in the global oil market, the lower prices are for a given level of demand. Midwest gasoline prices are already comparable to the national average. In fact, year to date, they are slightly higher. Why is that? The reason for that is the Midwest must import up to 500,000 barrels per day of gasoline from other parts of the United States, which means it is connected to the global price of gasoline. They need to pay that price, or else sellers of that gasoline would ship their gasoline elsewhere. So the U.S. Midwest gasoline market is connected to the global oil market, but there is currently a disconnect in the crude oil market in the Midwest. Expansion is not enabled, if the pipeline system not able to expand to become more robust, it is certainly an alternative.

In terms of GHG emissions, we calculate through a meta-analysis, we looked at 13 different studies, lifecycle greenhouse gas emissions for the oil sands are about 6 percent higher than the average crude oil consumed in the United States, 6 percent higher.

Just to conclude, a fact-based discussion and informed dialogue will help Americans and Canadians achieve a balance to enhance mutual prosperity, just some key fundamental facts to review. Oil sands are a mega resource right next door, the oil sands have made Canada the number one supplier by far. Growth in Canadian oil supply to the U.S. Is reorienting imports and enhancing energy security through lambaste connections, but the U.S. pipeline system needs to catch up with the changes and supply. The larger more dynamic system which benefits consumers compare with the constricted and more limited system, and again, lifecycle GHG missions from Canadian oil sands are 6 percent higher when you look at what is actually imported to this country.

So energy and oil, in particular, are key element in the overall relationship. Canada's oil sands are an integral part of the fabric of U.S. Energy security with the potential to play an increasingly important role in the years to come. Thank you.

Mr. WHITFIELD. Thank you.

[The prepared statement of Mr. Burkhard follows:]

US HOUSE OF REPRESENTATIVES

COMMITTEE ON ENERGY AND COMMERCE

Subcommittee on Energy and Power, Chairman: Ed Whitfield

Washington, DC • May 23, 2011

PREPARED TESTIMONY:

US ENERGY SECURITY: THE SIGNIFICANCE OF CANADA'S OIL SANDS

by James Burkhard, Managing Director, IHS Cambridge Energy Research Associates (IHS CERA)

SUMMARY

The impact of high oil and gasoline prices on the economy and the American people is a deep concern. Today's high prices are a headwind against economic recovery and are a major worry, especially during a time of high unemployment. Energy security is, again, high on the agenda. Potentially momentous change in North Africa and the Middle East along with rising demand from emerging markets raises questions about availability of oil and future oil price trends. This is an important opportunity to assess the current and future role of Canadian oil supply in the US market and how it helps address these concerns. In the realm of US energy security, one of the biggest achievements of the past decade has been the growing role of Canadian oil sands production in supplying the US market. Oil sands production has made Canada the number one supplier, by far, of foreign oil to the United States. Without oil sands we would be facing a tighter oil market and higher oil prices. Thus, it is particularly important to have a fact-based discussion and an informed dialogue on this topic that will help both Americans and Canadians enhance mutual prosperity and security.

- **In the 1970s there were no oil sands imports into the United States. Today, the Canadian oil sands are poised to become the largest single source of foreign oil to the US market.** In 2010 the United States imported about 2 million barrels per day (mbd) of Canadian crude oil—22 percent of total imports. More than half—1.1 mbd—was oil sands, which is equivalent to the entire volume of imports from the number two supplier, Mexico.
- **Trade, jobs, and oil are the interconnected pillars of the US-Canada relationship.** Trade between the two countries totaled $525 billion in 2010. Eight million American jobs depend on trade with Canada. More than 20,000 American jobs already depend on oil sands development—and this number could grow significantly if oil sands investment expands. The proposed $7 billion Keystone XL pipeline project is among the largest "shovel-ready" projects in the United States.
- **Canadian oil sands could play an even larger role in supplying the US market, benefitting consumers. But North American pipeline infrastructure needs to**

adjust to the much greater availability of this new "mega" resource from Canada for this to happen. The lack of significant pipeline capacity to transport Canadian oil beyond its traditional US Midwest market artificially deprives the broader US market of oil that is available. A more flexible and robust supply system is better able to manage unexpected supply or demand developments, which would be a big positive for the US economy and consumers. Oil producers in Canada—which include many American companies—would develop export markets in Asia if they are unable to broaden their reach into the US market.

- **Environmental issues surrounding energy development, including in the oil sands, are controversial, but they are also manageable.** Ongoing advances in technology and operational experience have demonstrated that environmental concerns—particularly greenhouse gas (GHG) emissions—are being addressed. Life-cycle GHG emissions for the average oil sands product actually imported into the United States are just 6 percent higher than those from the average crude oil consumed in the United States.

US ENERGY SECURITY: THE SIGNIFICANCE OF CANADA'S OIL SANDS

It is an honor to speak on the role of Canadian oil supply in the United States before the US House Subcommittee on Energy and Power of the 112th Congress. Over the past decade Canada has become the largest foreign supplier of oil to the United States. Today, there is deep concern about the impact of high oil and gasoline prices on the economy and the American people. A period of potentially momentous change in North Africa and the Middle East along with rising demand from emerging markets raises questions energy security and future oil price trends. This provides a most timely opportunity to assess the current role of Canadian oil in the US market and the dynamics that will shape future oil trends between the United States and its most important trading partner. I will discuss the development of the Canadian oil sands, how Canadian oil sands have enhanced US energy security and provide a perspective on key issues that will shape the future flow of oil from Canada to the United States.

MORE THAN A SHARED BORDER: THE US-CANADA RELATIONSHIP

Oil sands and energy trade in general are part of a much larger, dense network of trade and investment between the United States and Canada. A shared border stretching 5,521 miles—one of the longest in the world—saw $525 billion worth of goods traded in 2010. Canada is the number one destination for US exports. Eight million American jobs depend on trade with Canada.[1] With regard to oil, Canada supplies 22 percent of US crude oil imports, up from 15 percent a decade earlier. Higher oil sands output drove the increase. More than 20,000 American jobs already depend on oil sands development—and this number could grow significantly if oil sands investment expands.[2] The proposed $7 billion Keystone XL pipeline project is among the largest "shovel-ready" projects in the United States.

A cooperative and mutually beneficial relationship stretches back many decades. During World War II, for example, cooperation led to the border's being "ignored in order that necessary programs might be carried forward with a minimum of dislocation and inefficiency."[3]

More recently, the 1989 US-Canada free trade agreement and the 1993 North American Free Trade Agreement (NAFTA) established a strong foundation for economic relations. The 1989 agreement encouraged the "fullest possible" trade in energy. NAFTA reaffirmed the oil and gas trading framework between Canada and the United States. Energy trade is a key pillar of the relationship—and a growing one. Cross-border investment has also created a deepening web of connections. US-based companies are among the largest oil and gas producers—including in the oil sands—in Canada. Canadian companies have significant investments in the US energy sector and are particularly important in pipeline transportation.

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1. Laura M. Baughman and Joseph Francois, *U.S.-Canada and U.S. State Level Production and Employment: 2008*. Accessed at http://www.canadainternational.gc.ca/washington/assets/pdfs/Jobs_Study_2008_FINAL-en.pdf.

2. Afshin Honarvan et al., *Economic Impacts of New Oil Sands Projects in Alberta (2010–2035)*, May 2011, Canadian Energy Research Institute.

3. Paul Chastko, *Developing Alberta's Oil Sands*, quoting from *A History of the Petroleum Administration for War: 1941–45*, Washington, DC, Government Printing Office.

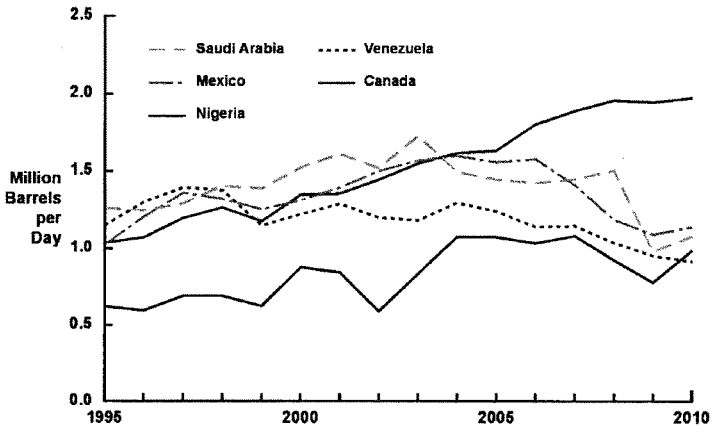
OIL'S ROLE IN US-CANADA RELATIONS

The energy relationship between the United States and Canada—in oil, gas, and electric power—is profound and reflects a shared vision of the benefits of an integrated continental market. Oil is the most important component and has long played a key role in the relationship. During World War II the United States was the main supplier of oil to Canada. Today Canada is the largest foreign supplier of oil to the United States. Unlike other foreign sources of oil, Canadian oil is linked to the United States by pipeline and is not dependent on waterborne crude oil carriers.

Among members of the Organization of Economic Cooperation and Development (OECD), Canada has an unusual oil supply growth story. In 2000 Canada supplied about 1.3 million barrels per day (mbd) of crude oil to the United States, accounting for 15 percent of total US imports. Canada was the number three supplier at the time, behind Saudi Arabia and Venezuela. By 2010—just a decade later—Canadian crude oil exports had increased 54 percent—from 1.3 mbd to nearly 2 mbd. This represented 22 percent of total 2010 crude oil imports and made Canada the number one foreign supplier (see Figure 1).

Figure 1

Trends in Volume of Crude Oil Exports to the United States by Top Suppliers



Source: US Energy Information Administration.
10504-1

THE CANADIAN OIL SANDS

The principal driver of Canada's expanding role in supplying the US petroleum market is higher production from the Canadian oil sands. The oil sands have become part of the fabric of our continental energy security. Since 2000 Canadian oil sands output has more than doubled: from 600,000 barrels per day (bd) to about 1.5 mbd in 2010. Canadian oil exports to the United States would be much less if not for the growth in oil sands. Indeed, the world would be facing a tighter oil market and higher oil prices without the oil sands.

What exactly are the oil sands? They are grains of sand covered with water, bitumen, and clay. The "oil" in the oil sands comes from bitumen, an extra-heavy oil with high viscosity. Bitumen does not flow like a liquid at room temperature. Instead, raw bitumen is akin to an ice hockey puck. Oil sands producers separate the bitumen from the sand and water to derive marketable oil.

A signature feature of the Canadian oil sands is their immensity. The amount of oil that can be economically recoverable is approximately 175 billion barrels, and the potential is much greater, with over 1.7 trillion barrels in place. The 175 billion barrels of recoverable oil is more than eight times greater than US crude oil reserves. Canadian oil reserves rank third in the world behind Saudi Arabia and Venezuela, which only recently released reserve estimates that surpass Canada. The oil sands make Canada one of the very few countries in the world that could substantially increase oil production for the next several decades.

Canada's oil sands are concentrated in three major deposits in the western province of Alberta. The largest is the Athabasca, a region around Fort McMurray in northeastern Alberta. The other two areas are Peace River in northwest Alberta and Cold Lake, east of Edmonton (see Figure 2).

Recognition of the oil sands potential as a modern energy resource stretches back to the nineteenth century. However, the technical and economic barriers separating early pioneering efforts from large-scale commercialization were formidable and stubborn. Commercial oil sands production began in the late 1960s. Even then, it took until 2000—and required many advances in engineering—for the oil sands industry to reach a production level of 600,000 bd, equivalent to the output of a medium-size oil company. Over the past decade production growth picked up rapidly and supply more than doubled to about 1.5 mbd in 2010. This is greater than the 1.2 mbd that Libya exported to the global market in 2010, before the civil war.

The rise in oil prices, a stable operating environment, significant technological advancements, attractive fiscal terms, and the open investment climate in Canada—all these collectively spurred the rise in oil sands output. To put this in perspective, if measured as an individual country, production growth since 2000 from the Canadian oil sands would be far ahead of most countries, including many major producers such as Iran. The bottom line is the oil sands have become a major engine of global oil supply growth—and the only growing supplier with a land-based connection to the US market.

Mr. WHITFIELD. Mr. Pourbaix, you are recognized for 5 minutes.

STATEMENT OF ALEX POURBAIX

Mr. POURBAIX. My name is Alex Pourbaix, and I am president, Energy and Oil Pipelines, for TransCanada.

As I said, my name is Alex Pourbaix, and I am president of Energy and Oil Pipelines for TransCanada. In that role, I am responsible for TransCanada's oil pipeline business as well as our company's power business and unregulated gas storage business.

Before I discuss the specifics of the Keystone project, I thought I would give the committee a brief overview of our company. TransCanada is $46 billion energy infrastructure company with over 60 years of experience in the responsible development and reliable operation of North American energy infrastructure. At this time, the company employs over 4,200 employees, with almost half of those employees located in the United States. We operate the largest pipeline, gas pipeline network in North America, over 35,000 miles, with the capacity to transport approximately 20 percent of the gas produced in North America every day. And now with Keystone Pipeline System, TransCanada is developing one of North America's largest oil delivery systems.

Keystone will bring many benefits to the United States, but I believe the most important role Keystone will play is to help bring more energy security to the United States during a very volatile period recently. I think when you boil down the debate on this project, it comes down to a very simple question for Americans: Do they want secure, stable oil from a friendly neighboring Canada, or do they want to continue importing even more high-priced foreign oil from volatile regions such as Venezuela or the Middle East?

Keystone XL will help secure that stable supply of oil by linking Canadian and U.S. crude supplies with the largest refining markets in the United States. Canada's oil reserves are vast, approximately 175 billion barrels are estimated to be recoverable. This compares to the U.S. reserves, which are estimated to be around 20 billion barrels. In addition to energy security, our project will also create valuable jobs for Americans, 20,000 high-paying jobs and 118,000 person years of employment in spin-off jobs in communities along the pipeline route.

Keystone is expected to inject $20 billion into the U.S. economy. And the project will pay over a half-billion dollars in taxes to the individual States along the pipeline route during construction. While transporting oil from Canada, Keystone XL will also ship domestic U.S. crude oil. Keystone XL has the capacity to move 100,000 barrels a day of American crude production from North Dakota and Montana, to Cushing, Oklahoma or the Gulf Coast, and a further 150,000 barrels a day of capacity to move Cushing oil to the Gulf Coast.

The need for prompt approval of the Keystone XL project is particularly crucial today when U.S. consumers are struggling to cope with the high cost of gasoline, something that impacts the pocketbooks of everyone. Specifically, the Keystone XL project has the capability to replace nearly half the volume of higher priced Middle East oil presently consumed by the United States. A recent Depart-

ment of Energy study found that the delivery of western Canadian crude oil to U.S. Gulf Coast refineries by Keystone would fill a gap being created by declining supply from traditional heavy crude suppliers such as Mexico and Venezuela. This supply further projected that if Keystone XL was not built, more oil would be shipped by foreign countries to the U.S. primarily from the Middle East to fill that gap.

I would like to take a moment to talk about pipeline safety. Keystone's opponents have attempted to characterize oil pipelines as unsafe and dangerous. These allegations are untrue, Keystone XL will be safe. We are using the latest technologies and the strongest steel pipe from American and Canadian mills to build a pipeline. It was designed, built and will operate in excess of the present regulatory standards. In addition, it will be monitored 24 hours a day, 7 days a week, 16,000 data points along the entire road of the pipeline are linked to satellites with data being refreshed every 5 seconds. If we detect a drop in pressure, our control center will remotely close valves, isolating the line and shutting it down within minutes.

TransCanada has agreed to implement 57 additional conditions developed by our regulator to go beyond the existing Federal standards, such as increased inspections, and more shutdown valves in sensitive locations.

I want to emphasize that the Keystone XL project has already undergone a thorough and comprehensive review process. We submitted our presidential permit close to 33 months ago. Since 2008, we have held over 90 open houses and public meetings along the pipeline route. We have given hundreds of hours of testimony to local, State and Federal officials, and submitted thousands of pages of information to government agencies in response to questions.

Before I conclude, I would likes to address misinformation that has been reported in the media on the oil the Keystone XL pipeline will transport. The bottom line is very simple: Oil is oil. The heavy oil transported in the Keystone pipeline system is very similar in chemical properties and physical characteristics to heavy oil from California, Venezuela and Mexico that is transported daily throughout the United States and consumed in refineries.

It is completely false to say that this oil is heated or that it is more toxic, corrosive or shipped at a higher pressure than any other similar crude oil transported or consumed in the United States. Our opponents have gone so far as to describe the oil we transport as tar sludge, and I can tell you that oil is like any other oil that is consumed in U.S. refineries.

To the people who make these allegations of corrosive and dangerous oil, I would respond by saying why would we build a $13 billion oil pipeline that will operate for decades, and then turn around and put a product in that pipeline that would harm it or destroy it? That does not make any sense.

In conclusion Keystone will help produce the United States reliance on higher price unstable foreign oil from Venezuela and the Middle East, and replace it with secure supplies from Canada and the U.S. We are going to create 20,000 American jobs at a time when unemployment remains high, but we will inject $20 billion into the U.S. economy and pay billions in taxes for decades to come

so communities can build schools and ball fields. This project is needed, the benefits are clear, the time is of the essence to receive the approvals we need so Americans can begin to experience the benefits of this project. Thank you.

Mr. WHITFIELD. Thank you.

[The prepared statement of Mr. Pourbaix follows:]

Summary of Testimony of Alex Pourbaix

- TransCanada has more than 60 years of experience in the responsible development and reliable operation of North American energy infrastructure.
- The $13 billion Keystone Pipeline System will link secure and growing supplies of U.S. and Canadian crude oil with the largest refining markets in the United States, thereby significantly improving North American security supply.
- TransCanada appreciates the sentiments behind the recently proposed North American-Made Energy Security Act, which would require a decision on Keystone's pending Presidential Permit application by a date certain.
- The Keystone XL Project will deliver crude oil from Canada, which has the third largest proven reserves of oil in the world, and which is the largest trading partner and supplier of crude oil to the United States.
- In addition, the Keystone XL Project would transport domestic crude oil from the Williston Basin producing region in North Dakota and Montana, and from local production in the Cushing, Oklahoma area.
- The Keystone XL Project will meet the needs of U.S. crude oil refiners – and hence U.S. consumers -- for a reliable and sustainable source of crude oil to supplement or replace reliance on declining foreign supplies, particularly Mexico and Venezuela, without turning to greater reliance on Middle Eastern sources.
- The U.S. has consumed approximately 18 million bpd of petroleum products per year over the last 10 years. Domestic U.S. crude oil production has averaged a little over 5 million bpd over that same time period and accounts for roughly 25% of U.S. demand.
- Crude oil imports from Mexico have declined from 1.7 million bpd in 2006 to approximately 1.3 million bpd currently, and are projected to significantly decline further. Over the same time period, Venezuelan imports to the U.S. have declined from 1.4 million bpd to approximately 1.0 million bpd.
- The need for this additional supply has been confirmed by a recent study prepared by a third party expert at the request of the DOE and State Department.
- An independent study found that the $7 billion Keystone XL Project is expected to directly create more than 20,000 high-wage manufacturing jobs and construction jobs in 2011-2013 across the U.S. and 118,000 person-years of employment, stimulating significant additional economic activity.
- Once the pipeline is operational, the states along the pipeline route are expected to receive an additional $5.2 billion in property taxes during the estimated operating life of the pipeline. Construction of the Project should provide contributions to U.S. energy security and the U.S. economy valued at over $20 billion.
- The Keystone Pipeline system is subject to comprehensive pipeline safety regulation under the jurisdiction of the U.S. Department of Transportation, Pipeline and Hazardous Materials Safety Administration (PHMSA). Keystone has agreed to comply with 57 additional Special Conditions developed by PHMSA for the Keystone XL Project.
- The State Department SDEIS found that those conditions would result in a Project that would have a degree of safety over any other typically constructed domestic oil pipeline system under current code.
- To date, the Keystone XL Project has undergone a thorough and comprehensive 33-month review process – with multiple opportunities for public input -- as is appropriate for a project of this magnitude. Among many other issues, the safety of the Nebraska Sand Hills region and the Ogallala aquifer were fully considered in that process.

TESTIMONY OF ALEX POURBAIX
PRESIDENT, ENERGY AND OIL PIPELINES, TRANSCANADA CORPORATION
HOUSE COMMITTEE ON ENERGY AND COMMERCE
SUBCOMMITTEE ON ENERGY AND POWER
MAY 23, 2011

Good afternoon. My name is Alex Pourbaix. I am President, Energy and Oil Pipelines for TransCanada Corporation. In my position, I am responsible for TransCanada's oil pipeline business, as well as the Company's power and non-regulated gas storage businesses.

I would like to thank the Subcommittee for the opportunity to testify today on behalf of TransCanada, the developer of the Keystone XL Pipeline Project and the operator of the Keystone Pipeline System. TransCanada is a leader in the pipeline industry with more than 60 years of experience in the responsible development and reliable operation of North American energy infrastructure. TransCanada's network of wholly owned natural gas pipelines extends more than 35,000 miles, tapping into virtually all of the major natural gas supply basins in North America and has the capacity to move 20% of the natural gas produced daily in North America. TransCanada is one of the largest providers of gas storage and related services on the continent with approximately 380 billion cubic feet of storage capacity. Moreover, TransCanada owns, or has interests in, over 10,800 megawatts of power generation in Canada and the United States, which is enough electricity to power approximately 12 million homes. Now with the Keystone Pipeline System, TransCanada is developing one of North America's largest oil delivery systems. TransCanada serves the vitally important role of safely and responsibly delivering energy to North American consumers who need it for their daily lives.

TransCanada is excited to be developing the $13 billion Keystone Pipeline System, which will link secure and growing supplies of U.S. and Canadian crude oil with the largest refining markets in the United States, thereby significantly improving North American security supply. While we expect North America to significantly reduce its reliance on oil, we believe that day is many years in the future. In the meantime, it is critical to the economic and energy security of the continent that reliable crude oil supplies be available and accessible from North American sources.

In June 2010 TransCanada commenced commercial operation of the first phase of the Keystone Pipeline System, which extends from the important crude oil marketing supply and pipeline hub at Hardisty, Alberta, Canada to the refining and market centers at Wood River and Patoka, Illinois. TransCanada received a Presidential Permit from the U.S. Department of State authorizing the international boundary crossing for the initial phases of the Keystone Pipeline System after a comprehensive 23-month review.

Keystone Phase II is an extension of the Keystone Pipeline System from Steele City, Nebraska to Cushing, Oklahoma, which went into service in February 2011. Cushing is a major crude oil marketing and pipeline hub serving numerous Midwest refineries. Together, the first two phases of the Keystone Pipeline System have the capacity to deliver almost 600,000 barrels of crude oil to U.S. refineries every day.

The proposed Keystone Gulf Coast Expansion Project – known as Keystone XL -- is an approximate 1,700-mile, 36-inch crude oil pipeline that would begin at Hardisty, Alberta and extend southeast through Saskatchewan, Montana, South Dakota and Nebraska. It would incorporate a portion of the Keystone Pipeline (Phase II) through

Nebraska and Kansas to serve markets at Cushing, Oklahoma before continuing through Oklahoma and Texas to terminate in the Texas Gulf Coast refining center. Initially, Keystone XL will have the capacity to transport 700,000 barrels per day (bpd), which can be expanded to over 800,000 bpd with the installation of additional pumping capacity.

TransCanada is currently awaiting a national interest decision from the State Department on its pending application for a Presidential Permit authorizing the Keystone XL Project to cross the U.S./Canada border. In conjunction with the State Department's review of the Presidential Permit application, an extensive, multi-agency environmental review is continuing under the National Environmental Policy Act.

I would like to express TransCanada's appreciation for the sentiments behind the recently proposed North American-Made Energy Security Act, which would require a decision on the pending Presidential Permit application for the Keystone XL Project by a date certain. We believe the legislation contains a number of important findings that highlight and confirm the importance of the Project to the energy security and economic well-being of the United States. We particularly appreciate the Committee scheduling this hearing, which serves to call attention to the need for a timely decision on this application and which creates an environment for reasonable and thoughtful discussion of issues critical to the nation's economic and energy security.

I would like to briefly make a number of points that I believe highlight the need for the Keystone XL Project and for prompt action on the pending Presidential Permit application.

ENERGY SECURITY

The Keystone XL Project is fundamentally about meeting the needs of U.S. crude oil refiners – and hence U.S. consumers -- for a reliable and sustainable source of crude oil to either supplement or replace reliance on declining foreign supplies, without turning to greater reliance on Middle Eastern sources. There can be little dispute that this purpose enhances U.S. energy security at a critical juncture. Moreover, the need for prompt approval of the Keystone XL Project is particularly crucial today when U.S. consumers are struggling to cope with the high cost of gasoline.

The United States has consumed approximately 18 million bpd of petroleum products per year over the last 10 years according to the U.S. Energy Information Administration (EIA). Domestic U.S. crude oil production has averaged a little over 5 million bpd over that same time period and accounts for roughly 25% of U.S. demand. The shortfall of 13 million bpd is imported as either crude oil, 10 million bpd, or petroleum products, 3 million bpd. Canada has the third largest proven reserves of crude oil in the world – 175 billion barrels – behind only Saudi Arabia and Venezuela. By comparison, according to the EIA, the U.S. has about 19 billion barrels of reserves, although this figure may grow as newer production areas – such as the Bakken area in North Dakota and Montana – are further developed. The Canadian reserves represent the largest reserves in the world open to private development. Canada is the United States' largest trading partner and the largest supplier of crude oil to the United States at 1.9 million bpd. Canada shares the democratic principles of the United States and has long been a staunch ally of the U.S. in world affairs.

As the recent State Department Supplemental Draft Environmental Impact Statement (SDEIS) recognizes, the primary purpose of the Keystone XL Project is to provide the infrastructure necessary to transport heavy crude oil from Western Canada to delivery points in the Gulf Coast region in response to the market demand of Gulf Coast refiners for heavy crude oil. This market demand is reflected in the long-term, firm transportation contracts that currently underlie the commercial viability of the Project.

In its review of the Keystone XL Project, the State Department and the Department of Energy commissioned a study by a third party expert to evaluate different North American crude oil transport scenarios to assist the State Department in better understanding the potential impacts of the presence or absence of the Project on U.S. refining, petroleum imports, and international oil markets. The study found that the delivery of western Canadian crude oil to U.S. Gulf Coast refineries by the Keystone XL Project would fill a gap being created by declining supply from traditional heavy crude suppliers, notably Mexico and Venezuela. The study further projected that, absent the Project, this gap would be filled by increases from other foreign suppliers, primarily from the Middle East.

According to the EIA, crude oil imports to the U.S. from Mexico have declined from 1.7 million bpd in 2006 to approximately 1.3 million bpd currently, and are projected to significantly decline further. Over the same time period, Venezuelan imports to the U.S. have declined from 1.4 million bpd to approximately 1.0 million bpd. Although Venezuela has large reserves, their conventional production has been declining while their unconventional production, similar to Canadian oil sands, is growing at a far slower rate according to the EIA International Energy Outlook 2010. Overall growth in

Venezuelan production has likely been slowed by a lack of foreign investment and Venezuela has also been actively trying to diversify their market away from the United States. According to EIA, China is one of the fastest growing importers of Venezuelan crude oil.

In addition to this vitally important role in U.S. energy security, the Keystone XL Project would transport domestic crude oil. The proposed Bakken Marketlink project will provide receipt facilities to transport up to 100,000 bpd of crude oil from the Williston Basin producing region in North Dakota and Montana, to Cushing, Oklahoma and the U.S. Gulf Coast using facilities that make up part of the Keystone XL Project. Further, the Cushing Marketlink project will provide receipt facilities to transport up to 150,000 bpd of locally produced crude oil from Cushing, Oklahoma to the U.S. Gulf Coast, also using facilities that make up part of the Keystone XL Project. If the Keystone XL Project is timely approved, these projects are expected to be in service in 2013.

Furthermore, by transporting crude from growing, secure North American basins in Canada, Montana, North Dakota, Oklahoma, and West Texas to the U.S. refining market, Keystone XL could serve as part of the solution to higher U.S. energy prices by increasing crude oil supply to the United States and improving the perception of future U.S. supply availability. The price of gasoline for much of the U.S. is heavily affected by the refining economics of Gulf Coast refiners because they supply a significant proportion of U.S. gasoline demand. In addition to serving the Gulf Coast states, Gulf Coast refiners provided 18% of the gasoline requirements of the Midwest and 50% of the East Coast states in 2008, according to the State Department's SDEIS.

Specifically the Keystone XL Project could play a role in moderating high gasoline prices by: (i) providing capacity for North American production that is comparable in volume to nearly half of U.S. Persian Gulf imports; (ii) creating new crude oil supply access to Gulf Coast refiners who are vulnerable to OPEC supply disruptions; (iii) providing supply diversity that is comparable in size to recent supply disruption events; (iv) signalling domestic producers to continue to grow production by reducing the risk of constrained market access; (v) sending a powerful message to Canadian producers to continue to bring crude to the United States instead of to foreign countries; and (vi) reducing the risk of future United States supply uncertainty, which reduces the trading activity that puts upwards pressure on crude oil prices.

ECONOMIC IMPACT

Construction and operation of the Keystone XL Project would provide significant economic benefits, with no government subsidy or expenditures. The Project is privately funded and financed and is shovel-ready, waiting only for the pending Presidential Permit decision.

An independent study by the Perryman Group found that the $7 billion Keystone XL Project is expected to directly create more than 20,000 high-wage manufacturing jobs and construction jobs in 2011-2013 across the U.S. and 118,000 person-years of employment, stimulating significant additional economic activity. Today, despite the Federal Recovery Act and the private sector creating hundreds of thousands of jobs in the United States, nearly one in five construction workers are still unemployed and need a job. During the construction of the Keystone XL Pipeline project, workers on the pipeline will be covered by a Project Labor agreement which TransCanada has forged in

collaboration with four international unions that represent a total of 2.6 million working men and women. The Keystone XL Project Labor Agreement is signed by the Pipe Line Contractors Association, United Association of Journeymen and Apprentices of the Plumbing and Pipefitting Industry of the U.S. & Canada General President William P. Hite; International Union of Operating Engineers General President Vincent J. Giblin; Laborers' International Union of North America General President Terence M. O'Sullivan; and International Brotherhood of Teamsters General President James P. Hoffa. The agreement will provide TransCanada with a capable, well-trained and ready workforce in the U.S.

The Perryman study further concluded that, once the pipeline is operational, the states along the pipeline route are expected to receive an additional $5.2 billion in property taxes during the estimated operating life of the pipeline. Finally, the Perryman study found that construction of the Project should provide significant, positive contributions to U.S. energy security and the U.S. economy valued at over $20 billion. In addition to the benefits cited in the Perryman report, the independent Energy Policy Research Foundation has estimated that the Keystone expansion would provide net economic benefits from improved efficiencies in both the transportation and processing of crude oil of $100-$ 600 million annually, in addition to an immediate boost in construction employment.

SAFETY

The Keystone Pipeline system is subject to comprehensive pipeline safety regulation under the jurisdiction of the U.S. Department of Transportation, Pipeline and Hazardous Materials Safety Administration (PHMSA). As the SDEIS recognizes,

PHMSA is responsible for protecting the American public and the environment by ensuring the safe and secure movement of hazardous materials to industry and consumers by all transportation modes, including pipelines. To protect the public and environmental resources, Keystone is required to construct, operate, maintain, inspect, and monitor the pipeline in compliance with the PHMSA regulations at 49 CFR Part 195, as well as relevant industry standards and codes. These regulations specify pipeline material and qualification standards, minimum design requirements, required measures to protect the pipeline from internal, external corrosion, and many other aspects of safe operation.

Above and beyond the PHMSA regulations, Keystone has agreed to comply with 57 additional Special Conditions developed by PHMSA for the Keystone XL Project. Keystone has agreed to incorporate these conditions into its design and construction, and its manual for operations, maintenance, and emergencies required by 49 CFR 195.402. These 57 Special Conditions are attached as Appendix C to the SDEIS. They address issues including (i) steel properties; (ii) pipe manufacturing standards and quality control and assurance; (iii) pipe welding standards; (iv) puncture resistance; (v) pipe testing; (vi) corrosion resistant coating; (vii) construction practices; (viii) depth of cover for the pipeline; (ix) computerized monitoring of the pipeline in operation; (x) internal inspection of the pipeline by special tools ("pigs"); (xi) special corrosion avoidance measures and monitoring; (xii) pipeline marking and patrolling; (xiii) pipeline assessment during its in-service life; and (xiv) special PHMSA reporting and recordkeeping requirements. PHMSA has the authority to inspect and enforce any items contained in the pipeline operator's manual; making the 57 Special Conditions legally enforceable by PHMSA.

PHMSA and the State Department took these 57 Special Conditions into account in the SDEIS. It is significant to note the finding in the SDEIS with respect to these conditions (SDEIS p. 2-9):

> *Incorporation of those conditions would result in a Project that would have a degree of safety over any other typically constructed domestic oil pipeline system under current code and a degree of safety along the entire length of the pipeline system similar to that which is required in High Consequence Areas (HCAs) as defined in 49 CFR 195.450.*

In the event of a disruption, Keystone has a sophisticated series of overlapping computerized leak detection systems that can quickly detect loss of pressure in the pipeline. The pipeline can be quickly shut down remotely from the Operational Control Center and emergency response personnel, pre-staged along the length of the pipeline route, can be quickly deployed with all necessary response assets. As required by the PHMSA regulations, Keystone must prepare a comprehensive emergency response plan and submit it to PHMSA for approval prior to commencing operations. As part of the State Department's review of the project, Keystone was required to present its approach to oil spill response under specific hypothetical spill scenarios to DOS and PHMSA. Based on review of Keystone's response to those scenarios, the SDEIS finds that Keystone's spill response planning "is appropriate and consistent with accepted industry practice" (SDEIS p. 3-122).

COMPREHENSIVE REVIEW PROCESS/LIMITED ADVERSE ENVIRONMENTAL IMPACTS

Finally, I want to emphasize that the Keystone XL Project has undergone a thorough and comprehensive review process – with multiple opportunities for public input -- as is appropriate for a project of this magnitude. Keystone submitted its Presidential Permit application some 33 months ago. Since 2008, Keystone has held over

90 open houses and public meetings along the pipeline route, given hundreds of hours of testimony to local, state, and federal officials, and submitted thousands of pages of information to government agencies in response to questions. In addition, the State Department held 20 public scoping meetings in 2009 in the vicinity of the proposed Project to gather public input on the relevant issues to be considered in its NEPA review.

In April 2010, the State Department published for public comment a comprehensive, multi-volume Draft EIS (DEIS). The pubic comment period on the DEIS was extended to two and a half months. During that time, the State Department received and considered thousands of comments and held 20 additional public meetings along the pipeline route to take oral comments on the DEIS. The DEIS concluded that the proposed Keystone XL Project "*would result in limited adverse environmental impacts during both construction and operation*," assuming that the Project would be constructed in compliance with all laws, regulations, and the environmental specifications and mitigation measures presented in the document.

A full year of additional study followed the release of the DEIS, with the State Department and the cooperating agencies taking into account many issues that were raised in comments on the DEIS. Subsequently, last month, the State Department published the SDEIS, which included new information that became available since the issuance of the DEIS, as well as a number of new studies commissioned specifically for this Project.

It is worth noting that the SDEIS includes consideration of a number of potential alternative routes that were developed and evaluated specifically in response to

comments on the DEIS raising concerns about the proposed route that crosses the Northern High Plains Aquifer system, which includes the Ogallala aquifer. The safety of this aquifer in Nebraska, as well as the Nebraska Sand Hills topographic area, have been issues of some controversy. The SDEIS concludes, however, that the alternative routes do not provide an environmental advantage over the proposed route.

This is not surprising. Keystone understands the importance of Nebraska's special resources, including the Sand Hills region and the Ogallala aquifer. These resources are not placed at risk by the Project and we will not jeopardize them. We will undertake specific construction, reclamation, and post-construction procedures included in the SDEIS to protect the Sand Hills. Moreover, the SDEIS sets forth 16 specific best management practices that will be incorporated into the Project design to reduce potential impacts to the region. As for the Ogallala aquifer, numerous pipelines can and do safely traverse the aquifer. It is instructive to note that 21,000 miles of pipelines currently cross Nebraska, including 3,000 miles of hazardous liquid pipelines. Many miles of these pipelines co-exist within the Ogallala aquifer. Further, 6,000 barrels of oil are produced daily in Nebraska and tens of thousands of barrels are produced in adjacent states through wells that penetrate the Ogallala aquifer. In Nebraska alone, 17 of 18 oil producing counties sit atop the aquifer.

The SDEIS finds that, although the State Department received thousands of comments on a wide variety of topics addressed in the DEIS, no new issues of substance emerged from the comments. Nonetheless, the State Department determined that submitting the sections of the DEIS that were revised to address new and additional information for public and agency comment would further the purposes of NEPA.

Significantly, the SDEIS concludes that the information provided in the SDEIS does not alter the conclusions reached in the DEIS regarding the need for the Project and the potential impacts of the proposed Project.

Contrary to those who have argued that the State Department has engaged in a rush to judgment on this Project, the review process has been extremely thorough and complete. Indeed, the process to date already has substantially exceeded the duration of the two most recent similar cross-border Presidential Permit applications. Keystone concurs with the finding in the proposed legislation that because of the extensive governmental studies already made with respect to the Keystone XL project and the national interest in early delivery of Canadian oil to United States markets, a decision with respect to a Presidential Permit for the Keystone XL pipeline should be promptly issued.

In conclusion, I want to emphasize that Keystone will reduce the United State's reliance on higher-priced foreign oil from Venezuela and the Middle East and replace it with stable, secure supplies from both Canada and the U.S. Keystone will create 20,000 high paying American jobs and 118,000 person-years of employment at a time when unemployment remains high. The Project will inject $20 billion into the U.S. economy and pay billions in taxes for decades to come so communities can build schools and ball fields. This project is needed – the benefits are clear – but time is of the essence to receive the approvals we need to move forward.

Thank you and I would be pleased to address any questions that you may have.

Mr. WHITFIELD. Mr. Symons, you are recognized for 5 minutes.

STATEMENT OF JEREMY SYMONS

Mr. SYMONS. Thank you, Mr. Chairman. Thank you for the opportunity to be here today. My name is Jeremy Symons, I am senior vice president for conservation and education at National Wildlife Federation, which is a nonpartisan, nonprofit organization supported by 47 State affiliates and 4 million conservationists throughout America.

Before I start, I would like to take a moment and offer my condolences to Randy Thompson and his family. Randy's family has a farm in Nebraska, and he wanted to be here today to share his experience with TransCanada bullying them, as they tried to gobble up land for their pipeline route.

But, unfortunately, Mr. Thompson, his mom passed away this weekend and he couldn't make it. Hopefully we can find a way to get his testimony in the record. I am sure that his family, farmers, ranchers, landowners along the pipeline route will look back on this hearing to see—with a lot of interest—to see if Congress is willing to stand up for their rights.

National Wildlife Federation first became engaged in the tar sands issue because Alberta's scorched-earth tar sand operations are the most destructive source of oil on the planet. I personally traveled to Alberta last year to see these operations, and I detailed the impacts in my testimony before the House Committee on Foreign Affairs on March 31st.

In the course of our work, I have come to realize that there is a web of deception surrounding the KXL pipeline scheme that is unlike anything I have seen in my 20 years of experience. My parents taught me that when something sounds too good to be true, you better take a second look. The idea that big oil companies want to spend $13 billion on a pipeline in order to help Americans pay less at the pump sounds too good to be true because it is simply not true. The KXL pipeline scheme is a big oil wolf hiding in Canadian sheepskin.

The risky and unnecessary KXL pipeline will raise gas prices, harm our energy security, and jeopardize some of America's most important clean water supplies. At a time when families are already hurting from spiking gas prices, oil companies want to build a KXL pipeline to increase U.S. gas prices by another 10 to 20 cents per gallon, with the highest price spikes occurring in the Midwest States, Congressman, you mentioned.

This KXL scheme is equivalent to a $4 billion-a-year tax on the oil we are already getting from Canada, with all the money going from American wallets and pocketbooks to oil companies. How do we know? We now have the companies' own documents that spell it out. When making the case for the pipeline to the Canadian government, TransCanada argued that this pipeline would allow Canadian oil companies to increase prices for every barrel of oil that America's already getting from Canada. TransCanada estimated that the KXL pipeline would create a $4 billion annual windfall for Canadian oil companies at our expense.

Mr. Burkhard mentioned that prices have gone up on world oil for $19 a barrel since the outbreak of violence in Libya. What hasn't been mentioned is that the price of Canadian oil has gone up $30 a barrel in that same time frame. That doesn't sound like a friendly Canadian neighbor. That sounds like the same old oil companies that won't let any global crisis go to waste.

Piping Canadian oil across America does not make it American oil. The KXL pipeline scheme opens the Canada-China oil route that oil companies have long sought. The pipeline will take Canadian oil that is already flowing to America in the Midwest refineries, and instead send it to refineries on the Gulf Coast, where they can export it.

The data show that the KXL pipeline will do nothing to reduce our reliance on oil from hostile nations. A study commissioned by the Department of Energy concluded that the pipeline, "Will not, of itself, have any significant impact on the U.S. oil imports."

The State Department's latest impact assessment has concluded that the proposed project would not subsequently influence the overall volume of crude oil transported to the U.S. refined in the U.S.

The oil companies behind this project are desperate for Congress and the administration to rush the approval of this pipeline scheme because the truth is finally coming to light. From the very beginning, TransCanada has mislead the U.S. State Department about the purpose of this pipeline. By hiding the ball in its permit application, TransCanada itself is responsible for any delays going forward as the facts are investigated. The arbitrary deadline included in the discussion draft would reward TransCanada for failing to be as transparent and forthcoming here today and in its permit application to the U.S. Government as they were with Canada in their application to the Canadian government.

The arbitrary deadline could also prevent the consideration of safety findings from several recent catastrophic ruptures of tar sludge pipelines. These investigations are not complete. Even though tar sands supply only a small fraction of the oil we consume, the pipelines carrying tar sands account for over half of all crude oil spilled in the U.S. In 2010.

According to EPA, the toxic tar sludge from another massive spill to the Kalamazoo River watershed in Michigan has defied cleanup efforts because the heavy tar sludge sunk quickly beyond the reach of skimmers. Residents are still dealing with the health impacts of thousands of great blue heron, geese, swans and other wildlife have been killed. Transplanted as latest state-of-the-art pipeline, Keystone 1 has had 11 leaks in less than a year of operation.

These recent spills are clear warnings that America's outdated pipeline safety laws are not prepared for highly corrosive and toxic tar sludge. And I urge the committee to set aside the idea of an arbitrary deadline and instead, take a more critical and independent look at the what this pipeline scheme really means for gas prices, for energy security, and for America's clean water supplies, thank you.

Mr. WHITFIELD. Thank you.

[The prepared statement of Mr. Symons follows:]

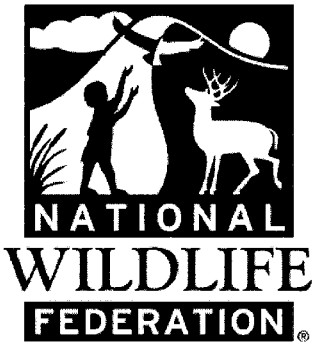
Testimony of

Jeremy Symons
Senior Vice President, Conservation and Education
National Wildlife Federation

Before the

House Energy and Commerce Committee
Subcommittee on Energy and Power

May 23, 2011



Chairman Whitfield, Ranking Member Rush, members of the subcommittee, thank you for the opportunity to be here today to testify on the proposed Keystone XL pipeline and Chairman Upton's legislative discussion draft.

National Wildlife Federation is a non-partisan, non-profit organization. Our mission is to inspire Americans to protect wildlife for our children's future. National Wildlife Federation is supported by 47 state and territorial affiliates and 4 million members and supporters across the nation. Our members include hunters, anglers, backyard gardeners, birdwatchers and outdoor enthusiasts from throughout the nation.

I have been personally working at the intersection between energy and environmental policies for the past twenty years. Last year, I travelled to the tar sands of Alberta to learn firsthand about the Canadian oil operations.

In testimony before the House Committee on Foreign Affairs Subcommittee on the Western Hemisphere on March 31, I shared some of the photos I took of the vast destruction of wildlife habitat and the harm to communities that is occurring in Canada as a result of the continued expansion of tar sands operations to feed our dependency on foreign oil, and video of that testimony is available on the Committee's website.

Summary

Oil companies want to build a 2,000-mile pipeline to carry tar sludge under high pressure from Alberta to Texas refineries, where it can be refined to gasoline. The price tag is reported to be $13 billion. They plan on operating the pipeline for at least 50 years.

Families everywhere are hurting from spiking gas prices. The dangerous and unnecessary Keystone XL proposal is an oil company scheme to increase U.S. gas prices by 10-20 cents per gallon, with the highest price spikes in the Midwest United States. The pipeline scheme will raise gas prices, hurt our energy security and jeopardize vital clean water supplies. The pipeline is equivalent to a $4 billion a year tax on oil we already get from Canada, with all the money going from American wallets and pocketbooks to oil companies.

The Keystone XL pipeline scheme is an oil company wolf hiding in Canadian sheepskin. Big oil's claims that this pipeline will help our energy security are a carefully fabricated mirage. The data show that the Keystone XL (KXL) pipeline will do nothing to reduce our reliance on oil

from hostile nations. A study commissioned by the Department of Energy concluded that the pipeline "would not of itself have any significant impact on U.S. oil imports."[1]

To the contrary, the Keystone XL pipeline scheme opens the Canada-to-China oil route that oil companies have long sought. The pipeline will take Canadian oil that is already flowing to America away from U.S. refineries in the Midwest and send it instead to foreign-owned refineries on the Gulf Coast for export.

The oil companies behind this project are desperate for Congress and the Administration to rush the approval of this pipeline scheme because the truth is finally coming to light. For example, even as we sit here today, the Federal Trade Commission is considering whether to open an investigation into the plans of oil companies to use KXL to manipulate and increase gas prices for Americans.

The proposed discussion draft takes us in the wrong direction by imposing an arbitrary date of November 1 for a final determination on the Presidential permit needed to build the pipeline. President Obama must decide if this pipeline is in America's 'national interest' before giving the green light to foreign energy companies, who would then use eminent domain to force Americans to give up their land.

We now have evidence that from the very beginning, the Canadian energy company Transcanada misled the U.S. State Department about the purpose of this pipeline. By hiding the ball in its permit application, Transcanada caused the very delays that they are now whining about. To this day, Transcanada is blowing smoke to hide the true motives for this pipeline and hide the high risk of transporting pressurized, toxic tar sludge by pipelines.

The arbitrary deadline suggested in the legislation also short-circuits the administration's ability to investigate and consider safety lessons that can be learned from several catastrophic ruptures of tar sludge pipelines have occurred since Transcanada submitted its KXL application. Even though tar sands supply only a small fraction of the oil we consumer, the pipelines carrying tar sands accounted for over half of all crude oil spilled in the U.S. in 2010.

The most recent spill of 1.3 million gallons occurred only one month ago in Alberta. According to EPA, the toxic tar sludge from another massive spill – into the Kalamazoo River in Michigan last year – has defied cleanup efforts because, unlike lighter crude oil, the heavier tar sludge that was spilled has sunk in the river beyond the reach of skimmers and absorbents.

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[1] EnSys Energy & Systems, Inc."Keystone XL Assessment," Prepared for the U.S. Department of Energy, December 23 2010. Also see: Ensys' "Response to Reuters on Keystone XL Assessment Report" at http://www.ensysenergy.com/files/ResponsetoReutersonKeystoneXLassessmentreport.pdf

These recent spills are clear warnings that America's outdated pipeline safety laws are not prepared for the highly corrosive and toxic tar sludge that is proposed to be pressurized and sped through 2,000 miles of KXL pipeline, crossing some of America's most important sources of clean water. The investigations into these pipeline ruptures are not even complete, and there needs to be time to incorporate safety lessons learned from the disasters that are occurring right before our eyes. We are particularly alarmed that the Pipeline and Hazardous Materials Safety Administration (PHMSA) has neglected its responsibility to update safety laws for the tar sludge pipelines that are now hemorrhaging. The old standards that are routinely failing, and the State Department is not equipped to update safety criteria and protect the lands and the waters of the United States.

I urge the committee to set aside the idea of an arbitrary deadline and instead take a more critical and independent look at what this pipeline scheme really means for gas prices, energy security and America's clean water resources.

The energy investments we make today will determine our kids' energy future for decades. When our kids grow up, they should be benefiting from American clean energy, not hooked on expensive and destructive tar sludge from Canada.

Canadian Oil Provides Security for Canadian Oil Companies, not American Families

Expanding our reliance on expensive Canadian oil offers nothing more than a mirage of energy security. Like oil companies everywhere, Canadian oil companies believe that a crisis is a terrible thing to waste. We are getting a bitter taste right now of what oil companies have in store for us if we increase our dependency on Canadian oil. According to the U.S. Energy Information Administration, Americans are paying $30 more barrel than we were paying before violence broke out three months ago in Libya.[2] That is not economic security and that is not energy security. That is windfall profits for Canadian oil companies and pain for American families.

The profiteering of Canadian oil companies in the wake of unrest halfway around the world should remind us that our friendly relations with Canada count for nothing when times get tough for American families trying to fill up their cars at the pump.

Keystone XL Pipeline Opens Canada's Gateway to China

[2] http://www.eia.doe.gov/dnav/pet/hist/LeafHandler.ashx?n=PET&s=WEPCCAHAR&f=W

Piping Canadian oil across America does not make it American oil. In fact, KXL would amount to less oil for America, not more. Oil companies want Keystone XL built so they can access the deepwater ports of the Gulf Coast refineries. In fact, a major expansion of refining capacity in Texas is being financed by Saudi Arabia's state-owned oil company, Saudi Aramco. Another possible destination of the oil is a Citgo refinery owned by Venezuela.

Increasingly, America is becoming the middle man in the global oil business. We import vast amounts of crude oil, but are exporting more and more refined oil products such as diesel and gasoline from Gulf Coast refineries owned by global oil companies. Exports have doubled in the past five years, and our exports of refined oil products are currently larger than our total imports of Canadian tar sands oil and tar sludge combined.

Dr. Philip K. Verleger, Jr., President of PKVerleger, LLC and an experienced oil economist, recently wrote an analysis of the Keystone XL pipeline and titled it: "The Tar Sands Road to China." Dr. Verleger concluded that "the pipeline, if built, will facilitate Canadian crude exports to China rather than the United States." Dr. Verleger further explains:

> "The completion of the Keystone XL pipeline would create a surplus in the U.S. Gulf. This surplus would require some oil to move from the Gulf to other markets unless existing importers vacate the market. As noted below, existing importers are not expected to concede market share to Canada. Instead, some Canadian oil will need to be exported from the Gulf. At this point, Asia would be the clearing market."

Earlier this year, the CEO of Valero Energy, one of the companies that has signed up to ship oil through KXL, said that "the future of refining in the U.S. is in exports." In his paper, Dr. Verleger notes that "Valero has every reason to want the pipeline built. It also has every reason to want a significant volume of Canadian crude to be exported to China."

Keystone XL Pipeline Will Increase Gas Prices 10-20 Cents per Gallon

My parents taught me that when something sounds too good to be true, you better take a second look. The idea that big oil companies want to spend $13 billion on a pipeline in order to help Americans at the pump sounds too good to be true because it simply isn't true.

Recently uncovered documents have revealed the true motivations for this pipeline: price manipulation. In seeking their Canadian permit, TransCanada argued that the pipeline would allow Canadian oil companies to increase prices for all the oil Canada is already selling the U.S. They submitted a market analysis that put a number on the windfall that the U.S. would hand over to Canadian oil companies: $4 billion annually. According to Transcanada:

> The "increase in the price of heavy crude [as a result of building Keystone XL] is estimated to provide an increase in annual revenue to the Canadian producing industry in 2013 of U.S. $2 billion to U.S. $3.9 billion."[3]

Dr. Verleger explains Transcanada's analysis: "In simple terms, the TransCanada application states that the firm will be able to use its market power to raise the heavy crude price to Midwest refiners above the level that would prevail in a competitive market."

All of this money would be an increased price for the oil the United States is already receiving from Canada via the ample existing pipeline capacity. This sounded great to the Canadian government. Not surprisingly, Transcanada didn't mention higher Midwest gas prices and profits in their application to the U.S. government.

Here's how the price manipulation works: Canada currently has only one choice of where to send its oil – the United States. We currently have surplus pipeline capacity to carry all the oil Canada can provide to America's Midwest.[4] Once Canadian oil companies have the option of shifting oil from the Midwest to Gulf ports, and then to anyplace in the world, they can manipulate supplies to different destinations and increase oil prices.

In an Op Ed in the Minnesota StarTribune, Dr. Philip Verleger explained how this would affect U.S. farmers and consumers:

> "U.S. farmers, who spent $12.4 billion on fuel in 2009, according to the U.S. Department of Agriculture, could see their expenses rise to $15 billion or higher in 2012 or 2013 if the pipeline goes through. At least $500 million of the added expense would come from the Canadian market manipulation… In addition, millions of Americans will spend 10 to 20 cents more per gallon for gasoline and diesel fuel…."[5]

The EnSys report commissioned by the Department of Energy also concluded that Keystone XL would raise oil prices in the Midwest.

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[3] Keystone XL Pipeline Section 52 Application, Section 3.4.3, "Crude Pricing Impact," p. 7.

[4] The United States imports about one million barrels per day (bpd) of tar sands products, and we have about 2.4 million bpd of pipeline capacity for tar sands products. Keystone XL would add 900,000 bpd to that capacity, increasing total pipeline capacity to 3.3 million bpd – three times current production levels. According to the Canadian petroleum industry, tar sands production can't achieve that production levels for at least 15 years (Canadian Association of Petroleum Producers, "2010-2025 Canadian Crude Oil Forecast and Market Outlook," http://www.capp.ca/forecast/Pages/default.aspx#l83ylAMX10Tf). The DOE-commissioned EnSys report, referenced in the State Department's Supplemental Draft Environmental Impact Statement (SDEIS), concluded that "Keystone XL would increase the cross-border capacity surplus such that it would then persist until 2020 or later."

[5] Philip Verleger, "If gas prices go up further, blame Canada," *Star Tribune*, March 13, 2011.

The companies that stand to profit most from this operation are those with the biggest share of Canadian oil sales, including Flint Hills Resources Canada, a subsidiary of Koch Industries. The company has billed itself as "among Canada's largest crude oil purchasers, shippers and exporters."

The Keystone XL Pipeline: Dangerous and Risky

Before new tar sludge pipelines are built, America needs updated pipeline regulations that address the safety challenges of carrying corrosive and toxic tar sludge under the high pressures required. The proposed route of Keystone XL through the most sensitive area of the Ogallala Aquifer in Nebraska, which provides irrigation for much of America's breadbasket and drinking water for over 2 million people, is particular cause for concern. Nebraska Republican Senator Mike Johanns has observed:

> "[There] could not be a worse route in the entire state of Nebraska ... Maybe couldn't be a worse route in the entire country."

Landowners along Keystone XL's proposed right-of-way are routinely bullied by Transcanada, who has threatened these landowners with eminent domain. These landowners are right to ask questions about the safety of the pipelines and demand better answers than the vague assurances and threats they are getting.

Alberta pipelines transporting tar sands sludge have 16 times the number of accidents as U.S.[6] Just last month, the Rainbow pipeline, which carries both conventional oil and tar sludge, leaked 1.3 million gallons in Alberta.

The U.S. pipeline with the longest history of moving tar sludge, Enbridge's pipeline system, accounted for over half of all crude oil spilled in the U.S. in 2010. This includes the pipeline rupture that spilled over 840,000 gallons of tar sludge into Michigan's Kalamazoo watershed, where benzene and other toxins triggered health problems for 58% of nearby residents. Residents are still dealing with those problems more than a year later and fighting for the health tests they need. More than 50 homes have been abandoned. Drinking wells have been contaminated. The housing market in the area has been redlined by the mortgage industry, blocking new home loans. More than 3,000 great blue herons, geese, swans, beaver, and other wildlife were harmed by the Enbridge spill. According to the U.S. Fish and Wildlife Service, two out of three impact birds and animals were killed by the toxic tar sludge.

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[6] *Tar Sands Pipeline Safety Risks*, published by NRDC, National Wildlife Federation, Pipeline Safety Trust, and Sierra Club.

Cleanup of the river is still ongoing, nearly a year later. Mark Durno, the EPA official overseeing the effort, explains the reason:

> "I truly believe the characteristics of this material is the reason we still have such a heavy operation out here. Because it was a very heavy crude, we ended up with a lot more submerged oil than we anticipated having to deal with."[7]

The U.S. domestic on-shore pipeline system is not designed to handle tar sludge and the Keystone XL pipeline is no exception. TransCanada's first "fail-safe" tar sludge pipeline, Keystone I, has had eleven leaks in less than a year of operation. The largest of these was over 21,000 gallons a few weeks ago in South Dakota. The leaks in the new Keystone pipeline are the canary in the coal mine, portending worse things to come. The risks associated with diluted bitumen piped at high pressure - including internal corrosion, abrasion and stress corrosion cracking – only weaken pipelines over time.

Keystone XL would be built using the same materials and essentially the same methods as Keystone I. This includes a list of fifty seven conditions that, rather than making the pipeline safer by targeting the risks of raw tar sands, will actually allow TransCanada to apply for a permit to operate at higher pressure, using thinner steel, than pipelines carrying less dangerous products.

We should learn from the lessons of the BP disaster in the Gulf. The President's oil spill commission concluded:

> "Regulators, however, failed to keep pace with the industrial expansion and new technology–often because of industry's resistance to more effective oversight. The result was a serious, and ultimately inexcusable, shortfall in supervision of offshore drilling that played out in the Macondo well blowout and the catastrophic oil spill that followed."

National Wildlife Federation urges Congress to act on the *Pipeline Transportation Safety Improvement Act of 2011*, which calls on our pipeline safety regulators to study the risks of pipelines that carry raw tar sands. We should not build the massive KXL until we know how to do so safely. We should not put our water and lands at risk for a pipeline that is forced on landowners and will only increase our gas prices.

Alberta's Tar Sands: The Most Destructive Source of Oil on the Planet

Alberta's scorched earth tar sands operations are the most destructive source of oil on the planet. It can take 5 barrels of clean water and four tons of sand to squeeze out one barrel of tar sludge. This tar sludge, called bitumen, is so thick and heavy that it must be heated or diluted and

[7] http://www.environmentreport.org/show.php?showID=520

pressurized to transport it through a pipeline to refineries, where it is turned into diesel and gasoline. Because it is so heavy and dirty, it requires special refining operations. Much of that refining is now happening in the United States, as Canada ships raw tar sludge to refineries in the Midwest.

Last year, I flew over the tar sands operations around Fort McMurray, a frontier town that serves as the hub of the tar sands expansion. As far as the eye could see, barren strip-mined wasteland and lakes full of toxic waste had replaced pristine forest that had been home to abundant wildlife. The scale was shocking and difficult to imagine.

The toxic lakes kill thousands of migratory birds and other wildlife that come in contact with it every year, and the bigger the operations get, the more wildlife will perish. This includes migratory birds, particularly waterfowl that winter in the U.S. and are an important part of America's great outdoors. Pollution from the production of tar sands oil is equally alarming, causing three times more carbon emissions than conventional oil extraction.

We also met with First Nation communities in the area. Their proud heritage, stretching back generation after generation, has reached a tragic crossroads. I listened as they told the heartbreaking story of how cancer rates have increased as the tar sands operations have expanded. One elder told me that parents close their kids indoors when the air pollution gets too noxious. Large volumes of toxic waste leaks into the Athabasca River every year, contaminating water supplies and fish. These communities once depended on fish and game for food. The fish are now too contaminated to risk eating. They have to drive dozens of miles to get past the mining and reach forest for hunting, but populations of Caribou and Moose have plummeted.

Aware of the implications these impacts have for business, the oil companies and the Alberta Government have worked together to downplay, discount, and silence concerns. They have also lobbied against U.S. federal and state policies to promote cleaner fuels, joining forces with the oil industry.

A Better Path for America's Energy Future

Events in North Africa and the Middle East and rising gas prices once again underscore our dangerous addiction to oil and the high price we pay due to the instability of global oil markets. As our quest for oil has gotten more and more desperate, we are turning to extreme oil supplies like ultra-deepwater drilling in the Gulf of Mexico, starting drilling operations in perilous Arctic seas, and squeezing tar sludge out of the tar sands of Canada to convert to oil.

Chasing increasingly expensive and dangerous forms of oil is a dead-end strategy that passes the energy buck to future generations while harming people's health and the natural world that sustains us. We are rushing to chase these dead-end energy strategies recklessly, without taking

responsibility and the time to maximize safety and protect the jobs, people and wildlife that are put at risk from oil spill disasters.

The best path to energy security is innovation in our transportation and fuels sectors that will create jobs and provide Americans a healthier, cleaner and more secure energy future. With American leadership in rapidly growing advanced transportation industries, we can replace a huge trade deficit in oil with domestic jobs and manufacturing exports.

Congress needs to act now to launch an aggressive plan that includes real solutions to slash our dependence on foreign oil. The centerpiece of any plan should be to stop wasting oil by giving Americans better transportation choices and more efficient technologies. New and proposed fuel economy standards would cut America's demand for gasoline by a third over the next 20 years. That is 4 times the oil that could be delivered by Keystone XL, without any need for the devastating environmental destruction that attends it. The combination of strong efficiency standards, and public and private investment in cutting-edge American manufacturing, is already providing exciting new choices that deeply cut household and business fuel bills, while retaining or enhancing vehicle performance.

Cities and states across the country should pursue innovative and effective high speed rail, transit, and freight projects that boost local and regional economic development and cut oil use and pollution. These projects also improve our quality of life, modernize our cities, and drive robust job growth in domestic manufacturing, infrastructure construction and operation. Just as the creation of the highway system reshaped America in the 20th century, we now need a 21st century American infrastructure necessary to cut our oil addiction.

Looking to the future, electric cars are an example of using new technologies and new thinking to move beyond oil. Electric cars now being sold can "fill up" for the equivalent of about 75 cents per gallon. The challenges are the initial cost and purchase price. As technology improves and manufacturers gain production experience, the costs of these new technologies will fall while performance increases. It will take a sustained commitment to cleaner fuels, cleaner cars, and clean electricity (such as offshore wind production) to make this vision a reality.

Mr. WHITFIELD. Mr. Smith, you are recognized for 5 minutes.

STATEMENT OF MURRAY SMITH

Mr. SMITH. Thank you. Thank you, Chairman Whitfield, Ranking Member Rush, members of the committee. My name is Murray Smith, I am a former elected member of the Alberta legislature. I served from 1993 to 2004. I served in various cabinet portfolios, including the Minister of Energy for 2001 to 2004. And I served at the request of Alberta's premiere, Alberta's first official diplomatic representative to the United States from 2005 to 2007. Today, I serve on various boards in the energy sector, and it is a privilege to be here to discuss U.S. energy supplies.

Firstly, let me thank the United States for being Alberta's top customer for natural gas and crude oil for the last 50 years. Today's hearing recognizes the importance of North American energy and the pressing need for new infrastructure to ensure North America's resources are being used to the advantage of consumers throughout the country.

I also want to recognize the great contribution citizens of this country have made in developing a strong, vibrant and responsible energy industry in Alberta. The 50-year relationship has built strong bonds between the two countries and created wealth and prosperity for citizens on both sides on the 49th parallel. This energy relationship is deemed to be so important by the two countries that the North American Free Trade Agreement has a separate energy section that encompasses this relationship that ensures continued uninterrupted flow of energy from the U.S. To Canada. It is on this strong foundation that the opportunity to expand shipments with new pipelines has become a reality.

Today, the U.S., while we hold this hearing, the U.S. will receive about 1.6 billion barrels of oil from Alberta and about 2 million barrels in total from all of Canada. Canada's your largest non domestic supply of oil providing over 9 percent of the total daily oil needs of this great country. Alberta's home to the third largest proven oil reserves in the world, totaling over 170 billion barrels. In context, Mr. Chairman, Alberta covers an area of 256,000 square miles, slightly smaller than the State of Texas, but producing about one and a half times of amount of oil that Texas produces. We expect this production to increase over the next decade.

Alberta's oil sands are an important component to the U.S. Recovery program. Producing oil from Alberta's oil sands adds great economic value to the economy of the U.S., billions of dollars and thousands of jobs generated each year. 470-ton trucks called Caterpillar 797Bs are manufactured in Decatur, Illinois. Each truck sells for U.S. $5 million. The engines are made in Indiana and tires come from South Carolina. The shovels that fill these large trucks in four scoops come from Bucyrus in Wisconsin, now owned by Caterpillar. Consulting and fabrication expertise for extraction and separation equipment comes from U.S. companies. One of them just received a billion-dollar contract for a new oil sands facility. Upgrades to refineries, to process Alberta in the U.S. Creates new jobs for construction workers, trades people, engineers and steel manufacturers. These expansion will increase volumes of Alberta oil in

the major U.S. market. Multiple studies have placed job creation in excess of 13,000.

Clearly, Mr. Chairman, Alberta oil delivers more economic value per barrel than any other barrel of oil imported into the U.S. And it arrives by underground pipeline in a safe, uninterrupted secure supply 365 days a year.

Unlike an oil tanker that can be treated many times and increase in price from time of shipment to arrival in the U.S., pipeline crude is contracted at an initial strike price and leaves little or no room for price speculation to its journey to the destination terminal.

Canada, predominantly Alberta, has been the premier supplier of crude oil refined products in the U.S. for the past 8 years. We have helped replace declining U.S. Production, reduced imports from Venezuela, reduced imports from non continental oil supply.

Oil and gas companies spend more money on environmental issues than any other sector in the Canadian economy. Companies continue every day to improve the efficiency costs of environmental sustainability of oil sand operations. Air quality in Ft. McMurray exceeds that of that Toronto 98 percent of the time, and New York City 100 percent of the time. Carbon emissions from oil sands production differ only marginally from heavy oil production, Venezuela, Mexico and the heavy oil of California.

Mr. Chairman, the dynamic tension of environmental pressures in cost efficiency serve to reduce oil sands greenhouse gas emissions as proved by industry's record of reducing emissions annually. Personally, I serve on the board of two emerging technologies designed to reduce emissions and surface disturbance. N Solv is a solvent-based technology that reduces greenhouse gas emissions by some 85 percent, and uses no water in its in situ oil sands extraction.

Today there is about $15 spread between foreign oil imported form offshore sources, North Sea Brent, and west Texas intermediate, or oil priced North America. If we find these in the Gulf coast, could we find Alberta crude consumers could expect a savings at the pump from crude oil replacement for some million barrels a day. It also lessons the pressure on U.S. defense spending protecting vital oil supply lines across the world.

In order to start this new cycle of U.S. job creation, increased oil supply, secure oil supply and downward pressure and gas prices, a permit to construct Keystone should be initiated to start the process. The opportunity is now. In 2003, when the EIA recognized Alberta's 174 billion barrels of produceable reserves, I was the Minister of Energy for the province. I knew this global recognition would create an avalanche of investment. In the past years, well over $40 billion has been invested. Today's oil sand investors include China, South Korea, Japan, Thailand, Norway, France and U.S. private sector companies. A pipeline is in the permitting process to move Alberta crude to a port in western Canada and from there to Asia. Once new markets are reached, the product will be forever lost to the U.S.

If The U.S. delays, it will never recover the opportunity it stands to gain today by expending pipeline infrastructure now. Canada and Alberta have stood shoulder to shoulder with the U.S. through

World War I, World War II and today as we meet, our troops are deployed in Afghanistan and fly together Libya. We have fought together, and we have died together and now we can build together. We can build a stronger North America, a more secure North America, and a more prosperous North America. Thank you.

[The prepared statement of Mr. Smith follows:]

WRITTEN STATEMENT

HEARING ON "THE AMERICAN ENERGY INITIATIVE"

FROM

MURRAY SMITH, CALGARY, ALBERTA, CANADA

BEFORE THE

HOUSE COMMITTEE ON ENERGY AND COMMERCE

SUBCOMMITTEE ON ENERGY AND POWER

U.S. HOUSE OF REPRESENTATIVES

MAY 23, 2011

SUMMARY OF MAJOR POINTS

- Today's hearing recognizes the importance of North American energy and the pressing need for new infrastructure to ensure North America's resources are able to be used to the advantage of consumers in the U.S.
- Today, the U.S. will receive over 1.6 million barrels of oil from Alberta, and about 2 million barrels from all of Canada.
- Producing oil from Alberta's oil sands adds great economic value to the economy of the U.S. Billions of dollars and thousands of jobs are generated each year in the U.S. from investment and construction in Alberta's oil sands.
- It is clear that Alberta oil will deliver **more economic value** per barrel than any other barrel of oil imported into the U.S.
- All oil from Canada arrives via underground pipelines in a safe uninterrupted secure supply 365 days a year. Unlike an oil tanker that can be traded many times and increase in price from time of shipment to arrival in the U.S., pipeline crude is contracted at an initial strike price and leaves little to no room for price speculation through its journey to destination terminal.
- In order to start this new cycle of U.S. job creation, increased oil supply, secure oil supply, and downward pressure on gas prices at the pump, a permit to construct Keystone XL is critical.

Good afternoon Chairman Whitfield, Ranking Member Rush, and members of the committee. I am Murray Smith, a former elected member of the Legislative Assembly of Alberta, Canada from 1993 to 2004. I served in various cabinet portfolios, including Minister of Energy from 2001 to 2004. After leaving politics I served, at the request of Alberta's Premier, as Alberta's first official diplomatic representative to the United States of America from 2005 to 2007. Today I serve on various Boards of Directors in the energy sector. It is a privilege to be here today to discuss U.S. energy supply.

I want to thank the U.S. for being Alberta's top customer for natural gas and crude oil for the past 50 years. Today's hearing recognizes the importance of North American energy and the pressing need for new infrastructure to ensure North America's resources are able to be used to the advantage of consumers in the U.S.

I also want to recognize the great contribution U.S. citizens and U.S. companies have made to develop a strong vibrant and responsible energy industry in Alberta.

This fifty-year energy relationship has built strong bonds between the two countries and created wealth and prosperity for citizens on both sides of the 49th

parallel. This energy relationship is deemed to be so important by the two countries that the North American Free Trade Agreement has a separate energy section that encompasses this relationship and ensures continued uninterrupted flow of energy into the U.S. from Canada.

It is on this strong foundation that the opportunity to expand hydrocarbon shipments with new pipelines has become a reality.

Today the U.S. will receive about 1.6 million barrels of oil from Alberta and about 2 million barrels from all of Canada. Canada is your largest non-domestic supplier of oil, providing over 9 percent of the total daily oil needs of your great country.

Alberta is home to the third largest proven oil reserves in the world totaling 171.3 billion barrels. To provide context, Alberta, covers an area of 256,000 square miles, slightly smaller than the state of Texas, which covers 269,000 square miles. Today Alberta produces about 1 ½ times the amount of oil that Texas produces. Alberta's production is expected to increase to over 3 million barrels a day by the end of the decade.

Alberta's oil sands are an important component to the U.S. Recovery Plan. Producing oil from Alberta's oil sands adds great economic value to the economy of the U.S. Billions of dollars and thousands of jobs are generated each year

from investment and construction in Alberta's oil sands.

470-ton trucks called Caterpillar 797Bs are manufactured in Decatur, Illinois. Each truck sells for about US$5 million. The engines are made in Indiana and tires come from South Carolina. The shovels that fill these trucks, in just 4 scoops, come from Bucyrus in Wisconsin (now owned by Caterpillar of Peoria).

Consulting and fabrication expertise for the extraction and separation equipment comes from U.S. companies, one of whom just received a $1 billion contract for a new oil sands facility.

Upgrades to refineries to process Alberta oil in the U.S. creates new jobs for construction workers, trades people, engineers, and steel manufacturers. These expansions will process increased volumes of Alberta oil into major U.S. markets. Multiple studies have placed job creation in excess of 13,000 direct and over 34,000 jobs in total just for pipeline expansion. This clearly demonstrates that Alberta oil delivers more economic value per barrel than any other barrel of oil imported into the U.S.

All oil from Canada arrives via underground pipelines in a safe uninterrupted secure supply 365 days a year. Unlike an oil tanker that can be traded many times and increase in price from time of shipment to arrival in the U.S., pipeline crude is contracted at an initial strike price and leaves little to no room for price

speculation through its journey to destination terminal.

Canada, and predominantly Alberta has been the premier supplier of crude oil and refined products to the U.S. for the past 8 years. Expansion of supply from Canada has helped replace declining U.S. production, reduced imports from Venezuela, and can over time reduce America's dependence on non-continental oil supply.

Oil and gas companies spend more money on environmental issues than any other sector in the Canadian economy.

Companies continue every day to improve the efficiency, cost and environmental sustainability of oil sands operations. Air quality in Fort McMurray exceeds Toronto 98% of the time and New York City 100% of the time.

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Personally, I serve on the Board of two technologies designed to reduce

emissions and surface disturbance. N Solv is a solvent-based technology that reduces GHG emissions by 85% and uses no water in its in situ oil sands extraction.

Today there is about a $15.00 spread between foreign oil imported from offshore sources (North Sea Brent) and WTI or oil priced in North America. If refineries in the Gulf Coast could refine Alberta crude, consumers could expect a noticeable savings at the pump from crude oil replacement of a million barrels/day.

Increased volumes from North America also lessen the pressure on U.S. defense spending protecting vital oil supply lines.

In order to start this new cycle of U.S. job creation, increased oil supply, secure oil supply and downward pressure on gas prices at the pump, a permit to construct Keystone XL must be initiated to start the process. The opportunity is now.

In 2003, when the EIA recognized Alberta's 174 billion barrels of producible reserves, I was the Minister of Energy for the Province. I knew this global recognition would create an avalanche of investment. In the past 8 years, well over $40 billion has been invested. Today oil sands investors include China, South Korea, Japan, Thailand, Norway and France.

A pipeline is in the permitting process to move Alberta crude to a port in Western Canada and from there to Asia. Once new markets are reached the product will be forever lost to the U.S.

If the U.S. delays, it will never recover the opportunity it stands to gain today by expanding pipeline infrastructure now.

Canada and Alberta have stood shoulder to shoulder with the U.S. from World War I to World War II and today as we meet, our troops are deployed in Afghanistan and now our Air Forces in Libya. We have fought together; we have died together, now we can build together. We can build a stronger North America, a more secure North America and a more prosperous North America.

Thank you for this opportunity to present and I do look forward to your questions and comments.

Murray Smith, Calgary, Alberta, Canada

Mr. WHITFIELD. Mr. Kelly, you are recognized for 5 minutes.

STATEMENT OF STEPHEN KELLY

Mr. KELLY. Thank you, Mr. Chairman.

Mr. WHITFIELD. Be sure and turn your microphone on.

Mr. KELLY. I am sorry.

Thank you, Mr. Chairman, Ranking Member Rush, Ranking Member Waxman and Members. My name is Stephen Kelly. I am the assistant general president of the United Association of Plumbers and Pipefitters, or the UA. We represent over 340,000 members employed in the plumbing and piping industry here and in Canada. I thank you for allowing me the opportunity to provide testimony with regard to the Keystone XL project.

In a word, the UA strongly supports this project and the draft legislation to expedite its approval. We have a number of reasons for supporting this. This is a mega-project in the construction industry, and it is estimated that somewhere in the neighborhood of $20 billion will be injected into the U.S. economy. This project generates thousands of good, high-quality jobs, and this country desperately needs such work. This will produce other economic benefits, including economic stimulus in the affected States and cities and new tax revenues.

At the same time, Keystone will increase our Nation's long-term security by accessing oil from our friendly neighbors to the north, from Canada. This project is financed solely from private dollars, and the benefits coming to the United States are at zero cost to the taxpayer.

This project will generate somewhere in the neighborhood of 13,000 construction jobs. In a time of recession, the construction industry is hit first and hardest, and in the current climate where we are facing nearly 20 percent unemployment, we also have pockets that exceed 40 percent unemployment, we need these jobs desperately. The 13,000 construction jobs mentioned are high-paying jobs that include health and welfare as well as pension benefits. These are the kinds of jobs that make America strong.

Construction jobs are only the beginning. It is estimated that during the construction of the pipeline, there will be 7,000 manufacturing jobs which are associated with producing the raw material that is needed for the pipeline. It is also estimated that over 100,000 jobs that are related to the pipeline, whether it be design, construction or operation, will be generated. In fact, according to a study released this month by the Canadian Energy Research Institute, the number of U.S. jobs associated with Canada's oil sands is expected to go from 21,000, as counted in the year 2010, to approximately 465,000 by 2035. There will be a tremendous influx in personal income to the workers, and this helps to generate the tax revenue that is so desperately needed by our States and local governments.

Experts project the U.S. will need oil and natural gas supplies to meet more than half of our Nation's energy needs through 2035. The reality is that we have to pursue all available new and alternative energy sources, but we are going to be dependent on carbon fuels for the foreseeable future and we need to procure them from the most reliable source.

Keystone offers us a solid partnership with one of our closest and most trusted allies, and provides a reliable long-term supply of crude oil absolutely essential to our energy security. Keystone provides a rare opportunity to reduce our dependence on unstable Middle Eastern oil reserves and we can begin to insulate ourselves from the supply side uncertainties that we are already facing, allowing us to build a more secure energy future.

Mr. Chairman, in conclusion, I simply want to reiterate the fact that the UA, or United Association, fully endorses this project and the draft legislation.

Thank you.

Mr. WHITFIELD. Thank you, Mr. Kelly.

[The prepared statement of Mr. Kelly follows:]

Written Testimony Before The

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

Hearing on the American Energy Initiative

Stephen F. Kelly, Assistant General President
United Association of Journeymen and Apprentices of the Plumbing and Pipe Fitting Industry of the United States and Canada, AFL-CIO

May 23, 2011

Good afternoon Chairman Whitfield, Ranking Member Rush, Chairman Upton, Ranking Member Waxman, and members of the Subcommittee. My name is Stephen Kelly, and I am the Assistant General President of the United Association of Plumbers and Pipe Fitters, which represents over 340,000 members in the plumbing and pipe fitting industry in the United States and Canada. Thank you for the opportunity to provide testimony on the Keystone XL Pipeline Project.

The United Association strongly supports the Keystone XL project and the draft legislation under consideration by the Subcommittee to expedite its approval for several good reasons. First, this project would provide a tremendous and needed boost to the U.S. construction industry, generating thousands of high-quality jobs at a time when the industry is wrestling with nearly 20 percent unemployment. In addition, this project will produce a number of other important economic benefits, including jobs in related industries and hundreds of millions of dollars in state and local tax revenues. And finally, this project will substantially increase our nation's long-term energy security by enabling us to obtain more oil from our friends in Canada and less from the increasingly unstable and unreliable Middle East.

One of the best aspects of this deal is that it is financed solely with private-sector dollars and therefore comes at *zero cost* to federal taxpayers. Indeed, all that stands between us and this massive privately-funded economic stimulus package is the federal government's approval. So let me discuss in greater detail why it's so important that we all work together to move this project forward.

First, as noted, the Keystone XL would provide a needed boost to the U.S. construction industry. Specifically, it is expected to create approximately 13,000 high-quality, good-paying construction jobs.[1] I cannot emphasize enough how important these jobs are. Our industry is usually the first hit and the hardest hit by recession and the current downturn -- what many have taken to calling the Great Recession -- has been no exception. We've witnessed pockets of unemployment as high as 40 percent in some areas. We've seen workers lose their livelihoods, their homes, and, in some cases, their dreams of building a better life for their families. These are not just jobs we're talking about, but American families.

In addition to construction jobs, the Keystone XL project would generate many other substantial benefits for the U.S. economy. According to TransCanada and an independent study conducted by The Perryman Group, these benefits include 7,000 manufacturing jobs associated with the production of materials and components for the pipeline[2] and over 118,000 spin-off jobs in various sectors related to the design, construction and operation of the pipeline.[3] In fact, in a new study that was just released this month, the Canadian Energy Research Institute found that total U.S.

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[1] TransCanada Press Release, Illinois House Members Urge Secretary Clinton to Approve Keystone XL Pipeline, Dec. 23, 2010, *at* http://www.transcanada.com/5620.html.

[2] *See* TransCanada, Economic Benefits, *at* http://www.transcanada.com/economic_benefits.html; TransCanada Press Release, *supra* note 1.

[3] The Perryman Group, The Impact of Developing the Keystone XL Pipeline Project on Business Activity in the U.S, p. 4, *at* http://www.transcanada.com/docs/Key_Projects/ TransCanada_US_Report_06-10-10.pdf.

employment associated with the development of Canada's oil sands could be expected to grow from 21,000 in 2010 to 465,000 by 2035.[4]

The economic benefits associated with the Keystone XL project are, of course, not limited to jobs. They also include a $6.5 billion increase in personal incomes in the U.S. and over $585 million in state and local tax revenues along the pipeline route.[5] Needless to say, this substantial influx of tax revenue could not come at a better time for the recipient states and localities, given that many of them are wrestling with tough budget decisions. This added revenue may well keep a great many teachers in the classroom, nurses in hospitals caring for patients, police officers on the beat, and other civil servants on the job doing important work. In these difficult economic times, it is essential that we do everything possible to capture these benefits, particularly when they come at no cost to taxpayers.

As noted, the Keystone XL project is also essential to our long-term energy security. The U.S. Energy Information Administration projects the U.S. will need oil and natural gas supplies to meet more than half of our energy needs through 2035.[6] At the same time we pursue alternative and renewable sources of energy, we must

[4] Canadian Energy Research Institute, Economic Impacts of New Oil Sands Projects in Alberta (2010-2035), May 2011, p. 31, *available at* http://www.ceri.ca/images/stories/CERI%20Study%20124.pdf.

[5] *Supra* note 3, pp. 23-24.

[6] U.S. Energy Information Administration, Annual Energy Outlook 2011 (with Projections to 2035), *at* http://www.eia.doe.gov/forecasts/aeo/pdf/0383(2011).pdf.

also recognize that are going to need carbon-based fuels for the foreseeable future and do all that we can to secure a reliable, long-term supply of these fuels.

Complicating matters are demand and supply-side challenges that bear on our ability to secure the reliable, long-term supply of crude we need. These include geopolitical instability in the Middle East, which brings significant risk to the supply side of the equation, and the growing energy needs of economies such as China and India, which are driving worldwide demand. Canada's oil sands, together with the Keystone XL project, offer us a unique opportunity to secure much of the supply we need without these risks. This was among the key points raised by the *Washington Post* in a February 5, 2011 editorial endorsing the Keystone XL project.[7]

At 175 billion barrels, Canada's oil reserves are the third-largest in the world and the largest among non-OPEC countries.[8] Oil sands represent upwards of 97 percent of these reserves.[9] With the infrastructure provided by the Keystone XL project, we could begin to transport this source to U.S. refineries in the Gulf Coast which are already configured to process heavy oil and have excess capacity as a result of reduced production from Mexico, where heavy oil production is in steep decline, and Venezuela, which is moving to other markets. Given that the U.S.

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[7] Washington Post Editorial Board, Say Yes to the Keystone Pipeline, Feb. 5, 2011, *available at* http://www.washingtonpost.com/wp-dyn/content/article/2011/02/05/AR2011020503490.html

[8] U.S. Energy Information Administration, Country Analysis Brief: Canada, Updated April 2011, *available at* http://www.eia.doe.gov/EMEU/cabs/Canada/pdf.pdf

[9] *Id.*

already imports far more oil from Canada than any other country -- over 80 million barrels per month -- there is no good reason to let this opportunity pass us by.[10]

While some have objected to the Keystone XL project out of concern that it would result in higher greenhouse gas emissions, such objections are founded on a couple of flawed premises. First, they presume that Canada's oil sands would not be developed but for the Keystone XL pipeline. However, there is no credible evidence to suggest that worldwide demand for oil is going anywhere but up[11] or that Canada would have trouble finding other countries to purchase its oil if the U.S. declines to do so. Second or alternatively, these objections presume that U.S. demand for oil would decrease if we somehow made it more difficult or costly to access oil. As noted, however, government forecasts confirm that we have a long road yet to travel before we are no longer reliant on oil for a large share of our energy needs. Thus, making oil more difficult or costly to obtain accomplishes little other than making us pay more.

The fact is that the Keystone XL project has been thoroughly vetted by a number of state and federal agencies over the past couple of years and is now in the final stages of review for a Presidential Permit by the State Department. The State Department's review to date has included a draft Environmental Impact Statement

[10] *See* U.S. Energy Information Administration, Crude Oil and Total Petroleum Imports Top 15 Countries, Released April 28, 2011 (2011 data), *available at* http://www.eia.doe.gov/pub/oil_gas/petroleum/data_publications/company_level_imports/current/import.html

[11] *See* U.S. Energy Information Administration, Short-Term Energy Outlook, May 10, 2011, at http://www.eia.doe.gov/emeu/steo/pub/contents.html.

(EIS) which found that the project would have only a limited environmental impact.[12] Given these realities and the economic and energy-security benefits at stake, we have little to lose and a tremendous amount to gain by moving this project forward.

For all of these reasons, the United Association strongly supports the Keystone XL project and the draft legislation to expedite its approval. Thank you again for the opportunity to testify. I'd be pleased to answer any questions.

[12] U.S. State Department, Draft Environmental Impact Statement: Keystone XL Pipeline Project, p. 5-1, *available at* http://www.keystonepipeline-xl.state.gov/clientsite/keystonexl.nsf?Open.

Mr. WHITFIELD. And I thank all of you for your testimony.

I would like to make just one comment. My friend, the gentleman from California, in his opening statement made some references to the Koch brothers who we all know about, and we all understand that in any kind of development project, certain people are going to benefit from that because of financial interests. I don't know if the Koch brothers have an interest in this project or not.

I do know and have been told that George Soros has a strong interest in SunCorp, the oil sands company that will directly benefit from this pipeline, and we know that Mr. Soros contributes huge amounts of money to MoveOn.org, whose purpose is to defeat Republicans, Tea Party members and others. And I have no objection to that, except I wish he wouldn't do that. But I think that this is not about personalities. This is about a project and its benefit or lack of benefit to the American people. So I just wanted to point that out.

Mr. Symons, I will tell you I am a real fan of protecting wildlife. I have been involved in a lot of those issues. You made some pretty strong statements in your testimony and I am going to ask the gentleman from TransCanada to respond to it, because in reading this, you say, "Recently uncovered documents have revealed the true motivations for this pipeline—price manipulation. In seeking their Canadian permit, TransCanada argued that the pipeline would allow Canadian oil companies to increase prices for all the oil Canada is already selling to the U.S." They submitted a market analysis that it would be a windfall, that the U.S. would hand over to Canadian oil companies $4 billion annually.

Then there are other people that have made comments that it is going to increase prices of oil products in the Midwest.

Would you respond to that, Mr. Pourbaix?

Mr. POURBAIX. I would be happy to, Mr. Chairman.

I think right off the bat, it is important for people to understand that the Keystone XL pipeline is a federally regulated pipeline. We charge a toll per barrel of throughput on our pipeline. We do not make one extra penny if the price of oil goes up or make less money if the price goes down.

I think my friend in his testimony is failing to make a distinction between the price of crude and the price of gasoline. We are not hiding anything. Our testimony was obviously public in front of our Federal regulator. But it is without debate that right now there is a significant oversupply of pipeline capacity from Canada into the U.S. Midwest, into the Chicago market. That has resulted for the time being in a very significant discount for Canadian crude oil into that market. That is a situation that will not persist indefinitely. Producers will find a way to get to markets where they do not see a discount for their product.

As my friend Mr. Burkhard stated in his testimony, the price of gasoline is not tied directly to the price of crude oil. In the Midwest right now, as Representative Rush mentioned, Chicago gas prices are as high or higher than anywhere else in the country, and yet crude oil prices are lower than anywhere in the country. So while it is true that building Keystone XL pricing— sorry, building the Keystone XL pipeline will likely reduce the very significant discount that Canadian producers receive for their crude, that crude

will still remain the cheapest source of crude by a long shot that U.S. refineries have access to.

To give you an idea, today Canadian crude regularly trades at a discount of $20 to $35 a barrel over OPEC-based supply. So I hope that gives some color into our argument.

Mr. WHITFIELD. Twenty dollars to $35 a barrel.

Mr. Burkhard, will you make any comment on this issue?

Mr. BURKHARD. Yes, this is a key point, because the core message, at least from us, is more supply at a given level of demand tends to lower prices rather than raise prices, and we have a pipeline system that has been constructed to deliver crude oil to the U.S. Midwest, not out of the Midwest. So we have had this surge in supply that is stuck in the Midwest, yet the Midwest needs to import gasoline from outside the Midwest; therefore, the gasoline they import from other parts of the U.S. is priced at a global level. So that is why there is a disconnect between the gasoline price in Chicago and the crude oil price.

Mr. WHITFIELD. Thank you.

Mr. Rush, you are recognized for 5 minutes.

Mr. RUSH. Mr. Symons, you seem to have created quite a stir here in the hearing. Maybe you will want to kind of respond to some of the characterizations of your testimony by some of your colleagues at the table there.

Did you fail to distinguish between crude oil prices and gasoline prices in your testimony, and what are some of the other matters that you might have to say about these glorious comments?

Mr. SYMONS. Thank you, Congressman. I do agree on one thing. I agree that TransCanada isn't a company that makes more money when prices go up. But the oil companies, the many oil companies, Valero and others, will make a lot of money, and they are in partnership in helping push this pipeline through. And the document, and it is right here, the application, says very clearly, I mean, it is only three paragraphs on crude pricing impact. And, Congressman Waxman, you actually cited some of it, $2 billion to $3.9 billion in windfall profit to Canadian oil producers. Nothing in here about discounts in prices, or any of the things in the testimony, once they start coming down here to the United States and talking to unions and talking to others. A totally different story.

The reason that we are focused on gas prices, and the evidence of that comes from Dr. Philip Verleger, who is a widely respected oil markets economist, he started off in the Ford administration as a senior economist for the Economic Council.

In a Star Tribune article he says very clearly, and I will quote from it, "U.S. farmers, who spent $12.4 billion on fuel in 2009, according to the Department of Agriculture, could see expenses rise to $15 billion or higher in 2012 or 2013 if the pipeline goes through." He goes on, "Millions of Americans will spend 10 to 20 cents more per gallon for gasoline and diesel fuel as tribute to our friendly neighbors to the north."

So I think we are focused on the right issues. I don't think that the discount that is supposed for Canadian tar sands is real. The reason it is cheaper is because it is one of the dirtiest fuels on the planet and it is really expensive to refine it, so you have got to buy

it cheaper to begin with. In fact, only certain refineries can handle it because it is so dirty.

Mr. RUSH. Mr. Pourbaix, Midwest gas prices, Chicago gas prices, are exorbitant. My constituents are suffering. I just want a simple answer to this question: How will this pipeline affect the gas prices in the Midwest? Will they increase it or decrease it or have no effect? How it will affect it?

Mr. POURBAIX. As Mr. Symons referred to, there is a possibility that by building this pipeline, Canadian crude oil producers will see a reduction in the discount that they presently receive for their oil. I think we testified it was a couple of dollars a barrel.

Mr. Symons once again ignores that we are talking about the price of crude oil rather than the price of gasoline in the Chicago market. And as I said earlier, the price of gasoline is actually not set in Chicago. The price of gasoline tends to be set in the Gulf Coast. That is the largest refining center in the market, and the refineries in the Gulf Coast typically are paying a global price for oil rather than that Midwest price of oil.

So, what I would expect to have happen, and it is something that was also mentioned by others in the testimony, our project will be delivering an incremental supply of 700,000 barrels a day of crude oil into the largest refining market in North America, the market that sets the price of gasoline for the United States. And it has been a long time since I took economics in college, but my experience on that was pretty clear: If you add a significant new supply to a static demand for a product in a market, you should see the price of that product go down.

So it is my absolute expectation that over time, with incremental supplies of Canadian crude oil coming into the U.S. market, you will see downward pressure on refined market products prices throughout U.S. markets.

Mr. RUSH. So you can't guarantee or assure my constituents that if this pipeline is approved, that the cost of their gasoline will not increase?

Mr. POURBAIX. I wish I could, but gasoline and crude oil, they are heavily traded commodities. I think an important point to remember is that the price of gasoline, and indeed crude oil, does not just depend on the supply and demand; it also depends on the future expectation of supply and demand. And with what has been going on in the world, the price of crude oil has risen across the world because of the perception that it is becoming harder—or secure supplies of oil are harder to come by.

If we are to build Keystone XL and add a secure connection to one of the largest supplies of crude oil on the planet, it would be my expectation that not just supply would increase, but the expectation of continued security would increase, and that would have a further impact moderating gasoline prices.

Mr. RUSH. Thank you, Mr. Chairman.

Mr. WHITFIELD. Yes. Before I recognize Mr. Terry, Mr. Symons, you referred to Randy Thompson. Without objection, we do have his statement. I am going to enter it into the record.

Mr. SYMONS. Thank you, Mr. Chairman.

[The prepared statement of Randy Thompson follows:]

My name is Randy Thompson, I'm from Martell, NE.

I would like to thank the Chairman and the committee for allowing me to be here today. I would also like to recognize and thank our Nebraska representative Mr. Terry for his work on the Congressional Research Memo clarifying some questions surrounding the pipeline.

I testify before you today not as an advocate for any group. I am here as a representative of the Thompson Family Farm, a small 400 acre farming and livestock operation in Merrick County, Nebraska. I believe, however, that my voice carries the concerns of many farmers and ranchers along the proposed route of the Keystone XL pipeline.

We all have shared concerns that a pipeline of this magnitude and with such inherent risks could endanger our livelihoods and way of life. Most all of these family operations have been built through decades of hard work and love for the land on which we live.

Farmers and ranchers are often used in campaign ads to represent what is best about America. This is the face you put in your ads. We built America and we feed America every single day. Our country and our family operations deserve serious questions and more time devoted to studying this project. We deserve a pause; we deserve you putting on the brakes.

Our families have invested too much blood, sweat, and tears to simply sit back and let a foreign corporation take a portion of our hard earned land through eminent domain for their private use and gain.

When a company like TransCanada comes along and tries to bully and intimidate us into signing unwanted easement agreements, it only serves to make us more determined, and we plant our feet just a little bit firmer in the sand.

I do not consider myself to be an environmentalist in the true sense of the word, instead, as with most Nebraska farmers and ranchers, I consider myself to be a conservationist. We need to be conservationists and stewards of the land because if we're not, the land won't return to us what we need to survive.

Our government—including each of you—has recognized a need to conserve our water, our soils, and other natural resources, and it has spent billions of dollars sponsoring various conservation programs in order to achieve that goal.

Submerging a giant risky oil pipeline into our land, thus threatening the largest natural body of clean water in this Hemisphere with contamination, certainly seems contrary to those goals.

The damage to the fragile Nebraska Sandhills during the construction phase of this pipeline could literally undo decades of conservation work. Ranchers in that area of Nebraska have tried

countless methods over the years to keep their sandy soils from blowing away. The pipeline represents a devastating set back to those efforts.

We Nebraskans may be a little independent and bullheaded at times, but we're not uninformed. We have witnessed the results of other pipeline spills and associated problems throughout this country, and that's why we are wary of this proposed project. And, it's why we are asking you to slow down on this proposed bill and ensure the proper regulations and safety measures are in place.

TransCanada's Keystone Pipeline, which crosses the eastern part of our state, has been in operation for less than a year and has already had twelve confirmed leaks. The latest of which spewed a geyser of chemical laden tar sands sixty feet into the air. In only a few minutes, it discharged nearly twenty thousand gallons into the surrounding area. How can we have confidence that this won't happen on our property?

I for one am not willing to bet my livelihood on it, and I sincerely doubt that any of you would either.

As Nebraskans, we're being asked to put a lot on the line for this project, and we have yet to see anything to ease our doubts about it. It seems to me that our country has already been more than generous to our neighbors to the north. We're proposing to let them use our country as a corridor in which to ship their oil, thus allowing them access to the world oil market.

We have allowed them to select a pipeline route that is the shortest and most economical for them, even though this route selection would expose some of our country's most valuable resources, specifically the Sandhills and Ogallala Aquifer, to potential harm. We have looked the other way while TransCanada has bullied and intimidated American landowners with threats of eminent domain even though their project is still in the permitting process.

With so many unanswered questions about the safety of this project perhaps it's time for the U.S. to hit the brake pedal instead of the accelerator; and perhaps it's time that our government starts placing the concerns of American citizens over and above those of a foreign corporation.

That is why I am here today. To be the voice of my fellow farmers and ranchers and to ask you to not pass this bill and instead dig deeper into the many risks and concerns citizens along the proposed pipeline route have raised. We owe at least that to every family, including mine.

Mr. WAXMAN. Mr. Chairman, could I ask unanimous consent that the Philip Verleger document be added to the record?

Mr. WHITFIELD. Without objection.

[The information follows:]

[redacted]

StarTribune.com

Philip Verleger: If gas prices go up further, blame Canada

Article by: PHILIP K. VERLEGER

Updated: March 13, 2011 - 4:24 PM

Commentary

In the second week of March, Minnesotans paid an average of **42 cents** more for a gallon of gas than they did just two weeks ago.

The price spike stems from Mideast unrest and speculation about its future.

But foreign oil interests are planning a deliberate manipulation of the U.S. oil market that would raise gas prices for Midwest farmers and consumers even higher.

Who's behind the plan? **Not OPEC**.

It's **Canada**.

The **Canadian oil industry**, with the strong backing of Prime Minister **Stephen Harper's government**, wants to build a pipeline to move crude oil from Alberta to the Gulf of Mexico.

The firms involved have asked the U.S. State Department to approve this project, even as they've told Canadian government officials how the pipeline can be used to add at least $4 billion to the U.S. fuel bill.

U.S. farmers, who spent $12.4 billion on fuel in 2009, according to the U.S. Department of Agriculture, could see expenses rise to $15 billion or higher in 2012 or 2013 if the pipeline goes through.

At least $500 million of the added expense would come from the Canadian market manipulation.

Of course, American consumers will pay the price of this highway robbery. Food prices will rise because they reflect farm operating costs.

In addition, millions of Americans will spend 10 to 20 cents more per gallon for gasoline and diesel fuel as tribute to our "friendly" neighbors to the north.

The **Keystone XL pipeline** will move production from Canadian oil sands to a deepwater port from where it can be exported.

Environmentalists have long opposed Keystone because tar sands production is "dirty" due to the high carbon emissions and the ecological damage caused by extracting and processing the oil.

They also point to elevated safety and health risks associated with piping and refining the heavy crude.

To date, however, these opponents have ignored

[redacted]

StarTribune.com

[redacted]

public statements by the pipeline's backers regarding how they would use the facility to boost what Americans pay for oil by almost $5 billion per year.

Most of the increase would come in the 14-state refining and marketing region that includes Minnesota.

The Canadians intend to exact this tribute by bypassing refineries in Chicago and the Midwest until the prices paid by these facilities return to their historically high levels.

In the past, Midwestern refiners paid more for oil than their counterparts in Texas and Louisiana because oil had to be shipped north.

Recently, though, these refiners have gotten a break as Canadian output has increased. Oil now flows south, not north. Midwestern refiners can save significant sums, savings that ultimately get passed on to consumers.

Executives at Canadian oil companies want to end this discount. They propose building the Keystone line to go around Midwest refineries.

They correctly argue that the line is needed to move additional crude volumes to the Gulf. However, hidden in their presentations to Canadian National Energy Board officials is their declared intent to use the pipeline to raise prices to Americans.

Canadian oil officials pushing the pipeline have been supported by energy security experts who argue the project will reduce dependence on imported oil and moderate the impact of supply disruptions. They may be correct.

However, their arguments in favor of the pipeline neglect one point: The United States has already paid billions to create a 700-million-barrel strategic reserve designed to provide the same protection.

These experts apparently think Americans should pay an additional $5 billion per year to further reduce the risk of market interruptions. The nation's consumers cannot afford this and have no need to do so.

Our existing insurance policy is more than adequate.

Proposals to build the Keystone pipeline, in their present form, should be rejected. U.S. consumers should not have to pay a $5 billion duty to Canadian oil companies for an insurance policy of little value.

The entire project should be redesigned to address environmental concerns and to make sure Canadian oil companies cannot tax American consumers and farmers.

*is president of **PKVerleger LLC**, a consulting firm in Carbondale, Colo., that specializes in research on oil market economics. He is also the David Mitchell EnCana Professor of Strategy and International Management at the Haskayne School of Business at the University of Calgary.*

[redacted]

Mr. Terry, you are recognized for 5 minutes.

Mr. TERRY. Thank you, Mr. Chairman. You started off with what I wanted to do, which was get Mr. Thompson's testimony in the record. So I thank you for bringing that up, and if you talk to him, pass on my condolences for the passing of his mother.

Mr. SYMONS. Thank you. And thank you for the help in getting the information, which is the key to the whole project at this point.

Mr. TERRY. I appreciate that. But obviously I think the discussion here on the prices and the discussion about heavy crude and transportation and discounts is a little convoluted for some of us more lay people. It just seems to me that if we have 700,000 reliable, is it barrels——

Mr. POURBAIX. Yes.

Mr. TERRY [continuing]. Coming in, that that level of certainty, consistency, in a transportation system, in a pipeline, would actually reduce price points, not increase. So I understand that there is transportation discounts of heavy crude and those type of things, but overall, even the CRS report, the initial one from March 4th, 2011, not the one that I had requested, states on page 10 that crude oil prices are set in a global market. And they go through a discussion and say that this is not going to—there are just so many global pressures on the price points, as you said.

But I want to not ask about TransCanada, but the gentleman from Cambridge Research or HIS Cambridge Energy Research Associates, what is your take on the economics of this 700,000 barrels of oil coming into the United States? Is it going to cost more by transporting it through a pipeline? Is it going to impact gas prices negatively at the pump once it is refined?

Mr. BURKHARD. Well, that is a good question. And by the way, you represent a great district, the district where I was born and raised, so thank you for your service, Congressman Terry.

Mr. TERRY. You are welcome back any time. As a matter of fact, you could probably move the whole business back to Nebraska.

Mr. BURKHARD. Well, I try and get back as often as I can.

The price of gasoline in Chicago, in Omaha, in New York, is set by the global market. And the price along the Gulf Coast, which is by far the most important refining market in the U.S., one of the three most important in the world, that is essentially the market benchmark where prices are set for gasoline. Bringing more oil into that market from Canada, 700,000 barrels per day, is a large amount of oil. Again, just to put that in context, that is more than half of what Libya exported. So that is significant.

Bringing more supply to the global crude oil market at a given level of demand would tend to lower prices. There is a vast array of factors that shape the global crude oil market. But simply looking at basic economics, more supply at a given level of demand would lower prices, and that global crude oil price is the single most important determinant of the gasoline price in the Midwest or anywhere else in the United States.

Mr. TERRY. So just a lay economist like me, if you have a steady supply in a pipeline that is reliable, wouldn't that put less pressure on prices and they could actually fall? You have about 8 seconds.

Mr. BURKHARD. The anxiety about the reliability and adequacy of oil supplies around the world is a factor that has pushed up

prices at times. So to the extent that supply is more secure, more reliable, that would be a downward force on prices.

Mr. SYMONS. Mr. Congressman——

Mr. TERRY. Hold on. I don't want to be rude, Jeremy, but I have 45 seconds to ask TransCanada, I wanted the State Department here; did we request the State Department or DOE to be here?

Mr. WHITFIELD. Yes.

Mr. TERRY. Have you provided the State Department and the respective agencies, including the States, the documents and studies that are required, Mr. Pourbaix?

Mr. POURBAIX. I would certainly take the perspective that the review into the Keystone XL project has been exhaustive. You heard me talk about the 90 public meetings, the hundreds of hours of testimony, the thousands of pages. I think it would be fair at this point, with all of the work that went into the draft environmental impact statement and the supplemental draft environmental impact statement, that the State Department would be in receipt of all the information they would require to make a decision on this Presidential permit application.

Mr. TERRY. All right. One last question. I know I am past my time. But the next level of complaint from constituents in Nebraska, not particularly my district, is what they perceive as kind of a brutal way of negotiations. You don't have eminent domain so you have to negotiate with landowners.

Would you explain the process, and if we are getting complaints that they are not being treated fairly, that is a concern.

Mr. POURBAIX. Sure, I would be happy to. Right off the bat, I made the point earlier that we have been in this business for a very long time, and absolutely one of our core beliefs is that we have to treat our—we treat our landowners with respect and we treat them fairly.

This idea of eminent domain, we do actually have— utilities in Nebraska do have the ability to seek condemnation of right-of-ways. TransCanada, we have always viewed that as a last resort. And to give you an idea, on the base Keystone project, which was a $6 billion project that went directly through Nebraska, we achieved voluntary easements with 99 percent of Nebraskans.

To give you an idea, to compare that to the industry, on average, pipeline companies resort to eminent domain or condemnation proceedings in about 10 percent of the landowner situations they have. TransCanada's record is that we are only forced to do that in about 2 percent of the situations.

Mr. TERRY. And if we have a complaint, we got someone we can call.

Mr. POURBAIX. You absolutely do.

Mr. TERRY. I am sorry, we have to move on.

Mr. WHITFIELD. I might also say we did invite the State Department and the Department of Energy.

Mr. Waxman, you are recognized.

Mr. WAXMAN. Mr. Chairman, you invited them and they refused to come?

Mr. WHITFIELD. I have been told they declined.

Mr. WAXMAN. I see.

Mr. Pourbaix, your company has put the application in, the State Department is reviewing it. Do you have a reason to believe that they are not going to give you a fair review?

Mr. POURBAIX. No. As I said earlier, we have had a very exhaustive review, which I think is entirely appropriate, given the magnitude of the project and ensuring that people and stakeholders are heard in this process.

Mr. WAXMAN. Why do you think we should change our law? If they are reviewing your application, it has been exhaustive, they are trying to make a decision, I know you would like to be approved as quickly as possible. Do you think you need a special law, and is Canada prepared to pass special laws for Americans when your government takes too long? Are we taking too long; is that the problem?

Mr. POURBAIX. No, we have certainly had no involvement in this proposed legislation, sir.

Mr. WAXMAN. Oh, you haven't. OK.

The question about the extra costs for the pipeline, Mr. Symons, we have already had unanimous consent to put in Philip Verleger's editorial from the Star Tribune. He makes a case that we are going to be spending $5 billion extra as a duty to Canadian oil companies for this project, if this project goes through. Explain that to us, because we hear such contradictory statements to the contrary.

Mr. SYMONS. Yes. It is really not that complicated. The oil companies want to make more money. They have a plan here. The whole supply issue, everyone is working on a false assumption, a myth that has been perpetuated, that building a pipeline with a lot of pipeline capacity means you are going to get more oil. That is actually not what is happening here.

This is all about taking the oil that is coming into the Midwest and moving it down to the Gulf Coast where they have access to China and other markets, and once they have that access, they can charge a higher price to anyone for all their oil. The theory that is being offered, I guess, is oil prices will go up but gas prices won't. I don't know if you believe that, but I don't think I would be able to bank on that theory.

What is really happening is, as the CEO of Valero said recently, America is becoming the middleman in the global oil business. We are importing lots of crude, we are refining it, and we are exporting more and more gasoline and refined diesel products around the world. We are actually significantly increasing our exports from the Gulf Coast. That is what they want to do. Gas prices will go up in 15 States, according to TransCanada's own analysis.

Mr. WAXMAN. Now, you indicated that some of these foreign-owned refineries in the Gulf will simply ship the refined product to China, so it doesn't really do much good for us, does it?

Mr. SYMONS. No. I mean, this is the gateway they always wanted. These refineries, again, a pipeline, taking Canadian oil to foreign-owned refineries in the Gulf Coast doesn't make it our oil. We have a bigger expansion being funded by Saudi Arabia. We have declining oil coming into the CITGO refinery owned by Chavez. These are the kind of owners that are going to be in control of this oil.

Mr. WAXMAN. This pipeline imposes other risks for America. The Ogallala Aquifer provides drinking water for 2 million people and is critical for farming and ranching across several States, and TransCanada assures us their pipeline will be safe. How comfortable should folks be who depend on the aquifer for their drinking water and their livelihood?

Mr. SYMONS. This really strikes close to home for a lot of people. But having been down at the Gulf just after the Deep Water Horizon explosion, we have to learn the lessons, we have to learn the lessons from the Commission that said our technology got ahead of our regulatory oversight safety. That is exactly what is going on here again.

All the promises aside that we are hearing about safety and failsafe, just recently there was a Keystone—the last pipeline that TransCanada built, 21,000 gallons shot 6 to 8 feet into the air, despite the claims they are making.

This type of oil is more dangerous than conventional oil pipelines. We need updated safety regulations. And FEMSA and the administration actually need to do a better job of getting out in front of this right now.

Mr. WAXMAN. In his statement submitted for the record, Randy Thompson, a Nebraska farmer, raised the concern that the pipeline could threaten "the largest natural body of clean water in this hemisphere with contamination." He also stated, "TransCanada has bullied and intimidated American landowners with threats of eminent domain."

Are Mr. Thompson's concerns unique, or do they reflect the concerns of many farmers and ranchers along the route of the proposed pipeline?

Mr. SYMONS. Well, I have a letter that is one of many letters here from TransCanada to landowners. They said, we are going to condemn your property as a last resort.

Right now, TransCanada does not have the right to use eminent domain to condemn property, but they are sending letters to landowners that say if you don't sign this final offer, we will begin proceedings. We will be forced to invoke the power of eminent domain and we will initiate condemnation proceedings. They are threatening American landowners.

Mr. WAXMAN. Mr. Chairman, I want to make a comment that the State Department has a responsibility to make a decision after consulting with other relevant Federal agencies on whether this project is in the national interest and should get a permit. The last thing this committee should do would be to set an artificial deadline and pressure the Department into granting the permit. We will live with the consequences of this decision for decades or longer, and we should take the time to get it right.

Furthermore, Mr. Chairman, I will discuss with you further about getting adequate information. Whether it is from Mr. Soros or the Koch brothers or anyone else, we ought to get all the information that is needed for us to understand fully what are the consequences upon which this hearing is based.

I yield back my time.

Mr. WHITFIELD. Thank you.

Mr. Scalise, you are recognized for 5 minutes.

Mr. SCALISE. Thank you, Mr. Chairman.

I want to try to bring the questions I have back to what the focus I think most people in the country are concerned about, and that is lowering the price of gasoline and creating jobs. While it has been just kind of glossed over that some people on the panel have implied that this is just shifting oil from the Midwest to the Gulf Coast and no increase in supply, the numbers I have looked at show that you would have a dramatic increase, over 700,000 barrels more of Canadian oil coming into the United States and into refineries along the Gulf Coast, areas I represent, where despite what some people think, they pay what the world price of oil is for the oil.

To suggest that somehow, mysteriously, they are going to have some deal where I am going to convince you to pay even more than the spot price than you can get it from other places, just because it is from Canada, I think maybe some people need to go back and take some basic economic courses to understand supply and demand.

I want to ask you, Mr. Burkhard, about that question. As we talk about an increased supply coming into America, in this case roughly 700,000 more barrels coming in from Canada, which hopefully would reduce some of that oil that is being shipped in by tankers from places like Saudi Arabia and other Middle Eastern countries that don't like us, where numbers I have seen, over 70 percent of all the oil spills come from tankers, surely not from pipelines. If you can address the question of increased supply, what that would do to price, both what the refineries would pay but also the price at the pump?

Mr. BURKHARD. Thank you for the question, Congressman. One of the issues is, is the pipeline needed? Is there going to be too much supply? In the next couple of years refineries in the U.S. Midwest will be saturated with supply. So if the government, the U.S. Government decides to enable greater access of Canadian supply, namely oil sands, to the rest of the country, that would allow that oil to be delivered to refineries in Texas and Louisiana, which are the most sophisticated in the world.

A lot of those refineries in Texas and Louisiana, they process heavy crude oil. They have made very large investments to process that type of crude oil. A lot of the oil sands product that could come down from Canada is similar in its characteristics to that heavy crude oil. So there would be a welcoming market along the Gulf Coast, that could also back out crude oil from other countries.

Also some other important sources of supply, Mexico and Venezuela, are struggling to maintain production, and they are two of the very heavy oil producers at the moment.

Mr. SCALISE. Thank you. I remember 2 years ago I went out to Alaska. We looked at—we went out to the North Slope. We also went out to section 1002 of ANWR, that tiny strip of ANWR that many of us are trying to get opened up, where there are billions of known barrels of reserves and the Federal Government continues to shut off the supply.

Again, I will just show a chart here tracking the price of gasoline since President Obama has been in office, and they continue to shut off more known areas and reserves in the United States of

America. Of course, Canada being a strong trading partner, somebody who, if we are going to import oil, should be the first place we look to increase that production.

I remember when we went out to the Alaskan pipeline and we were walking along the line, I harken back to all of those groups that came out against the Alaskan pipeline and extolled all of the dangers, and it was going to destroy the wildlife and it was going to kill the caribou population. Well, of course, I had video. I was taking a video. As we were walking along, caribou were literally walking up to the pipeline literally yards away from us, and they talked about how the caribou population has tripled since they built the pipeline. Even all these groups were threatening, oh, it is going to make the caribou extinct.

Their population has tripled because the caribou like the warmth of the pipeline. So it has actually worked to the opposite of what some of these radical groups have talked about. And you are hearing some of the same things with this pipeline.

But to the contrary, let's talk about the jobs and benefits. I want to ask Mr. Kelly, because in your testimony you talked about this, can you give an idea of just how many jobs you would expect to be created here in America? Forget about the benefits that Canada would see. In America, how many jobs would you expect to see and at what kind of wage would you expect these Americans to be able to find employment if this project moves forward?

Mr. KELLY. Yes, sir. The pipeline, or main line industry as it stands today, has four crafts that are involved. You have the UA, the Pipefitters, Teamsters, operating engineers that operate the equipment, and then members of the Laborers Union that handle the ancillary work.

Between those four crafts, in discussions with TransCanada, we estimate that somewhere around 13,000 U.S. construction jobs is what we are going to be looking at. There will be additional work in Canada as the line moves towards the States. But, overall, what we are looking for in the U.S. is about 13,000 construction jobs.

Mr. SCALISE. Do you have an idea of the average pay?

Mr. KELLY. It is going to run with wages and fringe benefits around $50 an hour.

Mr. SCALISE. These are really good jobs that we could be getting here in America.

Mr. KELLY. That is the kind of jobs we have to have. The pipeline industry, or mainline industry in the U.S., has been quite successful. Our pipeline local, not last year, the year before, worked 12 million man-hours on just pipeline. This line here is about 1,600—a little over 1,600 miles long. It will have somewhere in the neighborhood of a dozen pump stations. So there is a great deal of construction work involved just in installing the line.

Mr. SCALISE. Thank you, Mr. Chairman. I yield back.

Mr. WHITFIELD. Thank you.

The gentleman from Texas, Mr. Green is recognized for 5 minutes.

Mr. GREEN. Thank you, Mr. Chairman. I have a statement I would like to place in the record.

I do represent a district in East Harris County where we asked the State Department to have a hearing. They did have one at the

end of it in East Harris County and we had testimony. Of course, we have five refineries, and two of those refineries I know do use heavy oil from Pemex in Mexico and PDVSA from Lyondell.

Mr. Burkhard, you talked about how ongoing advances in technology and operational experience had demonstrated environmental concerns. Particularly greenhouse gas emissions are being addressed. Life-cycle GHG emissions for the average oil sands product actually imported from the United States are just 6 percent higher than those of the average crude oil consumed in the United States.

How do the oil sands compare to the heavier crude currently being refined from Venezuela and Mexico in our district? And the research I have seen is there is very little difference between the two. So we are already refining heavier crude? Is that correct?

Mr. BURKHARD. Yes. Certainly on our analysis of 13 different studies about life-cycle greenhouse gas emissions, those from the oil sands are comparable to a number of other crudes that are currently consumed in the United States. Certainly they are similar to the heavy crudes that we currently import.

Mr. GREEN. Again, there is a price difference that most people don't understand. If you have heavier crude, it is less per barrel than maybe $112 a barrel that may be lighter, sweet crude. Heavier crude is much less expensive because it costs more to refine.

Mr. BURKHARD. Absolutely. That is why the refineries along the Gulf Coast have made these very significant investments to enable them to process the heavy crudes, because there is a lower price relative to the other.

Mr. GREEN. I know the Lyondell refinery in our district, they made a $2 billion investment to be able to handle Venezuelan heavier crude, but they didn't get any exemption from clean air standards because they are using heavier crude than they are light sweet in their refinery. They still have to comply with the same environmental laws that the refinery down the street, in our case maybe down the road, would be that is using lighter crude. You don't know of any waivers they get by using heavier crudes to standard environmental protections?

Mr. BURKHARD. I am not aware of any.

Mr. GREEN. OK. Mr. Pourbaix, you talk about how the pipeline application process today has already substantially exceeded the duration of the two most recent similar cross-border Presidential permit applications. How long did it take to get these permit applications approved?

Mr. POURBAIX. The two previous applications that I referred to in my testimony were our initial base Keystone and a competitor company of ours, Enbridge, had a similar Presidential permit request for their Clipper pipeline a couple of years ago, and in both those cases from start to finish it was around 20 months.

Mr. GREEN. OK. And this one has taken how long so far?

Mr. POURBAIX. We are close to 3 years now and looking for a decision towards the end of the year.

Mr. GREEN. So your testimony is there should be some oversight because of the distinction between the time for the approval of these three.

Mr. POURBAIX. Sorry?

Mr. GREEN. There should be some oversight by Congress, because it has taken so long in this application compared to the previous two?

Mr. POURBAIX. You know, we really haven't taken a public position on the proposed legislation. I think our perspective is that we have had a very comprehensive process, review process on this permit, and we take comfort that we are seeing increasing focus to have a decision on this permit before the end of the year.

Mr. GREEN. Let me ask a question very quickly. Keystone agreed to comply with 57 additional conditions developed by PHMSA for the Keystone project, and yet Mr. Symons says that there is something about this operating at a higher pressure, using thinner steel, than a pipeline carrying less dangerous products.

Is there any validity to that? I have to admit I have pipelines everywhere in our district and I have lived along them my whole life. Are they actually going to be able to use thinner steel?

Mr. POURBAIX. No. No. This pipeline uses a thickness of steel that is in common use for crude oil pipelines throughout the world.

Mr. GREEN. And it seems like if it is heavier crude, it would have less, you know, it is harder to get it through the pipeline than it is lighter, sweet crude.

Mr. POURBAIX. Well, despite the comments about this viscous tarry sludge, I can provide assurances to the committee that the oil we are transporting on this pipeline is not tarry, it is not sludge; it is very liquid crude oil.

Mr. GREEN. Mr. Chairman, I have additional questions, but if I could, Mr. Kelly, thank you for being here. I was actually at your local Pipe Fitters on Friday in Houston, 211, and I work with the other local too. And believe me, every time I visit with them, they ask me about where this pipeline is at in the process. Thank you.

Mr. WHITFIELD. The gentleman from West Virginia, Mr. McKinley, is recognized for 5 minutes.

Mr. MCKINLEY. Thank you, Mr. Chairman. Alex—I can't pronounce that last name.

Mr. POURBAIX. No one else can either.

Mr. MCKINLEY. Can you give me just some insight. If this pipeline for whatever reason is not authorized, are the oil sands going to dry up and not come to the United States?

Mr. POURBAIX. Well, I think Mr. Smith talked a little bit about what the options are for oil sands production. I think one thing that should be made clear to everybody in this hearing is that the oil sands are a truly massive resource. Hundreds of billions of dollars have been invested both by domestic Canadian companies, a large amount by American companies, and as Mr. Smith mentioned, an increasing investment by China, by Korea and their national oil companies. And I think it would not be an exaggeration to state that the oil sands are really expected to be the engine of economic growth for Canada for the next 50 years.

Mr. MCKINLEY. So you are going to continue producing them and shipping them someplace? That is really the bottom line, isn't it?

Mr. POURBAIX. Absolutely.

Mr. MCKINLEY. I want to go to Mr. Symons, if I could, please. I didn't pick up, I am sorry, I missed the author, you had some

paper you were referencing, a document that says gas prices will go up 10 to 20 cents?

Mr. SYMONS. Dr. Philip Verleger, who is a well-respected oil market economist. He has a newsletter.

Mr. MCKINLEY. And was he hired by someone to do this?

Mr. SYMONS. No. He does an independent analysis.

Mr. MCKINLEY. He just decided I am going to write a paper. And he wasn't hired by any group?

Mr. SYMONS. I can't speak for—I know he wasn't hired.

Mr. MCKINLEY. Could you try to find out? I am just curious who paid for it, because I don't think many scientists are going to just write a paper without someone paying for it.

Mr. SYMONS. Actually, oil companies paid for his analysis.

Mr. MCKINLEY. OK. So oil companies are saying that prices are——

Mr. SYMONS. If someone is making money off this pipeline, someone is losing money.

Mr. MCKINLEY. OK. Now, do you know what his track record is in credibility in making these kinds of predictions? Can you find out somehow?

Mr. SYMONS. Absolutely.

Mr. MCKINLEY. To show his record is fairly accurate, that we can expect that, or is this a one-shot deal?

Mr. SYMONS. The reason oil companies and others——

Mr. MCKINLEY. If you could get back to me on that, I would like that.

Mr. MCKINLEY. The other thing you were saying that I find curious, you seem to be trying to prevent Canadian oil sands from going to China. You said it several times. Is that a fair statement, or did I mishear that? You don't want it to go to China?

Mr. SYMONS. I think there is a whole web of deception saying this is going to make us more secure, when really they are trying to get it to China and to other markets.

Mr. MCKINLEY. So we are willing to put potentially 20,000 jobs at risk because of a hypothesis you have or a theory you have that this could go to China. You are not willing to see 20,000 Americans find jobs?

Mr. SYMONS. I am just telling you what the data says. I thought this was an informational hearing. What the Department of Energy and the Department of State say——

Mr. MCKINLEY. Well, we ship coal to China every day and it hasn't had that impact. If you think shipping it to China is going to raise the price of oil in America, but we ship coal every day to China and we are not seeing that increase attributed to the exporting of coal, I think it is a bit disingenuous in your argument.

The other is that I have got to say, Mr. Symons, wouldn't it make more sense for them to just simply build a pipeline over to Seattle than it would be to take it 1,700 miles down to the Gulf Coast, if they have this clandestine study to ship it to China? This doesn't make sense.

Mr. SYMONS. We could debate all day where the oil should end up, but here is the thing we have to remember: The Presidential permit is a green light for a foreign energy company to come take the rights of Americans to protect their land away from them. If

there is is not a national interest need, the President is ordered by Congress not to issue that.

Mr. MCKINLEY. I hear you. But what happens, Mr. Symons, do you have some kind of inside knowledge that the President is not going to approve this? What happens if he approves it?

Mr. SYMONS. I have no idea.

Mr. MCKINLEY. Are you going to be just as outraged as you are now?

Mr. SYMONS. Absolutely. We have been very clear with the administration that we oppose this pipeline.

Mr. MCKINLEY. Do you have copies, does anyone have copies of these draft conclusions? Do we have a sense of where they are going with the environmental impact?

Mr. SYMONS. There is a supplemental—draft supplemental environmental impact statement that is now available.

Mr. MCKINLEY. Can you give us a short version, because we are running over time here? Do you have a short version? Does it say this is going to be catastrophic and we can't afford to have the 20,000 jobs in America? What is the sense of what it is saying?

Mr. SYMONS. It concludes that——

Mr. RUSH. Will the gentleman yield for a moment?

Mr. MCKINLEY. I am just waiting to hear his answer, please.

Mr. SYMONS. I said that it concludes that it won't help America's energy security.

Mr. RUSH. Will the gentleman yield just for a moment?

Mr. MCKINLEY. Yes.

Mr. RUSH. You mentioned a couple things, and I think the record should reflect that the State Department is not here because they are in the middle of the negotiations and the review and all of the other kind of activities that are necessary for them to contemplate in order for them to make a decision. So they are not here at this hearing, I wish they were, because they feel as though it would be inappropriate for them to be at a hearing when they are in the middle of the negotiations.

Mr. MCKINLEY. Taking back my time, I am not demeaning the fact that they are not here. I am just simply trying to find out which direction they were going in. That is all.

Thank you. I yield back.

Mr. POURBAIX. Could I?

Mr. WHITFIELD. Yes, go ahead.

Mr. POURBAIX. The specific question that the Representative asked, I believe, is, Has the Department of State indicated where they are going with on the environmental—draft environmental impact statement?

What I can tell you is that the first draft environmental impact statement, delivered in April of 2010, stated as a conclusion that the construction and operation of the Keystone XL pipeline system would have limited environmental repercussions in the United States. They followed up with a supplemental draft environmental impact statement a month ago that reiterated that finding after reviewing significantly more information.

Mr. MCKINLEY. Thank you.

Mr. WHITFIELD. Thank you. I might add also that, without objection, we accepted the documentation that Mr. Waxman asked us to

introduce. We introduced into the record Mr. Thompson's testimony.

I am going to ask unanimous consent that we introduce into the record the statement of Mark Ayers, who is president of the Building Construction Trades Department, AFL–CIO, who in his statement said, "The Keystone pipeline project has been subjected to 32 months of scrutiny through the National Environmental Policy Act, which includes review by ten Federal agencies as well as numerous State and local agency reviews. The State Department, FDEIS, has concluded that the pipeline would have limited adverse environmental impact during construction and operation and that it would significantly strengthen U.S. economic security." You can put that in the record.

[The information follows:]

Statement of Mark H. Ayers

President – Building and Construction Trades Department, AFL-CIO

Submitted to
United State House of Representatives
Committee on Energy and Commerce
Subcommittee on Energy and Power

May 23, 2011 Hearing on Keystone XL Pipeline Project

Mr. Chairman, thank you for conducting this hearing today, and for providing an opportunity for America's Building Trades Unions to provide their views on the issue of the proposed Keystone XL pipeline project.

For our unions and our members, any discussion of the Keystone XL project begins and ends with one word: JOBS.

Today, roughly 20% of the American building and construction workforce is unemployed—which is double the overall unemployment rate of 9%.

Without question, today's job market looks nothing like anything we've seen in the last 50 years

In 1982, the last time unemployment topped double digits, joblessness was more of a short-term affair. Back then, a plurality of the unemployed remained so less than five weeks. In 2011, by contrast, about half the jobless have been out of work **for at least 27 weeks**. Put simply, in 1982 unemployment was a terrible cold, measured in weeks and maybe months. Today it's pneumonia.

Quite frankly, the skilled craft professionals that comprise America's Building Trades Unions find it both remarkable and distressing that various politicians in both parties have ostensibly chosen to focus on anything and everything BUT jobs. For these proud and skilled workers, the time is long past due for our nation's elected leaders to become intensely and singularly focused on the creation of good, family and community sustaining jobs.

And the Keystone XL pipeline would certainly be one key step in that direction. Additionally, this project would go a long ways towards helping to alleviate America's unstable reliance on foreign sources of energy, as well as the escalating costs for petroleum-based products, like gasoline.

America's Building Trades Unions believes that a modern U.S. energy policy should be focused upon enhanced energy security, a self-reliant North American production capacity, economic prosperity, and steady and robust job creation. We firmly believe that approval of the Keystone XL pipeline would be a major step forward in achieving all of those objectives.

In sum, the Keystone XL pipeline project consists of a planned 2,000 mile, 36 inch crude oil pipeline beginning in Alberta, Canada and extending southeast through several states. This $12 billion project will substantially expand the underground pipeline infrastructure in the United States, and will enable the transportation of Canadian crude oil harvested from the "oil sands" in western Canada to our Gulf Coast refineries. By constructing a safe, reliable method for transporting crude oil through the American Midwest, this initiative not only fulfills sound U.S. energy policy goals, but will spur employment opportunities for American workers in the construction industry, as well as many other industries.

The economic impact of oil sands development in Canada is expected to lead to the creation of more than 342,000 new U.S. jobs between 2011 and 2015 and add an estimated $34 billion to U.S. gross domestic product in 2015, according to the Canadian Energy Research Institute. However, this was a preliminary analysis and the actual number of jobs and GDP increase could be far greater.

The Keystone XL pipeline has now been awaiting regulatory approval for more than two and one half years since the initial application was filed in September 2008. The U.S. Department of State has held more than twenty public comment meetings along the proposed route of the pipeline, and TransCanada has held more than ninety open houses and public meetings while providing hundreds of hours of testimony and submitting thousands of pages of project information. All of these efforts have been designed to ensure that any environmental impact along the route is minimized as much as practically possible. Having done its due diligence, the State Department has concluded that the Keystone XL project represents the best course of action.

Further, in its Supplemental Draft Environmental Impact Statement (SDEIS), the State Department recognized that the development of the Canadian oil sands would not impact greenhouse gas production. And even though the State Department was not obligated to have analyzed any environmental impacts outside of the United States, the SDEIS provides a clear life-cycle analysis of greenhouse gas production that would be connected to the development of the Canadian oil sands, as well as the environmental impact to wildlife, forests, threatened and endangered species, and water resources. In each instance, all key issues raised by the SDEIS have been adequately addressed.

In the United States, environmental concerns have been raised about the Keystone XL project having an impact on the Ogallala Aquifer in Nebraska. It should be noted that the Keystone project would join more than 20,000 miles of existing pipelines that cross the Ogallala Aquifer, of which more than 2,000 miles are hazardous liquid pipelines. In testimony before the Nebraska state legislature, Professor Jim Goeke, a hydrologist at the University of Nebraska, offered the following observation:

" A leak of the Keystone XL pipeline **would not** affect the majority of the Ogallala Aquifer...those who think that a leaking pipeline will destroy the Aquifer in Nebraska need to understand that it would be localized to an area of 10's or 100's of feet around the pipeline. When people say the whole Ogallala Aquifer is at risk, they're wrong."

Additionally, the State Department SDEIS also noted the important role the Keystone XL project would play in providing for domestic energy security now and into the future. Specifically, the project would serve a critical short and long term market opportunity to fill a crude oil gap created by a decline in supply from transitional heavy suppliers, such as Mexico and Venezuela that would otherwise have to be recouped by an accelerated dependence on an increasingly unstable and unpredictable Middle East. There can be no question that the Keystone XL pipeline project serves America's national security interests.

While all of the environmental and national security issues have been adequately debated and addressed, it is the critical economic benefits that, in my opinion, supersede all others.

The privately-financed Keystone XL pipeline project is projected to create tens of thousands of U.S. jobs in construction and manufacturing, and without one single dollar of government assistance. There is also an economic multiplier effect associated with this project, as the economic impact spreads to other industries where demand and expenditures for goods and services within and around the vicinity of the pipeline's construction are expected to increase significantly. In the end, this projected rise in the demand for local goods and services will result in more tax revenue for the surrounding local governments. In fact, it has been estimated that the pipeline's corridor states would realize a collective windfall of $5.2 billion in additional tax revenue during the course of construction.

And let us not forget that the Keystone XL Pipeline project is already a US manufacturing success story.

The heart of the project—composed of the 237 electric and emissions-free motors driving pumps that transport oil through the pipeline—were designed and built by Siemens in Norwood, Ohio. Building these motors capitalized on the strength and ingenuity of a highly skilled, technically competent US workforce. The Norwood Ohio plant was a 100 year-old former GM plant of which Siemens took ownership and subsequently refurbished and retooled with a $35 million investment in 2007 and 2008. In 2010, the Norwood facility was named "Plant of the Year," by *Plant and Engineering Magazine*. Today, it employs 410 highly skilled American workers.

The 237 motors built for TransCanada's Keystone pipeline projects from 2009 through 2010 enabled the Siemens Norwood plant to retain 50 employees during the economic downturn. If and when the Keystone XL project receives the necessary approval to move forward, Siemens estimates that it would need to deliver upwards of 90 additional motors which would require them to hire 30-40 more workers at the plant to meet overall load demand, pushing the company's total base to approximately 450 highly skilled workers.

As a Siemens customer, TransCanada brought a welcome focus on safety, technical performance, reliability, and energy efficiency. The previous Keystone motor projects, and those still to come, are an opportunity for Siemens to showcase the design and production acumen of the Norwood, Ohio team. During a recent celebration commemorating the 237th Siemens motor built for TransCanada's Keystone pipelines, their Director for Facilities Development noted that Siemens "makes the best motors in the world, and you can't make the best motors in the world unless you have the best people in the world."

I cannot speak for Siemens, but I would wager that they undoubtedly appreciate a customer like TransCanada that values the people, technology, and quality that are available from, and associated with, U.S. manufactures and U.S. workers.

And along that same vein of safety, technical performance, reliability and quality, it should also be noted that a Project Labor Agreement (PLA) will be utilized for the construction of the U.S. portion of the proposed Keystone XL project. The PLA was signed by TransCanada Corporation, the Laborers International Union of North America, the International Brotherhood of Teamsters, the United Association of Journeymen and Apprentices of the Plumbing and Pipefitting Industry of the United States and Canada, the International Union of Operating Engineers, and the Pipeline Contractors Association. The Keystone project PLA will provide TransCanada with a steady supply of the world's safest, most highly trained and highly productive skilled craft workforce to construct the U.S. portion of this proposed project, and will ensure safe, quality construction with "on time, on budget" results, while also providing employment opportunities for local residents along the proposed pipeline corridor.

In total, the Keystone XL pipeline project has been subjected to 32 months of scrutiny through the National Environmental Policy Act, which includes review by ten federal agencies, as well as numerous state and local agency reviews. The State Department SDEIS has concluded that the proposed Keystone XL pipeline would have "limited adverse environmental impact during construction and operation" and that it would significantly strengthen U.S. economic security.

But most importantly, it is America's workers who are clamoring for the expedited approval of this important project. Today, I give voice to those concerns and pleas.

When it comes to jobs and the festering unemployment situation in this nation, many Americans – and that includes a significant portion of our members – believes that, when it comes to jobs and the plight of the unemployed, Washington isn't listening. In some respects, they are right. However, it's not too late for our nation's leaders to lead.

Thank you.

Mr. RUSH. Mr. Chairman, if I might, I would also ask for unanimous consent to enter into the record a letter that was sent under the signature of Mr. Tim Irons, Senior Land Coordinator for the TransCanada Keystone Pipeline LP, and this letter states in the last paragraph, "While we hope to acquire this property through negotiations, if we are unable to do so, we will be forced to invoke the power of eminent domain and will initiate condemnation proceedings against this property promptly as of the expiration of this 1-month period. In the event that we are forced to invoke the power of eminent domain, this letter and its content are subject to Nebraska revised statute 278–408 and are not admissible to prove the existence or amount of liability."

Mr. Chairman, I would like to submit this, in that there was testimony that the company, TransCanada, does not have or has not been threatening people and does not have any legal right to enter into the eminent domain process for an American landowner.

Mr. WHITFIELD. Without objection.

[The information follows:]

TransCanada
In business to deliver

April 7, 2011

ALTA FRANCES THOMPSON
C/O RANDY THOMPSON
1860 W BENNETT RD
MARTELL, NE 68404

Re: ML-NE-MR-00390.000

Dear Owner:

The proposed route of a crude oil pipeline, known as Keystone XL, crosses a portion of your property in Nebraska. The project, proposed by Delaware-based TransCanada Keystone Pipeline L.P., responds to U.S. demand for crude oil from refineries seeking a secure and stable supply. The project seeks to create a land-based link between this U.S. demand and growing oil supplies in Canada and in the northern Great Plains states. Oil delivered would reduce the need for imports from Venezuela or the Middle East, significantly improving U.S. energy security.

The federal regulatory review of this proposed project continues and we expect a decision from the federal government in the first half of 2011. To construct the project, we must acquire permanent and temporary easements, and possibly other pipeline and construction related land rights, through the area where this project will be constructed in Canada and in the U.S., including in Nebraska.

Permanent easements provide Keystone limited rights to construct, operate, and maintain the pipeline. Landowners retain all rights of ownership and productive use of the easement area with only those restrictions that ensure the continued integrity and safety of the pipeline. In addition, temporary easements, which are in place only until construction and reclamation are completed, support the construction activities on the permanent easement.

To construct the pipeline, we must acquire a permanent and temporary easement over your property. The proposed permanent easement and temporary easement is described in the enclosed form of easement and its attachments.

It is our strong preference to negotiate a voluntary easement acquisition with each property owner. We have been working with Nebraska landowners since 2008 to understand how best to minimize the impact of this project on individual properties and operations. This process can include multiple visits to the land to address specific routing issues as well as provisions to minimize impacts associated with the construction process. You are receiving this letter because our discussions and negotiations are not progressing to a voluntary settlement in a timely manner.

In such circumstances, property laws in Nebraska and most other jurisdictions allow proponents of projects that are in the broader public interest to use eminent domain to acquire the easement, which is authorized pursuant to Nebraska Revised Statute § 57-1101 et. seq.

It is important to point out that in addition to the easement itself, Keystone's work on your land and the pipeline itself must be in compliance with applicable state and federal rules and regulations. In particular, throughout its route in the U.S., the safe operation of this pipeline is governed by the U.S. Department of Transportation. These requirements include measures required to ensure safety when the pipeline is operating and if it is shut down. Construction methods and techniques are spelled out in detail in the Construction Mitigation and Reclamation Plan, a copy of which you should have received as a part of the Draft Environmental Impact Statement issued by federal agencies reviewing this project (and available on the U.S. Department of State project web site at www.keystonepipeline-xl.state.gov/clientsite/keystonexl.nsf?Open under "Project Documents"). Additional requirements related to construction may be added as regulatory reviews continue to proceed.

As consideration for granting these easements, we are offering you the total sum of $17,861. This sum includes $9,639 for the permanent easement, which is based on 100 per cent of the current, unit fee value (i.e. dollars per acre as determined by an independent market assessment) of similar land in your region, despite the fact the permanent easement grants us significantly fewer property rights than outright ownership. Additionally, the amount includes $8,222 for the temporary easement which is a rental value based on 50 per cent of the assessed unit fee value. Finally, we will provide compensation for any damages that occur during the course of the construction including crop loss and any damages to fences, trees or other improvements.

We prefer to acquire this property through negotiation and voluntary settlement. We will initiate eminent domain only as a last resort, where good faith efforts have not resulted in a voluntary agreement. Even after initiating this process, we will continue to work to reach a voluntary agreement.

This letter represents our final offer, and will remain open for one month after the date of this letter or until you reject it, whichever is earlier. After that period, we will initiate the eminent domain process. To avoid litigation, we are offering an amount for the easement that exceeds the value of the rights we seek.

To accept this offer, the authorized person(s) must execute two original Easement and Right of Way forms before a notary public and return them to the undersigned in the enclosed postage pre-paid envelope before the expiration of the one month period. Also, the enclosed W-9 tax form needs to be completely filled out, signed and returned along with the other forms. We will deliver the agreed upon amount of compensation to you immediately upon our receipt of the signed and notarized documents. This settlement remains in place regardless of whether Keystone receives its federal permit.

Our strong preference is to reach voluntary agreement and we will continue these efforts regardless of the initiation of legal processes. In the event that we must invoke the power of eminent domain, this letter and its contents are subject to Nebraska Revised Statute § 27-408 and are not admissible to prove the existence or amount of liability.

Please contact me in the event you have any questions or concerns at (832) 320-5294.

Sincerely,

Tim M. Irons
Senior Land Coordinator
TransCanada
717 Texas Street
Suite 24215
Houston, TX 7702-2761

Encl.

cc: Lee H. Hamann, McGrath North Mullin & Kratz, PC LLO
John Hunt, TransCanada

Mr. WHITFIELD. This is our first day back and we didn't have quite as many members as we had hoped on this important subject, but I do want to give Mr. Smith and Mr. McFadyen an opportunity, like 3 minutes, if you all want to respond to anything you heard today, because I don't think a specific question went to you all. I am not saying you have to, but if you feel compelled to, I will give you 3 minutes to respond or make a statement.

Mr. SMITH. Thank you, Mr. Chairman. I will be exceedingly brief.

Because there are a few of us in this room who can remember the gas lineups of 1973–79 and the shortage of oil supplies, every day that the U.S. produces oil, you produce less oil, there is an immutable law that you have declining production. This replaces production that is declining. It gives you options about not having lineups at the gas pump. No matter what the price is, you won't have the lineups, or it will help ameliorate those.

There is a pipeline in the permitting process that would go direct to China from Alberta, that would go across British Columbia. It wouldn't have to use anything here. China is building refineries that are 700,000 barrels a day. They are serious.

And I believe that we have got a trade relationship we can build on here; that what I have heard today doesn't go back to the fact that, in fact, your supply has been interrupted, and this helps stop that interruption. It creates high-quality jobs. It gives us an opportunity to build with common law, common property, right next door to each other, and I think that is valuable to everybody.

Mr. WHITFIELD. Thank you, Mr. Smith.

Mr. McFadyen.

Mr. MCFADYEN. Thank you, Mr. Chairman.

Just very briefly, I just want to reiterate that we are very proud of our regulatory construct in Alberta and can assure you that the oil sands are being developed in a very responsible manner with respect to environmental protection, economic impacts and the social impacts on our citizens. We live there, we work there, we play there, and we are determined to keep it a great place to do all of those things.

Thank you.

Mr. WHITFIELD. Well, I thank all of you. That will conclude today's hearing. We appreciate your testimony very much and look forward to working with all of you. The record will remain open for 10 days for any additional documents.

Thank you.

[Whereupon, at 5 p.m., the subcommittee was adjourned.]

[Material submitted for inclusion in the record follows:]

Opening Statement of Chairman Fred Upton
"The American Energy Initiative – Day 8"
Subcommittee on Energy and Power
May 23, 2011

Today's hearing, the eighth day of our look at issues encompassed by the American Energy Initiative, allows the subcommittee to examine issues surrounding the proposed Keystone XL pipeline. The project, which has been awaiting approval by our government for nearly three years, will have the capacity to move nearly 1.3 million barrels of oil per day from Alberta's oil sands and North Dakota's Bakken formation to refineries in the Midwest and Gulf Coast.

Gasoline prices have been squeezing the budgets of families and businesses across the country for the past 6 months. Last month, gasoline consumption declined for the first time this year as demand destruction began creeping into consumer behavior.

Political unrest has threatened or outright blocked oil production in some parts of the world. A declining dollar is helping drive the price of oil higher and higher. Unemployment hovers at 9 percent.

With all these signs of economic distress, a project that would virtually eliminate our oil imports from the Middle East, almost instantly create 20,000 jobs, and help stabilize and lower gasoline prices would appear to be a winning solution for the American consumer. But for some inexplicable reasons, this project remains held up by bureaucratic indecision and stagnation in the Obama administration.

There is a reason this topic is part of our American Energy Initiative hearing. Apart from producing our own energy within our own borders, energy from the rest of the North American continent is the safest and most secure we can possibly find. While we search for and develop resources here in the U.S., we must always remember energy supplies from our northern neighbor renders enormous benefits for both of our countries.

Despite the obvious security and economic advantages presented by increased Canadian oil imports, the Obama administration cannot bring itself to move forward on the necessary permits to allow the Keystone pipeline's construction.

Opponents of this project have offered all sorts of excuses for why it should not move forward, so I'd like to talk about what would happen if the Keystone XL pipeline does not proceed:

1) Canada will produce its oil sands resource whether the U.S. buys it or not. And in all likelihood, they will simply build a pipeline that goes west instead of south, so as to serve Chinese markets.
2) Instead of refining oil from a democratic ally – one which goes to great lengths to properly regulate its oil industry – refineries in the U.S. will experience increased volumes from places like Nigeria, Venezuela, and Saudi Arabia. In the end, the environment suffers more in this scenario.

3) These oil sands are going to be produced – as I have noted, that will happen with or without U.S. participation – in a country that has a greenhouse gas reduction policy. What does this mean? Simply put, it means that alleged concerns about greenhouse gas emissions associated with oil sands production and consumption are a red herring.

We've heard all these arguments before. And they all continue to fall flat. But what we haven't heard until last week is the outrageous accusation from the minority that this pipeline deserves even greater scrutiny because one company might or might not benefit from its construction. This blatant political sideshow is simply a distraction that, in the end, underscores the desperation of those who want to stand in the way of this common-sense project.

Today we hope to have a serious, adult conversation on the topic at hand and the legislation to address it. Let's stick to the facts on the economic, environmental, and security elements that are germane to this pipeline. Let's talk about what it means for American consumers and jobs.

I applaud Mr. Terry for circulating the discussion draft under examination today. The time has come for the administration to make a decision on this pipeline and this legislation is the simplest, most straightforward, and most fair way for Congress to assert itself in the matter. By developing the massive resources here on the North American continent, we can make large strides to free ourselves from dangerous sources of oil and help ease prices at the pump.

Rep. Gene Green's Statement for the Record
House Energy and Commerce Committee
Subcommittee on Energy and Power
Statement in Support of Rep. Terry's Keystone Pipeline Bill
May 23, 2011

With skyrocketing fuel costs, it is imperative for the U.S. to diversify our energy sources by exploring alternatives such as oil sands, which are a vital source of energy for our country.

As the largest single exporter of oil to the U.S. and a stable energy partner, Canada has and will continue to help reduce our dependence on energy supplies from nations that are hostile to us like Venezuela and some countries in the Middle East. This partnership between our two countries should continue to be encouraged.

Finally, the Keystone XL Pipeline will create thousands of jobs along its path. These are the types of high-paying jobs our government should be encouraging and facilitating to help our recovering economy.

For these reasons, I strongly support Rep. Terry's bill and am proud to be an original cosponsor.

The bill very fairly does not say what the Administrations' determination should be; instead, it just expedites a decision once the final environmental review has been complete.

These decisions should not take four years to make, which is the timeline we might possibly end up with.

I encourage my colleagues to support this bill.

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[DISCUSSION DRAFT]

MAY 16, 2011

112TH CONGRESS
1ST SESSION

H. R. _____

To direct the President to expedite the consideration and approval of the construction and operation of the Keystone XL oil pipeline, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

M__. _____ introduced the following bill; which was referred to the Committee on _____

A BILL

To direct the President to expedite the consideration and approval of the construction and operation of the Keystone XL oil pipeline, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the "North American-Made Energy Security Act".

SEC. 2. FINDINGS.

Congress finds and declares the following:

(1) The United States currently imports more than half of the oil it consumes, often from countries hostile to United States interests or with political and economic instability that compromises supply security.

(2) While a significant portion of imports are derived from allies such as Canada and Mexico, the United States remains vulnerable to substantial supply disruptions created by geopolitical tumult in major producing nations.

(3) Strong increases in oil consumption in the developing world outpace growth in conventional oil supplies, bringing tight market conditions and higher oil prices in periods of global economic expansion or when supplies are threatened.

(4) The development and delivery of oil and gas from Canada to the United States is in the national interest of the United States in order to secure oil supplies to fill needs that are projected to otherwise be filled by increases in other foreign supplies, notably from the Middle East.

(5) Continued development of North American energy resources, including Canadian oil, increases domestic refiners' access to stable and reliable sources of crude and improves certainty of fuel sup-

ply for the Department of Defense, the largest consumer of petroleum in the United States.

(6) Canada and the United States have the world's largest two-way trading relationship. Therefore, for every United States dollar spent on products from Canada, including oil, 90 cents is returned to the United States economy. When the same metrics are applied to trading relationships with some other major sources of United States crude oil imports, returns are much lower.

(7) The principal choice for Canadian oil exporters is between moving increasing crude oil volumes to the United States or Asia, led by China. Increased Canadian oil exports to China will result in increased United States crude oil imports from other foreign sources, especially the Middle East.

(8) Increased Canadian crude oil imports into the United States correspondingly reduce the scale of "wealth transfers" to other more distant foreign sources resulting from the greater cost of importing crude oil from those sources.

(9) Not only are United States companies major investors in Canadian oil sands, but many United States businesses throughout the country benefit from supplying goods and services required

for ongoing Canadian oil sands operations and expansion.

(10) There has been more than 2 years of consideration and a coordinated review by more than a dozen Federal agencies of the technical aspects and of the environmental, social, and economic impacts of the proposed pipeline project known as the Keystone XL from Hardisty, Alberta, to Steele City, Nebraska, and then on to the United States Gulf Coast through Cushing, Oklahoma.

(11) Keystone XL represents a high capacity pipeline supply option that could meet early as well as long-term market demand for crude oil to United States refineries, and could also potentially bring over 100,000 barrels per day of United States Bakken crudes to market.

(12) Completion of the Keystone XL pipeline would increase total Keystone pipeline capacity by 700,000 barrels per day to 1,290,000 barrels per day.

(13) The Keystone XL pipeline would provide short-term and long-term employment opportunities and related labor income benefits, as well as government revenues associated with sales and payroll taxes.

(14) The earliest possible construction of the Keystone XL pipeline will make the extensive proven and potential reserves of Canadian oil available for United States use and increase United States jobs and will therefore serve the national interest.

(15) Analysis using the Environmental Protection Agency models shows that the Keystone XL pipeline will result in no significant change in total United States or global greenhouse gas emissions.

(16) The Keystone XL pipeline would be state-of-the-art and have a degree of safety higher than any other typically constructed domestic oil pipeline system.

(17) Because of the extensive governmental studies already made with respect to the Keystone XL project and the national interest in early delivery of Canadian oil to United States markets, a decision with respect to a Presidential Permit for the Keystone XL pipeline should be promptly issued without further administrative delay or impediment.

SEC. 3. EXPEDITED APPROVAL PROCESS.

(a) IN GENERAL.—The President, acting through the Secretary of Energy, shall coordinate with each Federal agency responsible for coordinating or considering an aspect of the President's National Interest Determination

and Presidential Permit decision regarding construction and operation of the Keystone XL pipeline, to ensure that all necessary actions with respect to such decision are taken on an expedited schedule.

(b) AGENCY COOPERATION WITH SECRETARY OF ENERGY.—Each Federal agency described in subsection (a) shall comply with any deadline established by the Secretary of Energy pursuant to subsection (a).

(c) FINAL ORDER.—Not later than 30 days after the issuance of the final environmental impact statement, the President shall issue a final order granting or denying the Presidential Permit for the Keystone XL pipeline, but in no event shall such decision be made later than November 1, 2011.